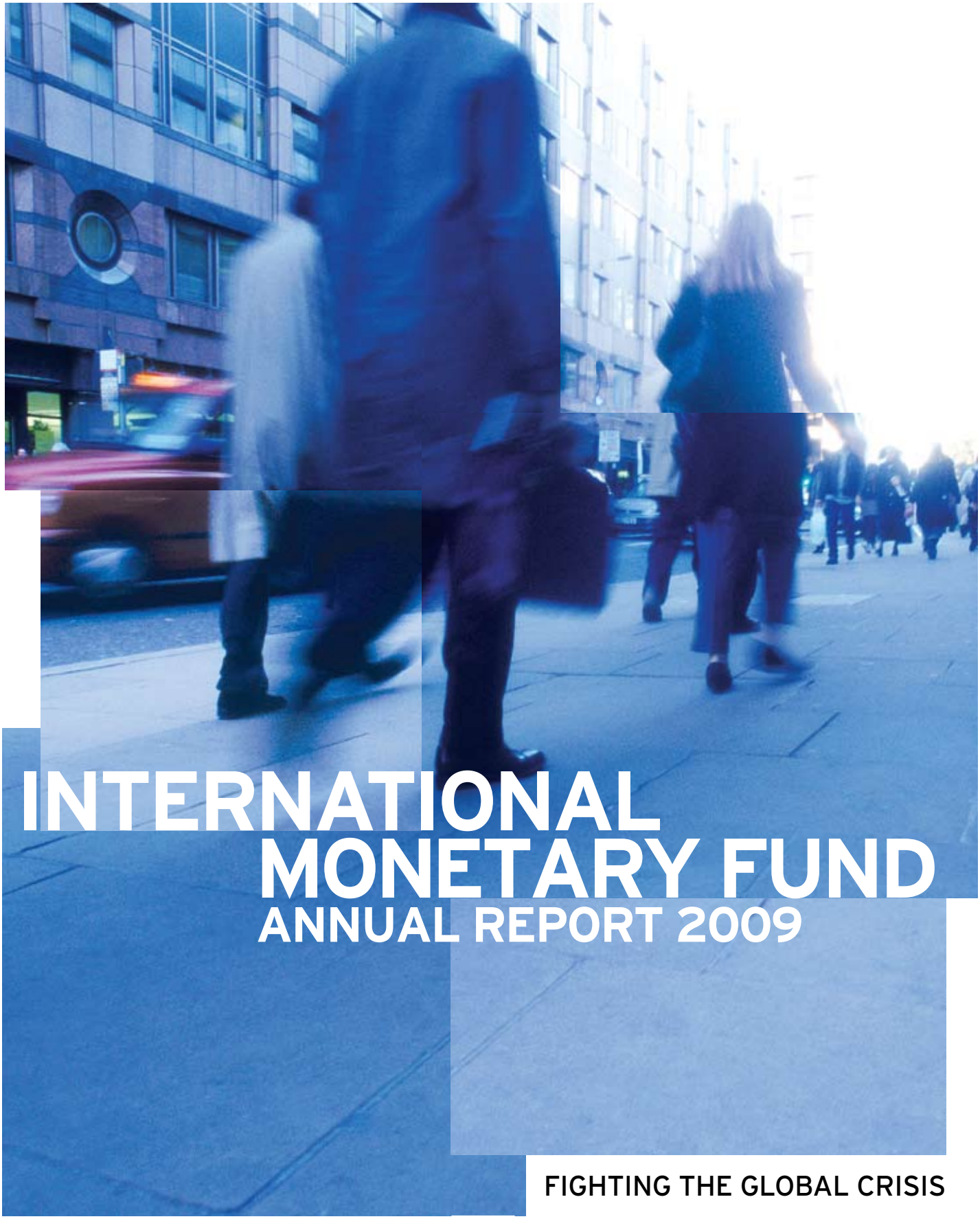

INTERNATIONAL MONETARY FUND

ANNUAL REPORT 2009

FIGHTING THE GLOBAL CRISIS

The International Monetary Fund

The IMF is the world's central organization for international monetary cooperation. With 186 member countries (as of June 2009), it is an organization in which almost all of the countries in the world work together to promote the common good. The IMF's primary purpose is to safeguard the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to buy goods and services from one another. This is essential for achieving sustainable economic growth and raising living standards.

All of the IMF's member countries are represented on its Executive Board, which discusses the national, regional, and global consequences of each member's economic policies. This *Annual Report* covers the activities of the Executive Board and Fund management and staff during the financial year May 1, 2008, through April 30, 2009.

The main activities of the IMF include

- providing advice to members on adopting policies that can help them prevent or resolve a financial crisis, achieve macroeconomic stability, accelerate economic growth, and alleviate poverty;
- making financing temporarily available to member countries to help them address balance of payments problems—that is, when they find themselves short of foreign exchange because their payments to other countries exceed their foreign exchange earnings; and
- offering technical assistance and training to countries at their request, to help them build the expertise and institutions they need to implement sound economic policies.

The IMF is headquartered in Washington, D.C., and, reflecting its global reach and close ties with its members, also has offices around the world.

Additional information on the IMF and its member countries can be found on the Fund's website, www.imf.org.

Ancillary materials for the *Annual Report*—Web Boxes, Web Tables, Appendixes (including the IMF's financial statements for the financial year ended April 30, 2009), and other pertinent documents—can be accessed via the *Annual Report* web page at www.imf.org/external/pubs/ft/ar/2009/eng. Print copies of the financial statements are available from IMF Publication Services, 700 19th Street, N.W., Washington, DC 20431. A CD-ROM version of the *Annual Report*, including the ancillary materials posted on the web page, is also available from IMF Publication Services.

INTERNATIONAL MONETARY FUND

ANNUAL REPORT 2009

FIGHTING THE GLOBAL CRISIS

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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, 2009, the SDR/U.S. dollar exchange rate was US$1 = SDR 0.667632, and the U.S. dollar/SDR exchange rate was SDR 1 = US$1.49783. The year-earlier rates (April 30, 2008) were US$1 = SDR 0.615847 and SDR 1 = US$1.62378. References to dollar amounts are in U.S. dollars.

"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.

Message from the Managing Director and Chair of the Executive Board

Dominique Strauss-Kahn,
IMF Managing Director and
Chair of the Executive Board.

The *Annual Report* of the IMF's Executive Board to the Fund's Board of Governors is an essential instrument in the IMF's accountability. The Executive Board is responsible for conducting the Fund's business and consists of 24 Executive Directors appointed by the IMF's 186 member countries, while the Board of Governors, on which every member country is represented by a senior official, is the highest authority governing the IMF. The publication of the *Annual Report* represents the accountability of the Executive Board to the Fund's Board of Governors.

The world is dealing with the worst economic slowdown since the Great Depression. A crisis that originated in a segment of the U.S. housing market has spread rapidly across the whole world, engulfing advanced economies, emerging markets, and low-income countries alike.

As countries have grappled with the policy response, the IMF has been at the forefront of the debate. We supported a full deployment of the monetary arsenal as the first line of defense. We also called, as early as January 2008, for a global fiscal stimulus. We did this because our forecasts suggested an exceptionally large and long-lasting decline in private demand, one that could not be cushioned by monetary policy alone. We recommended a stimulus equivalent to 2 percent of GDP, and countries have largely delivered. At the same time, we called for the cleansing of banks' balance sheets of toxic or impaired assets. Our vast experience with financial crises indicated that, unless this was accomplished, the financial system would stay locked down, and efforts to boost demand would prove fruitless.

This crisis also showed that the global economy needs an effective firefighter that can be rapidly deployed, and the IMF has been active on this front. The institution helped a wide array of countries meet their financing needs and so mitigate the economic and social costs of the crisis. The IMFC supported a tripling of the IMF's lending capacity to an unprecedented US$750 billion and—in addition—a doubling of its capacity for concessional lending to low-income countries. In response, the IMF has adapted to circumstances, emphasizing flexibility and crisis prevention. Aside from a commitment to more up-front financing in general, we have specifically introduced a new Flexible Credit Line, providing large-scale up-front financing with no policy conditions to countries with a sustained track record of very strong policies. We are also committed to more streamlined and focused conditionality

and the protection of social safety nets. We have a special duty to our low-income members, and we are in the process of modifying our concessional lending facilities to make them more flexible and effective.

Aside from our lending activities, the G-20 leaders have indicated their support to the IMF in providing candid, evenhanded, and independent surveillance. As the crisis broke, we were ahead of the curve with our policy advice and with our forecasts for the global economy. We have been beefing up our early warning exercise, looking especially at systemic risks, macrofinancial linkages, and spillovers across countries, and we are also working on promoting greater transparency in our operations.

I would like to take note of the unparalleled commitment to multilateralism on display during this crisis. There have been few instances in recent history in which we have witnessed this degree of economic policy cooperation. We saw coordination in the monetary arena, with the fiscal stimulus, and we are now seeing signs of a more common approach to the cleansing of bank balance sheets. The IMF itself has proven an essential vehicle of multilateralism, in its surveillance and lending roles. And the world economy is benefiting—systemic risks have faded, and we are forecasting a recovery in the first half of 2010. The challenge is to sustain this degree of cooperation, even when the crisis has passed.

Of course, the effectiveness of the IMF depends on its legitimacy among its global membership. As the dynamic emerging markets assume a greater role on the world stage, this must be reflected in IMF decision making. It is therefore appropriate that the IMFC recommended that we speed up quota and voice reform, to give more weight to emerging and low-income countries.

Looking ahead, the challenges are daunting. The global financial crisis is not yet over, but countries are already preparing exit strategies from the unprecedented policy interventions put in place to fight the crisis. The IMF is assisting its members by providing key analytical work as input into these exit strategies. There are many unanswered questions, from the global growth engine and the future of global imbalances to the shape of the international financial system. As always, we stand ready to help our global membership grapple with these all-important issues.

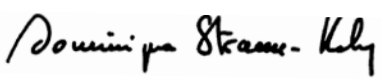
Letter of Transmittal

TO THE BOARD OF GOVERNORS

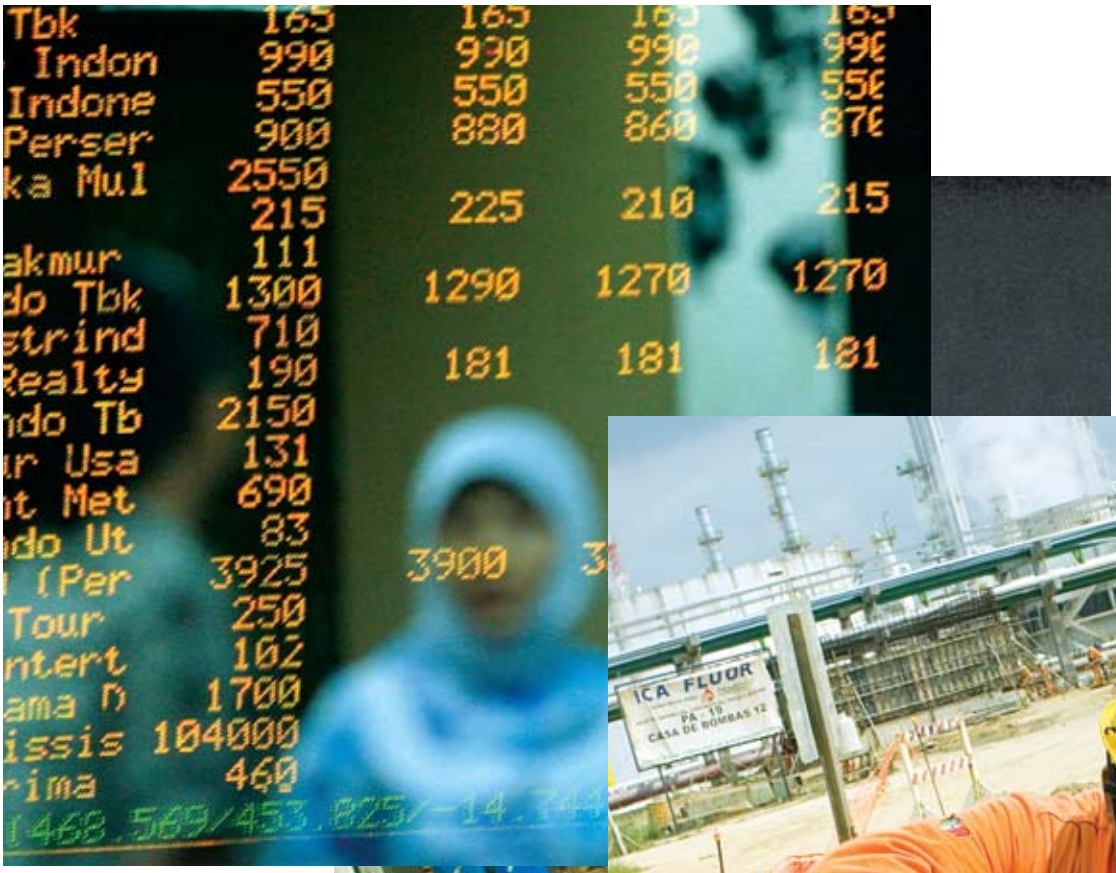
July 31, 2009

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, 2009, 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, 2010, are presented in Chapter 5. The audited financial statements for the year ended April 30, 2009, 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, which appears on the CD-ROM version of the Report, as well as at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm. The external audit and financial reporting processes were overseen by the External Audit Committee, comprising Mr. Steve Anderson (Chair), Mr. Thomas O'Neill, and Mr. Ulrich Graf, as required under Section 20(*c*) of the Fund's By-Laws.



DOMINIQUE STRAUSS-KAHN
Managing Director and Chair of the Executive Board



CHAPTER

Overview

Overview

The global economy went through a period of unprecedented financial instability in 2008–09, accompanied by the worst global economic downturn and collapse in trade in many decades. No country escaped the reach of this economic storm. The IMF played a leading role in helping the membership deal with the immediate challenges posed by the crisis and work toward a new, strengthened global financial system. To address these challenges, the Fund focused its efforts on (1) providing policy advice and timely financial support that met members' needs, (2) analyzing what went wrong, with the aim of fortifying the financial system against a recurrence of crises down the road, and (3) assembling the building blocks of a new international financial architecture. At the same time, the crisis accelerated some elements of the Fund's work program and redirected resources toward the following areas: advancing surveillance priorities, reforming the Fund's lending framework, supporting low-income countries, increasing the Fund's activities in the area of capacity building, reforming the Fund's corporate governance, and augmenting the Fund's resources. Work toward modernizing the IMF, which accelerated in FY2008 with the Fund's restructuring exercise, continued in FY2009,[1] and other institutional work focused on strengthening internal accountability and transparency, revamping the institution's human resources function, and safeguarding the Fund's finances and other operations, as well as putting the institution on a stronger financial footing.

FROM FINANCIAL MARKET TURMOIL TO GLOBAL RECESSION

The seeds of the global crisis were sown during the years of high growth and low interest rates that bred excessive optimism and risk taking and spawned a broad range of failures—in market discipline, financial regulation, macroeconomic policies, and global oversight. During this period, the global financial system expanded massively, creating new instruments that appeared to offer higher rewards at lower risk. This was encouraged by a general belief in "light-touch" regulation based on the assumption that financial market discipline would root out reckless behavior and that financial innovation would spread risk, not concentrate it.

Both of these assumptions proved wrong, or at least misguided. The result was an unsustainable accumulation of external imbalances; major asset price bubbles in advanced and emerging market economies, especially in housing; a severe run-up in commodity prices; and an enormous buildup of leverage and risk in key financial systems, both inside and outside the formal banking system.

Understanding this crisis

Understanding the causes of the financial crisis is critical for restoring stability and, to avoid another crisis of this magnitude, building a sound global financial system. While the postmortem is likely to continue for many years, the IMF's initial analysis pointed to a failure in the global architecture in providing adequate warnings prior to the crisis, especially in the surveillance of systemically important advanced countries, and regulatory failures at a number of levels:

- excessive leverage and risk taking, driven by a long period of low real interest rates and high growth;
- shortcomings in the approach to domestic and international financial regulation;
- fragmented regulatory structures;
- inadequate disclosure of risks; and
- weaknesses in crisis management and bank resolution frameworks.

In general, financial regulators were not equipped to see the risk concentrations and flawed incentives behind the financial innovation boom. Neither market discipline nor regulation was able to contain the risks resulting from rapid innovation and increased leverage, which had been building up for years.

With respect to macroeconomic policy, policymakers failed to take sufficiently into account growing macroeconomic imbalances that contributed to the buildup of systemic risks in the financial system and in housing markets. Effective policy cooperation at the international level was not achieved, which compounded the risks inherent in the inability to spot growing vulnerabilities and cross-border links. Central banks focused mainly on inflation, not on risks associated with high asset prices and increased leverage. And financial supervisors were preoccupied with the formal banking sector, not with the risks building in the shadow financial system.

As a consequence, the spreading financial crisis advanced further and faster in FY2009 than expected, leading to an unprecedented contraction in global output and trade. The ramifications of the credit crunch and the sharp drop in asset prices were quickly passed on through banking systems to all sectors and countries in the global economy and were magnified by the collapse of consumer and business confidence.

Macroeconomic policy priorities in response to the crisis

Throughout FY2009, the Fund directed its resources toward meeting the immediate needs of members in terms of financing and policy advice. Many countries found themselves facing difficult financial or economic conditions owing to the sharp increase in food and fuel prices in 2007–08, which affected many middle- and low-income countries early in the financial year, or later because of the damage caused by spreading financial instability. As the financial crisis hit the real economy (trade, output, and employment) and spread to all corners of the globe, the Fund advocated the following urgent policy priorities, at both the national and international levels:

- *Repairing financial sector balance sheets*—forceful action to recapitalize banks and cleanse their balance sheets—was essential to get credit markets functioning and the global economy moving again. Until this was done, attempts to restore demand were likely to falter.

- *Recognizing the importance of monetary policy support*, as deemed appropriate to domestic conditions.

- *Delivering a global fiscal stimulus in 2009 and 2010.* The Fund encouraged those countries, both advanced and developing, with fiscal space available to use it to boost demand. The crisis highlighted the importance of fiscal space to ensure that countercyclical fiscal policy is possible during economic downturns. For the most part, countries have delivered on fiscal stimulus in 2009, and support needs to be sustained in 2010.

- *Significantly increasing official international financing,* especially to alleviate pressures on emerging markets and low-income countries. In April 2009, Group of Twenty (G-20) leaders agreed to triple the IMF's regular lending capacity to US$750 billion, at least doubling its concessional resources for low-income countries, and to expand global liquidity by US$250 billion through a general allocation of Special Drawing Rights (SDRs);[2] these measures were also endorsed by the Fund's policy advisory body, the International Monetary and Financial Committee (IMFC). This commitment helped boost confidence and needs to be complemented by implementing actions at the national level.

COUNTRY-SPECIFIC ASSISTANCE

During the first months of FY2009, the sharp increase in food and fuel prices was posing significant challenges to some low- and middle-income countries. Taking action to address these pressures, the Fund augmented financing under the Poverty Reduction and Growth Facility (PRGF) for a number of low-income countries, made the Exogenous Shocks Facility (ESF) more readily accessible, adjusted some programs to allow additional fiscal spending, and convened a public seminar to review the effects of the surge in commodity prices on the economies of low-income and emerging market countries. Later in 2008, the Executive Board reviewed transnational spillover and other effects of fiscal subsidies put in place in connection with surges in commodity prices.

As the financial crisis began to take on global dimensions, the IMF at midyear stepped up its assistance to members by providing expedited financial support, including by using its emergency financing mechanism (see Box 3.1). The Executive Board approved SDR 65.8 billion for 15 countries in the use of Fund resources under its traditional nonconcessional lending facilities and the newly established Flexible Credit Line (FCL) during the year (see Table 3.2). The Board also continued to approve new arrangements under the PRGF and ESF (see Table 3.3). As of April 30, 2009, the economic programs of 28 member countries were supported by Fund arrangements under these facilities, with commitments totaling SDR 1.8 billion, as compared with 25 member countries and SDR 1.1 billion at the end of FY2008.

A STRONGER ROLE FOR THE IMF

The Managing Director moved forward with fundamental changes in 2008 to reorient the strategic vision of the Fund and to boost the dynamism of Fund operations in response to the crisis. A further critical impetus came in November 2008 and again in April 2009 when G-20 leaders convened to promote broader economic cooperation and to mobilize a multilateral response to the crisis. Of particular note, the G-20 articulated, and committed to, the priority macro policy response required

Tobacco harvest in Malawi.

by the global community. These policies were consistent with the policy advice being espoused by the IMF. The G-20 "stressed the IMF's important role in crisis response" and that the IMF and the multilateral development banks "should have sufficient resources to play their role in overcoming the crisis."

By March 2009, the Executive Board had approved a number of major changes that significantly improve the nature, timeliness, and effectiveness of the Fund's response and permit it to respond decisively to the needs of the entire membership. In this respect, the IMF was thrust into the center of the economic policy debate and crisis resolution. This also led to decisions to boost the Fund's resources to give it the firepower to provide the necessary financial assistance to those countries seriously affected by the crisis.

Reform of the Fund's lending framework

In this context, the Executive Board advanced work to modernize the Fund's lending instruments in order to better tailor them to the evolving needs of member countries. This involved changes to the policy advice, conditionality, and financing terms. In March 2009, the Board approved a major overhaul of the Fund's lending framework, the culmination of numerous Board discussions and extensive staff work—which started in early 2008—to assess and determine the reforms that would best enable the Fund to fulfill its core mandate. The reforms approved included modernizing IMF program conditionality for all borrowers, introducing a new Flexible Credit Line for members with very strong fundamentals and policies, enhancing the flexibility of the Fund's traditional Stand-By Arrangement and concessional lending facilities, doubling normal access limits for both nonconcessional and concessional resources, simplifying cost and maturity structures of loans, and eliminating certain seldom-used facilities. The Executive Board approved the first arrangement, on a precautionary basis, under the Fund's new FCL to Mexico (SDR 31.5 billion) during FY2009; commitments to Poland (SDR 13.7 billion) and Colombia (SDR 7 billion) under the FCL, on a precautionary basis, were approved early in FY2010.

By enhancing instruments for lending, including precautionary lending, and modernizing the conditionality framework to ensure that conditions on the use of Fund resources are tailored to the strength of members' policies and fundamentals, the reforms aim to encourage members to approach the Fund early, thereby reducing the likelihood of crises or mitigating their ultimate costs. Together with a substantial increase in the Fund's resources, the reforms provide a strong platform from which the Fund can respond robustly to help members tackle the current as well as future crises.

Getting the fundamentals of the global economic and financial system right

The Fund also directed its energies toward understanding the sources, scope, and consequences of the crisis and strengthening collaboration with other international financial organizations, particularly the Financial Stability Board (FSB).[3] In early 2009, the IMF Executive Board discussed staff analysis, undertaken at the request of the IMFC, on the initial lessons from the crisis. Executive Directors stressed the preliminary nature of the discussion as well as the Fund's singular responsibility, given its mandate, to analyze the crisis and to work closely with other players—both national and international—to help restore global financial stability and economic growth.

Based on the range of views on the relative importance of the shortcomings identified (see above) as contributing to the crisis,

Workers gather at a job market in Nanchang, Jiangxi, China.

the Board saw the need for remedial actions across a broad front and at many levels, implying an ambitious agenda for policymakers and the need for coordinated action. The IMF identified four key areas, emanating in part from this review, to help prevent future crises: better regulation, better surveillance, better financing arrangements, and better international cooperation. The IMF has a key, although different, role to play in these areas and began work in FY2009 to address, or contribute where applicable to resolving, them:

- Better financial regulation and supervision, with priority on expanding the regulatory perimeter to encompass all activities that pose economy-wide and cross-border risks. Although not taking the lead on this issue, the Fund can monitor implementation of agreed outcomes through the surveillance process. The regulatory perimeter, or scope of regulation, needs to be expanded to encompass all activities that pose risks to domestic economies and foreign markets. Market discipline needs to be strengthened. Initiatives to reduce conflicts of interest among credit-rating agencies and improve investor due diligence are underway. Finally, central banks should review their frameworks for systemic liquidity provision. The infrastructure underlying key financial markets should also be improved.

- Financing arrangements that adapt to meet the evolving needs of members and the changing marketplace. IMF lending must continue to adapt so that it is better tailored to country circumstances and encourages countries to approach the Fund early.

- Better bilateral surveillance that focuses on systemic risks, looks at international spillovers, and aims at better integrating macroeconomic and financial sector work.

- Better international cooperation and multilateral surveillance. For the IMF, governance reform will be a critical component of reform for providing emerging markets and low-income countries with a greater sense of ownership and for fostering global policy cooperation. Endowing the IMF with a fully representative voice will lend it institutional legitimacy and credibility, thereby helping it to fulfill its mandate more effectively.

ADVANCING SURVEILLANCE PRIORITIES

Surveillance—the IMF's term for its oversight of the international financial system and monitoring of economic and financial policies of member countries—is one of the Fund's primary areas of responsibility. Responding to concerns raised by the global crisis, the Executive Board intensified its efforts in FY2009 to ensure the adequacy and effectiveness of the IMF's surveillance activities. In the context of the Fund's Triennial Surveillance Review, which was concluded in October 2008, the Board issued its first-ever Statement of Surveillance Priorities, which delineated four economic and four operational priorities for Fund surveillance through 2011. In their discussion at the conclusion of the review, Executive Directors broadly agreed on four priority areas for the Fund's surveillance over the next few years: risk assessment, macrofinancial linkages, multilateral perspective, and external stability and exchange rate assessments. In following up on the priorities identified, the Board held a seminar to review challenges in integrating financial sector issues into surveillance, and the Fund moved forward with its plans for closer collaboration with other organizations, including an early warning exercise, conducted jointly with the Financial Stability Board. In response to the need to reinforce ongoing data transparency

initiatives, as revealed by the global crisis, the IMF created and chairs an interagency group that promotes a collaborative and global view of economic and financial data needs in light of the crisis. As its first action, the group created the Principal Global Indicators website, providing access to financial, governmental, external, and real sector data on G-20 economies. Finally, the Fund's ongoing bilateral, multilateral, and regional surveillance activities continued during the year, including efforts to increase the effectiveness of the Fund's Article IV consultation process.

MODERNIZING THE FUND

Though efforts to help members cope with the effects of the crisis and to lead efforts to restore stability to the global financial system clearly dominated the year's work, the IMF remained mindful of the need to continue its ongoing endeavors to modernize, which had intensified in FY2008. Reform of IMF governance, a key issue in FY2008, continued to occupy a prominent place on the agenda in FY2009. The Fund's membership began the process of implementing the quota and voice reform approved by the Board of Governors at the close of FY2008. The Executive Board formed a working group to direct and integrate the Fund's response to an Independent Evaluation Office (IEO) report on Fund governance, and Fund management appointed a special committee of eminent persons to make recommendations on Fund governance reform. The IMFC called in early April 2009 for an accelerated review of IMF quotas to enhance the voice of emerging markets and developing countries in the Fund. Fund staff developed a comprehensive plan to engage civil society and other stakeholders in the reform process.

Sharpening the IMF's focus on, and increasing its attention to, low-income countries (LICs), an area of significant emphasis in recent years, took on particular urgency in FY2009 as a result of, first, the spike in food and fuel prices in the first half of 2008, which put developing countries particularly at risk, and later, the spillover effects of the global instability in financial markets, which originated in advanced economies but eventually spread to the rest of the world, including low-income countries (the "third wave" of the crisis), when they had barely had time to recover after the abatement of food and fuel prices. The Board reconsidered the Fund's work in low-income countries during the year, articulating a mission statement for its work in such countries, and discussed proposed reforms for its concessional lending instruments to tailor them more closely to evolving LIC needs as the crisis unfolded.

Efforts have been ongoing for several years to improve the targeting of the IMF's capacity-building activities—the training and technical assistance it provides to member countries to enhance their technical and other capabilities—and ensure that they deliver maximum impact while employing Fund resources as effectively as possible. The Board reviewed both the Fund's training program and its technical assistance activities during the year, supporting decentralization of training through greater use of regional training and technical assistance facilities as both cost-effective and necessary for added flexibility, and endorsing substantial reforms in provision of technical assistance that were initiated as part of the Fund's FY2008 refocusing exercise. It also approved a new policy under which member countries would be charged graduated fees for use of the Fund's capacity-building services, and the Fund undertook new fundraising efforts to support its

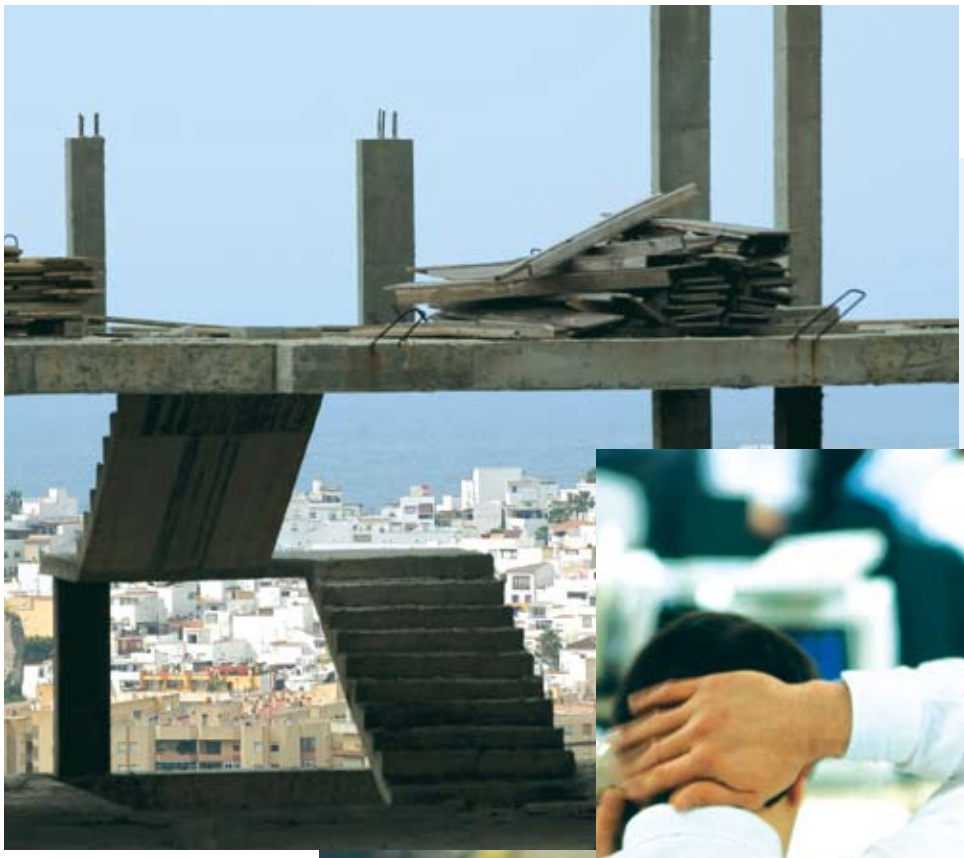
capacity-building activities and announced plans to open new regional technical assistance centers in Africa, Central Asia, and Central America.

