Financial Operations and Policies

During 1997/98, member countries purchased (i.e., borrowed) SDR 19.0 billion from the IMF's General Resources Account (GRA) in the credit tranches—nearly four times the level of the previous year—and made reserve tranche purchases of SDR 1.0 billion.[15] The IMF approved nine new Stand-By Arrangements in 1997/98, with total commitments of SDR 27.3 billion (including SDR 10.0 billion under the Supplemental Reserve Facility), and four new Extended Arrangements, with total commitments of SDR 2.8 billion. In addition, the IMF approved eight new ESAF Arrangements, with commitments totaling SDR 1.7 billion. As of April 30, 1998, 14 Stand-By Arrangements, 13 Extended Arrangements, and 33 ESAF Arrangements were in effect. With the large volume of credit tranche purchases, along with drawings of ESAF loans, total IMF credit outstanding rose to a record SDR 56 billion as of April 30, 1998, from SDR 40.5 billion a year earlier.

With the very high demand for the use of IMF resources, the IMF's net uncommitted usable resources fell by SDR 20.9 billion during 1997/98, and its liquidity position weakened considerably. At a review in March 1998, the Board considered the IMF's liquidity position vulnerable and expected it to remain under considerable strain in the period immediately ahead. Executive Directors cited the pressing need for the agreed quota increase under the Eleventh General Review to take early effect and called for a rapid conclusion of the adherence process for the New Arrangements to Borrow (NAB).

The IMF earned a net income of SDR 164 million in the financial year, which was placed to reserves, increasing the IMF's reserves to SDR 2.1 billion as of the end of 1997/98. The level of outstanding overdue financial obligations to the IMF increased slightly to SDR 2.3 billion in 1997/98, with the number of members in protracted arrears remaining at seven.

[15]As of April 30, 1998, the U.S. dollar/SDR exchange rate was SDR 1 = US$1.34666.

Membership and Quotas

In 1997/98, the Republic of Palau became the 182nd member of the IMF, with an initial quota of SDR 2.25 million. The Federal Republic of Yugoslavia (Serbia/Montenegro) has not completed arrangements for succession to membership in the IMF. The Board decided on December 10, 1997, that the country had until June 14, 1998, to complete such arrangements; on June 10, 1998, this period was extended for a further six months.

Five member countries (Democratic Republic of the Congo, Iraq,[16] Liberia, Somalia, and Sudan) have not been able to consent to their quota increases under the Ninth General Review of Quotas because of their arrears to the General Resources Account. The Executive Board approved on December 30, 1997, a six-month extension of the periods for consent to and payment of increases in quotas under the Ninth Review. In its report to the Board of Governors on the Eleventh General Review of Quotas[17] (see below), the Board recommended that the period for consent to quota increases under the Ninth Review be extended to the effective date of the quota increase under the Eleventh Review, and the period for payment of quota increases under the Ninth Review be extended to 30 days after that date.

The Board began its work on the Eleventh General Review of Quotas in August 1995, and it reported its recommendations regarding quota increases to the Board of Governors in December 1997. The Board's Report and the Proposed Resolution of the Board of Governors (Resolution No. 53-2, adopted January 30, 1998) are shown in Appendix III.

The Board's recommendation to increase total IMF quotas by 45 percent (to SDR 212 billion from

[16]Iraq has not made payments to the IMF in view of sanctions under UN Security Council Resolution No. 661, adopted on August 6, 1990.

[17]The Board of Governors concluded the Tenth General Review of Quotas without an increase in quotas.

SDR 146 billion) took into account a range of factors, including the growth of world trade and payments; the scale of potential payments imbalances, including those that may stem from sharp changes in capital flows; the prospective demand for the use of IMF resources in support of member countries' economic programs; and the rapid globalization and associated liberalization of trade and payments—including on capital account—that have characterized the world economy since the last increase in quotas in 1990. The Board also considered the IMF's liquidity position and the adequacy of its borrowing arrangements. The Board reiterated that the IMF should continue to rely on its quota resources as its principal form of financing and resort to borrowing only in exceptional circumstances.

