3 WORKING TO SUPPORT A DURABLE GLOBAL RECOVERY

3 WORKING TO SUPPORT A DURABLE GLOBAL RECOVERY

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. The IMF played a leading role in helping its member countries deal with the immediate challenges posed by the crisis and begin to shape a new, stronger global financial system.

In FY2010, the Fund moved to strengthen the global financial safety net, expanding its lending resources and approving a general allocation of SDRs to infuse much-needed liquidity into the global economy. Its lending commitments reached a record level of about US$175 billion, including a sharp increase in concessional lending to low-income nations. It also revamped and expanded its financing facilities to ensure they were as responsive as possible to member needs in the crisis and thereafter. Mindful of the particular burden the crisis placed on low-income countries and its potential for undoing the progress made toward achievement of the Millennium Development Goals, the Fund took steps to increase its concessional lending capacity and overhauled the framework through which it conducted such lending, including the criteria for qualifying for it (see Boxes 4.2 and 4.4). It sharpened its monitoring of the global economy, assessing regularly the actions taken and those still required to restore macroeconomic and financial stability, as well as its policy advice, to make it more responsive to issues raised by the crisis. It also refocused its surveillance activities, with an eye toward enhancing their effectiveness, candor, independence, and evenhandedness.

While focusing on what was necessary to respond to the crisis and mitigate its effects on its members, the IMF also began a thorough, intensive assessment of what would need to be done after the crisis eventually abated, including a reassessment of its role in the global economy and in preventing future crises before they occur. An early warning exercise, pursued jointly with the FSB, was developed and refined, and efforts were made to incorporate greater cross-country analysis and financial sector monitoring in surveillance activities. Intensive technical assistance was also provided in a number of areas critical to crisis response and recovery, and the Fund took steps to strengthen information availability by identifying and addressing significant data gaps revealed by the crisis.

FINANCIAL SUPPORT TO FOSTER RECOVERY

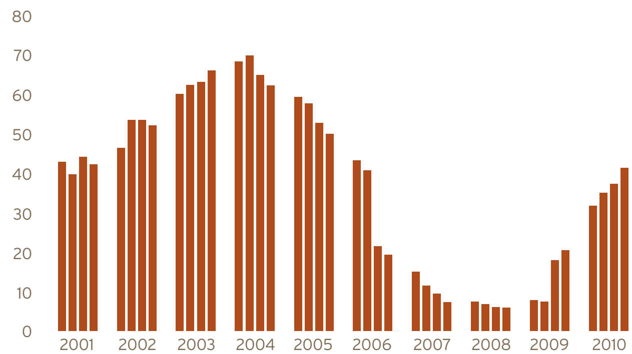
There was early recognition that the IMF's resources for financing would need to expand considerably to ensure that the institution could adequately meet potential needs of its member countries. As part of a broader plan, agreed upon at the G-20 summit in London in April 2009 and endorsed by the IMFC, to tackle the global financial and economic crisis, it was agreed that the IMF's lending resources would be boosted to US$750 billion. The augmentation would be accomplished through immediate financing from members of US$250 billion that would subsequently be incorporated into an expanded and more flexible NAB that would be increased by up to US$500 billion. Through bilateral loan and note purchase agreements with various member countries, the increase in immediate resources has been achieved. Meanwhile, the Executive Board approved, in April 2010, an expansion of the NAB (see "Ensuring Adequate Resources for the IMF's Work" in Chapter 4). Supplementary resources pledged under the proposed expanded NAB amount to about SDR 367.5 billion (about US$550 billion at the end-April 2010 SDR/U.S. dollar exchange rate), thus exceeding the targeted US$500 billion increase by a sizable margin. The Fund's capacity to provide concessional financing to low-income countries has also been doubled, with potential excess profits from gold sales envisaged for this purpose.

Nonconcessional financing

In FY2010, the Fund's Executive Board approved 14 arrangements, for a total of SDR 72.2 billion. The majority of these commitments (SDR 52.2 billion) were linked to Flexible Credit Lines for Mexico, Poland, and Colombia. Two arrangements were on Extended Fund Facility terms (Seychelles and Moldova),[5] two involved Stand-By Arrangements with exceptional access (Romania and Sri Lanka), and one was a precautionary arrangement within the normal access limits (El Salvador). Augmentation of previously approved arrangements raised the total committed in FY2010 to SDR 77.6 billion. In total, by end-April 2010, purchases from the General Resources Account (GRA) reached SDR 21.1 billion, and repurchases amounted to SDR 275.0 million. An SDR 26.4 billion (€30 billion) Stand-By Arrangement for Greece, in response to the economic crisis in that country that arose late in FY2010 (see Box 3.1), was approved early in the new financial year and thus is not included in the statistics for FY2010 financing.

Figure 3.1

Regular loans outstanding, FY2001–10
(In billions of SDRs)



Source: IMF Finance Department.

Table 3.1 provides general information about the IMF's financing facilities, and Table 3.2 and Figure 3.1 detail the arrangements approved during the year, with Figure 3.2 offering information on loans outstanding over the last 10 years.

Support for emerging markets

Early in the global economic crisis, the IMF began the process of reforming how it lends money to countries that find themselves short of foreign currency liquidity, with the goal of creating different kinds of loans to meet the very different needs of its 187 member countries. The Flexible Credit Line, introduced in FY2009, was designed to meet the increased demand for crisis prevention and crisis mitigation financing from countries with very robust policy frameworks and strong track records in economic performance. An FCL assures a qualified country that it has large and up-front access to IMF resources with no hard cap and no ex post conditionality. Countries with FCL arrangements have flexibility to treat the credit line as precautionary or draw on it at any time during the arrangement period. Qualifying members may also request successor arrangements under the FCL. Should a country decide to draw on the credit line, repurchases take place over a 3¼- to 5-year period. The cost of borrowing under the FCL is the same as that under the Fund's traditional Stand-By Arrangements and varies with the scale and duration of lending.[6] (See Table 3.1 for information on repayment terms—rates of charge and length of loan term—in IMF programs.)

Table 3.1

IMF financing 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 1-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 or PRGT arrangement.	
FACILITIES FOR LOW-INCOME MEMBERS UNDER THE POVERTY REDUCTION AND GROWTH TRUST			
Extended Credit Facility (ECF) (2010)[5]	Longer-term assistance for deep-seated balance of payments difficulties of structural nature; aims at sustained poverty-reducing growth.	Adopt 3-year ECF arrangements. ECF-supported programs are based on a Poverty Reduction Strategy Paper (PRSP) prepared by the country in a participatory process and integrating macroeconomic, structural, and poverty reduction policies.	Semiannual (or occasionally quarterly) disbursements contingent on observance of performance criteria and reviews.
Standby Credit Facility (SCF) (2010)	"Stand-By Arrangement–like" to address short-term balance of payment and precautionary needs.	Adopt 12–24-month SCF arrangements. Replaces a high-access component of the Exogenous Shocks Facility (ESF) and provides support under a wide range of circumstances.	
Rapid Credit Facility (RCF) (2010)	Rapid assistance for urgent balance of payment needs arising from an exogenous shock, natural disaster in cases where an upper-credit-tranche-quality program is not needed or feasible.	No review-based program necessary or ex post conditionality. Replaced the Rapid Access Component (RAC) of the ESF and a subsidized component of Emergency Natural Disaster Assistance/Emergency Post-Conflict Assistance.	Usually in a single disbursement.

1 Except for the PRGT, the IMF's lending is financed from the capital subscribed by member countries; each country is assigned a *quota* that represents its financial commitment. A member provides a portion of its quota in foreign currencies acceptable to the IMF—or SDRs (see Box 3.2)—and the remainder in its own currency. An IMF loan is disbursed or drawn by the borrower's *purchasing* foreign currency assets from the IMF with its own currency. Repayment of the loan is achieved by the borrower's *repurchasing* its currency from the IMF with foreign currency. ECF, RCF, and SCF concessional lending is financed by a separate Poverty Reduction and Growth 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; additional 100 basis points when outstanding credit remains 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; additional 100 basis points when outstanding credit remains 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; additional 100 basis points when outstanding credit remains 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
Annual: 100% of quota; Cumulative: 300% of quota.	0% (1/7/2010–end-2011)	5½–10	Semiannual
Annual: 100% of quota; Cumulative: 300% of quota.	0% (1/7/2010–end-2011)	4–8	Semiannual
Annual: 25% (up to 50% of quota); Cumulative: 75% (up to 100% of quota).	0% (1/7/2010–end-2011)	5½–10	Outright disbursement (up to two disbursements during any 12-month period).