FINANCES, ORGANIZATION, AND ACCOUNTABILITY

Major reforms initiated in FY2008 as part of the IMF's restructuring transformed the Fund into a leaner, refocused institution in FY2009. In the area of Fund financing, the Executive Board's agreement on a new income model for the Fund, approved by the Board of Governors early in the financial year, paved the way for diversification of the IMF's sources of income, chiefly through the broadening of the Fund's investment authority. Efforts to implement the IMF's reformed income and expenditure framework, modified in FY2008 to put the Fund on a sounder and more sustainable financial footing, also continued in FY2009. Greater than expected savings, largely from factors related to the FY2008 refocusing exercise, helped generate a substantial underrun of the FY2009 administrative budget, which the Executive Board authorized to be carried over to FY2010.

The Fund's human resources activities faced an additional challenge in FY2009 resulting from increased demands on Fund staff related to the global crisis, even as the staff size was decreasing in connection with the restructuring exercise initiated in FY2008. A hiring freeze in place as FY2009 began gave way to intensified recruitment efforts in the second half of the financial year, as a greater-than-targeted number of staff separations under the restructuring left room in the budget to recruit permanent staff even within the new, lower staffing levels. This offered the opportunity as well to update the skills mix among staff to help accommodate shifting demands on the Fund's workforce resulting in part from the global crisis. The recruitment effort also contributed to progress in regard to diversity at the Fund, which showed improvement in FY2009, particularly in the areas of gender balance and representation of underrepresented regions. In its continuing effort to maintain a framework for its human resources activities with sufficient flexibility to meet its evolving business needs, the Fund pressed forward with its human capital management project, designed to streamline human resources processes and simplify policies, and introduced a more systematic approach to succession management and leadership development as the financial year drew to a close.

Building on work begun in previous years, IMF activities in FY2009 continued the trend in the institution toward greater accountability, openness, and transparency. Responding to a IEO evaluation of Fund governance that identified a gap in this regard, the Executive Board introduced an accountability framework for the Fund's management, with work underway to identify performance criteria, processes to be used, and ways to link assessments to incentives. A confidential Integrity Hotline, established in June 2008, enables staff and others to report, on an anonymous or identified basis, allegations of staff misconduct, which are followed up by the Ethics Office. With Board approval, the hotline's coverage was extended shortly thereafter to include (though with a different follow-up mechanism) the Managing Director and Executive Directors. The Independent Evaluation Office continued to pursue its mission of conducting independent and objective evaluations of IMF policies and activities. In addition to Board discussions during the year surrounding the IEO assessment of IMF governance and Fund management's implementation plan in response to the IEO's assessment of structural conditionality in IMF-supported programs, the IEO issued an evaluation of the Fund's involvement in international trade policy issues at the end of FY2009. As part of ongoing efforts to strengthen the evaluation and management of risk, the Board was briefed on transitional risks arising from the Fund's downsizing and restructuring and reviewed an advisory committee report on risk management. Finally, the 2009 report on implementation of the Fund's transparency policy showed improvement on a number of measures of institutional transparency, including the publication rates for documents in several categories.



CHAPTER 2

Developments in the Global Economy and Financial Markets

Developments in the Global Economy and Financial Markets

On the heels of a major financial crisis that originated in advanced country markets in 2007, the global economy sank in 2008–09 into the deepest recession since World War II.[4] Although the IMF's 2008 *Annual Report* had highlighted the risks from the spreading financial crisis, the crisis advanced further and faster during FY2009 than expected, despite strong policy efforts in key economies. Emerging markets and low-income countries, which had been relatively sheltered from financial strains owing to their limited exposure to U.S. mortgage-related assets, were drawn into the storm, as international credit markets, trade finance, and many foreign exchange markets also came under heavy pressure.

This heightened financial stress led to an unprecedented contraction in global output and trade in FY2009 and was transmitted through a range of channels. The ramifications from the credit crunch and the sharp drop in asset prices were quickly passed on through banking systems to many sectors and countries in the global economy and were magnified by the collapse of consumer and business confidence. Wide-ranging and sometimes unorthodox policy responses made some progress in stabilizing markets in FY2009, although they were not able to arrest the circle of negative feedback between intensifying financial strains and weakening activity.

Economic activity and merchandise trade plummeted in the last quarter of 2008 across all markets and continued to fall rapidly in early 2009. Global GDP contracted by over 6 percent (annualized) in the fourth quarter of 2008 and the first quarter of 2009. Advanced economies suffered considerably from financial strains and the deterioration in housing markets. In emerging markets in Europe and the Commonwealth of Independent States, which had been relying heavily on capital inflows to fuel growth, significant damage was inflicted early through financial channels. Countries that relied heavily on manufacturing exports, like those in East Asia, Japan, Germany, and Brazil, were battered by falling demand in export markets. Countries in Africa, Latin America, and the Middle East suffered from plummeting commodity prices, drop in demand for exports, and lower remittances and foreign capital inflows.

Indeed, a sharp correction in the third quarter of 2008 brought an end to the commodity price boom. The IMF commodity price index declined by almost 55 percent during the second half of 2008. This sharp drop in commodity prices mainly reflected the adverse effect of the global slowdown on the demand for commodities. In particular, the sharper-than-expected downturn in emerging and less-developed economies in mid-2008—which had accounted for most of the incremental demand during the boom—was a key factor explaining the drop in commodity prices. Prices broadly stabilized at the end of 2008. Commodities closely tied to manufacturing of capital goods were affected the most, while commodities with a lower income elasticity of demand, like food, experienced a milder price decline.

In most areas of the world, inflation pressures subsided rapidly, and rising economic slack contained price pressures. Headline inflation in advanced economies fell below 1 percent in early 2009. Inflation moderated significantly in the emerging economies, although in some cases, depreciating exchange rates moderated the downward momentum.

Against this background, national and international policy initiatives were undertaken to spur a coordinated policy response to stabilize the financial system. The IMF, together with the World Bank and regional development banks, played a useful role by providing more front-loaded financing and streamlined conditionality. The Fund took actions to modernize its lending toolkit (see Chapter 3), including instituting the new Flexible Credit Line, to revamp the conditions on program loans and to expand its lending capacity.

ADVANCED ECONOMIES

The situation in advanced economies deteriorated rapidly after the default in September 2008 of a large U.S. investment bank (Lehman Brothers), public support for the largest U.S. insurance company (AIG), and intervention in a range of other systemic institutions in the United States and Europe. These events put in doubt the solvency of many established financial institutions. As a result, wholesale funding evaporated, external debt markets closed, and a disorderly deleveraging ensued across the rest of the global financial system. Gross global capital flows contracted, with flows favoring countries with more liquid, safe-haven markets. Consequently, the U.S. dollar and the yen appreciated sharply in real effective terms in the second half of 2008, while the euro remained broadly stable.

Financial markets had stabilized by late 2008, but remained under stress during the remainder of FY2009. Many equity markets remained down by more than 40 percent from their peaks. After years of building up record levels of debt, financial institutions and households began the painful process of reducing leverage. This was driven by mounting bank write-downs as credit quality deteriorated and also by the reversal of intertemporal savings choices made by households and some corporates. Many elements of the "shadow banking system" that were predicated on high leverage began the process of being unwound. Financial pressures from this deleveraging cycle were widespread and persistent, reflecting the damaging

Realtor advertisement for foreclosure home listings, Stroudsburg, Pennsylvania, United States.

feedback loop with the real economy. As output contracted, the risk of rising corporate and household defaults in turn widened credit spreads and increased credit-related losses on banks' balance sheets. In the fourth quarter of 2008, advanced economies experienced an unprecedented output decline of 70 percent (annualized).

The policy responses during the year were rapid and comprehensive but were not successful at arresting the downward spiral. Country authorities followed multifaceted strategies involving continued provision of liquidity, extended guarantees of bank liabilities, injection of public funds for bank capitalization, and programs to deal with distressed assets. However, some of these policies, particularly regarding the treatment of impaired assets, lacked detail, as they were rushed, and thus at first did not adequately reduce uncertainty about distressed assets. Central banks used conventional and unconventional policy tools to ease credit market conditions and reduced policy rates to unprecedented lows, but still overall credit growth contracted. Large discretionary fiscal stimulus packages were introduced in China, Germany, Japan, Korea, the United Kingdom, and the United States. However, the impact from increased spending will mostly be felt in late 2009 and 2010.

In the United States, the biggest financial crisis since the Great Depression pushed the country into a deep recession. The credit crunch intensified and asset prices continued to fall. High uncertainty, large wealth losses, and lower earnings prospects drove consumer confidence to record lows and caused a big jump in savings rates. With consumption depressed, real GDP contracted by more than 6 percent in the fourth quarter of 2008 and by 5.7 percent in the first quarter of 2009, and the unemployment rate rose to 8.5 percent.

In Europe, financial systems suffered a much larger and more sustained shock than expected, macroeconomic policies were generally slow to react, and confidence plunged as households and firms drastically scaled back. Exposure to U.S.-based assets caused major repercussions in the banking system because of the close linkages among Europe's major financial institutions and their high degree of leverage. Most advanced countries suffered sharp contractions in FY2009.

In Asia, the advanced economies took the hardest hit because of their greater exposure to the decline in external demand, especially for consumer goods. Japan's economy contracted at a 14 percent annualized rate in the fourth quarter of 2008 as the yen's strength and relatively tighter credit conditions added to the problems in the export sector. However, parts of the region began to show modest signs of recovery in 2009.

Other advanced economies like Canada, Australia, and New Zealand dealt with adverse terms-of-trade shocks, the impact of sizable private wealth reduction, and for Canada, weak demand in the United States. However, after years of prudent fiscal policy management and more conservative financial system regulation, these countries were better placed than other advanced economies to mitigate further declines in demand.

Rows of auto imports at port, United Kingdom.

EMERGING MARKETS

Emerging Europe was hit very hard by the contraction in gross global capital flows and flight from risk. Many countries in the region relied heavily on capital inflows from Western banks to sustain local credit booms. There were large intra-European cross-border bank exposures, and many banks in emerging European countries were owned by distressed foreign financial institutions. The situation deteriorated sharply in the fall of 2008, with sovereign spreads jumping across the board and exchange rates depreciating sharply in countries with flexible regimes. The combination of a drop in import demand in advanced country markets, a collapse in property prices, limited access to credit, and currency depreciations in the context of sizable balance sheet mismatches led to a very hard landing, and even full-blown crises in some countries. With exports and output plummeting and government revenues worsening, a number of countries received support from the IMF and other international financial institutions to sustain their balance of payments.

Countries in the Commonwealth of Independent States (CIS) experienced the largest reversal last year. CIS economies were hit by three major shocks: external funding was shut off or greatly curtailed; demand in CIS export markets dropped; and commodity prices, especially those for energy, collapsed. Financial systems in several CIS countries were very open and more susceptible to financial turbulence from abroad. After years of strong growth, output is expected to contract by more than 5 percent in 2009. Inflation did not ease as much as in other emerging markets because of depreciation pass-through effects. The impact of weaker currencies imposed a major burden on nonfinancial firms in CIS countries that borrowed in foreign currency, requiring massive cutbacks in investment and employment.

Latin America suffered from the same trio of shocks as the CIS countries, but the overall impact was less severe than in Europe because public and private balance sheets were relatively strong, financial systems were less exposed on the liabilities side to advanced economies' banking systems, and several large economies were able to use the exchange rate as a shock absorber. The financial crisis nonetheless led to a sell-off in equity markets in late 2008, a spike in funding costs, and a jump in spreads on corporate and sovereign debt. Capital flows dwindled and domestic currencies depreciated sharply in countries with flexible regimes. This was followed rapidly by a slowdown in credit growth and collapse in industrial production and exports. Central American and Caribbean countries were hit also by a sharp decline in tourism receipts and remittances to the region, and several countries in Central America and the Caribbean sought support from the IMF and other international financial institutions.

The large drop in the price of oil in FY2009 had a substantial impact on the economies of the Middle East and South America. Other countries were affected by declines in exports, tourism, remittances, and foreign direct investment. As external conditions deteriorated and capital flows reversed, several equity

and property markets declined. High government expenditure programs were launched swiftly to pick up the slack, drawing on the large buffers accumulated during the boom years.

LOW-INCOME COUNTRIES

Although financial linkages between low-income countries (particularly those in sub-Saharan Africa) and advanced economies were relatively limited, few countries were able to escape the economic storm. Demand for exports weakened and was compounded by a decline in the prices of most goods from low-income countries. On the one hand, the declines in world commodity prices did help to reduce inflation and had offsetting terms-of-trade effects. While the prices of commodity exports declined, the prices of commodity imports such as food and fuel also declined, often raising the real incomes of the poorest parts of the population.

However, a drop in workers' remittances, tighter global credit conditions, and lower foreign direct investment caused external balances to deteriorate. The overall fiscal position in LICs weakened, mainly as a result of a large swing in fiscal balances of some oil-exporting countries. For other countries, weaker fiscal positions were generally justified and were supported under IMF arrangements. Policymakers took measures to maintain macroeconomic stability and preserve the hard-won gains against poverty achieved in recent years. However, as the availability of financing to cover external deficits became more limited, those with tight domestic and external financing constraints sought additional donor support.

Restoring Global Financial Stability

Restoring Global Financial Stability

The extraordinary global financial crisis posed a host of serious policy challenges to most Fund members, as well as systemic risks to the global economy. The full attention of the IMF was directed toward addressing the policy challenges raised by the crisis, including helping governments prepare a full policy framework in countries already in crisis, and for other vulnerable countries, strengthening contingency planning and crisis preparedness and intensifying surveillance. In collaboration with other international bodies and standard setters, the Fund immediately identified the core macroeconomic and financial policy response needed to help minimize the economic and social costs of the crisis. It then worked to encourage early action, promoted dialogue within the membership, and started the critical task of examining the causes of, and gleaning lessons from, the crisis. The Fund helped members directly with financing and policy advice, placing greater emphasis on macrofinancial linkages, contagion risks, financial safety nets, and crisis preparedness and management. It also advised countries to provide support to economic activity wherever space for such support was available.

In the first half of 2008, the Fund's energies in regard to crisis response were directed toward assisting member countries, particularly low-income countries, in dealing with the effects of the food and fuel price shocks. Emphasis then shifted to the global crisis in financial markets as it escalated late in 2008, with record levels of Fund lending approved in FY2009 as a result of the intensity of the crisis. The Fund's swift response was aided in some cases by the activation of the emergency financing mechanism, which enabled the Executive Board to approve financial support for member countries within days of receiving the request. The intensified lending naturally focused attention on the adequacy of the Fund's lending instruments, which were subjected to a thorough internal review in the second half of the financial year that culminated in a major overhaul of Fund lending to realign it more closely with members' ongoing needs. The increased lending also directed attention, both inside and outside the Fund, to whether the organization had adequate financial resources to meet the likely level of need among Fund members, resulting in pledges of support from various bilateral sources and a commitment, in April 2009, by the G-20 to a tripling of the Fund's lending resources.

Amidst efforts to meet the immediate needs of member countries, the IMF also began assessing the causes of the crisis and the mechanisms of its transmission across the globe, distilling lessons to help ensure that a similar crisis does not recur. Staff analysis throughout the year informed the Board's discussions on initial lessons from the crisis in February 2009, which provided insights into policy and regulatory failures that contributed to the crisis and identified immediate priorities to be addressed and key areas to help prevent future crises. Developments in the world economy were continually monitored as the crisis continued to unfold and assessments were made of their effects on member countries, and IMF staff regularly updated the Executive Board on developments in regions and individual countries.

Among the many issues raised by the crisis was the role of Fund surveillance, specifically, whether surveillance could have done more to help avert the crisis and what steps might be taken to strengthen the effectiveness of the organization and help prevent a recurrence. The conclusion of the 2008 Triennial Surveillance Review in October provided the Board with an opportunity to assess the Fund's surveillance comprehensively in this context and yielded the IMF's first-ever Statement of Surveillance Priorities. Emphasis was also placed during the year on ways of integrating financial sector issues more systematically into surveillance (particularly the Fund's Article IV consultations with its member countries), with the Board devoting an informal seminar in February 2009 to the topic. Plans were made to extend the Fund's annual vulnerability exercise to advanced economies, and reviews of member countries' provision of data to the Fund highlighted the importance of data coverage and adequacy in crisis prevention and response. The Fund's core work in the areas of bilateral, multilateral, and regional surveillance continued even as the Fund concentrated attention and resources on helping manage and resolve the crisis.

RESPONSE TO THE CRISIS

The deepening crisis

The IMF had highlighted the growing risks to global economic and financial stability by the end of 2007.[5] The Fund continued to focus on these risks and their consequences at the outset of FY2009, in particular, the deepening concerns about the stability and soundness of financial markets worldwide and the impact on member countries—especially low-income countries—of the jump in food and fuel prices in the first half of 2008. Additionally, the Fund's ongoing bilateral and multilateral surveillance became increasingly focused on financial risks. After October 2008, with the very rapid deterioration of the global financial and economic environment, and the reversal of the surge in food and fuel prices beginning midyear (and culminating in their receding to five-year lows, in nominal terms, by the fourth quarter of 2008), attention was focused on providing emergency financial assistance to countries affected by the financial crisis—especially emerging market countries—and on ensuring that the Fund had both the right instruments and adequate financial resources to meet that crisis. The Fund was also intensely engaged in assessing the appropriate policy responses in advanced countries—for example, fiscal and monetary stimulus (the latter including unconventional measures) and repairs to financial sectors—while encouraging countries to avoid protectionism.

Food and fuel price increases

Responding to what proved to be a relatively short-lived, although very disruptive, spike in food and fuel prices, an informal Board briefing in June 2008 discussed the macroeconomic impact of and policy responses to food and fuel price increases.[6] The spike had especially severe repercussions for the Fund's low-income members, and the institution responded by increasing financial assistance to those countries to mitigate the price shocks. Arrangements under the IMF's Poverty Reduction and Growth Facility were augmented for a number of low-income countries to assist them in coping with the increases (see "Support for Low-Income Countries" in Chapter 4). Attention was also focused on the growing risks affecting emerging markets, and in July 2008, the Board held a preliminary discussion on macrofinancial and cross-border risks for emerging market economies. A public seminar, attended by more than 100 representatives from the media, civil society organizations, and academia, was also held in early July 2008, in conjunction with the release of staff reports assessing the effects of the surge in commodity prices on the economies of low-income and emerging market countries (see Web Box 3.1).[7] The seminar concluded that the impact of surging oil and food prices, while being felt universally, was most severe for import-dependent poor and middle-income countries confronting balance of payments problems and higher inflation, with the poor in those countries facing acute difficulties.

The crisis in financial markets

Recognizing that the crisis was beginning to take on global dimensions, the IMF at midyear focused its work on understanding and drawing lessons to date, strengthening collaboration with the Financial Stability Board, and building on FSB recommendations.

By September 2008, the global crisis had entered a new phase, becoming rapidly and significantly worse. The IMF responded by identifying the policy challenges, including the need for increased emphasis on macrofinancial linkages, reforming its lending instruments, reviewing its financing role in member countries and the adequacy of its resources, and providing emergency lending to countries affected by the crisis. The Managing Director, noting that the crisis was spreading to emerging markets, emphasized in October 2008 the Fund's readiness to act quickly using its emergency financing mechanism (see Box 3.1). The Executive Board subsequently approved requests for expedited financial support from seven countries under this mechanism in late 2008 and early 2009. In the second half of FY2009, IMF lending reached unprecedented levels (see Box 3.2 and "Financial Support").

At the October 2008 Annual Meetings, the IMFC called upon the IMF to take the lead in drawing policy lessons from the crisis and recommending actions to restore confidence. In addition, at an emergency summit in November 2008, G-20 leaders asked the Fund to help coordinate the effort to develop a possible new financial architecture, drawing on lessons from the crisis. At a second meeting in April 2009, G-20 leaders underscored the need for a new financial architecture and pledged additional resources to the Fund to help countries deal with the crisis.

Welcoming the opportunity to take stock of the IMF response to the crisis, in an October 2008 Board discussion on IMF collaboration with the Financial Stability Board,[8] Executive Directors stressed the need for continued close collaboration among national authorities, standard setters, international financial agencies, and the private sector, noting the Fund's key role as the leading international institution for macrofinancial analysis. They supported the increased focus of the Fund's surveillance and financial sector work on policy challenges raised by the financial crisis and emphasized greater priority for assisting members in identifying and remedying gaps in financial regulation and supervision. Encouraged by the close collaboration with the FSB since its establishment, Executive Directors saw merit in strengthening that collaboration and in exploring concrete modalities for doing so, including with respect to financial stability assessments and opportunities for joint IMF-FSB outreach.

As part of its ongoing work with the FSB, the Fund cosponsored with the FSB in October 2008 a high-level meeting on the financial turmoil and policy responses (see Web Box 3.2). The meeting reviewed the main challenges and risks faced by mature financial markets and analyzed the impact on, and key transmission channels to, emerging markets. The Fund also collaborated with the FSB on developing an early warning exercise, and an

BOX 3.1

The IMF's emergency financing mechanism

The IMF's emergency financing mechanism, established in 1995, enables rapid approval of IMF lending to its member countries. Through the emergency mechanism, the IMF's Executive Board can act more quickly than for a normal IMF lending program. The emergency procedures under the mechanism are expected to be used only in rare circumstances that represent or threaten to give rise to a crisis in a member's external accounts requiring immediate response from the Fund. The conditions for activation of emergency procedures include the readiness of the member to engage immediately in accelerated negotiations with the Fund, with the prospect of early agreement on—and implementation of—measures sufficiently strong to address the problem.

The mechanism had been used on only five occasions prior to the global crisis: in 1997 during the Asian crisis for the Philippines, Thailand, Indonesia, and Korea, and in 2001 for Turkey. In FY2009, as a result of the suddenness and intensity of the global downturn, an additional seven countries (Armenia, Georgia, Hungary, Iceland, Latvia, Pakistan, and Ukraine) received expedited financial assistance from the Fund via the mechanism.

Under the emergency procedures, IMF management informs the Executive Board of the intention to activate emergency procedures and provides reasons. A short written report is circulated as soon as feasible, describing the member's economic situation. Once understandings with the authorities have been reached on a program, the IMF staff report is circulated, and the Board considers the request for a program within 72 hours. The member's past cooperation with the IMF has a strong bearing on the speed with which the Fund can assess the situation and agree on necessary corrective measures.

informal Board discussion on the proposed procedure for the exercise was held in February 2009 (see "Follow-Up on Surveillance Priorities").

Putting in place the instruments to meet challenges posed by the crisis

One of the IMF's key purposes is to provide financial assistance, under adequate safeguards, to members facing balance of payments problems. Fund lending has a unique role in crisis resolution and contributes to global financial stability by mitigating the risk that members' problems will erupt into full crisis and spill over into other countries. Thus, it is essential that the Fund's lending facilities be effective for the needs of the day.

As the crisis deepened, the Executive Board had intense discussions on modernizing the Fund's lending instruments and on how best to tailor the Fund's instruments to members' needs.[9] These discussions culminated in the approval in March 2009 of a number of far-reaching reforms.

The March reforms

To enable the IMF to better meet members' needs in the context of the crisis and strengthen its capacity to prevent and resolve crises, the Executive Board approved a major overhaul of the Fund's nonconcessional lending framework in March 2009.[10] This comprehensive overhaul was the culmination of numerous Board discussions and extensive staff work during the preceding 18 months to assess and determine the reforms that would best enable the Fund to meet members' ongoing needs. The reforms approved included modernizing IMF conditionality for all borrowers, introducing a new Flexible Credit Line, enhancing the flexibility of the Fund's traditional Stand-By Arrangement (SBA), doubling normal access limits for nonconcessional resources, simplifying cost and maturity structures, and eliminating certain seldom-used facilities (see Box 3.3). A review and reform of concessional lending instruments for low-income members was pursued as a complementary step (see "Reassessing LIC Financing and Debt Sustainability" in Chapter 4).

The reforms are expected to enhance the effectiveness of the IMF's nonconcessional lending facilities in meeting members' financing needs, while preserving adequate safeguards for Fund resources, by modernizing the conditionality framework applying to all Fund arrangements (including those that are concessional), increasing access limits on nonconcessional lending, and reforming the pricing of high and precautionary access to nonconcessional lending. All aspects of the IMF's non-concessional lending instruments and policies were assessed: the existing General Resources Account (GRA) facilities, the conditionality framework, access levels, charges and fees, and maturities. By enhancing instruments for precautionary lending and tailoring the use of Fund resources to the strength of members' policies and fundamentals, the reforms aim to encourage members to approach the Fund early, thereby reducing the likelihood of crises or mitigating their ultimate costs. Together with a substantial increase in the Fund's resources (see "Making Sure the Fund Has Adequate

BOX 3.2

Unprecedented Fund lending commitments in FY2009

The intensification of the global financial crisis led to a record level of IMF lending commitments in FY2009, with numerous loan approvals expedited via the Fund's emergency financing mechanism. The Fund approved loans amounting to SDR 65.8 billion to 15 member countries through its nonconcessional facilities, with all but one of these arrangements approved in the second half of the year. Similarly, the Fund approved loans or augmentations to existing arrangements for 26 countries totaling SDR 1.1 billion through its concessional lending facilities, which offer financing to low-income countries at a subsidized interest rate. The amounts approved were unprecedented in the Fund's history in such a short time.

The heavy demand on Fund resources raised concerns about the adequacy of those resources to meet the crisis, prompting pledges of support from several member countries and a commitment from the G-20 in April 2009 to triple the Fund's nonconcessional lending resources and double its concessional lending capacity (see "Making Sure the Fund Has Adequate Resources to Meet the Crisis"). The increased demand also played a role in the ongoing review of the Fund's lending toolkit, which led to a major overhaul of Fund lending facilities in March 2009 (see "Putting in Place the Instruments to Meet Challenges Posed by the Crisis").

BOX 3.3

Key elements of the IMF's nonconcessional lending reform

- *Modernizing the conditionality framework* to ensure that conditions linked to IMF loan disbursements are sufficiently focused and adequately tailored to the varying strengths of members' policies and fundamentals. This is being achieved by making greater use of preset qualification criteria (ex ante conditionality) and introducing greater flexibility in the modalities of traditional (ex post) conditionality. In addition, structural reforms are now monitored in the context of program reviews, rather than through the use of structural performance criteria, which has been discontinued in all Fund arrangements, including those with low-income countries.

- *Establishment of the Flexible Credit Line*, designed to provide large and up-front financing to members with very strong fundamentals and policies. Access to the FCL is restricted to those members that meet strict qualification criteria:

  - a sustainable external position;
  - a capital account position dominated by private flows;
  - a track record of steady sovereign access to capital markets at favorable terms;
  - when the arrangement is requested on a precautionary basis, a reserve position that—notwithstanding potential balance of payments pressures that justify Fund assistance—remains relatively comfortable;
  - sound public finances, including a sustainable public debt position determined by a rigorous and systematic debt sustainability analysis;
  - low and stable inflation, in the context of a sound monetary and exchange rate policy framework;
  - absence of bank solvency problems that pose an imminent threat of a systemic banking crisis;
  - effective financial sector supervision; and
  - data transparency and integrity.

Because of the strict qualification criteria, drawings under the FCL are not tied to policy goals agreed with the country. The flexibility built into the design of the FCL relates to its uncapped access, its long repayment terms (3¼ –5 years), its unrestricted renewals, and its dual use for contingent (precautionary) and actual balance of payments needs.[1]

- *Enhancements to the Stand-By Arrangement*—the Fund's workhorse lending instrument for crisis resolution—that provide flexibility and ensure its enhanced use also as a crisis prevention instrument by members that may not qualify for the FCL. The modified SBA framework provides increased flexibility by allowing front-loading of access and reducing the frequency of reviews and purchases where warranted by the member's policies and the nature of the balance of payments problem faced by the member.