As regards the distribution of the overall increase in quotas, the Board was guided by the views of the Interim Committee expressed in its communiqué of April 1997, which stated that "the proposed distribution should be predominantly equiproportional while contributing to a correction of the most important anomalies in the present quota distribution." Meeting in Hong Kong SAR in September 1997, the Interim Committee agreed that 75 percent of the overall increase would be distributed in proportion to present quotas; 15 percent would be distributed in proportion to members' shares in calculated quotas (based on 1994 data), so as to better reflect the relative economic positions of members; and the remaining 10 percent would be distributed among those members whose current quotas are "out of line with their positions in the world economy (as measured by the excess of their share in calculated quotas over their share in actual quotas), of which 1 percent of the overall increase would be distributed among five members whose current quotas are far out of line with their relative economic positions, and which are in a position to contribute to the IMF's liquidity over the medium term." The Interim Committee reiterated its view that the formulas used to calculate quotas should be reviewed by the Board promptly after the completion of the Eleventh Review.

In reaching agreement on the size and distribution of the quota increase, the Board confirmed that it did not intend to reopen the issues of the size and composition of the Board and that the existing representation of developing countries should not be affected.

At its April 1998 meeting, the Interim Committee called for rapid implementation of the quota increase approved by the Board of Governors in January 1998. The resolution approved by the Board of Governors asked member countries to consent to the quota increase before January 29, 1999. The quota increase will not take effect until members having not less than 85 percent of total quotas as of December 23, 1997, have consented.

IMF Liquidity and Borrowing

The IMF's liquidity position weakened considerably in 1997/98 as a result of large new demands for use of IMF resources arising from the crisis affecting several Asian countries, along with sustained demand from other member countries—including, in particular, the Russian Federation, as well as Algeria, Argentina, Bulgaria, and the Philippines. Total purchases (gross drawings, including reserve tranche and under the SRF) rose sharply to an unprecedented SDR 20.0 billion in 1997/98, owing largely to heavy frontloading of purchases by Indonesia, Korea, and Thailand under their Stand-By Arrangements. Net of repurchases (i.e., repayments) by members, IMF credit outstanding in the GRA increased by SDR 15.2 billion to reach a historic high of SDR 49.7 billion at the end of 1997/98.

General Resources

The liquid resources of the IMF consist of usable currencies and SDRs held in the GRA. Usable currencies, the largest component of liquid resources, are holdings of currencies of members whose balance of payments and reserve positions are considered sufficiently strong to warrant the inclusion of their currencies in the operational budget for use in the financing of IMF operations and transactions (Box 15). The exclusion of six members from the list of sufficiently strong countries during 1997/98 reduced the stock of usable currencies by about SDR 2.4 billion, while the inclusion of three other members on the list added about SDR 3.0 billion to the stock of usable currencies. More significantly, however, purchases during the year far exceeded repurchases and the IMF's usable resources declined to SDR 47.3 billion at the end of April 1998 from SDR 62.7 billion a year earlier.

The stock of uncommitted usable resources, that is, usable resources less the amount of resources committed under current arrangements and considered likely to be drawn, also declined sharply during the period, to SDR 32.0 billion at the end of April 1998 from SDR 55.7 billion a year earlier. The IMF's net uncommitted usable resources (adjusted to reflect the requirement to maintain adequate working balances of currencies) amounted to SDR 22.6 billion as of April 30, 1998, compared with SDR 43.5 billion a year earlier.

The IMF's liquid liabilities at the end of April 1998 totaled SDR 50.3 billion, consisting entirely of reserve tranche positions (as the IMF had no outstanding borrowing), a substantial rise from the level of SDR 36.1 billion a year earlier. The ratio of the IMF's net uncommitted usable resources to its liquid liabilities—the traditional liquidity ratio—declined to 44.8 percent at the end of April 1998 (Figure 6) from 120.5 percent a year earlier.

Box 15
Operational Budget

The quarterly operational budget is the mechanism through which the IMF makes its resources available to member countries. Reflecting the cooperative character of the IMF and the revolving nature of its resources, IMF financial assistance is provided through the use of SDRs and the currencies of a wide range of members—large and small, including advanced, developing, and transition economies. Members whose balance of payments and reserve positions are judged sufficiently strong for their currencies to be included in the operational budget make foreign exchange available to members with weak balance of payments positions in need of external financing. In return for the use of their currencies through the operational budget, members receive a liquid claim on the IMF that earns a market-related rate of return.

Guidelines underlying the preparation and implementation of the operational budget are established by the Board. During 1997/98, the Board reviewed the procedures governing the assessment of members' balance of payments and reserve strength. It concluded that assessments should continue to rely on a relatively simple system, based on criteria set out in the Articles of Agreement (balance of payments and reserve positions and developments in exchange markets), supplemented by a small set of additional indicators bearing on a member's external financial strength, including in particular indicators of short-term external debt and debt service.

