INTERNATIONAL MONETARY FUND

Annual Report 1998

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182 MEMBER COUNTRIES

Purposes of the Fund

The purposes of the International Monetary Fund are:

(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.

—Article I of the Fund's Articles of Agreement

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Letter of Transmittal

July 30, 1998

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, 1998, 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, 1999 are presented in Chapter XIII. The audited financial statements for the year ended April 30, 1998 of the General Department, the SDR Department, accounts administered by the IMF, and the Staff Retirement Plan and the Supplemental Retirement Benefit Plan, together with reports of the External Audit Committee thereon, are presented in Appendix IX.

Yours sincerely,

Michel Camdessus
Chairman of the Executive Board

Left to right: Shigemitsu Sugisaki, Deputy Managing Director; Stanley Fischer, First Deputy Managing Director; Michel Camdessus, Managing Director; and Alassane D. Ouattara, Deputy Managing Director.

Managing Director and Chairman of the Executive Board
Michel Camdessus

First Deputy Managing Director
Stanley Fischer

Deputy Managing Directors
Alassane D. Ouattara   Shigemitsu Sugisaki

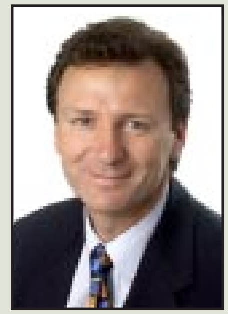
Executive Directors[1]

Karin Lissakers
Barry S. Newman

Bernd Esdar
Wolf-Dieter Donecker

Yukio Yoshimura
Hideaki Ono

Jean-Claude Milleron
Ramon Fernandez

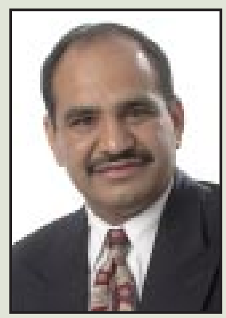


Gus O'Donnell[2]
Jon Shields

Enzo R. Grilli
John Spraos

Thomas A. Bernes
Charles X. O'Loghlin

Kai Aaen Hansen
Olli-Pekka Lehmussaari



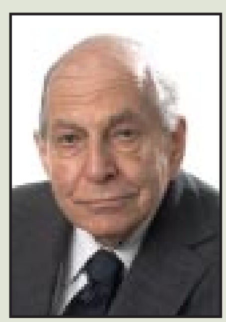
Abdulrahman A. Al-Tuwaijri
Sulaiman M. Al-Turki

Dinah Z. Guti
José Pedro de Morais, Jr.

Aleksei V. Mozhin
Andrei Vernikov

Roberto F. Cippa
Wieslaw Szczuka

Abbas Mirakhor
Mohammed Daïri



Alexandre Kafka
Hamid O'Brien

M. R. Sivaraman
A.G. Karunasena

[1] *Alternate Executive Directors are indicated in italics.*
[2] *Effective August 1, 1998, Stephen Pickford replaced Gus O'Donnell.*
[3] *Effective July 1, 1998, ZHANG Fengming replaced HAN Mingzhi.*

Willy Kiekens
Johann Prader

J. de Beaufort Wijnholds
Yuriy G. Yakusha

Juan José Toribio
Javier Guzmán-Calafell

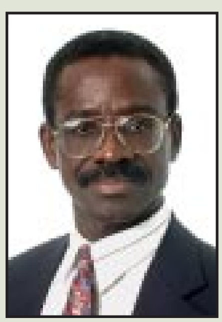
Gregory F. Taylor
Okyu Kwon

A. Shakour Shaalan
Mohamad Hassan Elhage

ZAMANI Abdul Ghani
Cyrillus Harinowo

ZHANG Zhixiang
HAN Mingzhi[3]

A. Guillermo Zoccali
Nicolás Eyzaguirre



Koffi Yao
Alexandre Barro Chambrier

Senior Officers

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Economic Counsellor

K. Burke Dillon
Director, Administration Department

Evangelos A. Calamitsis
Director, African Department

Hubert Neiss
Director, Asia and Pacific Department

Michael C. Deppler
Director, European I Department

John Odling-Smee
Director, European II Department

Shailendra J. Anjaria
Director, External Relations Department

Vito Tanzi
Director, Fiscal Affairs Department

Mohsin S. Khan
Director, IMF Institute

François P. Gianviti
General Counsel, Legal Department

Paul Chabrier
Director, Middle Eastern Department

Manuel Guitián
Director, Monetary and Exchange Affairs Department

Jack Boorman
Director, Policy Development and Review Department

Michael Mussa
Director, Research Department

Reinhard Munzberg
Secretary, Secretary's Department

Carol S. Carson
Director, Statistics Department

David Williams
Treasurer, Treasurer's Department

Claudio M. Loser
Director, Western Hemisphere Department

Massimo Russo
Special Advisor to the Managing Director

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Director, Bureau of Computing Services