- *Simplification of the Fund lending toolkit* through elimination of certain facilities that were little or never used—the Compensatory Financing Facility, the Supplemental Reserve Facility, and the Short-Term Liquidity Facility—since they were aimed at narrowly defined balance of payments problems.

- *Doubling of access limits* to 200 percent of quota on an annual basis and to a cumulative limit of 600 percent of quota. These higher limits give confidence to countries that they will have access to adequate resources to meet their financing needs. There continues to be scope for access above these limits, for example, through the FCL, or following intensified scrutiny under the exceptional access framework, which was also overhauled.

- *Adapting and simplifying cost structures* of high-access and precautionary lending across facilities. Surcharges continue to enable the Fund to build reserves to mitigate credit risks, and the revised surcharge schedule also increases price incentives to make early repayments. The previous time-based repurchase expectations policy has been repealed. The commitment fee schedule is adapted to help contain risks to Fund liquidity from large-scale precautionary lending (which is facilitated by the creation of the FCL and the reforms to high-access precautionary SBAs).

1 As part of its response to the continuing deterioration in the global economic environment, in late October 2008, the Fund created the Short-Term Liquidity Facility (SLF), intended as a quick-disbursing facility for market-access countries with very strong economic policies facing temporary liquidity problems in global capital markets. However, when the Fund further refined its instruments to address the needs of this group in March 2009, the Executive Board approved the Flexible Credit Line, which encompasses all of the features of the SLF and so supersedes it.

Resources to Meet the Crisis"), the reforms provide a strong platform from which the Fund can respond robustly to help members tackle the current as well as future crises.

Executive Directors generally considered the overall package to be a satisfactory compromise that balances the diverse interests of the membership. With regard to the FCL, Executive Directors agreed that the FCL should be reviewed in two years, or earlier if commitments under the FCL reached SDR 100 billion. Executive Directors also supported making high-access precautionary SBAs available on a more regular basis and making their design more flexible. They considered reforms to the surcharge system and repurchase expectations as striking a balance between simplifying the cost and repayment structures for Fund lending, and mitigating credit and liquidity risks and encouraging timely repayment of Fund resources.

Fund members responded rapidly to the facilities reform. In the weeks following the announcement of the revamped facilities in late March 2009, Mexico, Poland, and Colombia made requests for arrangements under the FCL. In mid-April 2009, the Fund approved the first FCL arrangement of US$47 billion for Mexico—the largest arrangement in IMF history. (The requests by Poland and Colombia for FCL arrangements, received a few weeks after Mexico's, were under discussion as the Fund's financial year ended but were subsequently approved in early FY2010.)

Making sure the Fund has adequate resources to meet the crisis

A key question raised by the global crisis was whether the IMF's resources were sufficient to meet the financing needs of its member countries. The Executive Board discussed this issue in early 2009, and a substantial increase in the Fund's lending resources was subsequently agreed to by the IMFC at its Spring Meeting (see Box 3.4 and Web Box 3.3). A related issue, the adequacy of the Fund's precautionary balances, was considered by the Executive Board in late 2008 in the context of higher Fund lending (see Box 3.5).

The Executive Board began discussing options for supplementing Fund lending resources in early February 2009.[11] Executive Directors emphasized that the Fund should be fully prepared to play a central role in the provision of balance of payments support, with most considering it prudent to err on the side of preparedness and agreeing that a near-doubling of the Fund's precrisis lending capacity would be appropriate, at least on a temporary basis.

While reaffirming that quotas are and should remain the basic source of the Fund's financing, Executive Directors concurred that reaching agreement on a general quota increase would take time, making such an increase unsuitable as an option for addressing near-term needs. Many nevertheless favored a general increase in quotas and called for advancing the timetable for discussions on the Fourteenth General Review of Quotas. (In April 2009, the IMFC agreed to advance the deadline for the review to January 2011, echoing an earlier call by G-20 leaders for completion by that deadline.) Executive Directors agreed that Fund borrowing from the official sector was the most appropriate approach to supplementing Fund resources in the short run, with various borrowing modalities—bilateral loan agreements, placement of Fund notes in the official sector, and enlargement and expansion of the New Arrangements to Borrow (NAB)—all viewed as worthy of further consideration.

The G-20 summit in early April 2009 supported a dramatic increase in IMF lending resources. At the summit, the G-20 industrial and emerging market economies reaffirmed the IMF's central role in the international financial system, agreeing to increase the resources available to the IMF through immediate financing from members of US$250 billion, subsequently incorporated into an expanded and more flexible NAB, increased by up to US$500 billion. In addition to this targeted tripling of the Fund's precrisis lending capacity, the G-20 leaders agreed to inject extra liquidity into the world economy via a US$250 billion general allocation of SDRs. In April 2009, the IMFC supported the G-20 leaders' call for an increase in the resources available to the IMF and the general allocation of SDRs.

The targeted immediate doubling of the IMF's precrisis lending capacity through bilateral financing from members was intended to help prevent a deepening of the crisis and support the global recovery and included resources that had already been pledged bilaterally. In February 2009, Japan agreed to provide the IMF with an additional US$100 billion—the single-largest supplemental financing contribution by an IMF member country ever—to bolster the Fund's lendable resources during the global economic and financial crisis.[12] European Union member states pledged an additional US$100 billion (EUR 75 billion) in March 2009. The funds from Japan and the European Union member states, along with additional funding pledged around the time of the G-20 summit (Canada, Norway, and Switzerland), as well as commitments from other sources, were expected to increase Fund resources by at least US$250 billion, in line with the G-20's commitment.

The bilateral agreements were expected to be incorporated subsequently into an expanded and more flexible NAB, increased by up to US$500 billion. The proposed modifications to the NAB sought to make it a much stronger backstop to the Fund's regular financing mechanism by expanding the number of participants from the existing 26, enlarging the aggregate total credit arrangements to up to US$550 billion (including the existing NAB of about US$50 billion), and making the NAB more flexible. The Fund subsequently began working with current and potential participants to advance these reforms quickly.

Similar efforts were undertaken to double the Fund's concessional lending capacity to meet the financing needs of low-income countries. The G-20 also supported such a move, and work advanced toward that end (see "Support for Low-Income Countries" in Chapter 4).

A proposal by the G-20 for a large general allocation of SDRs was also promoted that, while not increasing the Fund's lending

BOX 3.4

Where the IMF gets its money

Most resources for IMF loans are provided by member countries, primarily through the IMF's regular quota-based financing mechanism.[1] Each member of the IMF is assigned a quota, based broadly on its relative size in the world economy, which determines its maximum contribution to the IMF's financial resources. Upon joining the IMF, a country normally pays about one-quarter of its quota in the form of reserve assets, that is, widely accepted foreign currencies (such as the U.S. dollar, euro, yen, or pound sterling) or Special Drawing Rights.[2] The remaining three-quarters is paid in the country's own currency. Quotas are reviewed at least every five years; the Thirteenth Review of Quotas was completed in January 2008.

The IMF can use its quota-funded holdings of currencies of members with a strong balance of payments and reserve position to finance lending. The IMF's holdings of these currencies, together with its own SDR holdings, make up its own usable resources. If needed, the IMF can supplement its own usable resources through borrowing. Under its two standing multilateral borrowing arrangements—the New Arrangements to Borrow and the General Arrangements to Borrow—a number of member countries and institutions stand ready to lend additional funds to the IMF, up to a total of SDR 34 billion (about US$52 billion) as of end-April 2009. These arrangements were renewed in 2007 for another five-year period beginning in 2008. In addition, in February 2009 the IMF concluded a bilateral borrowing agreement with Japan, and towards the end of FY2009, other members pledged to bolster the IMF's lending capacity through bilateral borrowing arrangements (see chapter text).

Detailed information on various aspects of the IMF's financial structure and regular updates of its financial activities are available on the IMF's website at www.imf.org/external/fin.htm.

1 For further information, see "Where the IMF Gets Its Money—A Fact Sheet," available on the IMF website at www.imf.org/external/np/exr/facts/finfac.htm.
2 For an explanation of Special Drawing Rights, see "Special Drawing Rights—A Fact Sheet," available on the IMF website at www.imf.org/external/np/exr/facts/sdr.htm.

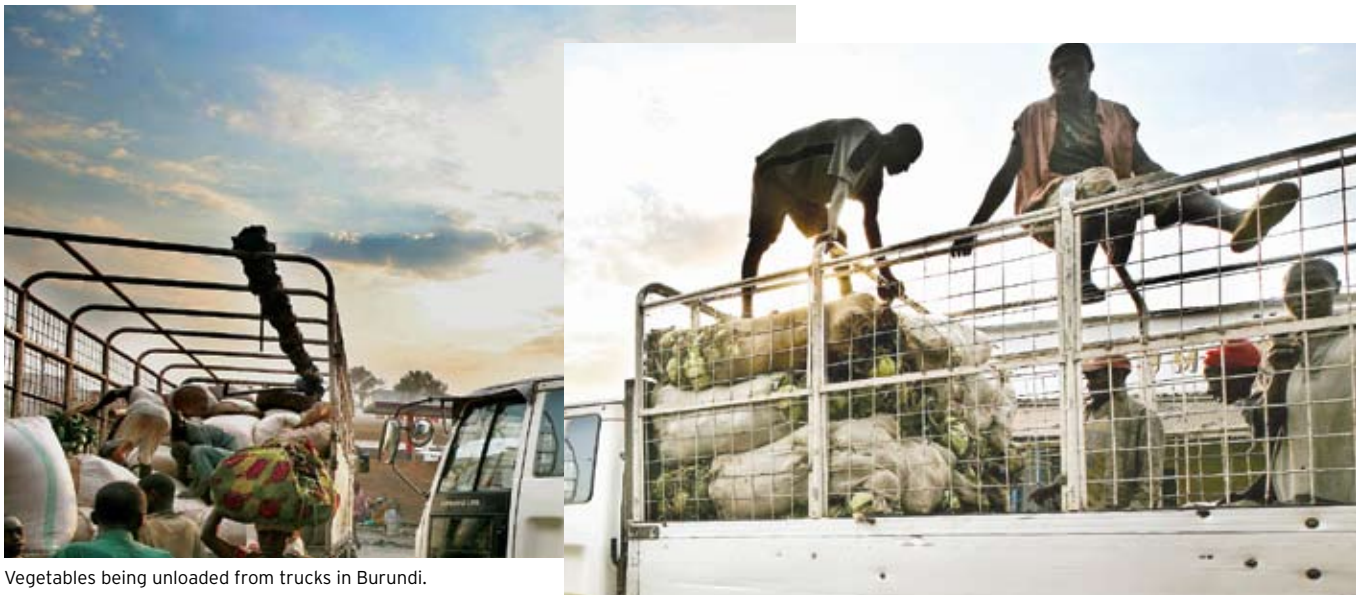
BOX 3.5

What are precautionary balances at the IMF?

The IMF maintains, as precautionary balances, (1) retained earnings held in the Fund's general and special reserves, which are readily available to absorb financial losses, including credit or income losses, and (2) the balance in the Special Contingent Account (SCA-1), a targeted balance designed specifically to protect the Fund against losses arising from the failure of a member to repay its overdue principal obligations.

Precautionary balances provide an essential buffer to protect the Fund against losses arising from both credit and income risks and also represent an important source of income. An adequate level of precautionary balances is therefore essential to protect the value of reserve assets that members place with the Fund and would also be critical if the Fund were to borrow substantially to supplement its resources (as it has made arrangements to do; see chapter text).

In December 2008, the Board reviewed the role and adequacy of the IMF's precautionary balances. Executive Directors noted that the rapid increase in Fund credit associated with the global financial shock had shifted the balance of risks sharply from income risk to credit risk. They agreed that the existing target for precautionary balances of SDR 10 billion would be retained for the time being, but a number observed that it may need to be raised if lending expands significantly and remains high. The Board also endorsed the development of a more transparent and rules-based framework for reserve accumulation, stressing that considerable judgment will continue to be needed, given the unique nature of the Fund's lending operations.



Vegetables being unloaded from trucks in Burundi.

capacity, would help members cope with the crisis by increasing their reserves. Executive Directors were briefed informally on the proposed SDR allocation in April 2009, and that same month, the IMFC called on the IMF to put forward a concrete proposal assessing the case for the general allocation and describing how it could be implemented, to be effective well before the 2009 Annual Meetings.

Financial support

Regular financing

The global financial crisis and resulting balance of payments pressures on many members led to a sharp increase in IMF financing and financing commitments in FY2009. Details on the lending facilities drawn are provided in Tables 3.1 and 3.2 and Figure 3.1, and the IMF's financing process is described in Box 3.6. An unprecedented number of arrangements were approved in FY2009 (see Figure 3.2) using the Fund's emergency financing mechanism (see Box 3.1). Large exceptional-access SBAs were approved as part of sizable financing packages that involved coordination with other sources of financing, including the European Union, the World Bank, and other bilateral loans. Four of the approved SBAs were initially precautionary with exceptional access. One arrangement was approved under the Fund's new Flexible Credit Line (see "Putting in Place the Instruments to Meet Challenges Posed by the Crisis"). Repayments to the General Resources Account totaled SDR 1.8 billion, of which 85 percent reflected obligations under SBAs. Repurchases on an expectations basis were eliminated on April 1, 2009, as part of the Fund's reform of its lending toolkit (see "Putting in Place the Instruments to Meet Challenges Posed by the Crisis.")

Concessional financing and debt relief

As of April 30, 2009, the economic programs of 28 member countries were supported by either PRGF or ESF–High Access Component arrangements, with commitments totaling SDR 1.8 billion and undrawn balances of SDR 0.8 billion. Total concessional loans outstanding of 56 low-income members amounted to SDR 4.1 billion at April 30, 2009. Information regarding new arrangements and augmentations of access under the Fund's concessional financing facilities is provided in Table 3.3 and Figure 3.3.

Debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) is another important ongoing IMF endeavor.[13] During FY2009, two member countries (Côte d'Ivoire and Togo) reached their decision points under the enhanced HIPC Initiative, and Burundi reached its completion point.[14] As of April 30, 2009, 35 countries had reached their decision points under the initiative; of these, 24 had reached their completion points. Those countries that reach their completion points qualify for debt relief under the MDRI. In total, the IMF has committed SDR 2.3 billion and disbursed SDR 1.8 billion under the HIPC Initiative and has provided debt relief of SDR 2.3 billion under the MDRI.

TABLE 3.1

IMF lending facilities

CREDIT FACILITY (YEAR ADOPTED)	PURPOSE	CONDITIONS	PHASING AND MONITORING[1]
CREDIT TRANCHES AND EXTENDED FUND FACILITY[3]			
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.
FLEXIBLE CREDIT LINE (2009)	Flexible instrument in the credit tranches to address all balance of payments needs, potential or actual.	Very strong ex ante macroeconomic fundamentals, economic policy framework, and policy track record.	Approved access available up front throughout the arrangement period subject to completion of the midterm review for one-year arrangements.
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.
SPECIAL FACILITIES			
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.
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 upper credit tranche arrangement or PRGF.	
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 arrangements. PRGF-supported programs are based on a Poverty Reduction Strategy Paper 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.
EXOGENOUS SHOCKS FACILITY (2006)	Short-term assistance to address a temporary balance of payments need that is due to an exogenous shock.		
1. Rapid-Access Component	Rapid assistance for actual balance of payment need whose primary source is an exogenous and sudden shock.	Commitment to appropriate policies; in exceptional cases, prior actions to address the shock.	Usually in a single disbursement.
2. High-Access Component	Assistance for exogenous shocks through a 1–2 year upper credit tranche program.	Adopt a 1–2 year program involving macroeconomic adjustment allowing members to adjust to the shock and structural reform considered important for adjustment to the shock, or for mitigating the impact of future shocks.	Semiannual disbursement on observance of performance criteria and, in most cases, completion of a review.

1 Except for the PRGF, the IMF's lending is mostly financed from the capital subscribed by member countries (these resources may be temporarily supplemented by borrowing if needed); 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 "Special Drawing Rights (SDRs)—A Fact Sheet," available on the IMF website at www.imf.org/external/np/exr/facts/sdr.htm)—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 Web Box 3.3 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 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 of up to 200 percent of quota; 30 basis points for amounts in excess of 200 percent and up to 1,000 percent of quota; and 60 basis points for amounts in excess of 1,000 percent of quota) applies to the amount that may be drawn during each (annual) period under a Stand-By, Flexible Credit Line (on a pro rata basis for a 6-month FCL), or Extended Arrangement; this fee is refunded on a proportionate basis as subsequent drawings are made under the arrangement.

		REPURCHASE (REPAYMENT) TERMS		
	ACCESS LIMITS[1]	CHARGES[2]	SCHEDULE (*YEARS*)	INSTALLMENTS
	Annual: 200% of quota; cumulative: 600% of quota.	Rate of charge plus surcharge (200 basis points on amounts above 300% of quota; 300 basis points on amounts above 300% of quota for more than 3 years).[4]	3¼–5	Quarterly
	No preset limit.	Rate of charge plus surcharge (200 basis points on amounts above 300% of quota; 300 basis points on amounts above 300% of quota for more than 3 years).[4]	3¼–5	Quarterly
	Annual: 200% of quota; cumulative: 600% of quota.	Rate of charge plus surcharge (200 basis points on amounts above 300% of quota; 300 basis points on amounts above 300% of quota for more than 3 years).[4]	4½–10	Semiannual
	Generally limited to 25% of quota, though larger amounts up to 50% 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	Quarterly
	280% of quota; 370% of quota in exceptional circumstances.	0.5%	5½–10	Semiannual
	Up to 50% of quota per shock. Limited to two shocks in 5 years.	0.5%	5½–10	Semiannual
	150% of quota (less any outstanding disbursements for the same shock under the rapid-access component).			

3 *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.

4 The new system of surcharges (shown in the table) went into effect as of August 1, 2009. The previous system of surcharges, introduced in November 2000, had the following schedule: 100 basis points above the basic rate of charge for credit outstanding over 200 percent of quota, and 200 basis points above the basic rate of charge for credit outstanding over 300 percent of quota. A member with credit outstanding in the credit tranches or under the Extended Fund Facility on, or with an effective arrangement approved before, August 1, 2009, had the option to elect either the new or the old system of surcharges.

Source: IMF Finance Department.

TABLE 3.2

Arrangements under main facilities approved in FY2009 (In millions of SDRs)

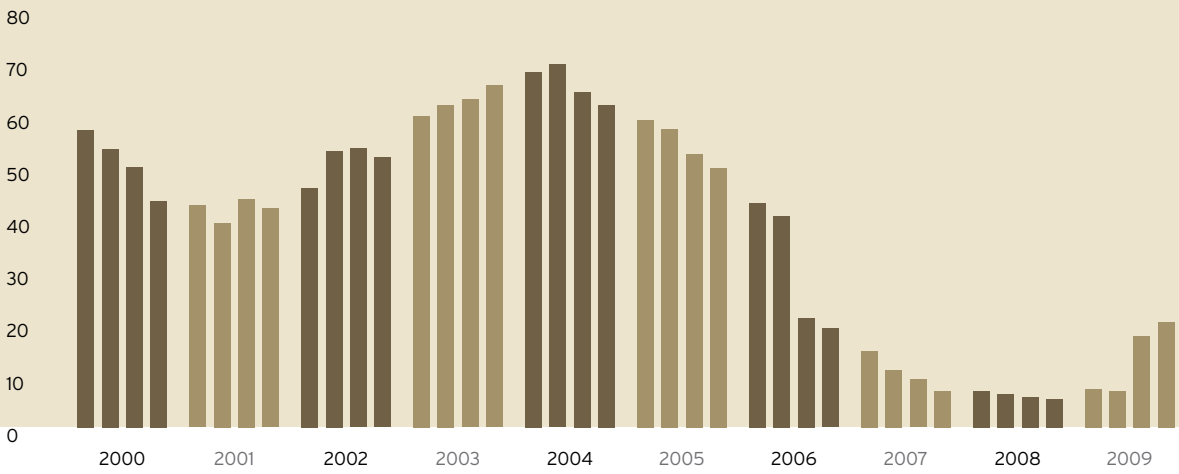
MEMBER	TYPE OF ARRANGEMENT	EFFECTIVE DATE	AMOUNT APPROVED
NEW ARRANGEMENTS			
Armenia[1]	28-month Stand-By	March 6, 2009	368.0
Belarus	15-month Stand-By	January 12, 2009	1,618.1
Costa Rica	15-month Stand-By	April 11, 2009	492.3
El Salvador	15-month Stand-By	January 16, 2009	513.9
Georgia[1]	18-month Stand-By	September 15, 2008	477.1
Guatemala	18-month Stand-By	April 22, 2009	630.6
Hungary[1]	17-month Stand-By	November 6, 2008	10,537.5
Iceland[1]	24-month Stand-By	November 19, 2008	1,400.0
Latvia[1]	27-month Stand-By	December 23, 2008	1,521.6
Mexico	12-month Flexible Credit Line	April 17, 2009	31,528.0
Mongolia	18-month Stand-By	April 1, 2009	153.3
Pakistan[1]	23-month Stand-By	November 24, 2008	5,168.5
Serbia	15-month Stand-By	January 16, 2009	350.8
Seychelles	24-month Stand-By	November 14, 2008	17.6
Ukraine[1]	24-month Stand-By	November 5, 2008	11,000.0
TOTAL			65,777.3

1 Approved under the Fund's emergency financing mechanism procedures.

Source: IMF Finance Department.

FIGURE 3.1

Regular loans outstanding, FY2000–FY2009 (In billions of SDRs)



Source: IMF Finance Department.

LESSONS FROM THE FINANCIAL CRISIS

Understanding what happened and drawing lessons for the future

The conclusions and lessons highlighted in Chapter 1 are among many to emerge from ongoing analysis by IMF staff and the Board in FY2009, particularly in the latter half of the year. Board activities in October 2008 and February 2009 built on staff work that examined, first, spillovers from the food and fuel price shocks and later, the global financial meltdown.

In October 2008, the Board looked at the transnational spillover and other effects of fiscal subsidies put in place in connection with surges in commodity prices, at a "Seminar on Fuel and Food Price Subsidies—Issues and Reform Options."[15] Executive Directors noted the rapid growth of subsidies following the surge in fuel and food prices, observing that price subsidies can have significant transnational spillovers through their impact on global warming, international prices, smuggling, and regional pollution, and discussed reform of such subsidies to improve effectiveness, reduce distortionary effects on the economy, and lessen fiscal costs, while protecting vulnerable groups.

Support was expressed for full pass-through of price increases to consumers to promote efficiency and contain negative external effects, though Executive Directors stressed that full pass-through must be accompanied by the implementation of compensatory measures to protect vulnerable groups, acknowledging that such implementation presents practical and political challenges in many countries. Noting that many low-income and emerging market countries lack the capacity to implement well-targeted safety nets and consequently have difficulty in passing through price increases, Executive Directors concurred that, in such countries, universal subsidies or tax deductions, which benefit higher-income households disproportionately, might have to be phased out gradually while more effective safety nets are put in place.

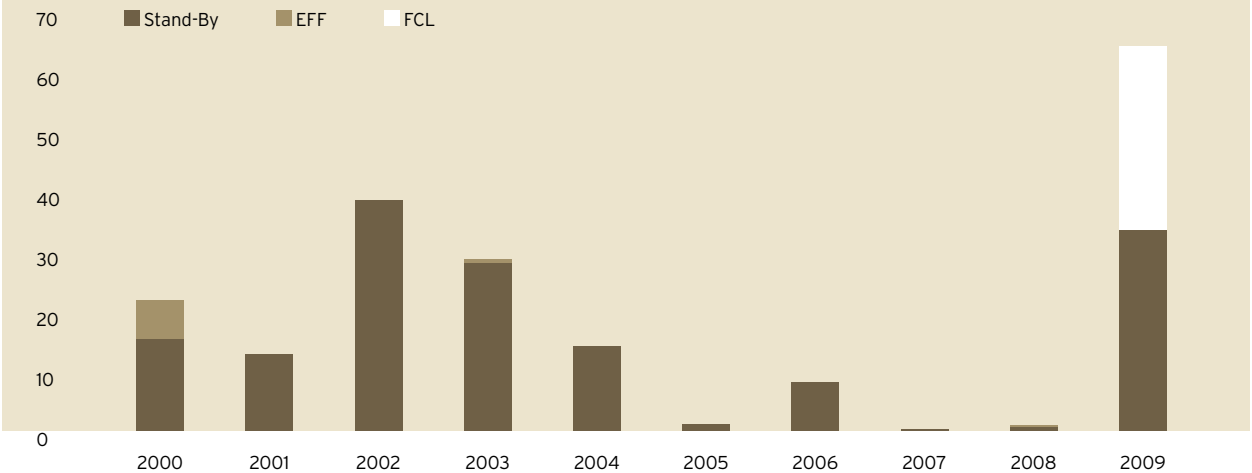
In February 2009, the Board discussed staff analysis, undertaken at the request of the IMFC, detailing initial lessons from the crisis.[16] Executive Directors stressed the preliminary nature of the discussion as well as the Fund's responsibility, given its mandate, to analyze the crisis and to work closely with other players—both national and international—to help restore global financial stability and economic growth.

Though views differed on the relative importance of the various causes of the crisis—failures in market discipline, financial regulation, macroeconomic policies, and global oversight—Executive Directors saw need for remedial actions across a broad front and at many levels, implying an ambitious agenda for policymakers and the need for coordinated action. They suggested that a

FIGURE 3.2

Arrangements approved during financial years ended April 30, 2000–09

(In billions of SDRs)



Source: IMF Finance Department.

range of reform priorities could be usefully considered in the area of financial regulation and supervision:

- expanding the perimeter of regulation to include a wider range of institutions and markets, with more effective cross-functional regulation and cooperation;
- reexamining existing regulatory and institutional practices with a view to reducing procyclicality;
- changing liquidity management practices and regulatory policies to ensure that financial institutions maintain larger liquidity buffers;
- strengthening public disclosure practices for systemically important financial institutions and markets, translating disclosures into effective assessments of institutional and systemic risk, and incorporating this information into early warning frameworks and the formulation of macroprudential policies;
- improving cross-border and cross-functional regulation and cooperation and promoting level playing fields across markets; and
- strengthening national liquidity frameworks and, at the international level, enhancing mechanisms for providing cross-border liquidity.

With regard to macroeconomic policies, many Executive Directors saw merit in expanding the mandate of monetary policy to include explicitly macrofinancial stability, rather than just price stability. A number of other Executive Directors, however,

BOX 3.6

How countries borrow from the IMF

A core IMF responsibility is providing financing to member countries experiencing balance of payments problems, enabling these countries to rebuild their international reserves, stabilize their currencies, continue paying for imports, and restore conditions for strong economic growth while undertaking policies to correct the underlying problems.[1] A member country may request IMF financial assistance if it has a balance of payments need—that is, if it has a balance of payments deficit or low levels of reserves. Though the volume of financing provided by the IMF has fluctuated significantly over time and a period of abundant capital flows and low pricing of risk throughout most of this decade resulted in substantial repayment of IMF credit, lending rose again starting in late 2008, as a result of global deleveraging in the wake of the financial crisis in advanced economies.

Upon request by a member country, IMF financing is usually provided under an "arrangement," which stipulates the specific policies and measures a country has committed to implementing to resolve its balance of payments problem. Once an arrangement is approved by the Fund's Executive Board, the financing is usually released in phased installments as the program is implemented.

Over the years, the IMF has developed various loan instruments, or "facilities," that are tailored to address the specific circumstances of its diverse membership. The Fund's facilities were the subject of careful consideration by the Executive Board in FY2009 to ensure that they continued to meet member needs (as detailed in "Putting in Place the Instruments to Meet Challenges Posed by the Crisis"). Table 3.1 provides details on the lending facilities through which the IMF makes financing available to its members.

All of the IMF's facilities, other than those offered to low-income countries at concessional rates, are subject to the IMF's market-related interest rate, known as the "rate of charge," and loans exceeding a certain threshold in terms of quota carry a surcharge. Eligible low-income countries may borrow at a concessional interest rate (0.5 percent) through the Poverty Reduction and Growth Facility and the Exogenous Shocks Facility. The IMF's emergency assistance to support recovery from natural disasters and conflicts is also offered in some cases at concessional interest rates.

The amount that a country can borrow from the Fund—its access limit—varies depending on the type of loan, but is a multiple of the country's IMF quota. This limit may be exceeded in exceptional circumstances. (One facility, the Flexible Credit Line, has no preset cap on access.) In the March 2009 reforms, the existing customary access limits under Fund facilities financed through the GRA were doubled, to 200 percent of quota on an annual basis and to a cumulative limit of 600 percent of quota (see "The March Reforms" and Box 3.3).

1 For additional information on the IMF's lending facilities, see the Fact Sheet on the topic available on the IMF's website at www.imf.org/external/np/exr/facts/howlend.htm; for up-to-date information on its lending arrangements, see "IMF Lending Arrangements," available at www.imf.org/external/np/fin/tad/extarr1.aspx.