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 Surcharge introduced in November 2000. A new system of surcharges took effect on August 1, 2009, replacing the previous schedule: 100 basis points above the basic rate of charge on amounts above 200 percent of quota, and 200 basis points surcharge on amounts above 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 between the new and the old system of surcharges.

5 ECF previously known as Poverty Reduction and Growth Facility.

Box 3.1

IMF support for Greece

In May 2010, the Executive Board approved a three-year SDR 26.4 billion (€30 billion) Stand-By Arrangement for Greece in support of its economic adjustment and transformation program.[1] The program made SDR 4.8 billion (about €5.5 billion) immediately available to Greece from the IMF as part of joint financing with the European Union, for a combined €20.0 billion in immediate financial support. Total IMF financing in 2010 will amount to about €10 billion and will be partnered with about €30.0 billion committed by the European Union. The Stand-By Arrangement, which is part of a cooperative package of financing with the European Union amounting to €110 billion (about US$145 billion) over three years, entails exceptional access to IMF resources, amounting to more than 3,200 percent of Greece's quota, and was approved under the Fund's fast-track emergency financing mechanism procedures.[2]

To address the economic crisis facing the nation, the Greek government designed an ambitious multiyear program—with substantial up-front efforts resting on twin pillars of correcting Greece's large fiscal imbalances and making the economy more competitive—that is expected, over time, to restore growth and jobs. Exceptional financial assistance from the international community will support the authorities' efforts by providing sufficient resources to allow time for building a track record of policy implementation that will restore market confidence, foster growth, and reduce Greece's fiscal imbalances.

The IMF has also said that it stands ready to support other European member countries' adjustment and recovery programs through the design and monitoring of economic measures, as well as through financial assistance, when requested. This assistance would be provided in conjunction with the new European Stabilization Mechanism established by euro area member states. IMF financial contributions would be on a country-by-country basis, through the whole range of instruments at the institution's disposal. Financial assistance would be expected to be broadly in the proportion of other recent European arrangements.

1 See Press Release 10-187, "IMF Executive Board Approves €30 Billion Stand-By Arrangement for Greece" (www.imf.org/external/np/sec/pr/2010/pr10187.htm).

2 The IMF's emergency financing mechanism enables rapid approval of financing for IMF member countries in rare circumstances that represent or threaten to give rise to a crisis in a member's external accounts requiring an immediate response from the Fund. See Box 3.1, "The IMF's Emergency Financing Mechanism," in the IMF's 2009 Annual Report (www.imf.org/external/pubs/ft/ar/2009/eng/).

Mexico was the first country approved for an FCL arrangement, late in FY2009; a six-month review in October 2009 reaffirmed the country's qualification for the credit line, and a request for a one-year successor arrangement was approved by the Executive Board in March 2010.[7] Early in FY2010, Poland's and Colombia's requests for FCL arrangements were also approved; six-month reviews for both countries in the fall of 2009 reaffirmed their qualifications for the arrangements as well.[8] In the first few months of FY2011, the Board approved Colombia's and Poland's requests for one-year successor FCL arrangements. None of the countries approved for an FCL arrangement has so far drawn on FCL resources, and authorities in all have indicated their intention to treat the lines as precautionary.

An IMF staff report released in late September 2009 undertook an initial review of IMF support of emerging markets during the crisis.[9] The report, assessing IMF-supported programs in 15 countries,[10] analyzed why the typical economic and financial effects of past crises—including currency overshooting, sharp current account contractions, and systemic banking crises—were largely avoided in the most recent one. Key factors identified included rapid provision of large-scale and front-loaded IMF financing channeled to sectors facing the tightest financing constraints; accommodative macroeconomic policies; emphasis on protecting the financial sector from liquidity squeezes; more-focused conditionality; and stronger country ownership. The study noted that outcomes and policies in program countries were broadly similar to those in nonprogram emerging market countries, once preexisting vulnerabilities, such as current account deficits and credit booms, were controlled for.

Emergency financing

Since 1962, the IMF has provided emergency assistance from the General Resources Account to member countries afflicted by natural disasters such as floods, earthquakes, hurricanes, or droughts. In 1995, the IMF's policy on emergency assistance was expanded to cover countries in post-conflict situations. Both types of emergency financing have been offered in recent years to eligible low-income countries at a concessional rate.

Table 3.2

Arrangements under main facilities approved in FY2010 (In millions of SDRs)

Member	Type of arrangement	Effective date	Amount approved
New arrangements			
Angola	27-month Stand-By	November 23, 2009	858.9
Bosnia	36-month Stand-By	July 8, 2009	1,014.6
Colombia	12-month Flexible Credit Line	May 11, 2009	6,966.0
Dominican Republic	28-month Stand-By	November 9, 2009	1,094.5
El Salvador	36-month Stand-By	March 17, 2010	513.9
Iraq	24-month Stand-By	February 24, 2010	2,376.8
Jamaica	27-month Stand-By	February 4, 2010	820.5
Maldives	36-month Stand-By	December 4, 2009	49.2
Mexico	12-month Flexible Credit Line	March 25, 2010	31,528.0
Moldova	36-month Extended Fund Facility	January 29, 2010	184.8
Poland	12-month Flexible Credit Line	May 6, 2009	13,690.0
Romania	24-month Stand-By	May 4, 2009	11,443.0
Seychelles	36-month Extended Fund Facility	December 23, 2009	19.8
Sri Lanka	20-month Stand-By	July 24, 2009	1,653.6
Subtotal			**72,213.6**
Augmentations of arrangements[1]			
Armenia	28-month Stand-By	June 22, 2009	165.6
Belarus	15-month Stand-By	June 29, 2009	651.4
Georgia	33-month Stand-By	August 6, 2009	270.0
Pakistan	25-month-and-one-week Stand-By	August 7, 2009	2,067.4
Serbia, Republic of	27-month Stand-By	May 15, 2009	2,268.3
Subtotal			**5,422.7**
Total			**77,636.3**

Source: IMF Finance Department.
1 For augmentation only the amount of the increase is shown.

A notable instance of IMF emergency assistance in FY2010 was US$114 million provided to Haiti shortly after the devastating earthquake that struck the country in January 2010.[11] Web Box 3.1 provides additional information, including statistics on IMF emergency financing provided during the year.

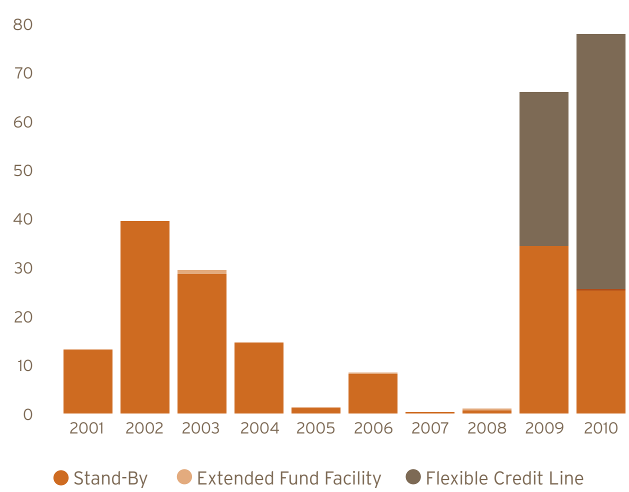
Support for low-income countries

Concessional financing

The Fund's far-reaching reforms of its concessional lending facilities, discussed in "Enhancing IMF Financing" in Chapter 4, coincided with a sharp increase in loan commitments, to SDR 2.2 billion, in FY2010. Total concessional loans outstanding of 63 low-income members amounted to SDR 5.1 billion at April 30, 2010.[12] Table 3.3 provides detailed information regarding new arrangements and augmentation of access under the Fund's concessional financing facilities. Figure 3.3 depicts amounts outstanding on concessional loans over the last decade.

Figure 3.2

Arrangements approved during financial years ended April 30, 2001–10 (In billions of SDRs)

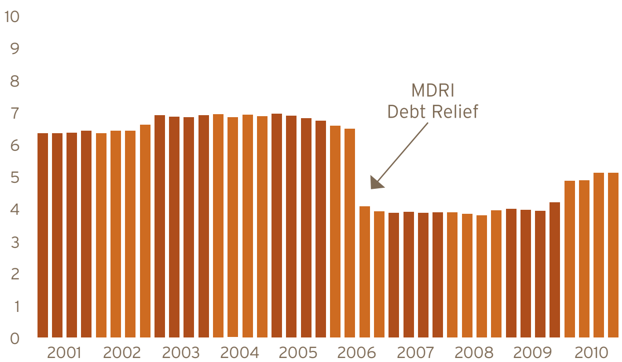


Source: IMF Finance Department.