Patrice Guilmard
Acting Director, Bureau of Language Services

Lindsay A. Wolfe
Director, Office of Budget and Planning

Eduard Brau
Director, Office of Internal Audit and Inspection

Kunio Saito
Director, Regional Office for Asia and the Pacific

Christian Brachet
Director, Office in Europe (Paris)

Alan A. Tait
Director and Special Trade Representative, Office in Geneva

J.B. Zulu
Director and Special Representative to the UN, Office at the United Nations

David M. Cheney
Chief, Editorial Division

Board of Governors, Executive Board, Interim Committee, and Development Committee

The *Board of Governors*, the highest decision-making body of the IMF, consists of one governor and one alternate governor for each member country. The governor is appointed by the member country and is usually the minister of finance or the governor of the central bank. All powers of the IMF are vested in the Board of Governors. The Board of Governors may delegate to the Executive Board all except certain reserved powers. The Board of Governors normally meets once a year.

The *Executive Board* (the Board) is responsible for conducting the day-to-day business of the IMF. It is composed of 24 Directors, who are appointed or elected by member countries or by groups of countries, and the Managing Director, who serves as its Chairman. The Board usually meets several times each week. The Executive Board carries out its work largely on the basis of papers prepared by IMF management and staff. In 1997/98, the Board spent more than half of its time on member country matters (Article IV consultations and reviews and approvals of arrangements) and most of its remaining time on policy issues (such as the world economic outlook exercise, developments in international capital markets, the IMF's financial resources, surveillance, data issues, the debt situation, and issues related to IMF facilities and program design).

The *Interim Committee* of the Board of Governors on the International Monetary System is an advisory body made up of 24 IMF governors, ministers, or other officials of comparable rank, representing the same constituencies as in the IMF's Executive Board. The Interim Committee normally meets twice a year, in April or May, and at the time of the Annual Meeting of the Board of Governors in September or October. Among its responsibilities are to advise and report to the Board of Governors on issues regarding the management and adaptation of the international monetary system, including sudden disturbances that might threaten the international monetary system, and on proposals to amend the Articles of Agreement.

The *Development Committee* (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 composed of 24 members—finance ministers or other officials of comparable rank—and generally meets at the same time as the Interim Committee. It advises and reports to the Boards of Governors of the World Bank and the IMF on all aspects of the transfer of real resources to developing countries.

Contents

Tables

Figures

The following conventions have been used in this Report:

n.a. to indicate not applicable;

. . . to indicate that data are not available;

— to indicate that the figure is zero or less than half the final digit shown or that the item does not exist;

– between years or months (for example, 1997–98 or January–June) to indicate the years or months covered, including the beginning and ending years or months;

/ between years or months (for example, 1997/98) to indicate a fiscal or financial year.

"Billion" means a thousand million; "trillion" means a thousand billion.

"Basis points" refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ of 1 percentage point).

Minor discrepancies between constituent figures and totals are due to rounding.

The 1997/98 financial year began May 1, 1997, and ended April 30, 1998.

All references to dollars are to U.S. dollars unless otherwise noted; as of April 30, 1998, the SDR/U.S. dollar exchange rate was US$1 = SDR 0.742580, and the U.S. dollar/SDR exchange rate was SDR 1 = US$1.34666.

As used in this 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.

Asian Financial Crisis Propels IMF Activity to New Levels in 1997/98

The Asian financial crisis that broke out in July 1997 in Thailand, and its subsequent global reverberations, dominated the IMF's work in 1997/98, absorbing an unprecedented amount of time of the Executive Board, management, and staff. The crisis—whose global consequences continued after the end of the financial year—also prompted a record level of IMF lending in 1997/98, adding immediacy to the need to strengthen the financial resources of the institution to enable it to continue playing a fully effective role in the globalized world economy. The crisis also led to the creation of a new lending facility (the Supplemental Reserve Facility); stepped-up work on strengthening the conduct of IMF surveillance; and, more generally, led to the elaboration of a framework for strengthening the architecture of the international monetary system. Separately, the Executive Board undertook an extensive review—drawing on both internal and external assessments—of the IMF's concessional lending facility for low-income countries (the Enhanced Structural Adjustment Facility) and continued its work aimed at ensuring the uninterrupted availability of financial resources for the ESAF. Together with the World Bank and other creditors, the IMF made important headway in implementing the initiative to reduce the external debt burden of a number of heavily indebted poor countries (the HIPC Initiative).