TABLE 3.3

PRGF and ESF arrangements approved and augmented in FY2009 (In millions of SDRs)

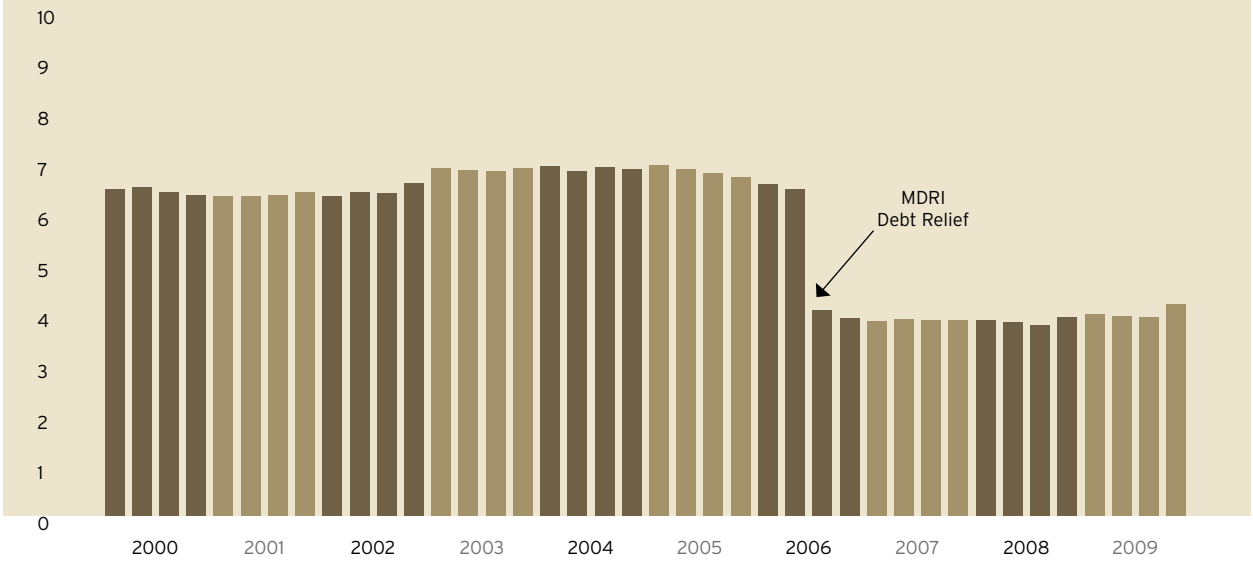
MEMBER	EFFECTIVE DATE	AMOUNT APPROVED
NEW THREE-YEAR PRGF ARRANGEMENTS		
Armenia[1]	November 17, 2008	9.2
Burundi	July 7, 2008	46.2
Congo, Republic of	December 8, 2008	8.5
Côte d'Ivoire	March 27, 2009	374.0
Djibouti	September 17, 2008	12.7
Mali	May 28, 2008	28.0
Niger	June 2, 2008	23.0
São Tomé and Príncipe	March 2, 2009	2.6
Tajikistan	April 21, 2009	78.3
Zambia	June 4, 2008	48.9
Subtotal		631.4
AUGMENTATIONS OF PRGF ARRANGEMENTS[2]		
Benin	June 16, 2008	9.3
Central African Republic	July 18, 2008	8.4
Gambia, The	February 18, 2009	6.2
Grenada	July 7, 2008	1.5
Guinea	July 28, 2008	21.4
Haiti	June 20, 2008	16.4
Haiti	February 11, 2009	24.6
Kyrgyz Republic	May 21, 2008	8.9
Madagascar	July 2, 2008	18.3
Malawi	July 14, 2008	10.4
Nicaragua	September 10, 2008	6.5
Sierra Leone	December 22, 2008	10.4
Togo	September 22, 2008	18.4
Subtotal		160.6
Total PRGF		791.9
NEW ESF ARRANGEMENTS		
Kyrgyz Republic (12-month)	December 10, 2008	66.6
Malawi (18-month)	December 3, 2008	52.1
Senegal (12-month)	December 19, 2008	48.5
Subtotal		167.2
DISBURSEMENTS UNDER ESF RAPID-ACCESS COMPONENT		
Comoros	December 15, 2008	2.2
Congo, Republic of	March 11, 2009	133.3
Ethiopia	January 23, 2009	33.4
Subtotal		168.9
Total ESF		336.1
TOTAL		**1,128.0**

1 Arrangement cancelled, March 6, 2009.
2 For augmentation only the amount of the increase is shown.

Source: IMF FInance Department.

FIGURE 3.3

Concessional loans outstanding, FY2000–FY2009 (In billions of SDRs)



Source: IMF Finance Department.

were of the view that monetary policy is too blunt an instrument to deal with asset price and credit booms and that overloading one instrument with too many different objectives must be avoided. Executive Directors agreed that prudential regulation should play a central role in addressing credit booms, and more generally, recognized the merits of authorities' adopting a broader macroprudential view and assigning a clear institutional mandate for macrofinancial stability. They generally considered that fiscal policy did not play a direct role in the run-up to the crisis; nevertheless, many Executive Directors observed that budget deficits in many countries had not been reduced sufficiently during the boom years when revenues were high, limiting the available fiscal space to fight the crisis. In several countries, the system of taxation promoted leverage and debt financing, increasing the vulnerability of the private sector to shocks. Most Executive Directors saw a need to revisit macroeconomic and structural policy responses to large imbalances, stressing consideration of financial and real spillovers, and to examine the scope for prudential measures to reduce systemic risk associated with capital flows.

Noting that inadequate warnings prior to the crisis—including, albeit not only, by the Fund—especially in the surveillance of systemically important advanced countries were a key failure in the architecture, Executive Directors generally considered that the Fund should have been more effective at identifying, communicating, and promoting coordinated responses to systemic risks to the global economy. Accordingly, efforts to strengthen surveillance must be intensified, with emphasis on covering all sources of systemic risk (in both advanced and emerging market countries) in an integrated manner and further analysis of poorly understood issues. Most Executive Directors welcomed work under way toward a joint early warning exercise with the Financial Stability Board, and many also underscored the importance of sharpening the Financial Sector Assessment Program.

Executive Directors noted that, given the need to share fiscal costs, there are no easy solutions to the problem of fragmented policy responses and spillovers among financial regulators, although they broadly agreed that it should be addressed. They also noted that resolving the problem of inadequate liquidity support and financing and insurance facilities to help countries weather turbulence in global capital markets cannot be the responsibility of the Fund alone; however, efforts under way to double the Fund's lending capacity should go a long way toward providing a solution.[17]

Having stressed the need for a global fiscal stimulus to boost aggregate demand, the Fund also began the process of assessing the risks posed by the large fiscal deficits in many countries. At a Board seminar on the state of public finances in February 2009,[18] Executive Directors acknowledged that fiscal policy in certain systemic countries would have to balance two opposing risks: the possibility of a deep and prolonged recession, which might

require further government support to the financial sector and further stimulus to support demand, against the possibility of a loss of confidence in fiscal solvency. They highlighted the importance of formulating and communicating a clear and credible strategy for ensuring fiscal solvency over the medium term. This strategy should be based on four pillars: (1) reliance on temporary or self-reversing measures in fiscal stimulus packages; (2) medium-term fiscal frameworks envisaging a fiscal correction, once economic conditions improve; (3) growth-enhancing structural reforms; and (4) a firm commitment to contain the fiscal costs stemming from population aging. They observed that the Fund would continue to have an important role to play in monitoring fiscal developments across the membership.

Staying ahead of the next crisis

As the crisis continued to unfold, the IMF devoted significant effort to monitoring developments in the world economy, assessing their effects on member countries, and devising appropriate responses. Throughout the year, the Executive Board received regular updates, both formal and informal, from staff on an ongoing basis on developments in regions and individual countries, as well as through the World Economic and Market Developments Board presentations.

One particularly pressing issue that the Fund monitored closely throughout FY2009 involved the additional threat posed by the global financial crisis to the macroeconomic and financial stability of low-income countries, many of which were already under severe strain from high food and fuel prices.[19] As the global environment continued to change rapidly, the Fund carefully tracked the impact of many overlapping shocks that affect LICs differently depending on initial conditions, trade structures, and their financial links with the outside world. An informal Board meeting on this topic was held in June 2008, and a report on the impact of the crisis in the world's poorest nations, "The Implications of the Global Financial Crisis for Low-Income Countries,"[20] was issued to the Board and presented by the Managing Director at an event at the Brookings Institution in early March 2009. Also in March, the Board discussed changing patterns in low-income country financing and their implications for Fund policies on external financing and debt,[21] with most Executive Directors supporting staff proposals to move away from a single design for concessionality requirements toward a menu of options to reflect better the diversity of situations in LICs, in particular with regard to the extent of debt vulnerabilities and macroeconomic and public financial management capacity.

The Board held an informal seminar in early March 2009 on another issue raised to prominence by the financial crisis: legal, institutional, and regulatory frameworks that countries may put in place to deal with cases of bank insolvency, both in periods of financial stability and in systemic crises. It was observed that in such crises, the framework should allow for a flexible policy response that aims to protect the payments system, limit the loss of depositor and creditor confidence, and restore bank solvency, liquidity, and stability. Decisions would need to be taken quickly and often with limited information.

Advancing surveillance priorities

The stability of the global financial system was significantly tested in the prolonged and intense crisis of 2008–09. The severity of the crisis, the rapidity of its onset, and the pervasiveness of its spread and effects raised concerns about Fund surveillance that led to intensified Board efforts in FY2009 to monitor and assess its adequacy and ensure its effectiveness, most notably in the context of the completion of the Triennial Surveillance Review and the issuance of a first-ever Statement of Surveillance Priorities.

Identifying the Fund's economic and operational surveillance priorities

Just before the October 2008 Annual Meetings, the Board concluded its 2008 Triennial Surveillance Review—the first such review since the Board approved, in June 2007, a new Decision on Bilateral Surveillance—and issued a first-ever Statement of Surveillance Priorities identifying four economic priorities for Fund surveillance in 2008–11, as well as four operational priorities (see Box 3.7).[22]

Executive Directors considered that the refocusing of the IMF's surveillance had steered it in the right direction and generally concurred on the thrust of many of the review's findings and recommendations. Most broadly agreed that four areas—risk assessment, macrofinancial linkages, multilateral perspective, and external stability and exchange rate assessments—should be given priority in the Fund's surveillance over the next few years.

In the area of risk assessment, the Board noted that the Fund's surveillance was paying insufficient attention to risks and that communication about such risks had also sometimes been rather tentative. Many Executive Directors felt that surveillance communication should be bolder and should avoid excessive hedging, recognizing that such an approach does mean a risk of being proved wrong. A number underscored the need for greater candor in the Fund's assessment of risks to global financial stability emanating from advanced countries. Regarding macrofinancial linkages, the Board noted that the Fund's increased attention to financial sector surveillance was beginning to pay off, particularly in identifying financial sector vulnerabilities. However, further progress was seen as needed to improve assessments of the relative likelihood and impact of key financial stability risks and to integrate analysis of financial sector and macroeconomic issues more generally, including across borders. Well-focused Financial Sector Assessment Program (FSAP) assessments would continue to be important and should be better integrated into Article IV reports.

Executive Directors observed that much more attention was being devoted to multilateral perspectives in Fund surveillance, but this work was not being used effectively enough and was not always well-matched with demand. Surveillance needed to better place countries in the global context by discussing cross-border economic linkages more explicitly, and lessons from cross-country experience needed to be brought out more effectively to inform Article IV consultations.

Empty deck chairs at a resort in Saly, Senegal.

BOX 3.7

IMF surveillance priorities, 2008–11

In October 2008, the IMF's Executive Board set four economic and four operational priorities to foster multilateral collaboration and guide IMF management and staff in the conduct of surveillance. These priorities look ahead three years, but may be revised if circumstances warrant. They guide the Fund's work within the framework for surveillance provided by the Articles of Agreement and the relevant Board decisions, including the 2007 Decision on Bilateral Surveillance.

ECONOMIC PRIORITIES

Resolve financial market distress. Restore stability and minimize the adverse impact of the current crisis in financial markets on the real economy.

Strengthen the global financial system by upgrading domestic and cross-border regulation and supervision, especially in major financial centers, and by avoiding the exposure of capital-importing countries, including low-income countries, to excessive risks.

Adjust to sharp changes in commodity prices. React to commodity price shifts in domestically appropriate and globally consistent ways, with emphasis on keeping inflationary pressures in check in boom phases and minimizing risks that could arise when prices fall.

Promote the orderly reduction of global imbalances while minimizing adverse real and financial repercussions.

OPERATIONAL PRIORITIES

Risk assessment. Refine the tools necessary to provide clear early warnings to members. Thorough analysis of major risks to baseline projections (including, where appropriate, high-cost tail risks) and their policy implications should become more systematic.

Financial sector surveillance and real-financial linkages. Improve analysis of financial stability, including diagnostic tools; deepen understanding of linkages, including between markets and institutions; and ensure adequate discussion in surveillance reports.

Multilateral perspective. Bilateral surveillance should be informed systematically by analysis of inward spillovers, outward spillovers (where relevant), and cross-country knowledge (as useful).

Analysis of exchange rates and external stability risks. In the context of strengthening external stability analysis, integrate clearer and more robust exchange rate analysis, underpinned by strengthened methodologies, into the assessment of the overall policy mix.

With respect to external stability and exchange rate assessments, the Board observed that since the adoption of the 2007 Surveillance Decision, work on exchange rate issues had strengthened significantly. However, it was noted that there was widespread skepticism about the consistency of treatment across countries and the methodological soundness of exchange rate assessments. In addition, the so-called fear of labeling under the 2007 Decision might have weakened the candor of some assessments. Further efforts would be needed to ensure that assessments are candid, evenhanded, and fully integrated into the broader assessment of external stability and overall macroeconomic policies—including the policy mix—and present transparently the analysis underlying the assessment.

Follow-up on surveillance priorities

An informal Executive Board seminar in February 2009 reviewed the key challenges in integrating financial sector issues into surveillance. The seminar covered major initiatives underway to close the gap between multilateral and bilateral surveillance, improve the coverage and quality of financial sector analysis in Article IV consultations, and strengthen the analytical framework and toolkit for studying macrofinancial linkages. These include closer collaboration with the FSB—notably through the early warning exercise; stronger cross-country perspective in Article IV consultations; and improved analysis of regional, thematic, and market issues. Efforts also involved dedicating additional resources in key Fund departments to analysis of macrofinancial linkages and building up the Fund's financial sector expertise through recruitment, mobility, and training policies. Many Executive Directors expressed their readiness to support modular FSAP assessments, and many saw merit in regional assessments under the program. A Board review of the joint Bank-Fund FSAP, as well as work on anti–money laundering and combating the financing of terrorism, is planned for FY2010.

Each year since 2001, the IMF has conducted a vulnerability exercise, to provide regular cross-country assessments of both underlying vulnerabilities (weaknesses in economic fundamentals) and near-term crisis risks in emerging market economies. Vulnerability assessments are based on (1) analyses of the global economic and financial market environment, (2) cross-country analyses of key vulnerability indicators and policy settings, and (3) analyses of the likely impact of various types of external shocks. In FY2009, at the request of the IMFC, the vulnerability exercise was modified to include advanced economies and was integrated with the joint IMF-FSB early warning exercise.

In conjunction with the FSB, the IMF plans to conduct an early warning exercise in the first half of FY2010 that aims to identify macrofinancial vulnerabilities at the global level, emphasizing potential spillovers across sectors, countries, and markets and providing policymakers with mitigation options. Combining a wide range of tools and perspectives, the exercise is expected to be instrumental in further integration of macrofinancial and regulatory perspectives into Fund surveillance. The Board discussed the proposed procedure for the exercise in February 2009, and the exercise was presented at the April 2009 IMFC meeting in a dry run. In the Board's discussion, Executive Directors supported the exercise but felt more discussion was needed on the modalities of cooperation with the FSB, how and when to engage the Board, and to what extent results should be disseminated.

Refocusing financial sector surveillance

Given the prominence of macrofinancial issues in the global crisis, increased emphasis was placed during FY2009, and continues to be placed, on better integration of macrofinancial analysis into the Fund's financial sector surveillance. As noted in the previous subsection, the Board held an informal seminar on integrating financial sector issues into surveillance in February 2009, and further work is planned in FY2010 as part of a scheduled review of the joint World Bank–IMF Financial Sector Assessment Program. Earlier in the year, the Board also discussed the IMF's collaboration with the Financial Stability Board in the context of the Fund's response to the financial crisis (see "The Crisis in Financial Markets").

With sovereign wealth funds (SWFs) rapidly gaining importance in the international monetary and financial system, the IMF has stepped up its work across a broad range of issues related to these state-owned funds, including their impact on global financial stability and capital flows. Representatives of SWFs met in Washington in April–May 2008, and an international working group was established at that time to formulate a set of principles for SWFs reflecting these funds' investment practices and objectives.[23] The working group's aim was to agree on a common set of voluntary principles for SWFs, drawing on the existing body of principles and practices, to help maintain the free flow of cross-border investment and open and stable financial systems. In September 2008, the working group presented the results of its efforts, a set of 24 voluntary principles (the "Santiago principles") designed to ensure an open international investment environment, to the IMFC, and the Executive Board reviewed and discussed the principles in an October 2008 session. Additionally, the IMF hosted a ministerial meeting in October 2008 of countries with SWFs and of recipients of SWF flows, attended by representatives of the Organization for Economic Cooperation and Development (OECD)—which has developed guidance for SWF recipient countries—and of the European Union.

In February 2009, the Fund convened at its headquarters the Second Roundtable of Sovereign Asset and Reserve Managers to discuss policy and operational issues confronting reserves and sovereign assets managers in the financial crisis (see Web Box 3.4).[24] High-level delegates from 32 countries and representatives from international institutions covered the implications of the crisis for reserve adequacy and reserve management, the use of foreign currency assets held by SWFs and their investment objectives, and how approaches to asset allocation might be affected by the crisis.

Financial Sector Assessment Program

The crisis focused considerable attention on the role that timely financial sector assessments can play in crisis prevention. The

BOX 3.8

Importance of statistics in the context of the crisis

Data on fiscal deficits and debt are expected to receive increasing attention over the next few years as the financial crisis reduces governments' revenues and increases their expenditures. At its April 2009 summit, the G-20, reflecting user concerns over data gaps, called for the IMF and the FSB to "explore gaps and provide appropriate proposals for strengthening data collection before the next meeting of G-20 Finance Ministers and Central Bank Governors." Indeed, the need to reinforce ongoing data transparency initiatives is a key message arising from the present crisis. In response to this need, the IMF has created and chairs an interagency group (whose members include the Bank for International Settlements, the European Central Bank, Eurostat, the Organization for Economic Cooperation and Development, the United Nations, and the World Bank) that aims to promote a collaborative and global view of economic and financial data needs in the light of the crisis.

The group's first action was to create a website (the Principal Global Indicators website) of financial, governmental, external, and real sector data on the G-20 economies, with links to data at websites of international and national agencies.[1] Additionally, the website responds to concerns that there is a need to improve the communication of official statistics.

Although the crisis was not a consequence of a lack of official statistics, it has revealed a number of data needs, in terms both of filling gaps and of addressing weaknesses. From consultations with users, the group has identified four significant areas of focus:

- *The financial sector*, not least those segments in which the reporting of data is not well established, such as nonbank financial corporations.
- *Balance sheets of nonfinancial sectors*, mainly the nonfinancial corporation and household sectors. In this context, issues of valuation, maturity analysis (remaining maturity), and frequency of international investment position data also arise.
- *Data on house prices and other housing-related data.* These data have been highly relevant to the crisis, but country practice in compiling these data is uneven.
- *A lack of information on ultimate risk/credit transfer instruments*, indicating where the risks lay and their scale. Although traditional frameworks remain relevant, the concepts of ultimate risk (including the use of off-balance-sheet structures and special-purpose vehicles) and credit risk transfers, including through structured products, need to be explored, because the lack of information on where the risks lay and their scale disguised interconnections among economies. This issue is multifaceted and includes developing conceptual frameworks, drawing on existing practice as far as possible.

The IMF has undertaken a number of other activities in relation to data issues highlighted by the crisis:

- In conjunction with the World Bank and the Task Force on Finance Statistics, the Fund is working to develop public debt data.
- Jointly with the Bank for International Settlements and the European Central Bank, the IMF produced Part I of the *Handbook on Securities Statistics*, the first publication of its kind to focus exclusively on debt securities statistics.
- The Fund updated its statistical manuals and guides, including the sixth edition of the *Balance of Payments and International Investment Position Manual*.

1 The website is available at http://financialdatalink.sharepointsite.net/default.aspx.

Financial Sector Assessment Program, launched in 1999, is a joint IMF–World Bank initiative to provide member countries with a comprehensive evaluation of their financial systems. The FSAP aims to alert national authorities to likely vulnerabilities in their financial sectors—whether originating from inside the country or from outside sources—and to assist them in the design of measures that would reduce these vulnerabilities. Sectoral developments, risks, and vulnerabilities are analyzed using a range of financial soundness indicators and macrofinancial stress tests. Other structural underpinnings of financial stability—systemic liquidity arrangements, the institutional and legal framework for crisis management and loan recovery, and transparency, accountability, and governance structures—are also examined as needed to ensure a comprehensive assessment of both stability and developmental needs. As part of the process, the FSAP provides assessments of observance of various internationally accepted financial sector standards, set within the broader institutional and macroprudential context.

As of April 2009, more than 140 countries, three-quarters of the IMF's membership, had participated or were participating in the FSAP. About two-thirds of the countries that had completed the process had agreed to post associated Financial System Stability Assessments on the IMF's website. At end-April 2009, 487 FSAP updates had been completed, and an additional 22 updates had been requested or were ongoing. In FY2009, 13 countries requested assessments under the program, and 26 assessments were completed. In November 2008, all G-20 members committed to undergoing an FSAP assessment.

For purposes of uniformity and cost-effectiveness, and to permit a more risk-focused approach to assessments, the Executive Board agreed in late May 2008 to integrate the IMF's offshore financial center (OFC) assessment program with the FSAP, with the integration to take effect in FY2010.[25] The OFC program, inaugurated in 2000, helped to strengthen regulation and supervision and to improve compliance with supervisory standards in offshore jurisdictions. Most Executive Directors supported the integration, emphasizing that it should not result in less rigorous assessment of OFCs or lead to a diminished Fund focus on OFC compliance with international standards. Executive Directors saw as a positive aspect of the integration that a broader range of issues would be covered under the FSAP compared with OFC assessments, strengthening the Fund's financial sector surveillance and contributing to a more effective oversight of the global financial system. Executive Directors agreed that as the FSAP was at that time available only to IMF members, its coverage would be extended to encompass the four nonmember jurisdictions covered by the OFC program.

Data provision and dissemination

The increasing integration of economies and markets demonstrated by the crisis emphasized the importance of having readily available, consistent, and relevant data both within and across countries. High-quality data are also crucial to Fund surveillance, and efforts to expand and improve the quality of available data have been ongoing for several years. Box 3.8 highlights the IMF's work as chair of an interagency group convened to strengthen global collaboration on data collection and dissemination in response to needs highlighted by the crisis. In FY2009, the Board reviewed members' progress in this area, noting that challenges remain in non-market-access developing countries and calling for increased candor in Article IV reports in regard to adequacy of data.[26]

In December 2008, the Board concluded the Seventh Review of the Fund's Data Standards Initiatives—the Special Data Dissemination Standard (SDDS), General Data Dissemination System (GDDS), and Data Quality Assessment Framework (DQAF)—which aim to increase the comprehensiveness and timeliness of statistical information available to markets and the public.[27] Executive Directors expressed broad satisfaction with the program and commended member country authorities for their efforts to promote adherence to the initiatives. They concurred with staff recommendations on accelerating work on financial indicators. Support was expressed for efforts to enhance quality aspects of the SDDS, and Executive Directors encouraged subscribers to undertake and publish periodic data quality assessments. They also supported recasting the GDDS to emphasize data dissemination and facilitate graduation to the SDDS.[28]

Among the many issues highlighted by the global crisis was the dearth of data on trade finance, which have not been systematically reported anywhere, making it difficult to analyze possible implications of phenomena such as the greater-than-expected decline in global trade beginning in the final quarter of 2008. In response to this lack of information, the IMF worked with the Bankers' Association for Finance and Trade to survey advanced, emerging market, and developing country banks about trade-financing conditions.[29] The survey focused on bank-intermediated forms of international trade finance such as letters of credit and trade lending. Responses were received from 40 countries, roughly evenly split between advanced countries and emerging markets.

Survey results tended to support anecdotal conclusions that the cost of trade finance had risen rapidly, while in some cases its availability had fallen. However, some of the decline in trade finance was revealed to be the result of the plunge in trade spawned by the recession, while some of the rise in costs was determined to be due to the higher probability of defaults from falling trade. Trade finance was found to be costlier and somewhat harder to obtain in emerging markets. The banks anticipate these trends to continue in 2009. The Fund continues to work with other organizations to monitor the situation.

Ongoing surveillance work

Surveillance—oversight of the international financial system and monitoring of economic and financial policies of member countries—is a core activity of the IMF, involving monitoring national, regional, and global economies to assess whether policies are consistent not only with countries' own interests, but also with the interests of the international community. During the surveillance process, the IMF highlights possible risks to stability and growth and advises on needed policy adjustments, helping the international monetary

system serve its essential purpose of promoting monetary cooperation and financial stability, and facilitating the expansion and balanced growth of trade, thereby promoting sustainable economic growth. The IMF fulfills its surveillance mandate through bilateral, regional, and multilateral surveillance.

Bilateral surveillance

The centerpiece of the IMF's bilateral (or individual-country) surveillance is the Article IV consultation, normally held every year with each member of the Fund in accordance with Article IV of the Fund's Articles of Agreement (its charter).[30] A total of 123 Article IV consultations were completed during FY2009 (see Web Table 3.1).

Making the consultation process effective has proven key, particularly in the global crisis. In July 2008, the Board discussed staff proposals for new formats for Article IV staff reports to make outputs of surveillance more timely. Executive Directors cautioned that new formats should not weaken the overall consistency of presentation of the staff's views or compromise evenhandedness, and that they should provide a clear and objective presentation of the authorities' views.

As part of its surveillance function, the IMF provides advice to policymakers in member countries on sound policies and practices in a variety of areas. For example, a formal Board seminar held in June 2008, "Fiscal Risks—Sources, Disclosure, and Management," reviewed international experience with fiscal risks—defined as deviations of fiscal outcomes from what was expected at the time of the budget or other forecast—and expressed preliminary views on broad guidelines for policymakers, drawing on existing practices in a wide range of countries, for fiscal risk disclosure and management.[31]

Executive Directors noted that good fiscal transparency practices may facilitate market access and lead to lower borrowing costs in the long run and that the increased public scrutiny that comes with improved disclosure can be helpful for governments in ensuring proper assessment and recognition of risks. At the same time, it was noted that quantification of risks may not always be feasible or desirable, and in particular, disclosure of certain risks may engender moral hazard or harm the state's economic interests.

The 2007 Decision on Surveillance over Members' Exchange Rate Policies has greatly sharpened the focus of surveillance and the analysis of exchange rate issues and remains the framework for Fund surveillance in this regard. In the first full year of its implementation, however, it became apparent that some aspects of the guidance emanating from the Decision did not facilitate surveillance, and those are being amended accordingly.

Multilateral surveillance

The IMF continuously reviews global economic trends. Its key instruments of global surveillance are two semiannual publications, the *World Economic Outlook (WEO)* and the *Global Financial Stability Report (GFSR)*, along with interim updates for each that are issued at least twice a year. The WEO provides detailed analysis of the state of the world economy and evaluates economic prospects and policy challenges at the global and regional levels. It also offers an in-depth analysis of issues of pressing interest, such as the ongoing global economic crisis and recession and perspectives on recovery. The GFSR provides an up-to-date assessment of global financial markets and prospects and addresses emerging market financing issues in a global context. Its purpose is to highlight imbalances and vulnerabilities that could pose risks to financial market stability. Coverage of both of these publications (released in October and April every year) is presented in Chapter 2.

Regional surveillance

Regional surveillance supplements the IMF's bilateral and multilateral surveillance and involves examination of policies pursued under regional arrangements such as currency unions—including the euro area, the West African Economic and Monetary Union (WAEMU), the Central African Economic and Monetary Community (CEMAC), and the Eastern Caribbean Currency Union (ECCU). In addition to its Article IV consultations with individual members, the IMF conducts formal discussions with representatives of currency unions, since members of such unions have devolved responsibilities over two central areas of Fund surveillance—monetary and exchange rate policies—to these regional institutions. In FY2009, the Executive Board conducted assessments of common policies of countries belonging to WAEMU as well as of euro area policies. It also discussed a staff paper on the choice of the exchange rate regime among member countries of the GCC.[32]

WAEMU

The Executive Board concluded its discussions on common policies of WAEMU member countries in late May 2008. Executive Directors noted that economic performance in the region—albeit with substantial variation among member countries—had continued to improve, but that growth remained well short of what was needed to substantially reduce poverty, calling for renewed vigorous efforts to pursue reforms aimed at strengthening economic performance and reducing poverty. It was observed that the surge in food and fuel prices in the first half of 2008 was eroding real incomes and hurting the poor. Executive Directors noted that the exchange regime of the CFA franc had served the WAEMU zone well, but most Executive Directors considered that several years of real appreciation had weakened competitiveness and contributed to lackluster economic growth and export performance.

Executive Directors encouraged the authorities to monitor real exchange rate developments closely and to better coordinate fiscal and monetary policies in order to support the fixed exchange rate regime and reduce pressure on the real exchange rate. Structural obstacles—including infrastructure gaps, an underdeveloped financial sector, a poor business environment, and incomplete regional integration—had continued to drag down the region's growth performance. Executive Directors emphasized the importance of accelerating structural reforms to improve regional growth prospects and make progress toward the Millennium

Cocoa harvest in Côte d'Ivoire.