Figure 3.3

Concessional loans outstanding, FY2001–10

(In billions of SDRs)



Source: IMF Finance Department.

Additional information on IMF efforts to boost financing for low-income countries—including from other sources—is provided in Web Box 3.2.

Beyond its efforts in the area of financing, the IMF closely engages low-income countries in its extensive outreach work; see "Communications and Outreach" in Chapter 5.

Debt relief initiatives

The Joint IMF-World Bank comprehensive approach to debt reduction is designed to ensure that no low-income country faces a debt burden it cannot manage; it comprises two initiatives—the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI)—intended to reduce to sustainable levels the external debt burdens of the most heavily indebted low-income countries. Additional information about these initiatives, including assistance provided in FY2010, is available in Web Box 3.3.

Regular joint Bank-Fund reports on the status of implementation keep the Executive Boards of the two organizations up to date on progress in regard to the two initiatives. The fifth such report was published in September 2009.[13]

SDR allocations

The IMF's Executive Board in July 2009 backed a general allocation of about SDR 161.2 billion, equivalent to US$250 billion, to provide liquidity to the global economic system by supplementing the foreign exchange reserves of the Fund's member countries.[14] (See Chapter 4 for more on quotas at the IMF and Box 3.2 for an explanation of the IMF's Special Drawing Rights.)

Table 3.3

Arrangements approved and augmented under the Poverty Reduction and Growth Trust in FY2010 (In millions of SDRs)

Member	Effective date	Amount approved
New three-year Extended Credit Facility[1] arrangements		
Comoros	September 21, 2009	13.6
Congo, Dem. Rep. of	December 11, 2009	346.5
Ghana	July 15, 2009	387.5
Grenada	April 18, 2010	8.8
Malawi	February 19, 2010	52.1
Mauritania	March 15, 2010	77.3
Moldova	January 29, 2010	184.8
Subtotal		**1,070.4**
Augmentations of Extended Credit Facility arrangements[2]		
Benin	June 24, 2009	9.3
Burkina Faso	December 14, 2009	33.1
Central African Rep.	June 29, 2009	25.1
The Gambia	February 19, 2010	4.7
Grenada	June 3, 2009	4.4
Haiti	January 27, 2010	65.5
Sierra Leone	June 17, 2009	10.4
Zambia	May 1, 2009	171.2
Subtotal		**323.6**
New Exogenous Shocks Facility arrangements		
Ethiopia	August 26, 2009	153.8
Maldives	December 4, 2009	8.2
Mozambique	June 30, 2009	113.6
Tanzania	May 29, 2009	218.8
Subtotal		**494.3**
Augmentations of Exogenous Shocks Facility arrangements[2]		
Senegal	June 19, 2009	72.8
Disbursements under Exogenous Shocks Facility rapid-access component		
Cameroon	July 2, 2009	92.850
Dominica	July 10, 2009	3.280
Kenya	May 29, 2009	135.700
Samoa	December 7, 2009	5.800
St. Lucia	July 27, 2009	6.890
St. Vincent and Grenadines	May 15, 2009	3.735
Subtotal		**248.3**
Total		**2,209.4**

1 Previously Poverty Reduction and Growth Facility.
2 For augmentation only the amount of the increase is shown.

Box 3.2

The IMF's Special Drawing Rights

The Special Drawing Right is an international reserve asset created by the IMF in 1969 to supplement its member countries' official reserves.[1] In addition to its role as a supplementary reserve asset, the SDR serves as the unit of account of the IMF and some other international organizations. It can be held and used by member countries, the IMF, and certain designated official entities referred to as "prescribed holders"—but it cannot be held, for example, by private entities or individuals.

The SDR's value is currently based on a basket of four key international currencies (the euro, Japanese yen, pound sterling, and U.S. dollar). The valuation is reviewed every five years (most recently in 2005, with the next review scheduled for late 2010) by the Executive Board. The U.S.-dollar value of the SDR is posted daily on the IMF's website. It is calculated as the sum of specific amounts of the four component currencies valued in U.S. dollars, on the basis of exchange rates quoted at noon each day in the London market.

Neither a currency nor a claim on the IMF, the SDR is a potential claim on the freely usable currencies of IMF members, with the IMF acting as an intermediary between members and prescribed holders to ensure that SDRs can be exchanged for these currencies. IMF members often need to buy SDRs to discharge obligations to the IMF, or they may wish to sell SDRs to adjust the composition of their reserves. For more than two decades, the SDR market has functioned through voluntary trading arrangements, under which a number of members and one prescribed holder have volunteered to buy or sell SDRs within limits defined by their respective arrangements. Following the 2009 SDR allocations (see chapter text), the number and size of the voluntary arrangements was expanded to ensure continued liquidity of the voluntary SDR market. In the event that there is insufficient capacity under the voluntary trading arrangements, the Fund can designate members with sufficiently strong external positions to buy SDRs, up to a certain amount, using freely usable currencies, from members with weak external positions. This arrangement serves as a backstop to guarantee the SDR's liquidity and reserve asset character.

Under its Articles of Agreement, the IMF may allocate SDRs to its members that are participants in the SDR Department (currently all members), providing each member with a costless asset. If a member's SDR holdings rise above its allocation, it earns interest on the excess; conversely, if it holds fewer SDRs than allocated, it pays interest on the shortfall. General allocations must be based on a long-term global need to supplement existing reserve assets. Decisions on general allocations have been made three times. The first allocation, for a total amount of SDR 9.3 billion, was distributed in 1970–72 in yearly installments. The second, for SDR 12.1 billion, was distributed in 1979–81, also in yearly installments. The third general allocation, for SDR 161.2 billion, was approved and took place in August 2009 (see chapter text). A special one-time allocation of SDRs was approved by the IMF's Board of Governors in September 1997 through the proposed Fourth Amendment of the Articles of Agreement, with the intent of enabling all IMF members to participate in the SDR system on an equitable basis and correct for the fact that countries that joined the Fund after 1981—more than one-fifth of the current IMF membership—had never received an SDR allocation. The special SDR allocation was implemented in September 2009, following acceptance of the Fourth Amendment by the required number of members representing a required threshold of the Fund's voting power (see chapter text).

With the general and special SDR allocations that took effect in August and September 2009, respectively, the amount of SDRs allocated increased from about SDR 21.4 billion to about SDR 204.1 billion (equivalent to about US$308 billion as of end-April 2010).

The SDR interest rate, determined weekly based on a weighted average of representative interest rates on short-term debt in the money markets of the SDR basket currencies, provides the basis for calculating the interest charged to members on regular (i.e., nonconcessional) IMF financing, as well as the interest paid and charged to members on their SDR holdings and charged on their SDR allocations, and the interest paid to members on a portion of their quota subscriptions.

1 For further information on SDRs, see "Factsheet: Special Drawing Rights" (www.imf.org/external/np/exr/facts/sdr.htm).

The general allocation took place in late August, after approval by the Board of Governors earlier that month.[15] It was made to members in proportion to their existing quotas in the Fund and simultaneously increased each member's SDR holdings and cumulative SDR allocations by approximately 74 percent of its quota.

Nearly US$100 billion of the general allocation went to emerging markets and low-income countries, with the latter group receiving more than US$18 billion. The allocation was particularly important for these countries hard hit by the global economic crisis. More broadly, the allocation boosted confidence in the ability of Fund members and the international monetary system to cope with the unprecedented crisis.

In supporting the proposal for the general SDR allocation, the Executive Board stressed that it should not weaken the pursuit of prudent macroeconomic policies and should not substitute for a Fund-supported program or postpone needed policy adjustments.

Separately, a special allocation of SDR 21.5 billion, equivalent to about US$34 billion, took place in early September 2009. This special allocation was undertaken pursuant to the Fourth Amendment to the IMF's Articles of Agreement, proposed in September 1997, which became effective more than a decade later, in August 2009, after the required acceptance threshold of three-fifths of the IMF membership representing 85 percent of the total voting power was reached. The allocation was intended to make the allocation of SDRs more equitable, raising the ratios of members' cumulative SDR allocations relative to quota to a common benchmark ratio as described in the amendment, and to correct for the fact that countries that joined the Fund after 1981—more than one-fifth of the current IMF membership—had never received an SDR allocation.