Borrowing

The IMF is a quota-based institution. At the same time, it has authority under its Articles of Agreement to borrow to provide temporary supplements to its usable quota resources, if needed.

General Arrangements to Borrow. During the financial year, the IMF renewed the General Arrangements to Borrow (GAB) for a further five-year period from December 26, 1998.

The GAB is a set of arrangements under which 11 industrial countries or their central banks have agreed to provide resources to the IMF to forestall or cope with an impairment of the international monetary system. The amount potentially available under the GAB is SDR 17 billion, with an additional SDR 1.5 billion available under an associated agreement with Saudi Arabia. Table 10 shows the amounts of credit arrangements of participants in the GAB.

New Arrangements to Borrow. The amount of resources potentially available to the IMF through borrowing in circumstances similar to those covered by the GAB was enhanced by the Board's adoption on January 27, 1997, of a decision on the New Arrangements to Borrow (NAB). The NAB represents the culmination of intensive efforts since the June 1995 Halifax meeting of the Group of Seven countries, which called for doubling the amount of resources available to the IMF under the GAB to respond to financial emergencies.

The New Arrangements do not replace the General Arrangements, which remain in force. The NAB will be the facility of first and principal recourse, unless a GAB participant (all GAB participants are also participants in the NAB) requests the use of IMF resources. A proposal for calls may be made by the IMF under either of the arrangements, and if a call under the NAB is not accepted, then such a proposal may be made under the GAB. The amount potentially available under the NAB is up to SDR 34 billion, which is also the maximum combined amount available under the two arrangements. Table 11 shows the amounts of credit arrangements of participants under the NAB, which are based on relative economic strength—as measured by the actual IMF quotas of the participants as a predominant criterion. The credit arrangements under the NAB may be activated for the benefit of an IMF member, either a participant or a nonparticipant, under circumstances similar to those specified in the GAB, except that activation of the GAB for the benefit of a nonparticipant requires additionally that, after consulting with the participants, the Managing Director judges that the IMF faces an inadequacy of resources.

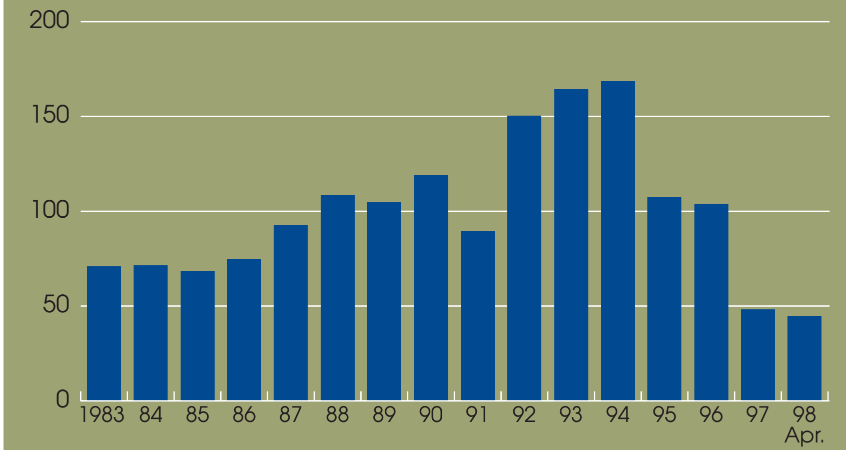
The NAB will enter into force when the decision has been adhered to by potential participants with credit arrangements amounting to not less than SDR 28.9 billion, including the five members or institutions with the largest credit arrangements. As of April 30, 1998, two-thirds of the participants, representing some 55 percent of the potential resources under the arrangements, had adhered to the decision.

Access Policy and Limits on Use of IMF Resources

The IMF's current policies on access to its resources reflect the Board's decision in 1994 to raise the annual access limit under the credit tranches and the Extended Fund Facility (EFF) for a period of three years to 100 percent of quota from 68 percent, while keeping the cumulative access limit unchanged at 300 percent of quota. The Board reviews access policies annually. At the November 1997 review, it decided to maintain the annual and cumulative access limits set in 1994 until the next review of access policies, to be held not later than October 1998.