Development Goals. They noted that the recent assessment under the regional Financial Sector Assessment Program had found that the banking system was increasingly vulnerable to macroeconomic and sectoral shocks, exhibited weak compliance with prudential requirements, and had low capitalization. They encouraged the authorities to promote regional financial integration, including by strengthening the framework for managing regional liquidity, and to devolve public ownership in commercial banks.

Executive Directors also encouraged stronger progress on regional integration, welcoming the decision to remove barriers to intra-WAEMU trade and calling on authorities to move quickly in this effort. They expressed the hope that the WAEMU common external tariff would soon be extended to all of the Economic Community of West African States (ECOWAS). While supporting progressive regional economic integration, Executive Directors considered premature the announced goal of establishing a monetary union at the ECOWAS level by the end of 2009 and called on the authorities to ensure that the minimum conditions for a successful and beneficial monetary union were met to build a solid foundation for a common currency before it was created.

Euro area

In a July 2008 meeting that concluded the Article IV consultation on euro area policies, Executive Directors noted that 10 years after its launch, the European Monetary Union (EMU) was a distinct success, and they commended the EMU's macroeconomic policy framework for bringing internal and external stability. Economic fundamentals were observed to have improved, although continued efforts were felt to be needed to build a more vibrant economic union. Executive Directors observed that monetary policy needed to balance the risk of a broad-based increase in inflation with the prospect of gradually building disinflationary forces due to slowing activity.

Executive Directors agreed that the policy frameworks of the European Central Bank (ECB) had served it well in coping with a difficult environment and that the key challenge going forward would be to restore the depth and orderly functioning of interbank markets. They noted that the ongoing work on enhancing the ECB's monetary analysis would help further strengthen the monetary policy framework, and several suggested that this could lead in due course to a unified presentation of policy decisions that integrates monetary and economic analysis. They welcomed the steps taken to strengthen the EU's financial stability framework, given the significant financial linkages and the EU's commitment to building a single market for financial services.

In the near term, Executive Directors stressed the need for further improvements in information sharing among supervisors and central banks, including the ECB. They observed that the rules-based fiscal framework offered by the Stability and Growth Pact had generally improved fiscal discipline and served the euro area well. However, it was noted that about half of the euro area countries still faced persistent challenges in meeting their medium-term fiscal objectives. Progress with respect to lowering general government deficits and debt would, it was felt, be key for these countries in order to better meet the population-aging-related fiscal challenges that are expected to mount rapidly after 2010. More generally, Executive Directors noted that stronger national fiscal rules and domestic governance mechanisms could help achieve more predictable and efficient fiscal policies in countries facing relatively high public sector deficits and debt.

GCC Monetary Union

Executive Directors had a preliminary exchange of views on the choice of the exchange rate regime for the planned monetary union by Gulf Cooperation Council (GCC) countries in late October 2008, based on staff analysis of likely challenges and alternatives.

Observing that much had changed in the global economy since the analysis was conducted—in particular, the halving of oil prices, the strengthening in the U.S. dollar, and the global downturn—they stressed that the determination of the appropriate exchange rate regime would depend on economic developments at the time of establishment of the monetary union and should be guided by forward-looking considerations and longer-term objectives.

The costs and benefits of four exchange rate regimes—single currency (U.S. dollar) peg, managed float, basket peg, and pegging to the export price of oil—were explored. Noting that the peg had contributed to macroeconomic stability in the face of significant volatility in oil prices, Executive Directors remarked that continuation of the peg to the U.S. dollar would offer several advantages, including established credibility through a well-understood nominal anchor and lower transactions costs. Nonetheless, they observed that questions about its suitability had arisen, owing to higher inflation among GCC countries, depreciation of the U.S. dollar against major currencies, and desynchronized business cycles coupled with reductions in U.S. policy interest rates. A managed float could allow greater monetary independence to control inflation and facilitate real exchange rate adjustment to real shocks, and many Executive Directors viewed a more flexible exchange rate regime as a longer-term possibility, as additional exchange rate flexibility could be warranted as the GCC economies became less dependent on oil and more heterogeneous over time and if the business cycles of GCC countries and the United States continued to diverge. On the other hand, greater exchange rate volatility could increase costs related to international transactions and would also require the establishment of a credible central bank with effective monetary instruments and harmonized regulation and supervision in GCC financial markets. Many Executive Directors agreed with staff that achieving monetary union by 2010 would be a challenge, and Executive Directors encouraged staff to continue to support the efforts of the GCC countries toward their monetary union, including through further staff analysis.

Regional Economic Outlooks

To provide a more in-depth regional analysis and amplification of the issues raised in the *World Economic Outlook*, biannual *Regional Economic Outlooks* (REOs) are typically prepared for five major world regions, discussing economic developments and key policy issues in Asia and the Pacific, Europe, the Middle East and Central Asia, sub-Saharan Africa, and the Western Hemisphere. Publication of the REOs in FY2009 was coordinated with extensive outreach events in several countries in each region, such as seminars for government officials and academics, media briefings, and interviews with IMF officials. Press releases summarizing REO findings were posted on the IMF's website along with the full text of the REOs themselves, as well as transcripts and webcasts of press conferences held upon publication.[33]

CHAPTER 4

Modernizing the Fund

Modernizing the Fund

The protracted financial crisis accelerated and redirected the IMF's ongoing work in the areas of lending and capacity building. This chapter describes the Fund's efforts in FY2009 to continue the work begun in FY2008 to reform IMF governance, provide policy and financial support to low-income member countries, identify ways to deliver targeted and cost-effective capacity-building opportunities for members, and put the Fund on a sound, sustainable financial footing for the long term. (Efforts were undertaken as well in FY2009 to modernize the IMF's human resources function, and those are discussed in Chapter 5.)

GOVERNANCE

The 2008 quota and voice reform approved by the Board of Governors was part of a process initiated in 2006 to review issues surrounding the Fund's governance, including the realignment of members' voting power within the Fund. In addition to quota and voice reform, which is the crucial element in the reform effort, work in the area of governance reform in FY2009 developed along four tracks or "pillars": (1) follow-up on the work of the Independent Evaluation Office and its report on Fund governance reform, which the Executive Board discussed in May 2008; (2) examination of governance proposals by the Executive Board, centering on work by the Working Group on IMF Corporate Governance, which developed an implementation plan in response to the IEO's report; (3) the efforts of the Committee of Eminent Persons on IMF Governance Reform, appointed by the Managing Director in September 2008 to evaluate the Fund's decision-making framework; and (4) work by IMF staff to engage civil society and other external audiences—the "fourth pillar" of the governance reform effort.

In their initial assessment of the IEO report, the Board and the Managing Director recognized that many of the issues raised by the report were complex and interrelated and hence would require active engagement and collaboration from all levels of the institution as well as the whole membership. Emphasizing the importance, therefore, of a collaborative process, the Executive Board in October 2008 supported the Managing Director's recommendation for the formation of a joint Steering Committee of Executive Directors and Fund management to monitor and coordinate the four tracks of the governance reform effort.

Quota and voice reform

As the financial year closed, the membership was still in the process of implementing the 2008 quota and voice reform, which is necessary to start increasing the voting share of dynamic emerging markets and to provide greater voice to low-income countries. The reform includes ad hoc quota increases for 54 members and an amendment to the Articles of Agreement that will triple basic votes and put in place a mechanism to preserve the share of basic votes in total votes. It also provides for additional Alternate Executive Directors for Executive Directors with large constituencies to alleviate their heavier workload, which in the current circumstances would benefit the two African chairs. To complete the reform, eligible members need to consent to their quota increases, and the proposed amendment needs to be accepted by three-fifths of the members having 85 percent of the total voting power. As of end-April 2009, 21 of the 54 eligible members had consented to their ad hoc quota increases. In addition, 19 members, accounting for 24.1 percent of the total voting power, had accepted the amendment.

At the Spring Meetings, the IMFC called for advancing the Fourteenth General Review of Quotas so that it is completed by January 2011, some two years ahead of the original schedule. The upcoming general review of quotas is expected to result in increases in the quota shares of dynamic economies, particularly in the share of emerging market and developing countries as a whole. The Committee also expressed support for further work by the Executive Board, to begin before the 2009 Annual Meetings, on elements of the new quota formula that could be improved before the formula is used again. The IMFC also called for early action by national authorities to make the April 2008 agreement on quota and voice reform effective.

Two countries, the Republic of Kosovo and Tuvalu, applied for membership in the IMF in FY2009. The Board of Governors adopted a membership resolution in May 2009 offering membership to the Republic of Kosovo, which became effective on June 29, 2009. Tuvalu's application remained under consideration as of the end of FY2009.

The IEO report

In May 2008, the Board discussed the Independent Evaluation Office report "Governance of the IMF: An Evaluation."[34] The report was part of an ongoing process to strengthen the IMF's governance framework and built on the approved reforms of quota and voice. It raised important questions in several key areas: how to increase clarity on the respective roles of the IMF's different governance bodies, how to ensure effective ministerial and Executive Board involvement in the institution's decision-making processes, and how to strengthen the framework of management accountability. It also offered specific recommendations for a more effective, accountable, and representative IMF. The Board and Fund management welcomed the IEO's report as a very useful contribution to their efforts to help strengthen the Fund's governance, noting that the IMF's move to undertake such an assessment placed it at the forefront of multilateral organizations, and expressed their commitment to working together to build on the discussion, with a view to developing broadly shared ideas among the membership.

The Working Group on IMF Corporate Governance

As an outcome of its May discussion, the Board formed the Working Group on IMF Corporate Governance and directed it to follow up, as a first response, on the IEO study. The working group's report, which was discussed by the Board in late September 2008, proposed a process and work plan for following up on the IEO recommendations, without prejudging decisions on the latter, and included a range of additional follow-up recommendations.[35] Executive Directors supported the work plan presented, emphasizing the need for flexibility with respect to the timing of implementation so that the recommendations of the Committee of Eminent Persons on IMF Governance Reform could be taken into consideration. They also supported the establishment of a joint Management–Board Steering Committee to monitor and coordinate the collaborative process for reforming Fund governance. Underscoring the importance of coherence among the ongoing initiatives, Executive Directors agreed on the importance of moving quickly to broaden and deepen the analysis necessary to have a productive dialogue at many different levels and hoped concrete governance reform proposals distilled from all the work being undertaken could be developed by the 2009 Annual Meetings.

The Committee of Eminent Persons on IMF Governance Reform

In September 2008, the Managing Director appointed the Committee of Eminent Persons on IMF Governance Reform, headed by South Africa's Finance Minister, Trevor Manuel, to assess the adequacy of the Fund's framework for decision making and advise on any modifications that might enable the institution to fulfill its global mandate more effectively. The committee's report, delivered to Fund management at the end of March 2009, recommended a broad package of reforms to enhance the Fund's legitimacy and effectiveness in forging coordinated responses to shared problems, echoing the IEO report in some of its recommendations.[36] It also suggested a number of complementary measures to support the Fund's ability to secure global financial stability, terming them of equal importance to the recommendations for governance reform. The report and its recommendations were discussed informally by the Board early in FY2010.

Engaging civil society and other external constituencies

In its discussion of the work plan proposed by the Working Group on IMF Corporate Governance, the Board identified civil society and other external audiences as key stakeholders in the process of governance reform, and Executive Directors met with civil society organizations in an informal seminar in September 2008 to hear their views on IMF reform based on worldwide consultations. In committing the Fund to a process of consultation with external constituencies on governance reform, the Managing Director termed that process the "fourth pillar" of such reform.

The formal Fourth Pillar effort was launched in April 2009 with the intent of providing a vehicle for civil society organizations (CSOs), academics, and others to contribute reform proposals to staff preparing papers for the Board on governance reform. It is expected to culminate in a CSO meeting on governance with the Managing Director at the 2009 Annual Meetings in Istanbul. The consultation process is being coordinated by the Washington, D.C.–based New Rules for Global Finance Coalition, which has been tasked with preparing various stages of Fourth Pillar reports and administering an independent and interactive website (www.thefourthpillar.org) through which CSOs can submit materials, engage in debates, and offer feedback.

SUPPORT FOR LOW-INCOME COUNTRIES

The IMF's work in low-income countries is an area of significant emphasis every year. However, it took on particular urgency in FY2009 in view of the hardships posed by the spike in food and fuel prices in the first half of 2008, and later, the spillover effects of the global instability in financial markets (the "third wave" of the crisis). More important, the environment in LICs has evolved considerably since the establishment of the Poverty Reduction and Growth Facility, Poverty Reduction Strategy Paper (PRSP) process, and Enhanced Heavily Indebted Poor Countries Initiatives of the 1990s. Consequently, the Board set out in FY2009 to review the nature of Fund work in LICs, articulated a mission statement in that regard (see Box 4.2), and formulated reforms to its concessional lending instruments to tailor them more closely to the needs of LICs, particularly in the context of the evolving global crisis.

Reviewing the Fund's role in low-income countries

The Executive Board reviewed the IMF's role in low-income countries in July 2008.[37] The Board noted that the Fund's work in LICs would be shaped by its broader efforts to refocus and build on close collaboration with partner institutions, promoting country ownership of development strategies and tailoring Fund advice and engagement to countries' specific characteristics. Executive Directors agreed that the main channels for the Fund's engagement would continue to be macroeconomic policy advice, capacity-building assistance, and concessional balance of payments support. They underscored the importance of effective collaboration with the international community, particularly the World Bank, especially in ensuring that the Fund's work contributes to achievement of the Millennium Development Goals. They welcomed the review of the Fund's instruments, which was at that time in the planning stages, identifying modification of the ESF as an immediate priority to make it a more effective instrument in helping LICs cope with shocks.

The ESF, available to the Fund's low-income member countries to respond to sudden and exogenous shocks beyond the control of country authorities that have a negative impact on the economy, was subsequently reviewed and reformed by the Board in September 2008 (see Box 4.1). The facility was reformed with a view to making it more useful to low-income members through increased and more rapid access and streamlined requirements (for instance, the requirement for preparation of a Poverty Reduction Strategy was dropped, though a focus remains on the impact of the shock and the related policies on the poor). Additionally, the reformed facility can be used more flexibly with other Fund facilities and instruments—for example, with a

Policy Support Instrument. Access criteria remain unchanged. Three new ESF arrangements for a total of SDR 167.2 million were approved in FY2009 after the ESF was modified. Another three disbursements were approved under the facility's new rapid-access component, totaling SDR 168.9 million (see "Financial Support" in Chapter 3 for additional details on FY2009 arrangements under the ESF).

The Executive Board's discussion of the Fund's work in low-income countries also included consideration of a proposed mission statement for the IMF's role in those countries. The agreed version of the mission statement (see Box 4.2) was presented as part of the Managing Director's statement on the Fund's role in LICs, issued in early October 2008.

Reassessing LIC financing and debt sustainability

As part of its broader consideration of the Fund's lending instruments, which culminated in the overhaul of the Fund's financing facilities (see "Putting in Place the Instruments to Meet Challenges Posed by the Crisis" in Chapter 3), the Executive Board in March 2009 discussed reforms of the Fund's lending instruments in low-income countries.[38] Executive Directors broadly agreed that the Fund should adapt its LIC toolkit to close three gaps related to provision of (1) short-term financing, (2) precautionary financing, and (3) emergency financing, noting that the PRGF's central role as the Fund's instrument for medium- and long-term engagement with LICs should be preserved.

Staff members presented several options to the Board for moving toward a simplified and more flexible toolkit that takes into account diverse country needs and heightened LIC exposure to global volatility. Most Executive Directors favored an option under which the PRGF would be maintained for protracted adjustment and financing needs, with a concessional short-term financing facility added and concessional facilities for emergency assistance unified. Executive Directors also supported allowing concessional resources to be used more flexibly.

Executive Directors recognized that the gradual erosion of PRGF access limits and norms in relation to GDP and trade could hamper the Fund's ability to assist its low-income members effectively. (Subsequently, in April 2009, the Board approved an increase in the access limits and norms for the Fund's concessional lending instruments, doubling the access limits under the PRGF; see below.) They noted that additional loan and subsidy resources would need to be mobilized (a topic that

BOX 4.1

IMF response to the food and fuel price shocks

The sharp increases in food and fuel prices in the first half of 2008 and into the third quarter prompted serious concerns about the effect on the IMF's low-income country members, many of which were hit particularly hard by the crisis. As the situation in many of these countries worsened, imperiling economic gains achieved in recent years and threatening to undo progress toward the Millennium Development Goals, the Fund moved quickly to find ways to assist members struggling with the fallout.

In September 2008, in an effort to make emergency funding available more rapidly to countries facing unanticipated financing needs, the IMF's Executive Board approved an amendment to the Fund's existing Exogenous Shocks Facility that created a rapid-access component and a high-access component, tailored conditionality and requirements for access, and increased flexibility for use. Following the reform of the facility, member countries would have access to as much as 25 percent of their quota, in the form of an outright disbursement, for each shock they encountered[1] (under the facility's rapid-access component) and as much as 75 percent of their quota under an arrangement (under its high-access component).[2] In the four months after the reform of the facility became effective, SDR 336.1 million in financial assistance was approved to six member countries facing exogenous shocks.

To address the amplified needs of the poorest member countries, already struggling under burdens of poverty before the crisis, the IMF substantially increased its concessional financing to low-income countries over the year, including to assist in dealing with the sharp increases in food and fuel prices. During FY2009, 10 new PRGF arrangements for a total of SDR 631.4 million and three new ESF arrangements for a total of SDR 167.2 million were approved. In addition, the Fund augmented access under existing PRGF arrangements for 12 countries amounting to SDR 160.6 million. Total amounts committed during FY2009 to low-income countries affected by the food and fuel price crisis amounted to SDR 1,128.0 million.

1 Access under the rapid-access component is normally available for no more than two shocks in a five-year period.

2 In April 2009, the Executive Board approved increases in the access limits on the rapid-access and high-access components of the ESF to 50 and 150 percent of quota, respectively. Access under PRGF arrangements was also doubled. Further details on the increase in ESF and PRGF access limits are provided later in this chapter.

Panelists at the conference "Changes: Successful Partnerships for Africa's Growth Challenge," Dar es Salaam, Tanzania.

BOX 4.2

The IMF's mission in low-income countries

As part of an October 2008 statement on the IMF's work in low-income countries,[1] the Managing Director presented a mission statement for the Fund's role in those countries. According to the statement, the IMF's mission in LICs is to help these countries achieve the macroeconomic and financial stability needed to raise growth and reduce poverty.

As with other members, the Fund provides its LIC members with policy advice, targeted support for capacity building, and, where appropriate, financial assistance. The Fund focuses on its core areas of expertise, namely, macroeconomic stabilization and fiscal, monetary, financial, and exchange rate policies, and on underlying institutions and closely related structural policies.

At the same time, in responding to low-income countries' particular and evolving needs, the Fund applies tailored approaches and instruments. The Fund's work is supportive of countries' own poverty reduction and development strategies, with the underlying objective being to help countries graduate to middle-income status. The Fund helps its low-income members put in place macroeconomic policies and institutions to ensure macroeconomic stability and to achieve stability in a manner that is conducive to sustained growth and poverty reduction.

Building on cross-country experiences and rigorous analysis, and taking into account countries' often limited implementation capacity, the Fund provides

1. advice on macroeconomic policies and institutions that support internal and external macroeconomic stability, including debt sustainability; foster broad-based and sustained economic growth; and enhance integration into the international trade and financial system;

2. assistance for well-sequenced reforms in building capacity and institutions for sound macroeconomic management and financial stability; and

3. concessional financial support.

Fund support for its LIC members calls for continued effective collaboration with the international community, including development institutions and donors, to ensure that the Fund's work is coordinated with the international effort to reach the Millennium Development Goals.

1 The full text of the "Statement by the IMF Managing Director on the Role of the Fund in Low-Income Countries" is available on the IMF's website at www.imf.org/external/np/omd/2008/eng/pdf/100208.pdf.

they later took up in an April 2009 discussion on options for financing the Fund's concessional lending to LICs). Executive Directors sought to proceed expeditiously with the second stage of the review, and further staff work was requested prior to Board decisions on a reformed architecture for LIC facilities.

Also part of the efforts to ensure that IMF policies and instruments remain adapted to member needs was a March 2009 examination by the Board of LIC financing patterns and their implications for debt sustainability in LICs.[39] Though the principles of the Fund's existing policy on debt limits were perceived as remaining valid, the Board observed that the ongoing financial crisis would likely affect significantly the size and composition of financing flows to LICs in the near future, and most Executive Directors felt that the diverse characteristics of LICs and the substantial change in the patterns of their financing in recent years merited a review of aspects of the Fund's debt limits policy.

Most Executive Directors supported staff proposals to move away from a single design for concessionality requirements toward a menu of options to reflect better the diversity of situations, in particular with regard to the extent of debt vulnerabilities and macroeconomic and public financial management capacity. The existing practice could continue to be applied to lower-capacity countries, but with more flexibility for those with lower debt vulnerabilities. More flexible options, eschewing the debt-by-debt approach of the existing policy, could be considered for higher-capacity countries. For more advanced LICs, consideration could be given to dropping concessionality requirements.

Executive Directors generally agreed that debt sustainability analyses provided an appropriate basis for assessing debt vulnerabilities and encouraged further work on the analytical underpinnings of the debt substainability analysis and the methodology for assessing management capacity. Follow-up work by staff was requested to elaborate on the approach discussed at the meeting and propose new guidelines on debt limits.

Following the March discussion of reforms of the Fund's lending instruments in low-income countries, in April the Board considered a proposal to increase access limits and norms and approved a doubling of the access limits for loans under the PRGF and the ESF. The maximum and exceptional access limits for the PRGF were increased from 140 and 185 percent of quota to 280 and 370 percent of quota, respectively, and the access limits on the rapid-access component and the high-access component of the ESF were raised from 25 and 75 percent of quota to, respectively, 50 and 150 percent of quota. The Board considered that the increases would be consistent with the increased access levels for GRA resources, would give the Fund greater flexibility to assist low-income countries, and would reduce the risk that LICs would resort to nonconcessional financing that could exacerbate debt vulnerabilities.

In March 2009, the Board discussed a joint World Bank–IMF paper reporting on progress achieved in strengthening public debt management capacity in developing countries, including through the development of the Debt Management Performance Assessment framework and a Medium-Term Debt Management Strategy framework. The Board endorsed the new frameworks and encouraged their application to help low- and middle-income countries implement effective debt management practices.

Policy Support Instrument

Even when low-income countries have made significant progress toward economic stability and no longer require IMF financial assistance, they may still seek ongoing IMF advice, closer monitoring, and endorsement of their economic policies—what is referred to as policy support and signaling. The IMF's Policy Support Instrument (PSI), introduced in October 2005, enables the Fund to support such countries, helping them to design effective economic programs that, once endorsed by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement of their policies. PSIs are available, upon request, to all PRGF-eligible members with a Poverty Reduction Strategy in place, and programs under the PSI are expected to meet the same high standards as those under Fund financial arrangements.

To date, the Executive Board has approved PSIs for six members (Cape Verde, Mozambique, Nigeria, Senegal, Tanzania, and Uganda). Other member countries have also expressed interest. There were no new formal requests for PSIs in FY2009.

Revision of policies on Joint Staff Advisory Notes

In order to be considered for support under the IMF's Poverty Reduction and Growth Facility, governments, with the active participation of civil society and other development partners, prepare comprehensive, country-owned Poverty Reduction Strategy Papers (PRSPs) that are then considered by the Executive Boards of the IMF and World Bank as the basis for concessional lending and debt relief from each institution. Countries must also complete an annual progress report on the PRSP as a condition for continued support. In response to PRSPs and annual progress reports that are submitted, the staffs of the Bank and Fund prepare Joint Staff Advisory Notes (JSANs) assessing the strengths and weaknesses of the member's Poverty Reduction Strategy as outlined in the PRSP and identifying priority areas for strengthening the strategy during implementation; these JSANs are reviewed along with the PRSP or interim PRSP submitted by the country.

As part of efforts to streamline modalities for Fund and Bank review of member countries' Poverty Reduction Strategies, the Boards of the World Bank and the IMF reassessed the current arrangements for such review, which were initiated in 2005 to increase the focus on improving underlying country processes rather than on producing documents. To address several remaining concerns relating to the nature of the feedback process and to the perception of high processing costs—for both client countries and Bank and Fund staff—associated with current modalities, the Boards of the two organizations decided early in FY2009 to retain JSANs for full and interim PRSPs but to eliminate them for annual progress reports under the PRGF.

JSANs are to be issued to the Boards within four months from publication of the corresponding PRSP. Advice on Poverty Reduction Strategy implementation is now provided through a regular annual feedback process.

Outreach in low-income countries

The IMF's Executive Board and management place a high priority on outreach activities, particularly those involving LICs, and a variety of outreach activities are conducted, aimed at legislators, civil society organizations, and the general public. The most notable such effort in FY2009 was a March 2009 conference in Tanzania, cosponsored by the IMF and Tanzania (see Box 4.3).

Financial support

The Fund provided additional financial support to LICs in FY2009 in response to higher food and fuel costs and enhanced its ability to respond flexibly to such external shocks (see Box 4.1). A significant number of low-income countries benefited from Fund financing to help deal with balance of payments pressures mainly from higher food and fuel prices. Additionally, Fund financing to low-income countries increased substantially in the second half of FY2009. Twelve countries received SDR 160.6 million in additional assistance under existing lending programs supported by the Poverty Reduction and Growth Facility during the year. Ten new PRGF arrangements were approved, providing access of SDR 631.4 million. Other countries received financial support through the Fund's emergency assistance to help cope with the impact of natural disasters. Emergency Post-Conflict Assistance (EPCA) was approved in FY2009 for Guinea-Bissau (SDR 1.8 million) and the Comoros (SDR 1.1 million), and support under Emergency Natural Disaster Assistance (ENDA) was approved for Belize (SDR 4.7 million).

BOX 4.3

Changes: Successful Partnerships for Africa's Growth Challenge

In mid-March 2009, the IMF cosponsored with Tanzania a conference, "Changes: Successful Partnerships for Africa's Growth Challenge," in Dar es Salaam.[1] The conference aimed to address key policy questions, with the common goal of forging a renewed partnership for growth in Africa in the twenty-first century.

More than 300 participants attended the conference's plenary session. Tanzania's President, Jakaya Kikwete, and IMF Managing Director Dominique Strauss-Kahn made opening remarks, and keynote addresses were delivered by former UN Secretary-General Kofi Annan and UN Deputy Secretary-General Asha-Rose Migiro.

The conference proved to be a ground-breaking opportunity for strengthening the IMF's relationships with its African member countries, and conference participants called for the Managing Director to be a voice for Africa at the upcoming meeting of G-20 leaders in April. Conference participants also agreed on six building blocks of a strengthened partnership between Africa and the Fund:

- enhancing IMF surveillance over the policies of all its members, in a spirit of evenhandedness;
- expanding the IMF's financing facilities and their accessibility to low-income countries;
- consolidating the debt relief process by adjusting the IMF's debt sustainability framework to accommodate Africa's new financing needs and opportunities;
- accelerating reforms of IMF governance to enhance Africa's voice and representation at all levels of the institution;
- enhancing the policy dialogue between the IMF and its African members, including through technical assistance, to ensure that African countries' policies benefit from the IMF's experience and expertise; and
- reinforcing the IMF's catalytic role to leverage public and private financing for Africa's critical infrastructure needs.

The Managing Director stressed the IMF's determination to increase financing for Africa and, more important, the G-20 leaders subsequently committed to assisting the IMF in this effort (see "Making Sure the Fund Has Adequate Resources to Meet the Crisis" in Chapter 3). African members welcomed the IMF's decision to open two new regional technical assistance centers in Africa (see "Technical Assistance") in addition to expanding the existing three, which will provide enhanced assistance to Africa, while strengthening its timeliness and ownership.

1 For additional information on the Tanzania conference, see IMF Survey articles on the topic from March 2009, available at www.imf.org/external/pubs/ft/survey/so/home.aspx, or visit the conference website at www.changes-challenges.org/.

As noted earlier in the chapter, the IMF reformed the Exogenous Shocks Facility in September 2008 to make it more useful to low-income members through increased and more rapid access and streamlined requirements (see also Box 4.1). Since the facility was modified, six countries have received ESF financing totaling SDR 336.1 million. (See Chapter 3 for a fuller discussion of lending under PRGF, ESF, EPCA, and ENDA in FY2009.)

Poverty reduction and debt relief

The IMF participates, along with other multilateral institutions, in two special initiatives aimed at debt relief for the world's poorest countries. The HIPC Initiative, launched in 1996 by the IMF and World Bank, is a comprehensive approach to debt reduction for heavily indebted poor countries pursuing IMF- and World Bank–supported adjustment and reform programs, with the aim of ensuring that no poor country faces a debt burden it cannot manage. To receive assistance, eligible countries must establish a track record of reform and sound policies in tandem with programs supported by the IMF and the World Bank's International Development Association (IDA) and must develop a Poverty Reduction Strategy Paper through a broad-based participatory process.

Once a country has met or made sufficient progress in meeting these criteria, the Executive Boards of the IMF and IDA formally decide on its eligibility for debt relief, and the international community commits to reducing debt to the agreed sustainability threshold (the "decision point"); the country may immediately begin receiving "interim relief" on its debt service falling due. To receive the full and irrevocable reduction in debt principal available under the HIPC Initiative, however, the country must (1) establish a further track record of good performance under IMF- and IDA-supported programs, (2) implement satisfactorily key reforms agreed at the decision point, and (3) adopt and implement the PRSP for at least one year. Once a country has met these criteria, it can reach its "completion point," at which time lenders are expected to provide the full debt relief committed to at decision point.