The SDRs allocated to members counted, as of the date of each allocation, toward their reserve assets, acting as a low-cost liquidity buffer for low-income and emerging market countries and, over the longer term, potentially reducing the need for excessive self-insurance through reserve accumulation policies, which can contribute to global imbalances.

Members can exchange SDRs for currencies among themselves and with prescribed holders; such exchange can take place under a voluntary arrangement or under designation by the Fund (see Box 3.2). To ensure continued liquidity of the voluntary SDR market following the 2009 SDR allocations, the number of voluntary SDR trading arrangements in place was more than doubled to 31, and the capacity of the arrangements was increased more than twenty-fold to about SDR 68 billion. This expansion reflects a substantial broadening in the number, regional representation, and range of countries with arrangements in place, which now include a number of important emerging market economies.

As expected, the volume of SDR transactions increased in the months immediately following the allocations, peaking in November 2009. However, the total volume of SDR sales from the time of the allocations to the end of FY2010 remained modest, at about SDR 3.1 billion, or less than 2 percent of the total amount allocated in 2009, as a vast majority of members chose to retain SDRs as part of their foreign reserves.

SURVEILLANCE

As the global crisis has made readily apparent, in today's globalized economy, the policies of one country typically affect many other countries, and international cooperation is essential. The IMF, with its near-universal membership, facilitates this cooperation through oversight of the international monetary system and monitoring of the economic and financial policies of its member countries—activities referred to collectively as surveillance, which the IMF pursues as part of its mandate.[16] During the surveillance process, which takes place at the global level, at the regional level, and in individual countries, the IMF highlights possible risks to domestic and external stability and advises on needed policy adjustments. In this way, it helps the international monetary system serve its essential purpose of facilitating the exchange of goods, services, and capital among countries, thereby sustaining sound economic growth.

Surveillance has played a key role in the IMF's crisis response. In accordance with the Statement of Surveillance Priorities, issued in 2008 as the crisis was brewing and modified in September 2009 at the height of the crisis (see "Revising Surveillance Priorities" later in this chapter), IMF surveillance in FY2010 emphasized the policy requirements for achieving a durable global recovery. The emphasis was on providing guidance that would assist countries in formulating policies that would facilitate their emergence from the crisis and entry into recovery.

Bilateral surveillance

The centerpiece of the IMF's bilateral (or individual-country) surveillance is the Article IV consultation (see Web Box 3.4), normally held every year with each member of the Fund in accordance with Article IV of the Fund's Articles of Agreement (its charter). A total of 120 Article IV consultations were completed during FY2010 (see Web Table 3.5).

In recent years, the IMF's bilateral surveillance has become increasingly transparent. Almost all member countries now agree to publication of a Public Information Notice concerning their Article IV consultation, which summarizes the views of IMF staff and the Executive Board.[17] In the vast majority of cases, the staff report and other accompanying analysis is also published on the IMF's website.

Financial sector issues are receiving greater coverage in the Fund's bilateral surveillance, building on the Financial Sector Assessment Program. Analytical tools for integrating financial sector and capital markets analysis into macroeconomic assessments are also

Left An employee processes cucumbers at a company near Arusha, Tanzania, that produces and develops seeds for export. **Right** Workers tend grapevines near the Moldovan capital of Chişinău.

being developed. In their advice to individual countries, IMF staff members try to leverage cross-country experiences and policy lessons, drawing on the organization's unique experience as a global financial institution. Spillovers of members' policies onto other members' economies are also receiving increasing attention in staff analysis, and the IMF has been sharpening its exchange rate assessments.

Multilateral surveillance

The IMF continuously reviews global economic trends as part of its multilateral surveillance, or oversight of the world economy.[18] Its key instruments of multilateral surveillance are three semiannual publications, the *World Economic Outlook* (WEO), the *Global Financial Stability Report* (GFSR), and the *Fiscal Monitor*. Interim updates for the WEO and GFSR are issued 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; the October 2009 WEO focused on the topic of sustaining the recovery from the global economic crisis, and the April 2010 edition examined rebalancing global growth. 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. Topics covered in FY2010 included navigating the financial challenges arising from the global recovery (October 2009) and meeting new challenges to stability and building a safer global economic system (April 2010). Coverage of the issues that arose in the WEO and GFSR in FY2010 is presented in Chapter 2.

In FY2010, the IMF launched the *Fiscal Monitor* to survey and analyze the latest public finance developments, update reporting on fiscal implications of the crisis and medium-term fiscal projections, and assess policies to put public finances on a sustainable footing. Like the WEO and GFSR, the *Fiscal Monitor* is part of the IMF's World Economic and Financial Surveys series. It is prepared in close coordination with those publications and complements the overviews presented therein.

Regional surveillance

In addition to its Article IV consultations with individual member countries, the IMF conducts formal discussions with regional institutions responsible for common policies in currency unions, in particular, 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 these discussions, which supplement its bilateral and multilateral surveillance, the IMF examines policies pursued at the union level, since union members have devolved responsibilities over two central areas of Fund surveillance—monetary and exchange rate policies—to regional institutions.[19]

Regional Economic Outlooks

The IMF also publishes, as part of its World Economic and Financial Surveys, biannual *Regional Economic Outlook* reports (REOs) that provide more-detailed analysis of economic developments and key policy issues for the five major regions of the world: Asia and the Pacific, Europe, the Middle East and Central Asia, sub-Saharan Africa, and the Western Hemisphere.

REOs bring a regionally focused analysis of developments and policy priorities that complements the Fund's global analysis in the WEO, GFSR, and *Fiscal Monitor*. Though an informal part of the IMF's surveillance activities, REOs are officially part of the IMF's outreach activities, and thus their publication is typically coordinated with extensive outreach events in several countries in each region.

In FY2010, REOs focused on assessing the policies needed in each region to overcome the global crisis and set the stage for a return to durable growth. The full text of the REOs, press releases summarizing REO findings, and transcripts and webcasts of press conferences held upon publication can be found on the IMF's website.[20]

Financial sector surveillance

The global financial crisis has highlighted the need for deeper analysis of linkages between the real economy and the financial sector, resulting in an emphasis on integrating financial sector issues into the IMF's surveillance activities. The importance of the Financial Sector Assessment Program as a tool that informs surveillance has thus increased.

The FSAP, a joint IMF and World Bank effort introduced in May 1999, aims to increase the effectiveness of efforts to promote the soundness of financial systems in member countries. Supported by experts from a range of national agencies and standard-setting bodies, work under the program seeks to (1) identify the strengths and vulnerabilities of a country's financial system, (2) determine how key sources of risk are being managed, (3) ascertain the sector's developmental and technical assistance needs, and (4) help prioritize policy responses. Individual country assessments under the FSAP address issues of relevance to IMF surveillance, including risks to macroeconomic stability stemming from the financial sector and the capacity of the sector to absorb macroeconomic shocks.[21] FSAP assessments are prioritized through modular formats, with greater focus on systemically important countries.

IMF surveillance and policy priorities in response to the crisis

Revising surveillance priorities

In September 2009, the Executive Board approved a revision of the IMF's Statement of Surveillance Priorities, adopted in October 2008, which spells out the Fund's economic and operational surveillance priorities through 2011.[22] In the revision, the statement's economic priorities were modified in response to the significant changes in the global environment in the year following the statement's issuance. The initial economic priorities had focused on resolving financial market distress, strengthening the global financial system, adjusting to sharp changes in global commodity prices, and promoting an orderly reduction of global imbalances. Though it was felt that these issues remained relevant, shifting toward the design of exit strategies and policy requirements for sustaining world growth would clearly be key challenges looking ahead. The Board therefore approved the following formulation of the Fund's economic priorities:

- Allow for an orderly unwinding of crisis-related policy interventions to ensure a sustained recovery. In particular, design exit strategies that
    - Support the economy and the financial system as needed.
    - Safeguard the room for future policy maneuver.
- Strengthen the global financial system.
- Promote a rebalancing of sources of global demand, through both macroeconomic and structural policies, so as to achieve sustained world growth while keeping global imbalances in check.

The Board left the statement's operational priorities, which were drawn from the main recommendations of the 2008 Triennial Review of Surveillance, unchanged.

A note providing guidance on the conduct of bilateral surveillance, incorporating the revised surveillance priorities, was issued to IMF staff in December 2009.