The access policies and limits applicable to the credit tranches and the EFF do not apply to the IMF's special facilities, including the Supplemental Reserve Facility, established in December 1997. Under the SRF, the IMF makes financial assistance available to member countries for a period of up to one year in case of exceptional balance of payments difficulties attributable to a large short-term financing need resulting from a sudden and disruptive loss of market confidence. SRF drawings are made within the context of a Stand-By or Extended Arrangement but are not subject to a specific quota limit. Repurchases (i.e., repayments) under the SRF are expected within 1–1½ years of each purchase, although the Board may extend this period by up to one year at which point the member is obligated to repurchase.

Figure 6
IMF's Liquidity Ratio, 1983–98
(Percent; end of December)



Members' Use of IMF Resources and Credit Outstanding

In 1997/98, members' purchases from the GRA, excluding reserve tranche purchases,[18] amounted to SDR 19.0 billion, nearly four times the 1996/97 level of SDR 4.9 billion (Table 12; see also Appendix II, Table II.7). These purchases consisted of SDR 16.1 billion under Stand-By Arrangements (compared with SDR 1.8 billion in 1996/97) and SDR 2.8 billion under Extended Arrangements (SDR 2.8 billion in 1996/97). During 1997/98, there were also purchases of SDR 30 million under the policy on emergency postconflict assistance; no purchases were made under the Compensatory and Contingency Financing Facility (CCFF) (SDR 0.3 billion in 1996/97).

The largest users of IMF resources in 1997/98 were Asian members. Korea drew SDR 11.2 billion, including SDR 7.1 billion under the SRF; Indonesia SDR 2.2 billion; and Thailand SDR 2.0 billion. Russia was the next largest user, drawing a total of SDR 1.5 billion. Other members making significant purchases were the Philippines (SDR 0.8 billion), Algeria (SDR 0.3 billion), Argentina (SDR 0.2 billion), Bulgaria (SDR 0.2 billion), and Ukraine (SDR 0.2 billion). By region, purchases by Asian countries amounted to SDR 16.2 billion and purchases by European countries (including the Baltic States, Russia, and other countries of the former Soviet Union) amounted to SDR 2.0 billion. Purchases by Latin American, Middle Eastern, and African countries combined totaled SDR 0.7 billion.

Repurchases in the GRA during 1997/98 totaled SDR 3.8 billion, compared with SDR 6.7 billion in the previous financial year (Figure 7; see also Appendix II, Table II.8). The largest repurchases were made by Argentina (SDR 0.5 billion); India, Mexico, and Russia (roughly SDR 0.4 billion each); and Algeria, South Africa, and Venezuela (roughly SDR 0.3 billion each). Actual repurchases in 1997/98 were higher than the scheduled level of SDR 3.5 billion, owing to a repurchase by Algeria as a result of CCFF overcompensation (SDR 0.2 billion) and a voluntary advance repurchase by Hungary (SDR 0.1 billion). Given the sharp rise in the use of IMF resources in the recent past and the revolving nature and medium-term maturity of IMF financial assistance, scheduled repurchases are likely to

Table 10
General Arrangements to Borrow (GAB)

Participant	Amount (millions of SDRs)
United States	4,250.0
Deutsche Bundesbank	2,380.0
Japan	2,125.0
France	1,700.0
United Kingdom	1,700.0
Italy	1,105.0
Swiss National Bank	1,020.0
Canada	892.5
Netherlands	850.0
Belgium	595.0
Sveriges Riksbank	382.5
Total	**17,000.0**
Associated agreement with Saudi Arabia	1,500.0
Total	**18,500.0**

[18]Reserve tranche purchases totaling SDR 1.1 billion were made by Indonesia (SDR 288 million), Korea (SDR 444 million), and Thailand (SDR 317 million) in 1997/98, whereas there were no reserve tranche purchases in 1996/97. Reserve tranche purchases represent members' use of their own IMF-related assets and not use of IMF credit.

Table 11
New Arrangements to Borrow (NAB)[1]

Participant	Amount (millions of SDRs)
Australia	810
Austria	412
Belgium	967
Canada	1,396
Denmark	371
Deutsche Bundesbank	3,557
Finland	340
France	2,577
Hong Kong Monetary Authority	340
Italy	1,772
Japan	3,557
Korea	340
Kuwait	345
Luxembourg	340
Malaysia	340
Netherlands	1,316
Norway	383
Saudi Arabia	1,780
Singapore	340
Spain	672
Sveriges Riksbank	859
Swiss National Bank	1,557
Thailand	340
United Kingdom	2,577
United States	6,712
Total	**34,000**

[1]The arrangements will enter into force when the NAB decision has been adhered to by potential participants with credit arrangements amounting to not less than SDR 28.9 billion, including the five members or institutions with the largest credit arrangements.

increase over the next several years. A sizable amount is scheduled to be repurchased in 1999 under the SRF, under which purchases are expected to be repurchased within 1–1½ years.