To date, debt reduction packages under the HIPC Initiative have been approved for 35 countries, 29 of them in Africa, providing US$51 billion (in end-2007 net present value terms) in debt service relief over time. Six additional countries are potentially eligible for HIPC Initiative assistance. In FY2009, two countries, Côte d'Ivoire and Togo, reached the decision point under the initiative, and one country, Burundi, reached the completion point.

In 2005, to help accelerate progress toward the United Nations Millennium Development Goals, the HIPC Initiative was supplemented with the MDRI, which allows 100 percent relief on eligible debts from three multilateral institutions—the IMF, the IDA, and the African Development Fund—for countries completing the HIPC Initiative process. In 2007, the Inter-American Development Bank also decided to provide additional debt relief to the five HIPCs in the Western Hemisphere.

All countries that reach the completion point under the enhanced HIPC Initiative, and those with per capita income below US$380 and outstanding debt to the Fund at end-2004, are eligible for the MDRI. For a country to qualify for the relief under the initiative, the IMF Executive Board requires that the country be current on its obligations to the IMF and demonstrate satisfactory performance in the areas of (1) macroeconomic policies, (2) implementation of a Poverty Reduction Strategy, and (3) public expenditure management. An initial group of 19 countries (17 HIPCs that had reached the completion point and two non-HIPC countries with per capita income below the established threshold) qualified for and benefited from MDRI relief in January 2006. In all, 26 countries have qualified for and received MDRI relief from the Fund, including, most recently, Burundi in January 2009 (see Web Table 4.3).

Chapter 3 provides additional details on Fund support to member countries under the HIPC Initiative and MDRI in FY2009. A September 2008 policy paper provided a status report on implementation of the HIPC Initiative and MDRI.[40]

CAPACITY BUILDING

Capacity building, comprising training and technical assistance, is a core area of Fund work. In FY2009, broad reforms were pursued to enhance its effectiveness and efficiency. The reforms emphasize better prioritization and cost effectiveness, enhanced performance measurement, and stronger partnership with donors. As part of this effort, the Executive Board endorsed a new policy for charging for capacity-building services and a major fundraising drive, as well as plans for opening new regional technical assistance centers.

Technical assistance

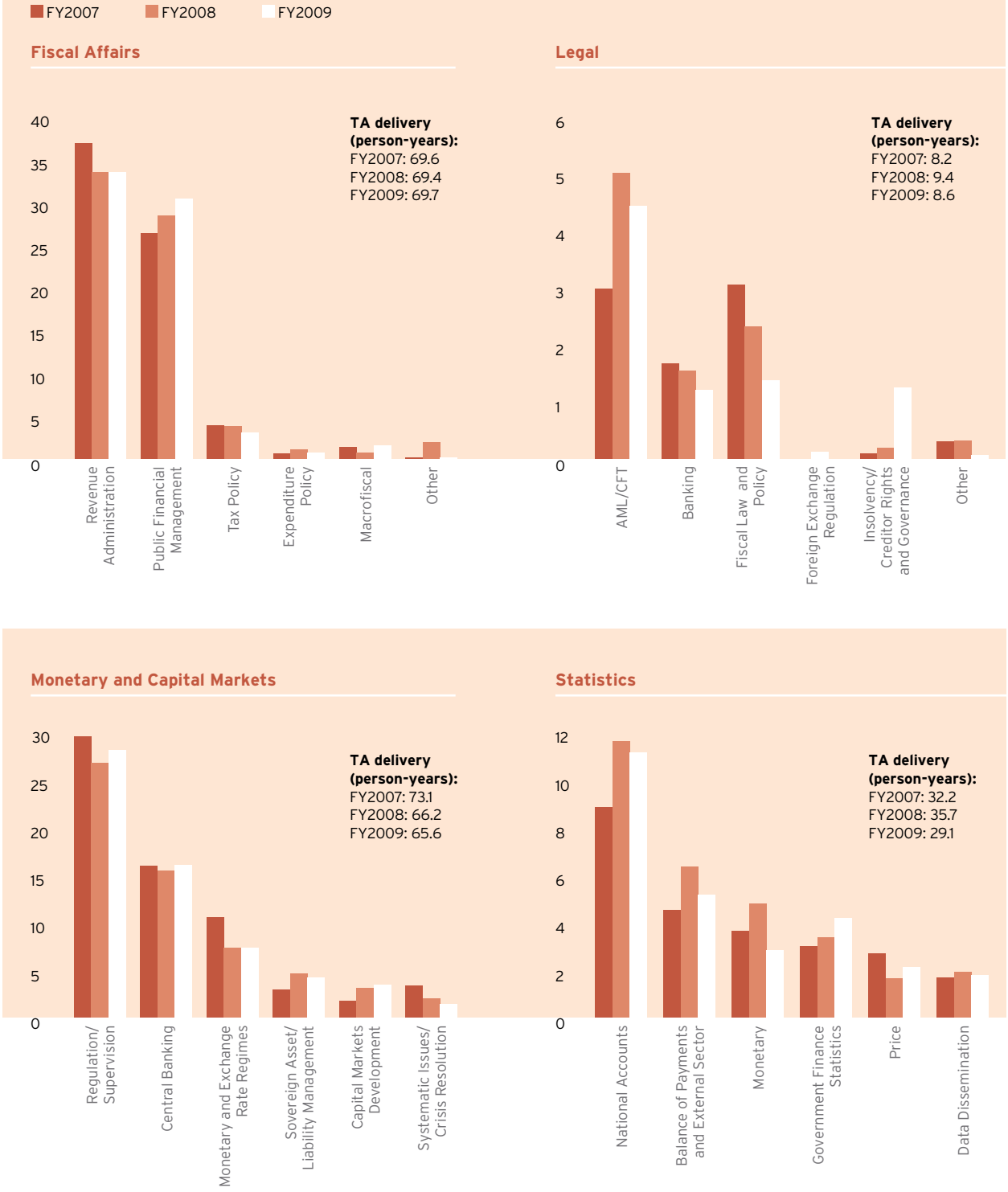
The IMF provides technical assistance (TA) in areas of its core expertise: macroeconomic policy, tax policy and revenue administration, expenditure management, monetary policy, the exchange rate system, financial sector stability, legislative frameworks, and macroeconomic and financial statistics (Figure 4.1). In addition to the immediate benefit to recipient countries, TA contributes to a more robust and stable global economy. About 80 percent of Fund TA goes to low- and lower-middle-income countries, particularly in sub-Saharan Africa and Asia (Figure 4.2).

In May 2008, the Board discussed reforms to enhance the impact of IMF TA and adapt the Fund's provision of TA in light of the strategic directions in the Fund's medium-term budget.[41] Executive Directors considered that, if implemented, the reforms should go a considerable way toward enhancing the effectiveness of Fund TA.

Executive Directors supported a more proactive approach to mobilizing new resources for TA, and most welcomed the bundling of TA into topical trust funds and an expansion of TA delivery through regional technical assistance centers (see below). Box 4.4 discusses key pillars of the new framework for TA delivery.

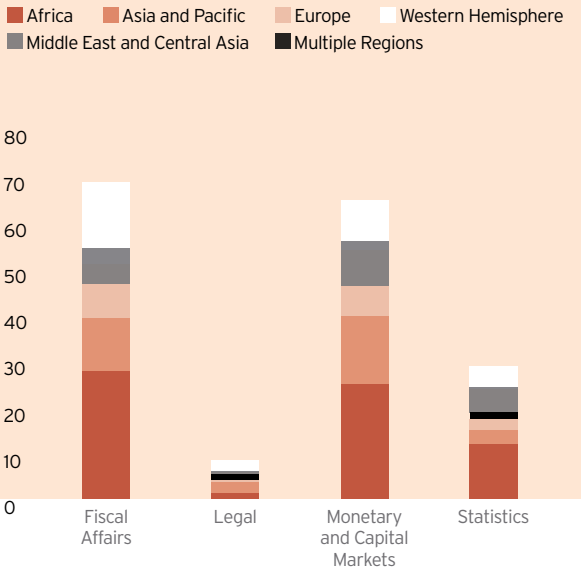
FIGURE 4.1

TA delivery by departments and topics (In person-years)



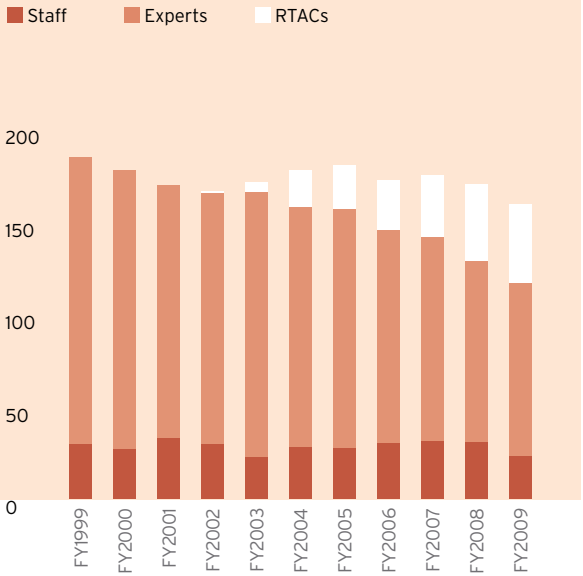
Source: IMF Office of Technical Assistance Management.

FIGURE 4.2
TA delivery during FY2009 by department and region
(In person-years)



Source: IMF Office of Technical Assistance Management.

FIGURE 4.3
Distribution of TA delivery: Staff, experts, and RTACs
(In person-years)



Note: Data do not include INS- or UNDP-financed projects.
Source: IMF Office of Technical Assistance Management.

BOX 4.4
Refocusing the Fund's technical assistance

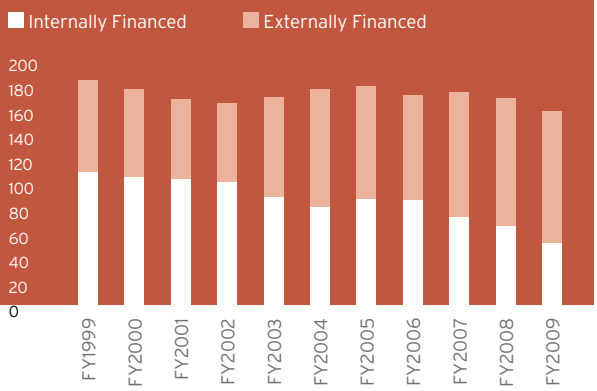
Broad reforms were pursued in FY2009 to enhance the effectiveness and efficiency of IMF TA, in accordance with the reforms endorsed by the Board in its May 2008 discussion. These reforms are based on three pillars:

- *Better integration of TA with surveillance and lending operations.* Under the new framework, area departments assume the lead role in setting TA strategies (Regional Strategic Notes), which provide a holistic medium-term TA framework that is better aligned with members' needs and flexible enough to respond to shifts in priorities.

- *Enhancing performance measurement and cost-effectiveness.* The new framework systematically tracks the achievement of objectives and deliverables and costs in each TA project using indicators defined in advance by project managers, making it possible to measure success in each project.

- *Strengthening partnership with donors.* The Fund is seeking to strengthen further its partnership with donors, which has grown steadily since the late 1990s (see figure), not only to deepen existing partnerships, but also to broaden the base to new donors. For instance, a TA partnership agreement with the European Commission (EC) was signed in January 2009.

TA delivery by financing source, FY1999–FY2009 (In person-years)



Source: IMF Office of Technical Assistance Management.

Executive Directors approved a new policy for charging for the Fund's TA and training in August 2008.[42] The strengthened policy applies to Fund-provided TA and training of officials provided at IMF headquarters, with the amount that countries have to pay being graduated according to the country's per capita income.[43] The fee basis is meant to serve as a price mechanism that helps ensure that the supply of TA and training is responsive to the needs of recipients and in line with their priorities. A number of exemptions, together with the graduated pay scale, ensure that the policy does not adversely affect TA delivery to low-income members. In March 2009, the Fund's management, after consultation with the Board, decided to make the charging policy for TA effective on January 1, 2010, rather than May 1, 2009, as originally scheduled. Charging for training commenced on May 1, 2009, as planned.

The Fund has increasingly been delivering its TA through the regional technical assistance centers (RTACs) (Figure 4.3), widely considered to be successful models for capacity building. External evaluations and feedback from country authorities have found TA delivered through RTACs to be flexible, timely, cost-effective, and more country-owned (see Box 4.5). Executive Directors affirmed their support for the increased role for RTACs in the delivery of the Fund's capacity building in a May 2008 seminar (see "Training").

Seeking to scale up the regional approach, the Fund announced, in September 2008, plans to open four new RTACs. The first of these, the Central America, Panama, and the Dominican Republic Technical Assistance Center (CAPTAC-DR), opened in early FY2010 (Table 4.1). Of the other three RTACs that are expected to open, two are in southern and west Africa; together with the existing RTACs in Africa, they will cover all of sub-Saharan Africa. The fourth will serve the countries of Central Asia. The existing and new RTACs will provide TA services to a total of 102 countries, covering more than 80 percent of the low-income world.

In addition, the Fund announced, in early April 2009, the launching of the topical trust funds (TTFs) initiative (see Box 4.6). The idea behind TTFs is to pool donor resources to serve member countries in niche, specialized macroeconomic topics complementing the work of the RTACs.

Training

Training for member country officials, an integral part of the IMF's capacity-building efforts, enhances their ability to analyze economic developments and formulate and implement effective macroeconomic policies. Courses and seminars are designed to share the expertise of IMF staff on a wide array of topics that are critical to effective macroeconomic and financial analysis and policymaking, as well as more specialized topics relating to the compilation of macroeconomic statistics and various fiscal, monetary, and legal issues. Most of the training is provided by a program organized by the IMF Institute, which delivers (in collaboration with other departments) and administers courses at IMF headquarters, through a network of seven regional training centers around the world, in collaboration with various other regional and national training providers, and through distance learning.

Overall, the Institute's program delivered 270 weeks of training courses in FY2009, an 11 percent decline from FY2008 (Table 4.2). Almost 4,000 participants benefited from this training for a total of 8,500 participant-weeks of training. The decline in training was more than is envisaged over the medium term, owing to short-term staffing issues and a particularly large training cut by the IMF's

TABLE 4.1

Existing and planned RTACs

CENTER NAME	LOCATION	YEAR ESTABLISHED	NUMBER OF COUNTRIES SERVED	PERCENTAGE OF LOW-INCOME COUNTRIES IN MEMBERSHIP
PFTAC	Suva, Fiji	1992	15	13
CARTAC	Bridgetown, Barbados	2001	20	5
METAC	Beirut, Lebanon	2004	10	20
East AFRITAC	Dar es Salaam, Tanzania	2002	7	100
West AFRITAC	Bamako, Mali	2003	10	100
Central AFRITAC	Libreville, Gabon	2007	7	57
CAPTAC-DR	Guatemala City, Guatemala	2009	7	0
South AFRITAC			13	38
West AFRITAC 2			6	83
CASTAC			7	43

Source: IMF Office of Technical Assistance Management.

BOX 4.5

External evaluation of the AFRITACs: A success story

An external evaluation of the Central, East, and West Africa Technical Assistance Centers (AFRITACs) rated the performance of all three AFRITACs as good (see table), despite the challenging environment for TA implementation created by the low institutional absorptive capacity of many AFRITAC members. The exercise evaluated TA projects, on a scale of 1 (poor) to 4 (excellent), in five functional areas (public finance management, revenue administration, monetary operations, banking supervision, and statistics) along four dimensions (relevance, effectiveness, efficiency, and sustainability).

Among other findings, the evaluation team noted that AFRITACs provide rapid and flexible services, with all TA delivery modes effective; the high quality of the expertise in AFRITACs has enhanced the IMF's reputation; AFRITAC TA is responsive to countries' needs ("close to the countries"), and the involvement of recipient countries, donors, and IMF staff in the AFRITAC governance structure has proven to be a successful model; AFRITACs support countries' Poverty Reduction Strategies and Programs; and some AFRITAC TA has improved transparency, accountability and control, thus contributing to the reduction of opportunities for corruption.

Respondents to the survey also rated the AFRITACs as better than other TA providers in terms of responsiveness, knowledge of the countries, flexibility, reaction times, cost effectiveness, and use of African expertise.

	EAST AFRITAC	WEST AFRITAC	CENTRAL AFRITAC
Relevance	3.3	3.2	3.0
Effectiveness	3.1	2.0	2.7
Efficiency	3.0	2.8	2.9
Sustainability	2.9	2.7	2.7

BOX 4.6

Topical trust funds: What are they? What are their objectives?

To better serve its member countries, particularly developing countries, the IMF is initiating a number of topical trust funds to support specialized global TA that incorporates international best practice and creates synergies with the IMF's hands-on-oriented regional centers:

- *The Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) TTF* will support TA to assist in developing a robust AML/CFT regime in member countries.
- *The Fiscal Management TTF* will support TA to enhance developing countries' capacity to implement sound fiscal and budgetary policies and manage and monitor public expenditure.
- *The Tax Policy and Administration TTF* will finance TA to support countries in the establishment of sound tax policy frameworks and well-drafted tax laws and build effective revenue agencies to administer these policies.
- *The Sustainable Debt Strategy TTF* will finance TA to numerous developing and emerging market countries by putting in place the analytical, risk management, and strategic capacity to manage public debt sustainably.
- *The Financial Stability TTF,* drawing on the lessons from the 2008 global financial crisis, intends to assist member countries in surveillance and regulation of systemic risks, developing mechanisms for effective cross-border supervision, designing financial safety nets, managing liquidity during crisis, and devising exit strategies to a stable financial system.
- *The Financial Crisis Statistics TTF* will support TA to build statistical and analytical capacity to monitor financial vulnerabilities in emerging market countries.
- *The Managing Natural Resource Wealth TTF* will address needs specific to resource-rich countries in macroeconomic management, fiscal regime and related contracts, revenue administration, transparency arrangements, statistics, and asset and liability management.
- *The Training in Africa TTF* aims to strengthen the macroeconomic management skills of mid- and high-level government officials, through a practical training program that blends lectures and hands-on workshops.
- *The General Data Dissemination System TTF* will scale up TA to help countries build robust statistical systems to compile and disseminate data anchored on the GDDS.

The first of the TTFs, the AML/CFT TTF, became operational in May 2009, while the remainder are expected to begin operations over the next few years. TTF donors will be engaged through steering committees, and independent external evaluations will ensure effective delivery and dynamism.

TABLE 4.2
IMF Institute training programs, FY2007–FY2009

	FY2007	FY2008	FY2009
HEADQUARTERS			
Course-Weeks	87	78	54
Participant-Weeks	3,182	2,813	1,974
REGIONAL TRAINING CENTERS			
Course-Weeks	152	172	158
Participant-Weeks	4,586	5,280	4,737
OTHER OVERSEAS TRAINING			
Course-Weeks	33	35	42
Participant-Weeks	983	1,071	1,211
DISTANCE LEARNING			
Course-Weeks	16	18	16
Participant-Weeks	657	675	570
TOTAL			
Course-Weeks	288	303	270
Participant-Weeks	9,406	9,838	8,491

Source: IMF Institute.

technical assistance departments, resulting from increased demand facing these departments in other priority areas. As envisaged in the Institute's medium-term training plan, most of the decline in training was at headquarters, though the volume of training delivered elsewhere, including at regional training centers, also diminished.

Curriculum development pays close attention to Fund priorities and the evolving needs of member countries, including in recent years to macrofinancial linkages. For example, in FY2009, a new course on Mortgage Markets, Securitization, and Structured Finance was delivered, and a new course on Finance for Macroeconomists was developed, with the first delivery early in FY2010.

In May 2008, Executive Directors held a seminar on training as part of capacity building in which they stressed the importance of keeping the Fund's training program focused on areas in which the Fund has a comparative advantage.[44] They supported the increased role of regional training centers and RTACs in the delivery of IMF training, considering decentralization of training as cost-effective and as providing added flexibility in responding to rapidly evolving needs and requests for training at the country or regional level.

BUDGET AND INCOME REFORM

In April 2008, the Executive Board reached agreement on a new income and expenditure framework that is expected to put the IMF's finances on a sounder footing. On the expenditure side, the Board identified approximately US$100 million in savings to be achieved in FY2009–11 through reductions in both staff and nonstaff costs. On the income side, the Board approved measures that would broaden the Fund's income sources.

Regarding income reform, the Fund's Board of Governors approved an amendment to the Articles of Agreement to expand the Fund's investment authority. Another key element in the Fund's new income model includes establishment of an endowment funded by profits from gold sales. The proposed amendment to the Articles of Agreement must be accepted by at least three-fifths of members representing 85 percent of total voting power in order to take effect. In a number of cases, approval by member countries' legislatures will be required.

Implementation of the expenditure reform elements of the package is proceeding as planned. Among the measures taken in FY2009, in the context of the Fund's general downsizing, were reforms and downsizing of budgets for Offices of Executive

Directors and of the IEO budget, and approval by the Board of Governors of a reduction in the reimbursement of Governors' expenses for attending Board of Governors meetings (amendment of Section 14(a) of the By-Laws).

The budget reform for Offices of Executive Directors (OEDs) involved, among other things, a new system of dollar budgeting for those offices, within a new expenditure framework. In the context of developing proposals for the allocation of the FY2009 travel budget to individual OEDs, the Committee on Executive Board Administrative Matters (CAM) agreed to consider rules for a new system of dollar budgeting for OEDs, consistent with earlier recommendations of the Working Group on Streamlining the Expenditures of Offices of Executive Directors. Accordingly, the CAM developed a comprehensive set of recommendations for a new expenditure framework for OEDs, which were intended to provide Executive Directors with an appropriate degree of flexibility in managing their budgetary allocations within and between years to meet changing needs, while ensuring appropriate and transparent accountability for the use of Fund and member country resources. The Executive Board approved the new framework in December 2008.

The next phase of Fund budget reform will focus on, among other things, better costing of outputs to facilitate tighter budget management and better mapping of resources to priority outputs.

CHAPTER 5

Finances, Organization, and Accountability

Finances, Organization, and Accountability

The financial year that ended on April 30, 2009, was one of major reform that transformed the IMF into a leaner and refocused institution. In the area of budget, organization, and accountability, efforts now turn to implementing mechanisms to safeguard the Fund's finances and other operations. New practices to enhance the efficiency of the Fund are being put in place, and accountability and transparency within the Fund are also being strengthened.

In parallel with the dynamic and forward-looking quota and voice reform package approved at the end of FY2008, the Board of Governors approved a proposed amendment to the IMF's Articles of Agreement that will expand the Fund's investment authority. Once the proposed amendment enters into force, and the Executive Board has taken a decision to conduct limited gold sales, a critical element will have been established for sustainable funding of the IMF.

Following the establishment of a joint steering committee to coordinate the different strands of the follow-up efforts regarding the IEO's findings on the Fund's corporate governance and the Committee of Eminent Persons to assess the Fund's current framework for decision making (see Chapter 4), reforms continued during FY2009 that were aimed at ensuring the Fund's ability to meet its members' needs despite tightened budget constraints. These included streamlining the IMF's human resources infrastructure for greater flexibility and effectiveness, as well as refining mechanisms for improving accountability and risk management. New tools were also implemented to modernize the Fund to ensure that it adapts to the changing needs of its members.

FINANCIAL OPERATIONS AND POLICIES

Income, charges, remuneration, and burden sharing

Since its inception, the IMF has relied heavily on its lending activities to fund its administrative expenses. During FY2008, the Executive Board agreed on a substantial reform of the Fund's income model that was approved by the Board of Governors in May 2008. The reform will allow the IMF to diversify its sources of income.

Key elements of the new income model include creation of an endowment funded with the profits from a limited sale of the Fund's gold holdings, a broadening of the IMF's investment authority to enhance returns on investments, and resumption of the practice of reimbursing the Fund for the cost of administering the PRGF-ESF Trust. Broadening the investment authority will require an amendment of the Fund's Articles of Agreement, and such an amendment is currently open for acceptance by IMF members; gold sales could start after the Fund obtains the requisite approval from its member countries and the Executive Board approves such sales. The implementation of the gold sale program would be phased over an extended period so as to avoid causing disruptions in the functioning and pricing of the gold market.

Currently, in accordance with the income model in place since the IMF was established, the main sources of income are from lending activities and investments. The basic rate of charge (the interest rate) on IMF lending is determined at the beginning of each financial year as the SDR interest rate plus a margin expressed in basis points.[45] For FY2010, the Board agreed to keep the margin for the rate of charge unchanged from FY2009, at 100 basis points. Consistent with the new income model, the decision was guided by the principles that the margin should cover the Fund's intermediation costs and buildup of reserves and that it should be broadly aligned with long-term credit market conditions. Under this approach, a key objective is to keep the rate of charge stable and predictable.

The March 2009 reform of the IMF's lending toolkit included a simplification of the Fund's policy on charges and maturities (see "Putting in Place the Instruments to Meet Challenges Posed by the Crisis" in Chapter 3). In the new charges and maturities framework, level-based surcharges of 200 basis points are levied on the use of large amounts of credit (above 300 percent of a member's quota) in the credit tranches[46] and under Extended Arrangements. The IMF also levies time-based surcharges of 100 basis points on the use of large amounts of credit (same threshold as above) that remains outstanding for more than 36 months.

In addition to periodic charges and surcharges, the IMF also levies service charges, commitment fees, and special charges. A service charge of 0.5 percent is levied on each loan disbursement from the General Resources Account. A refundable commitment fee on GRA arrangements, such as Stand-By Arrangements, as well as Extended and Flexible Credit Line Arrangements, is charged on the amounts that may be drawn under the arrangement during each 12-month period. The commitment fee structure, which was also revised as part of the lending toolkit reform, levies charges of 15 basis points on amounts committed up to 200 percent of quota, 30 basis points on amounts committed in excess of 200 percent and up to 1,000 percent of quota, and 60 basis points on amounts committed over 1,000 percent of quota. The fees are 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.

On the expenditure side, the IMF pays interest (remuneration) to members on their creditor positions in the GRA (known as reserve tranche positions). The rate of remuneration is currently set at the SDR interest rate. The Articles of Agreement provide that the rate of remuneration shall be not more than the SDR interest rate, nor less than 80 percent of that rate.

The rates of charge and remuneration are adjusted under a burden-sharing mechanism established in the mid-1980s that distributes the cost of overdue financial obligations equally between creditor and debtor members. The loss of income due to interest charges that are overdue (unpaid) 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. In FY2009, the adjustments to the basic rate of charge and the rate of remuneration for unpaid interest charges fell to historic lows of 1 basis point in the fourth quarter, reflecting the clearance of arrears by Liberia last year and the subsequent rise in IMF credit outstanding owing to the global crisis affecting members. The adjusted rates of charge and remuneration averaged 2.84 percent and 1.74 percent, respectively, in FY2009.

The burden-sharing mechanism also contemplates adjusting the basic rates of charge and remuneration to generate resources to protect the IMF against the risk of loss resulting from principal arrears; those resources are kept in the Special Contingent Account. Effective November 2006, however, the Board decided to suspend contributions to the SCA-1, and no contributions have been made since then. A partial distribution of SDR 525 million from the SCA-1 was made to contributing members, in March 2008, to facilitate the financing of IMF debt relief for Liberia through bilateral contributions.

The IMF's overall net income in FY2009 was SDR 154 million, reflecting increased lending activities and the strong performance of the IMF's investments, which were buoyed by investor flight to quality in light of the deterioration of global economic conditions. The returns net of fees on the IMF's investments were 6.29 percent, outperforming the benchmark one- to three-year index by 67 basis points. Overall, the investments benefited from declining government bond yields, spurred by turmoil in financial markets, resulting in capital gains of more than 46 percent of total investment income.

Arrears to the IMF

Overdue financial obligations to the IMF (including trusts administered by the Fund) fell slightly, from SDR 1,341 million at end-April 2008 to SDR 1,326 million at end-April 2009 (Table 5.1). Sudan accounted for about 75 percent of remaining arrears, and Somalia and Zimbabwe for 18 and 7 percent, respectively. At end-April 2009, all arrears to the IMF were protracted (outstanding for more than six months)—one-third consisted of overdue principal, the remaining two-thirds of overdue charges and interest. More than four-fifths represented arrears to the GRA, and the remainder to the SDR Department, the Trust Fund, and the PRGF-ESF Trust. Zimbabwe is the only country with protracted arrears to the PRGF-ESF Trust.

Under the IMF's strengthened cooperative strategy on arrears, remedial measures are applied to address protracted arrears. As of the end of the financial year, as a result of their arrears to the IMF, Somalia, Sudan, and Zimbabwe remained ineligible to use GRA resources. Zimbabwe also continued to be excluded from the list of PRGF-eligible countries, and a declaration of non-cooperation, suspension of technical assistance,[47] and suspension of voting and related rights remained in place.

Administrative and capital budgets

In April 2009, consistent with the net administrative budget envelopes previously agreed in the context of the FY2009–11 medium-term administrative budget (MTB), the Executive Board authorized total net administrative expenditures of US$880 million as well as a limit on gross administrative expenditures of US$1,053 million for FY2010, and an appropriation of US$45 million for capital projects beginning in FY2010, as part of a US$137 million capital plan for FY2010–12. The Board took note of the indicative net budget envelopes of US$895 million and US$932 million for FY2011 and FY2012, respectively, which constitute the Fund's FY2010–12 MTB. The Board also authorized the carry-forward of up to 6 percent of unused resources from the FY2009 administrative budget—US$52 million—to FY2010.