Participation in the G-20 mutual assessment process

In September 2009, G-20 leaders committed to developing a process to set out objectives for strong, sustainable, and balanced growth, formulate policies to meet these objectives, and assess progress ("mutual assessment"). The IMF was asked to assist in this process, in particular, to analyze how the G-20's respective national and regional policy frameworks fit together and to develop a forward-looking analysis of whether policies pursued by individual G-20 countries are collectively consistent with more sustainable and balanced trajectories for the global economy. The Fund was also asked to advise, if needed, on how medium-term global prospects could be enhanced through collective policy adjustments.

In December 2009, the Executive Board met to discuss the G-20 mutual assessment process and the Fund's involvement in it.[23] Executive Directors welcomed the G-20 request for the Fund to assist in its mutual assessment process and adopted a general framework for the Fund staff's involvement in this process, including the nature and scope of the Fund staff's contribution. They agreed that the G-20-led process, although separate and distinct from the Fund's surveillance activities, would complement the latter,[24] and offered an opportunity for the Fund staff to deepen its policy discussions and reinforce traction of its advice with the G-20 members. The Fund's bilateral and multilateral surveillance would, the Board noted, remain independent. Most Executive Directors concurred with the envisaged role of the Board,[25] which was intended to preserve G-20 members' ownership of the mutual assessment process. It was noted that the Board would review the Fund's role in the process about a year after this initial discussion.

In its communiqué at the IMF's Spring Meetings in April 2010,[26] the IMFC affirmed its support for the IMF's participation in the mutual assessment process, observing that it "should help guide members toward strong, sustainable, and balanced growth." A first round of the exercise was presented to the G-20 in April, with the broad assessment being that coordinated economic policy had the potential to raise global growth in a sustainable and balanced manner.

Early warning exercise

One of the lessons of the crisis has been the need for better analysis of underlying risks to the global economy, including plausible worst-case scenarios. To strengthen assessments of low-probability but high-impact risks to the global outlook and identify policy options to mitigate them, the IMF conducts a semiannual early warning exercise, jointly with the FSB, that seeks to integrate macroeconomic and financial perspectives on systemic risks, drawing on a range of quantitative tools and broad-based consultations (see Box 3.3). The exercise is part of the IMF's efforts to strengthen surveillance, especially the analysis of economic, financial, and fiscal risks, as well as cross-sectoral and cross-border spillovers. The Executive Board is kept abreast of progress and developments in regard to the exercise, and the results are discussed with the Board prior to their presentation to the IMFC at the Spring and Annual Meetings; in FY2010, these updates were provided to the Board in September 2009 and April 2010. Board members also received a technical briefing on methodologies and analytical tools employed in the early warning exercises in September 2009, and a Board seminar that same month was devoted to further steps to be taken in the exercises.

Work on financial sector levy

In September 2009, G-20 leaders tasked the IMF with preparing a report on the range of options countries had adopted, or were considering, as to how the financial sector "could make a fair and substantial contribution toward paying for any burdens associated with government interventions to repair the banking system."[27] IMF staff work on the issue, incorporating results of consultation with tax experts, academics, labor unions, civil society organizations (CSOs), and other interested stakeholders, as well as senior management meetings with senior officials of CSOs,[28] centered on two key objectives: ensuring that the financial sector pays for the direct fiscal costs that any future

Box 3.3

Joint IMF–Financial Stability Board early warning exercise

Responding to calls to improve its analysis of systemic risks, including through linkages between the financial sector and the real economy, and cross-border spillovers, the IMF began conducting its semiannual early warning exercise, a collaborative effort with the FSB, in 2009.[1] The FSB represents experts and policymakers from financial supervisory agencies and central banks in member countries, thus providing an important complement to the multilateral research and analysis at the IMF.

The early warning exercise does not attempt to predict crises; rather, it seeks to identify the vulnerabilities, and when possible the triggers, that could precipitate systemic crises, as well as risk-mitigating policies, including those that would require international cooperation. The exercise draws on a broad range of analytical work, market information, and expert opinions. These include a large empirical toolkit and market- and country-specific insights gained through the IMF's regular surveillance and crisis work, as well as consultations with market participants, academics, and country authorities. The methodology employed in the exercise was presented to the public in a seminar during the 2009 Annual Meetings.

The Fund and the FSB cooperate closely on the exercise, each bringing to bear its own perspective. The Fund tends to take a leading role on economic, macrofinancial, and sovereign risk concerns, and the FSB on financial system regulatory and supervisory issues.

The exercise is carried out in close coordination with the WEO, GFSR, and *Fiscal Monitor*, the IMF's flagship publications on global surveillance, and draws on other IMF analytical and policy work. The IMF's regular country, regional, and global surveillance activities are used to follow up on the exercise's findings and policy recommendations.

Following discussions with the IMF's Executive Board and with the FSB, the findings of the exercise are presented to the IMFC during the Spring and Annual Meetings. The findings also contribute to the discussion of low-probability but high-impact risks in Fund surveillance more generally.

1 For further information on the exercise, see "Factsheet: IMF-FSB Early Warning Exercise" (www.imf.org/external/np/exr/facts/ewe.htm).

Left Wall Street traders talk with clients while monitoring trading information, New York. **Right** An investor reacts while speaking with a broker at the Colombo Stock Exchange, Sri Lanka.

failures or crises will impose and making these events both less likely to happen and less costly when they do.

In April 2010, the IMF gave an interim report to G-20 finance ministers that focused on two options. A "financial stability contribution," linked to a credible and effective resolution mechanism, would ensure that the industry pays a reasonable amount of resolution costs before a crisis occurs; ex post charges could also be imposed, if needed, should disaster strike. Further contributions from the financial sector—for example, to pay for broader costs of a crisis—could be raised through a "financial activities tax" levied on the sum of the profits and remuneration of financial institutions and paid to general revenue. The final version of the report, building on the G-20's discussion of the interim version, was presented to G-20 leaders at the Toronto Summit in June 2010.[29]

Crisis-related issues in tax policy

In a June 2009 seminar, the Executive Board considered whether the global financial crisis offered any longer-term lessons for tax policy design.[30] Executive Directors agreed with the IMF staff's finding[31] that debt bias and other tax distortions did not trigger the financial crisis, but may have contributed to excessive leverage and other financial market problems. They considered that the Fund has a role to play in providing policy advice and technical assistance to its member countries in the area of tax policies, drawing on the expertise of other specialized institutions where possible.

Most Executive Directors felt that debt bias issues warrant attention in countries' tax reform programs. They also underscored the need for strengthened regulation of the financial and corporate sectors where broader concerns about macrofinancial stability exist.

Executive Directors observed that tax considerations have been a factor, albeit not a dominant one, behind the development of complex financial instruments and structures, but recognized that eliminating these tax-motivated transactions is likely impracticable, as it would require very fundamental tax reform. Executive Directors drew attention to the tax treatment of alternative forms of executive remuneration, noting that in some cases such treatment may have contributed to greater risk taking and short-termism.

Most Executive Directors noted that the effects of tax policies on asset prices can be substantial but also complex and hard to predict. Sound macroeconomic policy and targeted regulation were felt to be more effective than ad hoc measures in addressing the root causes of the problems.

Managing crisis-related interventions in the financial system

The Executive Board met in August 2009 to discuss crisis-related measures in the financial system and sovereign balance sheet risks.[32] While recognizing that it was still too early to withdraw the substantial support provided by governments and central banks, Executive Directors considered it appropriate to begin reflecting on how enlarged public balance sheets could be managed most effectively and to ensure orderly exits. Against this background, they noted that the management of the fiscal impact and financial risks of public interventions should be comprehensive and transparent, with an unwinding phase that sought to strike the proper balance between avoiding market disruptions and maximizing recovery values. However, they stressed that the scope, pace, and timing of such exit strategies would be highly dependent on the circumstances found in each country.

Executive Directors emphasized that, in unwinding financial sector support measures, a clear determination was needed of those aspects in which domestic and international coordination and cooperation, including with the private sector, is essential. It was observed that the Fund has a central role to play in monitoring macrofinancial risks and vulnerabilities, tracking the impact of sovereign asset and liability management policies, giving guidance on balance sheet restructuring and macroeconomic unwinding, serving as a forum, and contributing to a clearer global understanding of these complex issues.