* * *

The Asian financial crisis had a major impact on the scale of *IMF financial assistance* in 1997/98. During the year, member countries drew SDR 19.0 billion ($25.6 billion)[1] from the IMF's General Resources Account in the credit tranches—nearly four times the level of the previous year. The IMF approved nine new Stand-By Arrangements, with total commitments of SDR 27.3 billion, and four new Extended Arrangements, with total commitments of SDR 2.8 billion. The largest Stand-By Arrangements were for Korea (which also made use of the new Supplemental Reserve Facility), Indonesia, and Thailand; the largest Extended Arrangement was for Argentina. In addition, the IMF approved eight new ESAF Arrangements with commitments totaling SDR 1.7 billion. As of

[1]As of April 30, 1998, SDR 1 = $1.34666.

April 30, 1998, 14 Stand-By Arrangements, 13 Extended Arrangements, and 33 ESAF Arrangements were in effect with member countries. Net of repayments of previous drawings, total IMF credit outstanding rose to a record SDR 56 billion ($75.4 billion) as of April 30, 1998, compared with SDR 40.5 billion ($55.3 billion)[2] a year earlier.

In December 1997, the Executive Board established the Supplemental Reserve Facility to provide additional financial assistance to members facing exceptional balance of payments difficulties attributable to a large short-term financing need resulting from a sudden and disruptive loss of market confidence.

As a result of the large new demands on the IMF's resources in 1997/98, its net uncommitted usable resources (adjusted to meet the requirement to maintain adequate working balances of currencies) declined to SDR 22.6 billion at the end of April 1998 from SDR 43.5 billion a year earlier. Over the same period, the IMF's liquid liabilities rose sharply—reflecting an increase in members' reserve tranche positions—and its liquidity ratio fell to 44.8 percent as of April 30, 1998, from 120.5 percent a year earlier.

In January 1998, the IMF's Board of Governors adopted the Executive Board's recommendation that total IMF quotas be increased by 45 percent (to SDR 212 billion from SDR 146 billion) under the Eleventh General Review of Quotas. The increase will take effect after members having not less than 85 percent of total quotas as of December 28, 1997, have consented to their quota increases.

* * *

The IMF's work on *surveillance issues* intensified following the outbreak and spread of the financial crisis to other Asian economies and the subsequent pressures on other emerging market economies. Surveillance was also intensified in recognition that promoting good governance, making budgets more transparent, improving data collection and disclosure, and strengthening financial sectors are increasingly important if countries are to establish and maintain private sector confidence and lay the groundwork for sustained growth.

In a preliminary review in March 1998 of the *implications for IMF surveillance of the Asian financial crisis,* the Executive Board drew five lessons:

- effective surveillance depends critically on the timely availability of accurate information;
- the focus of surveillance has to extend even further beyond short-term macroeconomic issues, yet remain appropriately selective;
- surveillance at the country level should pay more explicit attention to policy interdependence and the risks of contagion;
- the crucial role of credibility in restoring market confidence underscores the importance of transparency; and

[2]As of April 30, 1997, SDR 1 = $1.36553.

- effective surveillance depends fundamentally on the willingness of members to take the IMF's advice.

In July 1997, the Executive Board adopted *guidelines clarifying the IMF's role in governance issues.* The guidelines call for a more comprehensive treatment, in the context of both bilateral consultations with members under Article IV and IMF-supported programs, of governance issues within the IMF's purview and expertise; for evenhanded treatment of member countries; and for enhanced collaboration with other institutions—notably the World Bank—to make better use of complementary areas of expertise. The guidelines identify two areas in which the IMF can make a particular contribution: improving the management of public resources and supporting the development and maintenance of a transparent and stable regulatory environment conducive to efficient private sector activities.

Similarly, in an effort to enhance the accountability and credibility of members' fiscal policies, the Interim Committee, at its April 1998 meeting, adopted a *Code of Good Practices on Fiscal Transparency: Declaration on Principles.*

In December 1997, the Executive Board reviewed members' progress in *providing data to the IMF for surveillance* and saw scope for improvement. Recent experience also suggested the need to complement traditional "core" indicators with data on reserve-related liabilities, central bank derivative transactions, private sector external debt, and prudential banking system indicators.

To guide members in *disseminating data to the public,* the Executive Board endorsed a two-tier approach: the Special Data Dissemination Standard, established in March 1996 for countries that have or might seek access to international financial markets, and a less ambitious General Data Dissemination System, approved in December 1997, for all member countries.