Taking into account both purchases and repurchases, IMF credit outstanding in the GRA increased by SDR 15.2 billion in 1997/98, to SDR 49.7 billion as of April 30, 1998 from SDR 34.5 billion a year earlier (Appendix II, Table II.9). If net disbursements under the SAF and ESAF are also included (see below), IMF credit outstanding under all facilities increased by SDR 15.5 billion in 1997/98, to SDR 56.0 billion on April 30, 1998 (Figure 8) from SDR 40.5 billion a year earlier.

Stand-By and Extended Arrangements

In 1997/98, the IMF approved commitments under nine new Stand-By Arrangements totaling SDR 27.3 billion (Appendix II, Table II.1). Stand-By Arrangements totaling SDR 26.7 billion were approved for Indonesia (SDR 7.3 billion), Korea (SDR 15.5 billion), the Philippines (SDR 1.0 billion), and Thailand (SDR 2.9 billion). The arrangement for Korea—the largest in the IMF's history—included SDR 10.0 billion available until December 1998 under the SRF. Stand-By Arrangements totaling SDR 0.6 billion were also approved for Cape Verde, Estonia, Latvia, Ukraine, and Uruguay.[19] As of April 30, 1998, 14 countries had Stand-By Arrangements with the IMF, with total commitments of SDR 28.3 billion and undrawn balances of SDR 12.4 billion (Appendix II, Tables II.2 and II.3).

During 1997/98, four new Extended Arrangements with commitments totaling SDR 2.8 billion were approved for Argentina, Pakistan, Panama, and Yemen, with the arrangement for Argentina (SDR 2.1 billion) the largest approved during the year.[20] In addition, the Extended Arrangement for the Philippines was augmented by SDR 0.3 billion. The Extended Arrangements for Pakistan and Yemen were approved in conjunction with ESAF Arrangements. As of April 30, 1998, 13 countries had Extended Arrangements, with commitments totaling SDR 12.3 billion and undrawn balances of SDR 6.8 billion (Appendix II, Tables II.2 and II.4).

Overall, new commitments of IMF resources under Stand-By and Extended Arrangements amounted to SDR 30.4 billion (including the augmentation of the Extended Arrangement for the Philippines) in 1997/98. Of this total, nearly 90 percent was approved for Asian countries directly affected by the regional financial crisis.

Special Facilities and Outright Purchases

The IMF's special facilities consist of the CCFF and the Buffer Stock Financing Facility. The latter has not been used since 1983. During 1997/98, no member used the CCFF. At a meeting in November 1997, Directors suggested that the merits of the CCFF be reviewed. Three countries (Albania, Rwanda, and Tajikistan) made purchases totaling SDR 30 million under the IMF's policy on emergency postconflict assistance in 1997/98.

SAF and ESAF

The IMF continued to provide concessional financial support to low-income countries under the ESAF in 1997/98.[21] Eight new ESAF Arrangements with commitments totaling SDR 1.7 billion were approved

[19]The authorities of Cape Verde, Estonia, Latvia, the Philippines, and Uruguay indicated their intention not to draw under their respective arrangements, which were precautionary.

[20]The Argentine authorities indicated their intention not to draw under the arrangement, which was precautionary.

[21]The SAF has been phased out; the last annual SAF Arrangement expired in December 1996.

Table 12
Selected Financial Indicators
(Millions of SDRs)