Assessing systemic importance of financial entities

A September 2009 Board seminar examined guidelines, developed in coordination with the FSB and Bank for International Settlements, that were proposed for assessing whether a financial institution, market, or instrument is systemically important. The work by the three organizations was undertaken in response to a G-20 request for such an analysis in April 2009, and the final report was presented to the G-20 in October.[33]

Fiscal rules for sustainable public finances

In recent years, an increasing number of countries have relied on fiscal rules to guide fiscal policy, with interest in such rules likely increasing further as countries develop exit strategies to meet the fiscal challenges arising from the financial crisis. The Executive Board in December 2009 held a seminar on the topic of anchoring expectations for sustainable public finances via fiscal rules.[34]

Executive Directors concurred that the quality of fiscal policy frameworks and institutions, in particular adequate public financial management systems, is crucial for good fiscal performance and a prerequisite for the effective implementation of fiscal rules. They observed that the use of fiscal rules has generally been associated with improved fiscal performance and more successful fiscal consolidations, although causality is difficult to establish. They underscored that, to be effective, rules need to strike a balance between providing confidence that targets will be met and allowing adequate flexibility to respond appropriately to output and other shocks. They concurred that fiscal rules should be transparent and credible, with a clear link to the ultimate objective of debt sustainability.

Executive Directors agreed that the mere introduction of fiscal rules does not guarantee success, unless there are costs associated with breaking the rules. They recognized the strain that the global crisis had put on fiscal rules, noting that about a quarter of the countries with only national rules had modified them or put them into abeyance. Nonetheless, they acknowledged that in many countries the existing national frameworks were able to deal with the crisis, and they also noted that no supranational rules had been changed in response to the crisis.

Looking ahead, Executive Directors agreed that rules-based frameworks could play an important role in enhancing confidence and anchor expectations regarding fiscal sustainability, though they observed that it was essential for these frameworks to be tailored to countries' circumstances.

Exiting from crisis intervention policies

In February 2010, responding to an IMFC request to make IMF advice and views on exiting from crisis-related intervention measures more concrete, the Executive Board discussed principles for exiting from the extraordinary and unprecedented crisis intervention policies implemented by countries across the globe following the onset of the global crisis.[35] The discussion mostly focused on medium-sized and large advanced and emerging market economies, in which interventions had been more substantial.

Executive Directors agreed that exit strategies should be coherent and credible, as well as flexible, market-based, and integrated across policymaking entities. They recognized that the appropriate timing, pace, and mode of exiting from crisis-related policies would depend on the state of the economy and the health of the financial system; synchronization of unwinding among advanced and emerging market countries was felt to be, in general, neither possible nor desirable. The key challenge, it was noted, would be to map a course between unwinding such policies too early, which would jeopardize progress in securing economic recovery, and maintaining intervention for too long, which would distort private incentives and create macroeconomic risks.

Executive Directors underscored that ensuring fiscal sustainability was a key priority, making it important for consolidation to begin once there was clear evidence of a self-sustaining recovery. They saw the crisis as an opportunity to advance needed reforms, including in the areas of age-related entitlements and privatization.

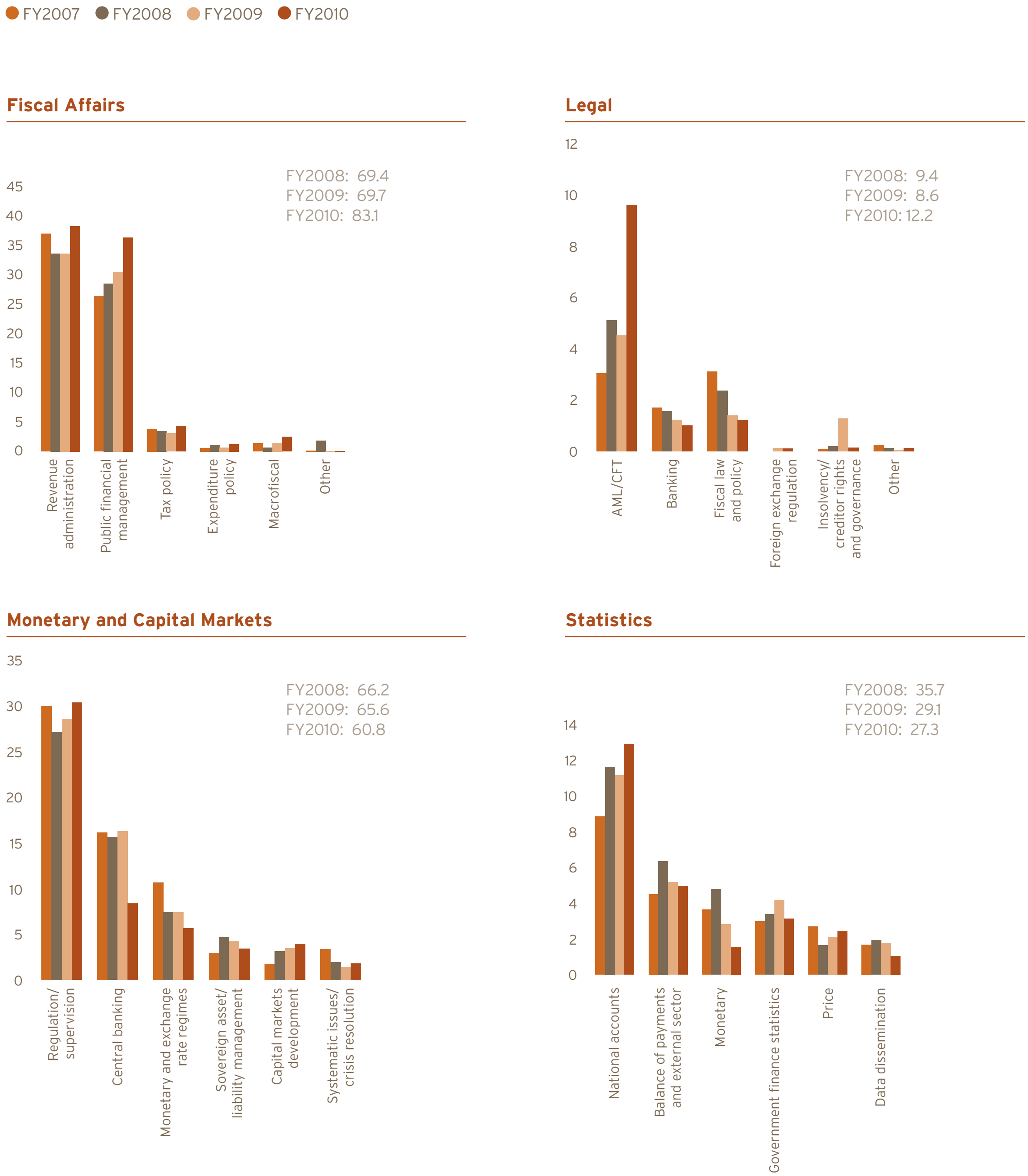
Executive Directors considered that central banks had the tools to unwind monetary crisis intervention measures and highlighted the importance of preserving central bank independence as crisis measures are unwound. They agreed that policy coordination and regular exchange of information across countries on unwinding plans and specific financial policies were desirable to prevent destabilizing spillover effects—with due attention paid to the most vulnerable group of countries—and to ensure better outcomes. They also agreed that, beyond supporting member countries in their adjustment efforts, the Fund should seek to promote international consistency by closely monitoring the exit process and its potential for spillovers as part of the Fund's bilateral and multilateral surveillance activities.

CAPACITY BUILDING

Capacity building, comprising technical assistance and training, is a core area of the IMF's work and is an essential part of the efforts

Figure 3.4

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



Source: IMF Office of Technical Assistance Management.

to ensure a sustained global recovery through its impact on policy design and implementation in many IMF member countries.

Technical assistance

In response to requests for its technical assistance (TA), the IMF helps countries in the formulation of policies and in strengthening institutional arrangements for the design and implementation of appropriate macroeconomic, financial, and structural policies. Apart from its immediate benefit to recipient countries, IMF TA also contributes to a more robust and stable global economy, by helping individual countries address institutional weaknesses and resource constraints on policy design and implementation.

The IMF provides TA in its areas of core expertise: macroeconomic policy, tax policy and revenue administration, expenditure policy and public financial management, monetary policy, the exchange rate system, financial sector sustainability, legal frameworks (governing economic activities) and statistics (see Figure 3.4). Technical assistance is provided to a broad range of the Fund's membership: more than 140 countries benefited in FY2010, including advanced economies and emerging markets. However, about 85 percent of the Fund's TA goes to low- and lower-middle-income countries (see Figure 3.5); post-conflict countries are also major beneficiaries.