The importance of *strengthening members' financial sectors* was a recurring theme of Board discussions in 1997/98—including the importance of enhancing IMF and World Bank collaboration so that emerging financial sector problems are promptly identified, each institution takes the lead in its own areas of responsibility, and the IMF's macroeconomic analysis and the Bank's sectoral policy recommendations are fully coordinated.

* * *

To enhance the transparency of its surveillance, the IMF in May 1997 introduced Press/Public Information Notices—following the conclusion of Article IV consultations. PINs summarize the Executive Board's assessment of member countries' economic policies and prospects. Of the 136 Article IV consultations in 1997/98, 77 resulted in the issuance of PINs. PINs appear on the IMF's website, http://www.imf.org, and are published three times a year as *IMF Economic Reviews.*

* * *

At the Annual Meetings in Hong Kong SAR in September 1997, the Interim Committee issued a *Statement on the Liberalization of Capital Movements Under* *an Amendment of the IMF's Articles of Agreement.* The statement invited the Executive Board to complete its work on a proposed amendment to make the liberalization of capital movements one of the purposes of the IMF and extend, as needed, the IMF's jurisdiction in this area. In 1997/98, the Board considered various aspects of such an amendment and, to help inform its work, sponsored a high-level seminar in March 1998 to elicit views from a wide range of private and official observers outside the IMF. At its April 1998 meeting, the Interim Committee noted the progress made thus far and the provisional agreement reached by the Executive Board on that part of the amendment dealing with the IMF's purposes. The Committee asked the Board to pursue with determination its work on other aspects, including policy issues, with the aim of submitting an appropriate amendment of the Articles for the Committee's consideration as soon as possible.

* * *

Since the Mexican financial crisis of 1994–95, the IMF has taken a number of steps to enhance the functioning of the international monetary system. The heightened challenges posed by the ongoing globalization of financial markets—as exemplified by the Asian financial crisis—highlighted the need for further efforts in this direction. In its continuing discussions of additional initiatives to *strengthen the architecture of the international monetary system,* the Executive Board in 1997/98 identified the following imperatives:

- improving international and domestic financial systems;
- strengthening IMF surveillance further;
- promoting the wider availability and greater transparency of information regarding economic data and policies;
- reinforcing the central role of the IMF in crisis management; and
- introducing more effective procedures for involving the private sector in forestalling or resolving financial crises.

The Interim Committee, at its April 1998 meeting, endorsed these objectives and asked the Executive Board to report on its work in these areas at the Committee's next meeting in October 1998.

* * *

Since the mid-1980s, the IMF has provided concessional financing through the *Enhanced Structural Adjustment Facility (ESAF)* and its predecessor, the Structural Adjustment Facility (SAF), to respond to the balance of payments difficulties confronting many of the world's poorest developing countries. As of April 30, 1998, SDR 6.4 billion ($8.6 billion) had been disbursed under 71 ESAF Arrangements to 48 countries, and SDR 1.8 billion ($2.4 billion) disbursed under SAF arrangements. For the *continuation of the ESAF*—and to finance the IMF's contribution to the HIPC Initiative—the Executive Board took steps in 1997/98 to mobilize financing from bilateral contributions and from the IMF's own resources. In April 1998, Uganda became the first country to reach its completion point under the HIPC Initiative. Uganda will receive from its creditors the equivalent of about $350 million in net present value terms, which is estimated to reduce its nominal debt service by nearly $650 million; the IMF's assistance will reduce the present value of its claims on Uganda by about $70 million. Five additional countries (Bolivia, Burkina Faso, Côte d'Ivoire, Guyana, and Mozambique) also became eligible for assistance that would reduce their nominal debt service by about $5 billion.

Two in-depth evaluations of the ESAF were undertaken in 1997/98 (both of which have been published): an internal review by IMF staff of the record of 10 years of ESAF-supported programs, and an evaluation under the guidance of the Executive Board by outside experts—the first of its kind—of certain aspects of ESAF-supported programs. Both assessments confirmed the value of the ESAF in assisting low-income countries, while identifying areas for improvement and further consideration.

* * *

Member countries' demand for *IMF technical assistance and training* remained strong in 1997/98. Assistance provided by IMF staff and external advisors averaged about 300 person-years and accounted for about 17 percent of total IMF administrative expenses.

* * *

In December 1997, the IMF opened a Regional Office for Asia and the Pacific in Tokyo.

* * *

In December 1997, the Republic of Palau became the IMF's 182nd member.