The FY2009–11 MTB set in motion an ambitious program of reforms aimed at reshaping the IMF so that it could deliver more-focused outputs cost-effectively. Accordingly, the Fund's new structural steady state—the indicative budget for FY2011—entailed a leaner, more modern institution, with expenditures permanently cut by US$100 million in real terms, and staff positions reduced by 380, relative to the previous (FY2008–10) MTB. This effort was an integral part of a plan to close the Fund's income-expenditure gap and to underpin a sustainable budgetary framework supported by the Fund's new income model.[48] The exercise was designed to be front-loaded, with the bulk of the adjustment implemented in FY2009, in tandem with a refocused work program that allowed real increases in resources to priority activities, such as multilateral and regional surveillance, through reallocation from other areas of work.[49]

During FY2009, the Fund's operations and budget management were shaped by two dominant forces: the implementation of the major restructuring and refocusing exercise that was initiated in 2008, and the activities related to the global financial crisis.

The staff reduction that had been planned to take place over the FY2009–11 period was largely accomplished in FY2009, as the number of staff volunteering to separate from the Fund was greater than targeted.[50] Since the number of staff remaining on the administrative budget was actually lower than the new structural steady-state target, there was some room to recruit permanent staff to return to the structural levels. This hiring also provided the opportunity to update the mix of staff skills to support better the upcoming work agenda. These voluntary separations, as well as other costs associated with the institutional restructuring, were financed through a one-time multiyear appropriation of US$185 million authorized by the Executive Board in FY2008, including US$8 million for Offices of Executive Directors.[51] Other factors in the FY2009 underrun have been declines in travel, building, and other administrative expenditures, reflecting improved procurement policies and practices and other efficiency gains (Table 5.2). In connection with this, the Board authorized the carry-forward of up to 6 percent on unused resources from the FY2009 net administrative budget, or US$52 million, to FY2010, as noted previously.

As described in Chapter 3, the IMF responded vigorously to the global financial crisis by shifting its work program during the course of the year to meet the renewed demand for Fund services. Nonetheless, because the crisis broke out in the midst of the Fund's restructuring exercise during FY2009, the burden of the heavy workload was borne chiefly by the staff as uncompensated overtime and, to a lesser extent, by volunteers who delayed their departure dates.

Against this backdrop, the budget strategy for FY2010–12 is to finance the Fund's crisis response fully while delivering

TABLE 5.1

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, 2009)

		BY TYPE			
	TOTAL	GENERAL DEPARTMENT (INCLUDING STRUCTURAL ADJUSTMENT FACILITY)	SDR DEPARTMENT	TRUST FUND	PRGF-ESF
SOMALIA	242.7	220.5	14.1	8.1	0.0
SUDAN	994.4	914.1	0.0	80.3	0.0
ZIMBABWE	89.2	0.0	0.0	0.0	89.2
TOTAL	1,326.4	1,134.6	14.1	88.4	89.2

Source: IMF FInance Department.

TABLE 5.2

Net administrative budget by major expenditure category, FY2008-FY2012

	FY2008 BUDGET	FY2008 OUTTURN	FY2009 BUDGET	FY2009 OUTTURN	FY2010 BUDGET	FY2011 BUDGET	FY2012 BUDGET
			(In millions of U.S. dollars)				
Personnel	723	714	697	659	710	731	764
Travel	101	94	98	77	89	94	96
Building and Other Expenditures	161	158	163	150	168	170	174
Annual Meetings	0	0	0	0	5	0	0
Contingency Reserves	10	0	9	0	7	9	19
Gross Expenditure	994	967	967	885	979	1,004	1.053
Receipts	-71	-76	-99	-72	-100	-109	-121
Net Administrative Budget	922	891	868	813	880	895	932
			(In millions of FY2008 dollars)				
Personnel	723	714	670	633	656	650	652
Travel	101	94	94	74	82	83	82
Building and Other Expenditures	161	158	157	144	156	151	148
Annual Meetings	0	0	0	0	5	0	0
Contingency Reserves	10	0	8	0	6	8	16
Gross Expenditure	994	967	930	851	906	892	899
Receipts	-71	-76	-95	-95	-92	-97	-103
Net Administrative Budget	922	891	835	756	813	796	796

Note: Column entries may not sum exactly to totals due to rounding.

Source: IMF Office of Budget and Planning.

the US$100 million in real savings already agreed. To make this possible, the budget strategy calls for significant reallocation of resources within and across departments and across financial years. The latter has been facilitated by the administrative underrun in FY2009, which has been carried forward in part to FY2010. All told, the bulk of the total costs of crisis-related outputs is expected to be met through internal reallocation, and the remainder is expected to be met through temporary resources, namely, the carry-forward from the FY2009 budget and the commitment of about one-half of the budgeted contingency reserves in each of FY2010 and FY2011.

Within this framework, the FY2010–12 MTB has been set in an unusually uncertain environment. The global crisis added a new set of demands for country programs and enhanced surveillance that could increase if the crisis expands, deepens, or is more protracted than expected. Moreover, the Fund could also be assigned added responsibilities under a new global financial architecture, which would impact the institution's work program. These additional tasks would add considerably to the burden on existing staff related to the crisis. Nonetheless, during the FY2010–12 period, surveillance and capacity building are expected to remain the largest key output areas, but their shares will be lower than previously planned, as resources for country programs and global monitoring will be increased to accommodate crisis demands (Table 5.3). In particular, resources devoted to global monitoring will provide for additional work on the global financial architecture and governance reforms. Multilateral surveillance is also expected to receive a higher share of resources to finance work on the joint Fund–Financial Stability Board early warning exercise and to improve analysis of macrofinancial linkages and their implications for oversight and regulatory frameworks.

The US$45 million capital budget approved by the Executive Board for FY2010 is designed to finance investment projects supporting the Fund's response to the global crisis with significantly reduced staffing and to deliver "efficiency dividends." In this vein, and relative to the previous three-year plan, the FY2010–12 capital plan entails a phased reallocation of capital resources from improvement/maintenance of building facilities to information technology.

Especially in the circumstances previously described, the envisaged budget strategy will require skilled budget management and timely execution. Accordingly, the IMF's budget planning and implementation capabilities are being further strengthened, including through the introduction of activity-based costing, among other things, to help support resource allocation decisions and identify lower-priority outputs, activities, and work processes that may be streamlined or discontinued to free resources in case of emerging pressures.

Total consolidated administrative expenses of the IMF over the medium term

The most comprehensive measure of IMF administrative expenses—total consolidated administrative expenses—is derived by aggregating expenditures under the net administrative budget and expenses related to depreciation, capital budget items expensed, and restructuring (Table 5.4). As discussed above, the administrative budget is approved by the Executive Board each year, and fell in FY2009, reflecting the downsizing exercise. In future years, administrative expenditures will be tightly constrained by the assumption of zero real growth. Depreciation and capital charges (capital budget items expensed) are much smaller and are linked to past and expected capital projects. As noted above, the capital program will increasingly focus on information technologies needed for efficient administrative operations, as well as facilities management. Finally, in FY2008 the Executive Board approved a restructuring budget of up to a total of US$185 million for a multiyear period (FY2008–FY2011) to finance the costs of institutional restructuring. Restructuring expenses have thus far been broadly in line with budgetary assumptions, and the appropriation is expected to be exhausted by FY2011.

Administrative expenses reported in the financial statements

For financial reporting purposes, the IMF's administrative expenses are accounted for in accordance with International Financial Reporting Standards (IFRS) rather than on a cash basis of budgetary outlays. IFRS require, among other things, accounting on an accrual basis and the measurement and amortization of employee benefit costs based on actuarial valuations. As detailed in Table 5.5, the difference between the net administrative budget outturn of US$813 million and IFRS-based administrative expenses of SDR 532 million, equivalent to US$819 million, reflects (1) partly offsetting timing differences in the recognition and reporting of capital expenditures and pension and postemployment benefits costs and (2) costs related to immediately expensed capital expenditures and the restructuring budget, which are managed separately from the administrative budget. Timing differences arise from (1) immediate budgetary recognition of the IMF's contributions for pension and postemployment benefits during the financial year compared with actuarially determined expenses under IFRS and (2) capital expenditure that is amortized (depreciated) over the estimated useful life of the capital assets in accordance with IFRS. Other amounts included in the administrative expenses reported in the financial statements are (1) current-year capital expenditure, to the extent that it is expensed immediately in accordance with IFRS, and (2) restructuring costs that are recognized as they are incurred.

HUMAN RESOURCES POLICIES AND ORGANIZATION

The IMF's human resources activities in FY2009 took place against a backdrop of institutional challenges and a sharply changing global environment. A restructuring exercise, initiated in 2008 and unprecedented in the history of the Fund, resulted in a large volume of voluntary separations that dominated FY2009. Midway during the downsizing, the onset of the financial crisis added an unexpected twist to the strategic direction

TABLE 5.3

Budgeted expenditure shares by key output area and constituent output, FY2008–FY2012 (In percent share of total gross expenditures, excluding reserves)

	FY2008	FY2009	FY2010	FY2011	FY2012
GLOBAL MONITORING	17.4	18.0	18.3	18.4	18.5
Oversight of the international monetary system	5.2	5.0	5.5	5.5	5.4
Multilateral surveillance	4.5	5.0	5.7	5.7	5.7
Cross-country statistical information and methodologies	3.0	3.5	3.5	3.5	3.6
General research	0.4	0.3	0.4	0.4	0.4
General outreach	4.3	4.2	3.2	3.2	3.3
COUNTRY-SPECIFIC AND REGIONAL MONITORING	35.2	36.7	34.4	34.3	34.7
Bilateral surveillance	28.3	28.5	26.3	26.3	26.5
Regional surveillance	3.1	3.4	3.9	3.7	3.8
Standards and codes and financial sector assessments	3.8	4.8	4.3	4.3	4.4
COUNTRY PROGRAMS AND FINANCIAL SUPPORT	23.2	20.7	23.1	22.9	21.3
Generally available facilities	10.0	8.3	11.4	11.3	9.8
Facilities specific to low-income countries	13.2	12.3	11.7	11.6	11.4
CAPACITY BUILDING	24.2	24.6	24.1	24.5	25.6
Technical assistance	17.0	17.5	17.5	18.2	19.3
External training	7.2	7.2	6.6	6.3	6.3
TOTAL, excluding contingency reserves	100.0	100.0	100.0	100.0	100.0
Memorandum Items:					
Support	31.5	30.2	28.9	29.2	29.4
Governance	9.2	9.2	9.0	9.2	9.5

Note: FY2008 figures refer to budgeted amounts. Support and governance expenditures are allocated across outputs. Column entries may not sum exactly to totals due to rounding.

Source: IMF Office of Budget and Planning.

TABLE 5.4

Total consolidated administrative expenses of the IMF, FY2008–FY2012

(In millions of U.S. dollars)

	FY2008		FY2009		FY2010	FY2011	FY2012
	BUDGET	OUTTURN	BUDGET	OUTTURN	BUDGET	BUDGET	BUDGET
TOTAL CONSOLIDATED ADMINISTRATIVE EXPENSES	1,162	1,053	921	916	936	948	986
Net Administrative Budget	922	891	868	813	880[1]	895[1]	932
Capital Budget Items Expensed	20	16	17	16	17	11	10
Depreciation Expenses	35	35	36	38	39	42	44
Restructuring Expenses	185	111	n.a.	49	n.a.	n.a.	n.a.

Note: Column entries may not sum exactly to totals due to rounding. Figures are shown on an accrual basis and do not reflect actuarially determined pension and postemployment benefit costs (see Table 5.5). n.a. = not applicable.

Source: IMF Office of Budget and Planning.

1 Does not include spending of actual or estimated carry-forward of previously approved administrative appropriations.

TABLE 5.5

Administrative expenses reported in the financial statements

(In millions of U.S. dollars, unless otherwise indicated)

FY2009 NET ADMINISTRATIVE BUDGET OUTTURN	**813**
TIMING DIFFERENCES:	
Pension and postemployment benefits costs	–98
Capital expenditure—amortization of current and prior years' expenditure	38
AMOUNTS NOT INCLUDED IN THE ADMINISTRATIVE BUDGET (CAPITAL AND RESTRUCTURING BUDGETS):	
Capital expenditure—items expensed immediately in accordance with IFRS	16
FY2009 IFRS restructuring costs[1]	49
TOTAL ADMINISTRATIVE EXPENSES REPORTED IN THE AUDITED FINANCIAL STATEMENTS	**819**
MEMORANDUM ITEM:	
Total administrative expenses reported in the audited financial statements (In millions of SDRs)	532

Note: Column entries may not sum exactly to totals due to rounding. Conversions are based on the average FY2009 US$/SDR exchange rate of 1.54.

Source: IMF Office of Budget and Planning.

1 Represents costs recognized during FY2009. In accordance with IFRS, certain restructuring costs were recognized prior to actual cash outlays; the FY2008 financial statements included a provision of SDR 68 million, equivalent to US$111 million.

of human resource priorities, and an intense recruitment drive was initiated in the latter part of FY2009.

Outcome of the FY2009 downsizing

The goal of the restructuring exercise was to support the reforms undertaken by the IMF to refocus its activities and improve its cost-effectiveness, through a primary reliance on voluntary separations. Although the targeted reduction in positions was 380, in order to allow scope for the Fund to refocus and retool its skills, 490 volunteers were accepted for separation based on the human resources framework and budget parameters developed for the exercise (see Web Table 5.1).

The implementation of the restructuring exercise rested on the principles of fairness (to those separating from the institution as well as to those who remained) and transparency. To facilitate the process, a number of human resources policies were adapted to facilitate voluntary separations, such as amendments to the Staff Retirement Plan to allow early retirement at age 50 with a reduced pension, a temporary extension of medical coverage for staff separating and not eligible for retiree medical coverage, and outplacement assistance. Downsizing goals were achieved, and the IMF met its objective of largely avoiding mandatory separations. To allow time to take stock of the desired retooling of the Fund's skill base and provide mobility opportunities for remaining staff, a hiring freeze was instituted for the first half of 2008. With the onset of the global financial crisis along with the high volume of separations, following the downsizing the Fund faced a major recruitment challenge. After an initial phase of internal redeployment, a significant external recruitment drive was launched to close the staffing gap quickly and prepare for additional vacancies that arose. A concerted effort led by Human Resources resulted in more than 100 economist hires by the close of FY2009, and recruitment activity continued into FY2010. A scalable framework and a sufficient pipeline are in place should the crisis prove to be more prolonged than expected.

Staff numbers and composition

The IMF's staff is appointed by the Managing Director, and its sole responsibility is to the IMF. At April 30, 2009, the IMF had 1,862 professional and managerial staff and 616 staff at other levels. 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 in recruiting staff, paramount importance is to be placed on securing the highest standards of efficiency and technical competence. In addition, all staff members are expected to 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.

Diversity

The IMF makes every effort to ensure that staff diversity reflects the institution's membership, actively seeking candidates from all over the world, and has a Diversity Council to help further its diversity agenda. The recruitment effort in FY2009 and

IMF Diversity Advisor Kedibone Letlaka Rennert addresses participants at conference "Diversity and Inclusion," IMF headquarters, Washington, D.C

continuing into FY2010 produced some encouraging results on diversity among economist recruits. Progress was made on diversity in FY2009, particularly with respect to gender balance and the recruitment of nationals from underrepresented regions, and the Fund's Economist Program continued to be an excellent source of diversity for the institution. Although the IMF continues to seek macroeconomists, experienced economists with broader profiles and financial sector specialists were also hired to complement the skills mix. In the Economist Program, nearly half the recruits had financial backgrounds, and a little more than half were graduates of non-U.S.-based universities and were nationals from underrepresented regions.

Management salary structure

Of the IMF's 185 member countries, 143 were represented on the staff at the end of April 2009. A list of the IMF's senior officers and the IMF's organization chart can be found on pages 76 and 77, respectively, of this Report. Web Tables 5.2–5.5 show the distribution of the IMF's staff by nationality, gender, and developing and industrial countries and the staff salary structure. As of July 1, 2008, the salary structure for management was as follows:

Managing Director: US$441,980[52]
First Deputy Managing Director: US$384,330
Deputy Managing Directors: US$366,030

The remuneration of Executive Directors was US$230,790; the remuneration of Alternate Executive Directors was US$199,650.

Modernizing the human resources function

In recognition that the IMF needs a flexible employment framework to meet its evolving business needs, the goal of human resources is to think strategically about the policies that can support the organization and have a coherent framework for managing talent in the organization. In addition to attracting the best talent, developing talented and effective leaders is also necessary for sustained success. To this end, the Fund introduced a more systematic approach to succession management and leadership development toward the end of FY2009. This approach signaled the institution's strong commitment to strengthening people management at all levels.

Modernizing the human resources function was also a key pillar of the IMF's human resources strategy during the year. The human capital management project, designed to streamline processes, gathered momentum in early FY2009. Progress was made toward providing a modern infrastructure through simplification of human resources processes and policies and automation of key functions across the Fund. Much of the initial work was in the area of recruitment, tools for which were strengthened and new automation implemented during FY2009. Key examples include an automated applicant tracking system, an employee referral program, and an onboarding system to support newly arrived recruits. The automation and streamlining of the human resources infrastructure is an ongoing investment in improving effectiveness, and additional reforms began in FY2009 in several other human resource areas and continued into FY2010.

ACCOUNTABILITY

IMF activities are carried out in accordance with the Fund's governance structure (see Box 5.1), which establishes a clear chain of accountability to the countries that make up the Fund's membership.

Accountability framework for Fund management

In FY2009, the Board discussed the IEO's evaluation of governance of the IMF, "Aspects of IMF Corporate Governance—Including the Role of the Executive Board." A working group of Executive Directors was formed to prepare a work plan on how best to organize the follow-up on the IEO analysis; their plan included a range of recommendations to strengthen the IMF's governance framework (see Chapter 4).

The IEO evaluation also identified an accountability gap as the Fund's main governance weakness with respect to management. To address this gap, the Board introduced an accountability framework for management. Work is under way in this regard and will provide clear proposals on performance criteria, on the processes to be used, and on how assessments are to be translated into incentives. The criteria are expected to focus on management's conduct of the ordinary business of the Fund and on the quality and outcomes of the Fund's activities. To be effective, the evaluation of management may need to be delegated to a Board committee that would canvass the views of all Executive Directors and inform the whole Board of its assessment once completed. The assessment may need to be confidential to avoid undermining the credibility of the Managing Director vis-à-vis the membership at large.

Integrity Hotline

IMF staff are expected to perform their duties in accordance with the Fund's rules and policies, as guided by the Staff Code of Conduct, and to contribute to the good governance and reputation of the Fund by upholding its core standards of probity, integrity, and independence. In June 2008, the Fund established a confidential Integrity Hotline, operated by an independent third party, for handling allegations of staff misconduct, whether on an anonymous or identified basis, and whether from internal or external sources. All matters reported through the hotline are followed up by the Fund's Ethics Office. To protect confidentiality, no attempt is made to discover the identity of those who use the hotline if they choose to remain anonymous.

Following Board approval of proposals by the Dean of the Executive Board and the Ethics Committee, respectively, the IMF Managing Director and Executive Directors are now also covered by the Integrity Hotline, with the Dean and the Ethics Committee, respectively, rather than the Ethics Officer, taking on the responsibility for following up on allegations. (The Deputy Managing Directors are members of the IMF staff and are covered by the procedures discussed above for staff members.)

Investigations into all allegations of staff misconduct are carried out in accordance with General Administrative Order No. 33 and the Fund's Procedural Guidelines for Conducting Inquiries into Allegations of Misconduct. The Fund requires corroborating evidence before any disciplinary action in connection with a complaint about staff misconduct can be taken. Because the IMF recognizes whistle-blowing as one important way to ensure good governance, employees and others who report instances of suspected misconduct are fully protected against any form of retaliation.

2008 Regular Election of Executive Directors

The 2008 Regular Election of IMF Executive Directors was conducted between September 5 and October 13, 2008, under the rules set out in Board of Governors Resolution 63-5. The resulting Executive Board, composed of 5 appointed and 19 elected Executive Directors, was established on November 1. A list of the current members of the Executive Board, along with their voting power, can be found in Appendix IV.

In preparation for the 2008 election, the Executive Board amended the convention regarding the calculation of members' creditor positions in the Fund for purposes of Article XII, Section 3(c) to reflect more appropriately the Fund's current financial structure. Article XII, Section 3(c) allows each of the two members with the largest creditor positions in the Fund over the preceding two years to appoint an Executive Director, if they are not already entitled to do so by virtue of being among the five members with the largest quotas. As the United States and Japan had the largest creditor positions in the Fund for the relevant period and both are among the five members with the largest quotas, the issue of Executive Directors appointed on the basis of Article XII, Section 3(c) did not arise for the 2008 election.

Independent Evaluation Office

The Independent Evaluation Office was established in 2001 to conduct independent and objective evaluations of IMF policies and activities with a view to increasing the Fund's transparency and accountability and strengthening its learning culture. The IEO's primary means of action is the conduct of independent studies of issues relevant to the Fund's mandate: systematic evaluations of the IMF's general policies; comparative cross-country analyses of the IMF's economic policy advice, both in the context of surveillance and in the context of IMF-supported programs; and evaluations of completed country operations. Under its terms of reference, the IEO is fully independent of Fund management and operates at arm's length from the Fund's Executive Board, to which it reports its findings.

An IEO evaluation of the IMF's involvement in international trade policy issues was finalized at the end of FY2009 and was taken up by the Board in June 2009. In addition to the IEO's assessment of IMF governance,[53] which was discussed by the Board early in the year (see Chapter 4), the Board also discussed in FY2009 the management implementation plan in response to the IEO's January 2008 evaluation of structural conditionality in IMF-supported programs (see Chapter 3).[54] Management implementation plans are part of a framework established following an external evaluation of the IEO that seeks to ensure

Development Committee meeting, IMF-World Bank 2008 Annual Meetings, Washington, D.C.

BOX 5.1

The Fund's general governance structure

The IMF is accountable to the governments of its member countries. At the apex of its organizational structure is its Board of Governors, which consists of one Governor and one Alternate from each of the IMF's 185 member countries.[1] The Governor is appointed by the member country and is usually the minister of finance or the central bank governor. All powers of the IMF are vested in the Board of Governors, which may delegate to the Executive Board all except certain reserved powers. The Board of Governors normally meets once a year at the IMF–World Bank Annual Meetings.

The IMF's day-to-day work is conducted at its Washington, D.C., headquarters by the Executive Board, composed of 24 Executive Directors, appointed or elected by member countries or by groups of countries, and the Managing Director, who is appointed by the Executive Board and serves as its Chair. The Managing Director is also head of the IMF staff. The Executive Board usually meets several times each week.

There are two committees of Governors that represent the whole membership—the International Monetary and Financial Committee and the Development Committee. The IMFC is an advisory body currently composed of 24 IMF Governors (or their alternates) who represent 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. It normally meets twice a year at the time of the Spring and Annual Meetings.

The Development Committee (formally, the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund 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 IMF and World Bank Boards of Governors 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.

1 As of April 30, 2009. As of June 2009, the IMF had 186 member countries.

a more systematic follow-up and monitoring of the implementation of Board-endorsed IEO recommendations.

In January 2009, the Board discussed the IEO's December 2008 Periodic Monitoring Report (PMR) on the status of implementation plans in response to Board-endorsed IEO recommendations. The PMR was established in 2007 to ensure that Board-endorsed IEO recommendations were implemented and monitored more systematically. The PMR broadly concluded that IEO recommendations have a significant impact on Fund operations. Executive Directors supported the conclusions of the report and approved recommended performance benchmarks for the next PMR.[55]

As of the end of FY2009, the IEO was engaged in the preparation of two evaluation reports: "The IMF's Interactions with Its Member Countries" and "The Research Agenda of the IMF." It had also announced the launch of an evaluation to assess the Fund's role in the run-up to the global financial and economic crisis, including questions related to the effectiveness of surveillance, particularly of advanced economies; identification of systemic risks, including the vulnerability exercise; multilateral consultations; and treatment of capital account/financial sector advice in some emerging markets. Following the announcement by current IEO Director Thomas Bernes that he would leave his position at the end of July 2009, the proposal and selection of future topics was awaiting the arrival of the next director.

Additional information on the activities and reports of the IEO can be found on its website (www.ieo-imf.org).

IMF audit mechanisms

The IMF's audit mechanisms comprise an external audit firm, an internal audit function, and an independent External Audit Committee (EAC) that oversees the work of both.

The external audit firm, which is selected by the Executive Board in consultation with the EAC and appointed by the Managing Director, is responsible for performing the annual external audit and expressing an opinion on the financial statements of the IMF, accounts administered under Article V, Section 2(b), and the Staff Retirement Plan. The external audit firm is normally appointed for five years. Deloitte & Touche LLP is currently the IMF's external audit firm. It issued an unqualified audit opinion on the IMF's financial statements for the financial year ended April 30, 2009.

The internal audit function is assigned to the Office of Internal Audit and Inspection (OIA), which independently examines the effectiveness of the risk management, control, and governance processes of the IMF. The OIA also serves as the secretariat for the Advisory Committee on Risk Management (ACRM). The OIA conducts about 25 audits and reviews annually, including financial audits, information technology audits, and operational and effectiveness audits. Financial audits examine the adequacy of controls and procedures to safeguard and administer the IMF's financial assets and accounts. Information technology audits evaluate the adequacy of information technology management and the effectiveness of information security measures. Operational and effectiveness audits focus on work processes and associated controls and the efficiency and effectiveness of operations in meeting the Fund's overall goals. In line with best practices, the OIA reports to IMF management and to the EAC, thus ensuring its independence. In addition, the OIA briefs the Executive Board annually on its work program and the major findings and recommendations of its audits and reviews.

The EAC has three members, selected by the Executive Board and appointed by the Managing Director. Under the Fund's By-Laws, the EAC has the general oversight of the annual audit, as further specified in the terms of reference approved by the Executive Board. Members serve three-year terms on a staggered basis and are independent of the Fund. EAC members are nationals of different member countries and must possess the expertise and qualifications required to carry out the oversight of the annual audit. Typically, EAC members have significant experience in public accounting, the public sector, or academia.

The EAC selects one of its members as chair, determines its own procedures, and is independent of the IMF's management in overseeing the annual audit. The 2009 EAC members were Mr. Steve Anderson, Head of Risk Assessment and Assurance, Reserve Bank of New Zealand; Mr. Thomas O'Neill, Corporate Director and Former Chairman, PricewaterhouseCoopers Consulting; and Mr. Ulrich Graf, Audit Director in charge of federal debt and financial policy for the Supreme Audit Institution of the Federal Republic of Germany. The EAC normally meets in Washington, D.C., three times each year: in January, in June after the completion of the audit, and in July to report to the Executive Board. IMF staff and the external auditors consult with EAC members throughout the year. At the conclusion of the annual audit, the EAC briefs the Executive Board on the results of the audit and transmits the report issued by the external audit firm, through the Managing Director and the Executive Board, for consideration by the Board of Governors.

Board briefings on control- and audit-related matters

The Board receives periodic briefings from the IMF's Finance Department on control- and audit-related matters. This year's briefing covered, among other things, internal control and financial reporting issues, including the completion of a two-year project to streamline the financial statements of the IMF and the accounts it manages as trustee. The Board is also briefed regularly on OIA's work program and activities, including major findings of its audits and reviews, and implementation of its recommendations.

Risk management

Efforts are ongoing to strengthen risk management at the IMF. The Board was briefed on risk management issues twice in FY2009. In June 2008, the Board was briefed by the ACRM on the transitional risks associated with the Fund's downsizing and restructuring; and in March 2009, it was briefed, including a full assessment of risks, in the context of the "2009 Report on Risk Management," which presented assessments of stra-

tegic, core mission, financial, and operational risks for FY2009. Executive Directors broadly concurred with the assessment of the main risks and mitigation measures in the report.

In their review of the report, Executive Directors emphasized the importance of remaining vigilant about the Fund's risk landscape. A number called for more frequent briefings to the Board on the evolving risk situation at the Fund, with some seeing a role for a Board committee. Executive Directors looked forward to a review of the modalities of the Fund's risk management framework in FY2010. Suggestions were made regarding the possible use of more advanced risk management techniques, including a more dynamic risk assessment, the use of risk indicators, and the identification of concrete measures to address each specific type of risk.

Transparency

Openness and clarity about the IMF's policies and its advice to members contributes to a better understanding of the Fund's role and operations and increases the Fund's accountability for its policy advice. The Fund's transparency policy[56] represents an attempt by the Executive Board to balance the Fund's responsibility for overseeing the international monetary system against its role as a confidential advisor to its members. The Fund routinely makes information available on a number of topics: surveillance of members, countries' IMF-supported programs, financial and operational information concerning the Fund, dialogue and consultation with the public on Fund activities, and internal and external evaluations of Fund practices.

As an outgrowth of a 2005 review of IMF transparency, the Executive Board receives annual updates on the status of implementation of the Fund's transparency policy; these reports are also part of the information the IMF makes public as part of its efforts in the area of transparency. The 2009 report,[57] which provides statistics on a number of measures of IMF transparency through the end of 2008, showed that member countries' publication performance trended higher in 2008. The publication rate across country staff reports was, at 83 percent, in line with earlier years, and publication rates increased for documents in several categories, including requests for use of Fund resources (96 percent, versus 85 percent in 2007) and Article IV Public Information Notices (97 versus 93 percent). Under the Fund's "voluntary but presumed" publication policy for Board documents pertaining to the Fund's member countries, publication requires the member's explicit consent but is normally expected to take place within 30 days following the Board discussion.