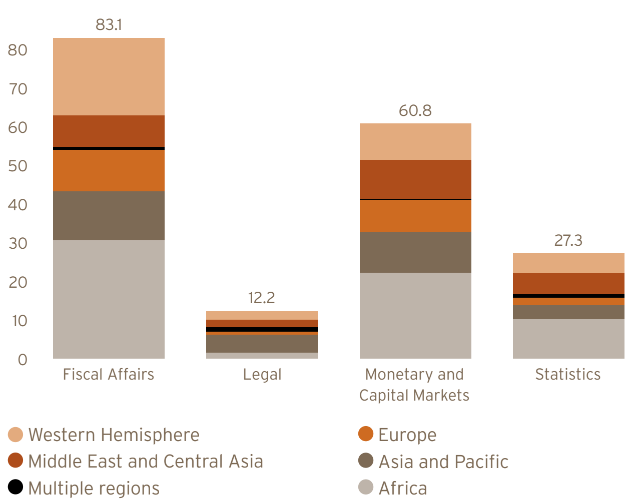
Technical assistance in response to the crisis

In FY2010, Fund technical assistance proved to be a vital instrument in helping member countries respond to the global financial crisis. Intensive TA was provided in FY2010 in a number of areas critical to crisis response and recovery; for example:

Figure 3.5

TA delivery during FY2010 by department and region

(In person-years)



Source: IMF Office of Technical Assistance Management.

- cash management, spending controls, and budget frameworks, to protect government liquidity and help operationalize credible fiscal adjustment paths (Greece, Iceland, Jamaica, Latvia, Poland, Romania);
- strengthening tax administration in response to sharp crisis-related revenue declines (Greece, Hungary, Latvia, Lithuania, Ukraine);
- emergency banking legislation, crisis-related monetary operations, and public debt management (Iceland);
- restructuring banks and strengthening deposit insurance (Hungary, Latvia, Montenegro);
- enhancing resolution frameworks for financial institutions (Latvia, Lithuania, Moldova, Ukraine);
- improving the corporate insolvency regime (Latvia, Serbia, Ukraine);
- assessing the impact of debt restructuring and protecting banks (Jamaica);
- enhancing the banking sector's crisis preparedness and contingency planning (Armenia, Dominican Republic, Nigeria, Panama); and
- assessing the quality and accuracy of balance of payments data (Kosovo).

This TA focused on preemptive support or firefighting, as needed, and emphasized three characteristics unique to IMF TA. First was the ability to respond quickly to emergency government requests—with specialized expert teams often in the field on short notice and ahead of other IMF operations. Second, the technical diagnostics and remedial recommendations were often a core input to program design. And finally, there was vital continuity between TA and program/surveillance work, with staff from IMF functional departments participating in both the TA and area department teams. The Fund's emphasis on agile and flexible response, close integration of specialized and general macroeconomic advice, and reliance on fungible in-house staff is an important element of its crisis prevention/resolution strategy and distinguishes its TA from that provided by other long-term capacity builders.

Technical assistance initiatives in FY2010

The IMF continued in FY2010 to implement its strategy to enhance the effectiveness of its technical assistance, initiated in FY2009 in accordance with reforms endorsed by the Executive Board in May 2008. This included substantially expanding partnerships with donors and implementing reforms to the TA framework. Under the strategy, TA is provided using a country-appropriate mode of delivery, such as diagnostic missions supported by visits from long- and short-term experts.

Left IMF Managing Director Dominique Strauss-Kahn and representatives of the Austrian government sign agreement to expand Joint Vienna Institute training, at IMF headquarters, Washington, D.C., April 2010. **Right** Students attend an IMF Institute "External Debt Statistics" course at IMF headquarters, Washington, D.C., July 2009.

Regional Technical Assistance Centers

Expansion of the Fund's TA delivery through its Regional Technical Assistance Centers (RTACs) is ongoing, including one new RTAC that began operations during FY2010. In May 2009, the IMF opened its Regional Technical Assistance Center for Central America, Panama, and the Dominican Republic (CAPTAC-DR), serving seven countries in the region.[36] CAPTAC-DR is supported by the European Commission, Spain, Canada, Mexico, Germany, the Central American Bank for Economic Integration, and the Inter-American Development Bank, as well as by contributions from the host country (Guatemala), the other recipient countries, and the IMF. The TA delivery program for the existing three African Technical Assistance Centers (AFRITACs) in East, West, and Central Africa was scaled up substantially.

Two additional RTACs in Africa are planned to begin operations by the end of 2010, completing full coverage of sub-Saharan Africa, and another in Central Asia should be operational by early 2011 (see Table 3.4). A major fundraising drive for the AFRITACs culminated in a successful pledging session, cohosted by the African Development Bank, in December 2009.[37] Although discussions with a number of donors are still ongoing, substantial pledges and contributions for the AFRITACs, including the new centers, were received from the United Kingdom, Switzerland, France, the African Development Bank, Australia, the Netherlands, Germany, the European Investment Bank, Finland, Kuwait, Luxembourg, Italy, and Brazil. Fundraising for the new center in Central Asia and the existing RTAC for the Middle East is also ongoing.

Topical trust funds

The idea behind the IMF's topical trust funds (TTFs) is to pool donor resources to serve member countries in specialized topics complementing the work of the RTACs. The Fund's first topical trust fund, supporting TA in the area of Anti–Money Laundering and Combating the Financing of Terrorism (AML/CFT), started operations in May 2009 (see Web Box 3.5).[38] This TTF, supported by Switzerland, Norway, Canada, Japan, Kuwait, Qatar, Saudi Arabia, the United Kingdom, Luxembourg, the Netherlands, Korea, France, and Germany, contributes to the strengthening of national AML/CFT regimes as part of current efforts to bolster the international financial architecture in support of greater financial stability and governance. Design meetings were also held with cooperation partners for the Tax Policy and Administration and Managing Natural Resource Wealth TTFs, and the fundraising drive for these TTFs also started in late FY2010.

Expanding partnerships with donors

Implementation of the IMF's TA partnership agreement with the European Commission began in FY2010, with the Commission participating in CAPTAC-DR and the Middle East Regional Technical Assistance Center. Existing partnerships with a number of donors, notably Switzerland, the United Kingdom, the Netherlands, Germany, the European Investment Bank, and Luxembourg, were also scaled up and broadened considerably. In addition, a number of newly emerging donors have become increasingly important partners in the IMF's capacity building, notably Brazil, Korea, Kuwait, Qatar, and Saudi Arabia.

Table 3.4
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	7
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	91
CENTRAL AFRITAC	Libreville, Gabon	2007	7	50
CAPTAC-DR	Guatemala City, Guatemala	2009	7	0
SOUTH AFRITAC	Port Louis, Mauritius		13	33
WEST AFRITAC 2	Accra, Ghana		6	67
CASTAC	Tashkent, Uzbekistan		7	43

Source: IMF Office of Technical Assistance Management

Implementation of TA reforms

The Fund moved forward in FY2010 in opening subaccounts under the instrument of the new framework administered account to administer external financial resources for selected Fund activities (SFA instrument), which the Executive Board approved in April 2009 to strengthen partnerships with donors. The SFA, based on a new and transparent costing model, provides much greater flexibility in a number of respects. So far, 15 subaccounts under the SFA have been established, six multilateral and nine bilateral.

Under the TA evaluation program, established by the Executive Board in 2002 to ensure that the Fund's TA continues to meet the needs of the membership and is efficient and effective, independent external evaluations were conducted during FY2010 of the work of the RTACs in the Caribbean, the Pacific, and the Middle East (see Web Box 3.6), and of TA provided under the bilateral subaccounts of Japan and of Switzerland. The Fund also reviewed its roster of TA experts—on which TA departments draw in making external expert assignments for capacity building—to improve the transparency of the recruitment process and facilitate the application process.

In December 2009, in light of the global financial and economic crisis and the resulting capacity-building needs of member countries, the IMF's management suspended implementation of the country contribution policy for training and postponed implementation of the policy for technical assistance through the end of April 2011. In 2008, the Executive Board had approved a new policy under which the IMF charges countries for the TA and training it provides to them, with fees on a graduated scale based on a country's per capita income. The IMF began charging for training under the new policy in May 2009; fees for the Fund's TA were scheduled to be implemented as of January 2010. The charging policy had been conceived as a market test of the demand for IMF technical assistance. In the event, however, the successful expansion of donor financing served as an alternative signal of strong market demand.

Training

Training for member country officials is an integral part of the IMF's capacity-building efforts. Courses, workshops, 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 (see Web Box 3.7). Most of the training is provided through a program organized by the IMF Institute (in collaboration with other departments), delivered mainly at IMF headquarters, at seven regional training centers around the world, and through distance learning.