The Board is slated to review the Fund's transparency policy in FY2010.

External relations and outreach

As the IMF has become more transparent and has sought to become more accountable, not only to the governments that own it, but also to the broader public, its external relations have played a greater role in those efforts. Scrutiny by the media, the academic community, and civil society organizations, among other external constituencies, helps promote accountability on the part of the IMF to its member countries and the general public for the work it conducts. It also helps ensure that the IMF listens to the people whom its work affects.

IMF management and senior staff communicate with the media on a daily basis. Additionally, a biweekly press briefing is held at IMF headquarters, during which a spokesperson takes live questions from journalists. Journalists who cannot be present are invited to submit their questions via the online media briefing center.

IMF staff at all levels frequently meet with members of the academic community to exchange ideas and receive new input. The IMF also has an active outreach program involving CSOs, and an IMF and Civil Society webpage was launched in December 2007. [58]

In September 2008, Executive Directors met with civil society organizations in an informal seminar to hear their views on IMF reform based on worldwide consultations. Civil society organizations and other external constituencies are being encouraged to take an active part in the ongoing efforts to reform IMF governance, via the Fund's "Fourth Pillar" effort (see "Engaging Civil Society and Other External Constituencies" in Chapter 4).

Executive Directors and Alternates

ON APRIL 30, 2009[1]

APPOINTED

Meg Lundsager *Daniel Heath*	United States
Daisuke Kotegawa *Hiromi Yamaoka*	Japan
Klaus D. Stein *Stephan von Stenglin*	Germany
Ambroise Fayolle *Benoît Claveranne*	France
Alexander Gibbs *James Talbot*	United Kingdom

ELECTED

Willy Kiekens (Belgium) *Johann Prader* *(Austria)*	Austria Belarus Belgium Czech Republic Hungary Kazakhstan Luxembourg Slovak Republic Slovenia Turkey
Age F. P. Bakker (Netherlands) *Yuriy G. Yakusha* *(Ukraine)*	Armenia Bosnia and Herzegovina Bulgaria Croatia Cyprus Georgia Israel Macedonia, former Yugoslav Republic of Moldova Montenegro Netherlands Romania Ukraine
Ramón Guzmán Zapater (Spain) *Alfonso Guerra* *(Mexico)*	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

ELECTED (CONTINUED)

GE Huayong (China) *HE Jianxiong* *(China)*	China
Michael Horgan (Canada) *Stephen O'Sullivan* *(Ireland)*	Antigua and Barbuda Bahamas, The Barbados Belize Canada Dominica Grenada Ireland Jamaica St. Kitts and Nevis St. Lucia St. Vincent and the Grenadines
Perry Warjiyo (Indonesia) *Adrian Chua* *(Singapore)*	Brunei Darussalam Cambodia Fiji Indonesia Lao People's Democratic Republic Malaysia Myanmar Nepal Philippines Singapore Thailand Tonga Vietnam
Hi-Su Lee (Korea) *Christopher Y. Legg* *(Australia)*	Australia Kiribati Korea Marshall Islands Micronesia, Federated States of Mongolia New Zealand Palau Papua New Guinea Samoa Seychelles Solomon Islands Vanuatu
Jens Olof Henriksson (Sweden) *Jarle Bergo* *(Norway)*	Denmark Estonia Finland Iceland Latvia Lithuania Norway Sweden

ELECTED (CONTINUED)

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
Samuel Itam (Sierra Leone) *Moeketsi Majoro* *(Lesotho)*	Angola Botswana Burundi Eritrea Ethiopia Gambia, The Kenya Lesotho Liberia Malawi Mozambique Namibia Nigeria Sierra Leone South Africa Sudan Swaziland Tanzania Uganda Zambia
Thomas Moser (Switzerland) *Katarzyna Zajdel-Kurowska* *(Poland)*	Azerbaijan Kyrgyz Republic Poland Serbia Switzerland Tajikistan Turkmenistan Uzbekistan
Aleksei V. Mozhin (Russian Federation) *Andrei Lushin* *(Russian Federation)*	Russian Federation

ELECTED (CONTINUED)

Mohammad Jafar Mojarrad (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 Inés Agudelo* *(Colombia)*	Brazil Colombia Dominican Republic Ecuador Guyana Haiti Panama Suriname Trinidad and Tobago
Adarsh Kishore (India) *K.G.D.D. Dheerasinghe* *(Sri Lanka)*	Bangladesh Bhutan India Sri Lanka
Pablo Andrés Pereira (Argentina) *David Vogel* *(Uruguay)*	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 Congo, Republic of Côte d'Ivoire Djibouti Equatorial Guinea Gabon Guinea Guinea-Bissau Madagascar Mali Mauritius Niger Rwanda São Tomé and Príncipe Senegal Togo

1 The voting power of each chair can be found in Appendix IV on the Annual Report web page (www.imf.org/external/pubs/ft/ar/2009/eng/index.htm); changes in the Executive Board during FY2009 are listed in Appendix V on the Annual Report web page.

Senior Officers

ON APRIL 30, 2009

José Viñals, *Counsellor*
Olivier Blanchard, *Economic Counsellor*

AREA DEPARTMENTS

Antoinette Monsio Sayeh
Director, African Department

Anoop Singh
Director, Asia and Pacific Department

Marek Belka
Director, European Department

Masood Ahmed
Director, Middle East and Central Asia Department

Nicolas Eyzaguirre
Director, Western Hemisphere Department

FUNCTIONAL AND SPECIAL SERVICES DEPARTMENTS

Andrew Tweedie
Director, Finance Department

Carlo Cottarelli
Director, Fiscal Affairs Department

Leslie Lipschitz
Director, IMF Institute

Sean Hagan
General Counsel and Director, Legal Department

José Viñals
Director, Monetary and Capital Markets Department

Reza Moghadam
Director, Strategy, Policy, and Review Department

Olivier Blanchard
Director, Research Department

Adelheid Burgi-Schmelz
Director, Statistics Department

INFORMATION AND LIAISON

Caroline Atkinson
Director, External Relations Department

Akira Ariyoshi
Director, Regional Office for Asia and the Pacific

Saleh Nsouli
Director, Offices in Europe

Elliott Harris
Special Representative to the UN Office at the United Nations

SUPPORT SERVICES

Shirley Siegel
Director, Human Resources Department

Vacant
Secretary, Secretary's Department

Frank Harnischfeger
Director, Technology and General Services Department

Jonathan Palmer
Chief Information Officer, Technology and General Services Department

OFFICES

Siddharth Tiwari
Director, Office of Budget and Planning

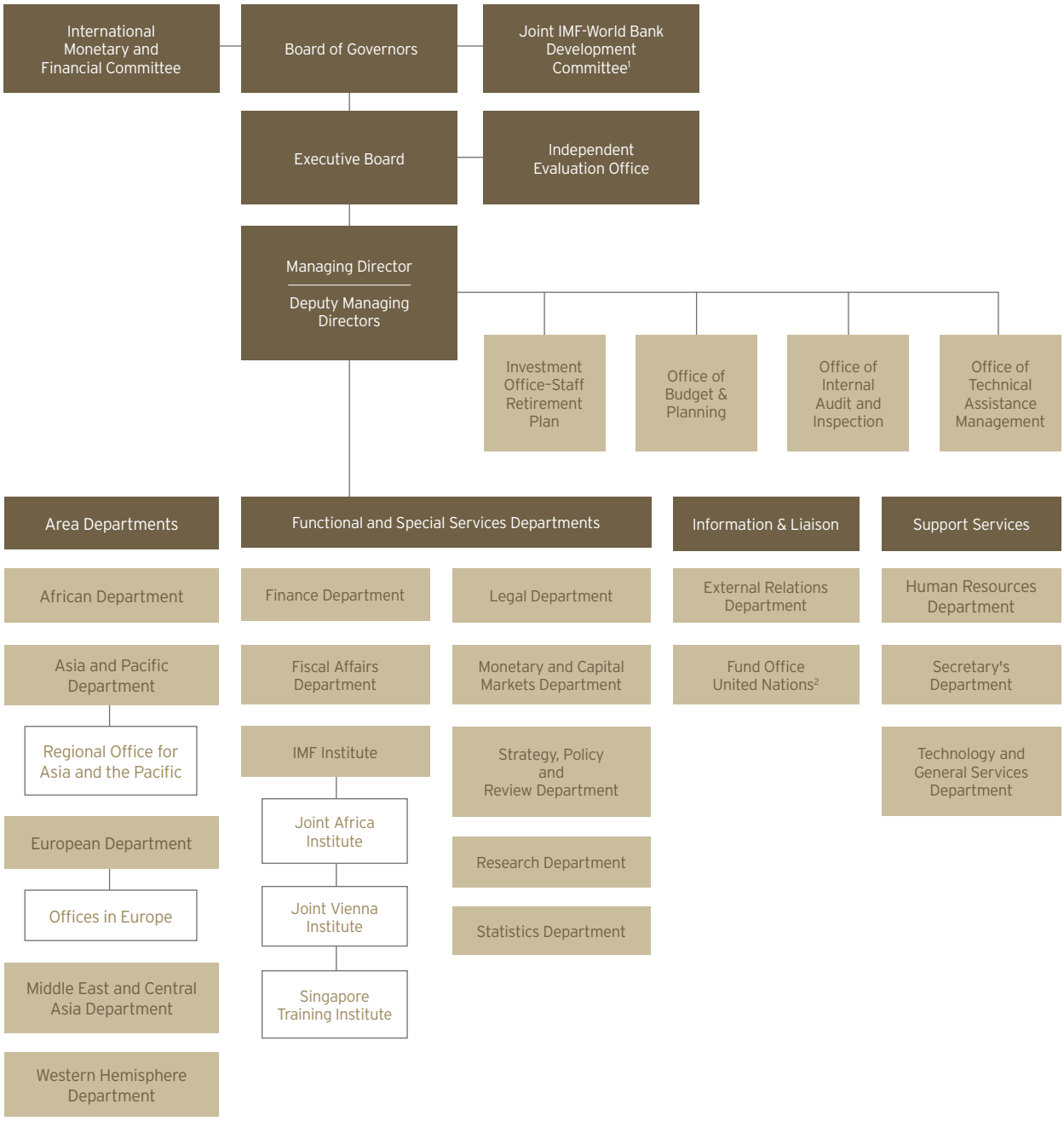
Barry Potter
Director, Office of Internal Audit and Inspection

Alfred Kammer
Director, Office of Technical Assistance Management

Thomas Bernes
Director, Independent Evaluation Office

IMF Organization Chart

ON APRIL 30, 2009



1 Known formally as the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries.
2 Attached to the Office of Managing Director.

Notes

CHAPTER 1

1 The Fund's financial year (FY) runs May 1 through April 30.

2 For an explanation of SDRs, see "Special Drawing Rights (SDRs)—A Fact Sheet," available on the IMF's website at www.imf.org/external/np/exr/facts/sdr.htm.

3 On April 2, 2009, the Financial Stability Forum (FSF) was reestablished as the Financial Stability Board with an expanded membership. See FSF Press Release no. 14/2009, "Financial Stability Forum Re-established as the Financial Stability Board," available on the FSF's website at www.fsforum.org/.

CHAPTER 2

4 This chapter is based on material in the April 2009 *World Economic Outlook* and *Global Financial Stability Report*. Summings Up of the Executive Board discussions on the October 2008 and April 2009 *World Economic Outlook* and *Global Financial Stability Report* are incorporated as part of the two publications, which are available on the IMF's website (www.imf.org/external/pubs/ft/weo/2008/02/pdf/annex.pdf and www.imf.org/external/pubs/ft/weo/2009/01/pdf/annex.pdf, respectively, for the October and April WEO reports, and www.imf.org/external/pubs/ft/gfsr/2008/02/pdf/annex.pdf and www.imf.org/external/pubs/ft/gfsr/2009/01/pdf/annex.pdf, respectively, for the October and April GFSRs) or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm.

CHAPTER 3

5 See, for example, Chapter 1, "Global Prospects and Policy Issues," in the *World Economic Outlook* Reports from October 2007 (available on the IMF's website at www.imf.org/external/pubs/ft/weo/2007/02/) and April 2008 (available at www.imf.org/external/pubs/ft/weo/2008/01/), as well as Chapter 1, "Assessing Risks to Global Stability," in the *Global Financial Stability Reports* from October 2007 (available at www.imf.org/External/Pubs/FT/GFSR/2007/02/index.htm) and April 2008 (available at www.imf.org/External/Pubs/FT/GFSR/2008/01/index.htm).

6 The Board briefing was informed by staff work by a number of Fund departments. See "Food and Fuel Prices—Recent Developments, Macroeconomic Impact, and Policy Responses," available on the IMF's website at www.imf.org/external/np/pp/eng/2008/063008.pdf, and "The Balance of Payments Impact of the Food and Fuel Price Shocks on Low-Income African Countries: A Country-by-Country Assessment," available at www.imf.org/external/np/pp/eng/2008/063008a.pdf.

7 Web Boxes and Web Tables can be found on the web page, along with the appendices and other material pertaining to the Report. The web page's address is www.imf.org/external/pubs/ft/ar/2009/eng/index.htm. To take advantage of advances in technology and make the Annual Report more succinct and compelling, the Executive Board decided in 2007 to divide the Report into two components, the printed Report and an accompanying CD-ROM. This year, to benefit from further technological advances, the Annual Report web page on the IMF's website replaces the CD-ROM as the complementary component to the printed Report. A CD-ROM including the web page materials is also available, upon request, from the IMF's Office of External Relations.

8 See "IMF Executive Board Discusses the Fund's Response to the 2007–08 Financial Crisis and Collaboration with the Financial Stability Forum," PIN 08/132, available on the IMF's website at www.imf.org/external/np/sec/pn/2008/pn08132.htm, or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm.

9 See the following Public Information Notices, all available via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm or on the IMF's website via the URLs provided: "IMF Reforms Exogenous Shocks Facility," PIN 08/130, available at www.imf.org/external/np/sec/pn/2008/pn08130.htm; "IMF Executive Board Reviews the Fund's Financing Role," PIN 08/131, available at www.imf.org/external/np/sec/pn/2008/pn08131.htm; "IMF Executive Board Has Preliminary Discussions on Adequacy of and Options for Supplementing Fund Resources," PIN 09/24, available at www.imf.org/external/np/sec/pn/2009/pn0924.htm; "IMF Executive Board Discusses Reforms of Lending Instruments for Low-Income Countries," PIN 09/38, available at www.imf.org/external/np/sec/pn/2009/pn0938.htm; "IMF Executive Board Discusses Changing Patterns in Low-Income Country Financing and Implications for Fund Policies on External Financing and Debt," PIN 09/39, available at www.imf.org/external/np/sec/pn/2009/pn0939.htm; and "IMF Executive Board's Initial Discussion on Review of Fund Facilities—Analytical Basis for Fund Lending and Reform Options," PIN 09/41, available at www.imf.org/external/np/sec/pn/2009/pn0941.htm.

10 See "IMF Overhauls Nonconcessional Lending Facilities and Conditionality," PIN 09/40, available on the IMF's website at www.imf.org/external/np/sec/pn/2009/pn0940.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm.

11 See "IMF Executive Board Has Preliminary Discussions on Adequacy of and Options for Supplementing Fund Resources," PIN 09/24, available on the IMF's website at www.imf.org/external/np/sec/pn/2009/pn0924.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm.

12 Japan indicated in November 2008 that it would be prepared to lend up to US$100 billion to the IMF to overcome the global crisis. The terms of the IMF's bilateral lending agreement with the Government of Japan were signed on February 13, 2009.

13 See "Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative—A Fact Sheet," available on the IMF's website at www.imf.org/external/np/exr/facts/hipc.htm, and "The Multilateral Debt Relief Initiative (MDRI)—A Fact Sheet," available at www.imf.org/external/np/exr/facts/mdri.htm, for details on these two initiatives.

14 Decision and completion points under the initiative are explained in "Poverty Reduction and Debt Relief" in Chapter 4.

15 See "The Executive Directors of the IMF Hold Seminar on Fuel and Food Price Subsidies—Issues and Reform Options," PIN 08/135, available on the IMF's website at www.imf.org/external/np/sec/pn/2008/pn08135.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm, as well as "Food and Fuel Prices—Recent Developments, Macroeconomic Impact, and Policy Responses," available on the IMF's website at www.imf.org/external/np/pp/eng/2008/063008.pdf, which the Board discussed informally at a June 2008 meeting, and its September 2008 update, available at www.imf.org/external/np/pp/eng/2008/091908.pdf.

16 See "IMF Executive Board Discusses 'Initial Lessons of the Crisis,'" PIN 09/30, available on the IMF's website at www.imf.org/external/np/sec/pn/2009/pn0930.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm, as well as the titular staff paper that formed the basis for the discussion, available on the IMF's website at www.imf.org/external/np/pp/eng/2009/020609.pdf.

17 Doubling of the institution's lending capacity was the proposal at the time; however, later recommendations were to triple this capacity. See "Making Sure the Fund Has Adequate Resources to Meet the Crisis."

18 See "IMF Executive Board Holds Board Seminar on the State of Public Finances: Outlook and Medium-Term Policies after the 2008 Crisis," PIN 09/31, available on the IMF's website at www.imf.org/external/np/sec/pn/2009/pn0931.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm.

19 See "The Balance of Payments Impact of the Food and Fuel Price Shocks on Low-Income African Countries: A Country-by-Country Assessment," available on the IMF's website at www.imf.org/external/np/pp/eng/2008/063008a.pdf, and "Food and Fuel Prices—Recent Developments, Macroeconomic Impact, and Policy Responses," available at www.imf.org/external/np/pp/eng/2008/063008.pdf, as well as its September 2008 update, available at www.imf.org/external/np/pp/eng/2008/091908.pdf.

20 The report is available on the IMF's website at www.imf.org/external/pubs/ft/books/2009/globalfin/globalfin.pdf.

21 See "IMF Executive Board Discusses Changing Patterns in Low-Income Country Financing and Implications for Fund Policies on External Financing and Debt," PIN 09/39, available on the IMF's website at www.imf.org/external/np/sec/pn/2009/pn0939.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm.

22 For the Board discussion surrounding the Triennial Surveillance Review, see "IMF Executive Board Reviews the Fund's Surveillance," PIN 08/133, available on the IMF's website at www.imf.org/external/np/sec/pn/2008/pn08133.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm. For additional information on the IMF's surveillance priorities, see "Surveillance Priorities for the International Monetary Fund: 2008-2011," available on the IMF's website at www.imf.org/external/np/pdr/surv/2008/index.htm.

23 See "International Working Group of Sovereign Wealth Funds Is Established to Facilitate Work on Voluntary Principles," Press Release 08/97, available on the IMF's website at www.imf.org/external/np/sec/pr/2008/pr0897.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm.

24 See "IMF Convenes Second Annual Roundtable of Sovereign Asset and Reserve Managers," Press Release 09/44, available on the IMF's website at www.imf.org/external/np/sec/pr/2009/pr0944.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm.

25 See "IMF Executive Board Integrates the Offshore Financial Center Assessment Program with the FSAP," PIN 08/82, available on the IMF's website at www.imf.org/external/np/sec/pn/2008/pn0882.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm.

26 See "IMF Executive Board Reviews Progress in Members' Provision of Data to the Fund for Surveillance Purposes," PIN 08/60, available on the IMF's website at www.imf.org/external/np/sec/pn/2008/pn0860.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm.

27 See "IMF Executive Board Reviews Data Standards Initiatives," PIN 08/147, available on the IMF's website at www.imf.org/external/np/sec/pn/2008/pn08147.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm. For additional information about the IMF's data standards initiatives, see "IMF Standards for Data Dissemination—A Fact Sheet," available on the IMF's website at www.imf.org/external/np/exr/facts/data.htm.

28 Subscription to the SDDS and participation in the GDDS are voluntary. Approximately four-fifths of IMF member countries either subscribe to the SDDS (64 subscribers as of April 30, 2009) or participate in the GDDS (95 participants as of that date), and six countries have graduated from the GDDS to the SDDS since the inception of the GDDS in 1997. Algeria, Bahrain, San Marino, and the United Arab Emirates began their participation in the GDDS during FY2009.

29 For further information on the survey, please see Thomas Dorsey, "Trade Finance Stumbles," in the March 2009 issue of *Finance & Development*, available on the IMF's website at www.imf.org/external/pubs/ft/fandd/2009/03/.

30 On a regular basis—usually once a year—IMF economists visit member countries to gather information and exchange views with government and central bank officials; they often also meet with other stakeholders, such as parliamentarians and representatives of business, the financial sector, labor unions, and civil society, to help evaluate the country's economic policies and direction. Upon its return to headquarters, the team of economists submits a report to the IMF's Executive Board for discussion, and the Board's views are subsequently transmitted to the country's authorities. Most of the reports are published on the IMF's website.

31 See "IMF Executive Board Holds Board Seminar on Fiscal Risks—Sources, Disclosure, and Management," PIN 08/73, available on the IMF's website at www.imf.org/external/np/sec/pn/2008/pn0873.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm.

32 See "IMF Executive Board Concludes 2008 Discussions on Common Policies of WAEMU Countries," PIN 08/63; "IMF Executive Board Concludes 2008 Article IV Consultation on Euro Area Policies," PIN 08/98; and "IMF Executive Board Discusses Paper on GCC Monetary Union: Choice of Exchange Rate Regime," PIN 08/144, all available on the IMF's website at www.imf.org/external/np/sec/pn/2008/pn0863.htm, www.imf.org/external/np/sec/pn/2008/pn0898.htm, and www.imf.org/external/np/sec/pn/2008/pn08144.htm, respectively, or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm. The Board also discussed common policies of CEMAC countries in August 2008.

33 The REOs are available via the REO web page on the IMF's website, available at www.imf.org/external/pubs/ft/reo/reorepts.aspx. Materials related to the REOs published in FY2009 can also be found on the IMF's website.

CHAPTER 4

34 The IEO report is available on the IMF's website at www.ieo-imf.org/eval/complete/eval_05212008.html or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm. See also the IEO's press release announcing the report's release, "IEO Calls for Strengthening of Governance at IMF," IEO Press Release 08/02, available on the IMF's website at www.ieo-imf.org/eval/complete/eval_05212008.html.

35 See "IMF Executive Board Discusses Working Group Report Following IEO Evaluation of Fund Corporate Governance," PIN 08/134, available on the IMF's website at www.imf.org/external/np/sec/pn/2008/pn08134.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm. The working group's report is also available via the Annual Report web page or on the IMF's website at www.imf.org/external/np/pp/eng/2008/073108.pdf.

36 The committee's report, commonly referred to as the "Manuel Report," is available on the IMF's website at www.imf.org/external/np/omd/2009/govref/032409.pdf or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm.

37 See "IMF Executive Board Concludes Discussion on the Role of the Fund in Low-Income Countries," PIN 08/125, available on the IMF's website at www.imf.org/external/np/sec/pn/2008/pn08125.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm.

38 See "IMF Executive Board Discusses Reforms of Lending Instruments for Low-Income Countries," PIN 09/38, available on the IMF's website at www.imf.org/external/np/sec/pn/2009/pn0938.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm. The Board discussion was based on a staff report, "The Fund's Facilities and Financing Framework for Low-Income Countries," available on the IMF's website at www.imf.org/external/np/pp/eng/2009/022509.pdf.

39 See "IMF Executive Board Discusses Changing Patterns in Low-Income Country Financing and Implications for Fund Policies on External Financing and Debt," PIN 09/39, available on the IMF's website at www.imf.org/external/np/sec/pn/2009/pn0939.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm.

40 See "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation," available on the IMF's website at www.imf.org/external/pp/longres.aspx?id=4278.

41 See "IMF Executive Board Discusses Reforms to Enhance the Impact of Fund Technical Assistance," PIN 08/58, available on the IMF's website at www.imf.org/external/np/sec/pn/2008/pn0858.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm.

42 See "IMF Executive Board Discusses the Policy for Country Contributions for Capacity Building," PIN 08/129, available on the IMF's website at www.imf.org/external/np/sec/pn/2008/pn08129.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm.

43 The country contributions will be 10 percent of cost for low-income countries, 30 percent for lower-middle-income countries, 50 percent for upper-middle-income countries, and 100 percent for high-income countries. Numerous specific types of TA are exempt from charges: (1) assessments under the Financial Sector Assessment Program or Reports on the Observance of Standards and Codes (ROSCs), (2) donor-financed TA, (3) TA to program countries, (4) TA interventions falling under a de minimis threshold, (5) regional TA seminars, workshops, and conferences, and (6) cross-participation of Fund staff in other international organizations' TA missions.

44 See "IMF Executive Directors Hold Seminar on Training as Part of Capacity Building," PIN 08/66, available on the IMF's website at www.imf.org/external/np/sec/pn/2008/pn0866.htm or via the Annual Report web page at www.imf.org/external/np/sec/pn/2008/pn0866.htm.

CHAPTER 5

45 For an explanation of the SDR and related issues, see "Special Drawing Rights (SDRs)—A Fact Sheet," available on the IMF's website at www.imf.org/external/np/exr/facts/sdr.htm.

46 *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 (and also the new Flexible Credit Line). Access to IMF resources outside an arrangement is rare and expected to remain so.

47 In early May 2009, the Executive Board approved a targeted lifting of the suspension of technical assistance to Zimbabwe.

48 For more information on the new income model, see "Income, Charges, Remuneration, and Burden Sharing" earlier in the chapter

49 See "Statement by the Managing Director on Strategic Directions in the Medium-Term Budget," available on the IMF's website at www.imf.org/external/np/pp/eng/2008/041208.pdf.

50 See "Outcome of the FY2009 Downsizing" later in this chapter.

51 The Executive Board also authorized the carry-forward of up to $30 million in unused resources from the FY2008 administrative budget to the restructuring budget. Based on latest available data as of the end of the financial year, total restructuring expenditures were projected to remain within the Board-authorized restructuring budget.

52 A supplemental allowance of $79,120 is paid to cover expenses.

53 See "IMF Executive Board Discusses Working Group Report Following IEO Evaluation of Fund Corporate Governance," PIN 08/134, available on the IMF's website at www.imf.org/external/np/sec/pn/2008/pn08134.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm.

54 See "IMF Executive Board Discusses Implementation Plan Following IEO Evaluation of Structural Conditionality in IMF-Supported Programs," PIN/08/52, available on the IMF's website at www.imf.org/external/np/sec/pn/2008/pn0852.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm.

55 See "IMF Concludes Discussion of the Periodic Monitoring Report on the Status of Implementation Plans in Response to Board-Endorsed IEO Recommendations," PIN/08/150, available, along with the PMR itself, on the IMF's website at www.imf.org/external/np/sec/pn/2008/pn08150.htm or via the Annual Report web page at www.imf.org/external/pubs/ft/ar/2009/eng/index.htm.

56 See "Selected Decisions and Selected Documents of the IMF, Thirtieth Issue—Transparency and Fund Policies—Publication Policies," available on the IMF's website at www.imf.org/external/pubs/ft/sd/index.asp?decision=13564-(05/85).

57 See "Key Trends in Implementation of the Fund's Transparency Policy," available on the IMF website at www.imf.org/external/np/pp/eng/2009/022309.pdf.

58 See www.imf.org/external/np/exr/cs/eng/index.htm.

Acronyms and Abbreviations

ACRM	Advisory Committee on Risk Management
AFRITAC	Africa Technical Assistance Center
AML/CFT	anti-money laundering/combating the financing of terrorism
CAM	Committee on Executive Board Administrative Matters
CAPTAC-DR	Dominican Republic Technical Assistance Center
CEMAC	Central African Economic and Monetary Community
CIS	Commonwealth of Independent States
CSO	civil society organization
DQAF	Data Quality Assessment Framework
EAC	External Audit Committee
EC	European Commission
ECB	European Central Bank
ECCU	Eastern Caribbean Currency Union
ECOWAS	Economic Community of the West African States
EMU	European Monetary Union
ENDA	Emergency Natural Disaster Assistance
EPCA	Emergency Post-Conflict Assistance
ESF	Exogenous Shocks Facility
FCL	Flexible Credit Line
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FY	financial year
G-20	Group of Twenty
GCC	Gulf Cooperation Council
GDDS	General Data Dissemination System
GFSR	*Global Financial Stability Report*
GRA	General Resource Account
HIPC	Heavily Indebted Poor Countries
IDA	International Development Agency
IEO	Independent Evaluation Office
IMFC	International Monetary and Financial Committee
JSAN	Joint Staff Advisory Note
LIC	low-income country
MDRI	Multilateral Debt Relief Initiative
MTB	medium-term administrative budget
OECD	Organization for Economic Cooperation and Development
OED	Office of Executive Director
OFC	offshore financial center
OIA	Office of Internal Audit and Inspection
PMR	Periodic Monitoring Report
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Strategy Reduction Paper
PSI	Policy Support Instrument
REO	*Regional Economic Outlook*
RTAC	regional technical assistance center
SBA	Stand-By Arrangement
SCA-1	Special Contingent Account
SDDS	Special Data Dissemination Standard
SDR	Special Drawing Right
SLF	Short-Term Liquidity Facility
SWF	sovereign wealth fund
TA	technical assistance
TTF	topical trust fund
WAEMU	West African Economic and Monetary Union
WEO	*World Economic Outlook*

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