In FY2010, the Institute program delivered 275 weeks of training courses, attended by close to 4,200 participants and providing 8,700 participant weeks of training (see Table 3.5). Following a reduction in training in FY2009, owing to the IMF's restructuring exercise, the goal in FY2010 was to begin the process of rebuilding the volume of training, while ensuring that the curriculum continued to be well adapted to the IMF's priorities and the changing needs of member countries. To this end, training on macroeconomic topics delivered by IMF Institute staff increased by more than 3 percent, with addi-

Table 3.5
IMF Institute training programs, FY2007–10

	2007	2008	2009	2010
Headquarters				
Course weeks	87	78	54	58
Participant weeks	3,182	2,813	1,974	1,992
Regional Training Centers				
Course weeks	152	172	158	163
Participant weeks	4,586	5,280	4,737	5,067
Overseas				
Course weeks	33	35	42	36
Participant weeks	983	1,071	1,211	1,012
Distance learning				
Course weeks	16	18	16	18
Participant weeks	657	675	570	646
Total				
Course weeks	288	303	270	275
Participant weeks	9,407	9,838	8,491	8,717

Source: IMF Institute.
Note: Components may not sum exactly to totals because of rounding.

tional course weeks devoted to financial sector issues (including a new in-depth course on finance for macroeconomists) and to monetary and exchange rate policy. A regional high-level seminar, "Early Warning Systems and Their Role in Surveillance," was delivered in Singapore, and another high-level seminar, "The Emerging Framework for Financial Regulation and Monetary Policy," was held at IMF headquarters during the Spring Meetings in collaboration with the Bank for International Settlements. Overall, the number of course weeks rose by less than 2 percent, as specialized courses delivered in the Institute's program by the IMF's TA departments declined further, reflecting the heavy demands facing these departments in other priority areas.

Increased donor financing is an essential part of the strategy to rebuild the volume of training. An agreement developed between Austria and the IMF in FY2010 on expansion of training at the Joint Vienna Institute substantially increases Austrian authorities' support for IMF training. Increased funding for training is also being provided as part of the expansion of the RTAC network (see "Regional Technical Assistance Centers" earlier in this chapter).

DATA AND DATA INITIATIVES

Financial crises highlight data gaps, when a lack of timely, accurate information hinders the ability of policymakers and market participants to develop effective responses. The global crisis reaffirmed that good data and good analysis are the lifeblood of effective surveillance and policy responses at both the national and international levels.

At the April 2009 Spring Meetings, the IMFC endorsed a call by the G-20 for the IMF and FSB to explore information gaps revealed by the crisis and report back with appropriate proposals for strengthening data collection. Following widespread consultation with official users of economic and financial data in G-20 countries and at other international institutions, particularly those responsible for financial stability analysis—including a two-day conference cosponsored by the two organizations at IMF headquarters in July 2009[39]—the IMF and FSB issued a report in early November 2009 that made 20 recommendations on key information gaps that needed to be filled (see Box 3.4).[40] The staffs of the two organizations con-

Box 3.4

IMF–Financial Stability Board recommendations on closing data gaps revealed by the crisis

The IMF-FSB report to the G-20 on crisis-related data issues, "The Financial Crisis and Information Gaps," made 20 recommendations in regard to filling information gaps revealed by the global financial crisis. Four of the report's recommendations were identified as key:

- ***Better capture of risk buildup in the financial sector,*** through strengthened international reporting of financial soundness indicators, development of measures of aggregate leverage and maturity mismatches, and improvement of coverage of risk transfer instruments;
- ***Improved data on international financial network connections,*** by means of enhanced information on linkages of systemically important global financial institutions and strengthened data-gathering initiatives on cross-border banking flows, investment positions, and exposures;
- ***Monitoring of domestic economies' vulnerabilities to shocks,*** through strengthening of sectoral coverage of national balance sheet and flow of funds data, promotion of timely and cross-country standardized and comparable government finance statistics, and dissemination of more comparable data on real estate prices; and
- ***Improved communication of official statistics,*** which in some cases were available for addressing critical policy issues in the crisis but users were unaware of their availability.

sulted with relevant national and international bodies and the private sector on various issues, including on the costs of addressing the identified gaps, and reported back to the G-20 in May 2010 with a concrete plan and timetable for implementing each of the outstanding recommendations.

One of the recommendations that evolved from the conference and report (see Box 3.4) involved strengthening the international reporting of financial soundness indicators (FSIs). Partly in the interest of advancing this goal, in July 2009 the IMF launched a website providing public access to a database of these indicators for its member countries (see Web Box 3.8).

The conference and report were part of a number of initiatives undertaken by the IMF in the area of financial statistics in recent years, including establishment of the Inter-Agency Group on Economic and Financial Statistics (IAG). In December 2009, the IAG announced the launch of the enhanced Principal Global Indicators website, providing publicly available economic and financial data for G-20 economies (see "Enhancement of Principal Global Indicators Website" later in this chapter).

On the fiscal side, to address concerns about the need to strengthen data on government finances and render them more comparable across countries, in March 2010, the Executive Board decided to adopt a standardized presentation of fiscal data following the *Government Finance Statistics Manual 2001* (GFSM 2001). In addition, the fiscal data of the WEO now follow the GFSM 2001 format. Technical assistance and training have been provided to member countries in support of this work.

The IMF's standards for data dissemination

Data dissemination standards help enhance the availability of timely and comprehensive statistics, which contributes to the pursuit of sound macroeconomic policies.[41] The IMF has taken several important steps to enhance transparency and openness, including the establishment and strengthening of data dissemination standards to guide countries. Web Box 3.9 provides additional information on the IMF's Special Data Dissemination Standard (SDDS), a global benchmark for disseminating macroeconomic data to the public, and its General Data Dissemination System (GDDS), a framework for member countries with less-developed statistical systems to use in evaluating their needs for data improvement.

Participation in the SDDS and GDDS is voluntary. During FY2010, Serbia, Libya, Iraq, and Haiti began participating in the GDDS, bringing the total number of participants to 98.[42] Additionally, Cyprus and Malta subscribed to the SDDS in December 2009, and Jordan took the same step in January 2010, bringing the total number of SDDS participants to 67, including all 16 members of the euro area.[43]

As part of efforts to strengthen the international financial system by filling data gaps through improved dissemination, the IMF's Executive Board broadly agreed in March 2010, following extensive work by the Fund's Statistics Department,[44] to a number of steps to begin addressing data gaps in the context of the SDDS:[45]

- including, on an encouraged basis,[46] seven financial soundness indicators, to strengthen information about the financial sector and better detect system risks;
- moving (with a four-year transition period) to quarterly reporting (from annual) of international investment position data, with a maximum lag of one quarter (quarterly timeliness), to enable better understanding of cross-border linkages;
- adding a simplified table on countries' external debt by remaining maturity, on an encouraged basis and with quarterly timeliness, to improve monitoring of the vulnerability of domestic economies to shocks; and
- accelerating the timing of the Eighth Review of the Data Standards Initiatives to within 24 months, at least a year and a half earlier than previously anticipated.

Handbook on Securities Statistics

The Bank for International Settlements, European Central Bank, and IMF jointly released the first part of the *Handbook on Securities Statistics*, which covers debt securities issues, in early May 2009.[47] The *Handbook* is the first publication of its kind dealing exclusively with the conceptual framework for the compilation and presentation of securities statistics. The first part of the *Handbook* aims to assist national and international agencies in the production of relevant, coherent, and internationally comparable securities statistics for use in financial stability analysis and monetary policy formulation. It will gradually be extended to cover holdings of debt securities as well as issues and holdings of other types of securities.

Enhancement of Principal Global Indicators website

In December 2009, the IAG, chaired by the IMF and comprising the Bank for International Settlements, the European Central Bank, Eurostat, the Organization for Economic Cooperation and Development, the United Nations, and the World Bank, announced a major upgrade of the Principal Global Indicators website,[48] which was launched in April 2009 and is hosted by the IMF. The site, which provides economic and financial data on G-20 economies, is intended to assist in the monitoring of economic and financial developments in systemically important countries.

In response to user needs, the enhanced site presents data in a more user-friendly fashion, most notably by shifting the emphasis to cross-country comparisons of indicators, and includes a number of new features: additional cross-country tables of key indicators with more data transformations to facilitate comparative analysis; longer runs of historical data via real-time access to the underlying database; improved user interface with expandable navigation; online access to metadata; and visual display of key cross-country indicators, using the IMF's visual data display tool, Data Mapper.