	Financial Year Ended April 30								
	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
					During Period				
Total disbursements	**5,266**	**6,823**	**5,903**	**5,877**	**5,903**	**11,178**	**12,303**	**5,644**	**19,924**
Purchases by facility (GRA)[1]	4,440	6,248	5,294	5,284	5,241	10,592	10,826	4,939	18,951
Stand-By and first credit tranche	1,183	1,975	2,343	2,940	1,052	7,587	9,127	1,836	16,127
Extended Fund Facility	2,449	2,146	1,571	2,254	746	1,595	1,554	2,820	2,824
Compensatory and Contingency Financing Facility	808	2,127	1,381	90	718	287	9	282	—
Systemic Transformation Facility	—	—	—	—	2,725	1,123	136	—	—
Loans under SAF/ESAF arrangements	826	575	608	593	662	587	1,477	705	973
Special Disbursement Account resources	584	180	138	49	68	19	185	—	—
ESAF Trust resources	242	395	470	544	594	568	1,292	705	973
By region	5,267	6,823	5,903	5,877	5,903	11,178	12,303	5,644	19,924
Africa	1,289	577	740	377	1,185	1,022	2,304	992	876
Asia	525	1,714	1,476	1,806	690	383	367	181	16,446
Europe	268	1,960	1,516	1,343	3,258	2,896	5,156	3,381	2,170
Middle East	66	—	333	26	11	76	129	153	148
Western Hemisphere	3,119	2,572	1,838	2,325	758	6,801	4,427	937	283
Repurchases and repayments	**6,399**	**5,608**	**4,770**	**4,117**	**4,509**	**4,231**	**7,100**	**7,196**	**4,385**
Repurchases	6,042	5,440	4,768	4,081	4,343	3,984	6,698	6,668	3,789
Trust Fund and SAF/ESAF loan repayments	357	168	2	36	166	247	402	528	596
					End of Period				
Total outstanding credit provided by IMF	**24,388**	**25,603**	**26,736**	**28,496**	**29,889**	**36,837**	**42,040**	**40,488**	**56,026**
Of which:									
General Resources Account	22,098	22,906	23,432	24,635	25,533	32,140	36,268	34,539	49,701
Special Disbursement Account	1,549	1,729	1,865	1,879	1,835	1,651	1,545	1,220	922
Administered accounts									
Trust Fund	326	158	158	158	105	102	95	90	90
ESAF Trust[2]	416	811	1,281	1,824	2,416	2,944	4,132	4,639	5,314
Percentage change in total outstanding credit	–4	5	4	7	5	23	14	–4	38
Number of indebted countries	87	81	82	90	93	99	97	95	94

[1]Excludes reserve tranche purchases.
[2]Includes Saudi Fund for Development associated loans.

in 1997/98 (for Cameroon, Côte d'Ivoire, Mongolia, Nicaragua, Pakistan, Senegal, Uganda, and Yemen) (Appendix II, Tables II.1 and II.5). As of April 30, 1998, 33 ESAF Arrangements were in effect. Cumulative commitments under all approved SAF and ESAF Arrangements (excluding undisbursed amounts under expired and canceled arrangements) totaled SDR 10.3 billion as of April 30, 1998,[22] compared with SDR 8.8 billion a year earlier. Total ESAF disbursements amounted to SDR 1.0 billion during 1997/98, compared with SDR 0.7 billion in 1996/97; cumulative SAF and ESAF disbursements through April 30, 1998 amounted to SDR 8.1 billion.

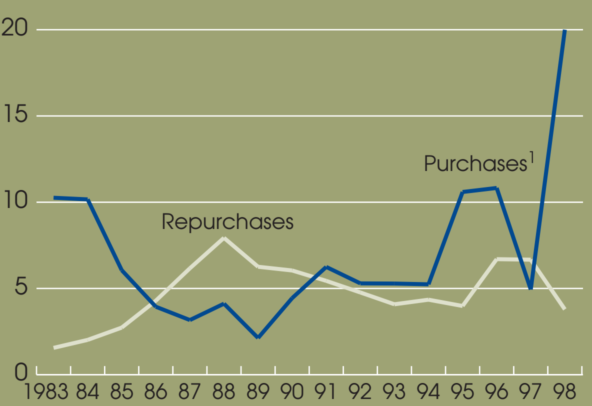
The ESAF has been financed mainly from contributions in the form of loans and grants by member countries to the ESAF Trust, administered by the IMF, and also from SAF resources in the Special Disbursement Account (SDA). SAF resources were made available in conjunction with loans from the ESAF Trust until February 1994, when the Board decided to cease approving new commitments of SAF resources under ESAF Arrangements. As of April 30, 1998, total disbursements of SDA resources under SAF and ESAF Arrangements amounted to SDR 2.2 billion.

[22]Cumulative commitments under the SAF amounted to SDR 1.8 billion, while cumulative ESAF commitments amounted to SDR 8.5 billion.

Figure 7

Purchases and Repurchases, Financial Years Ended April 30, 1983–98

(Billions of SDRs)



[1]Excluding reserve tranche purchases.

The enlarged and extended ESAF Trust, which became effective on February 23, 1994, has a target for total loan resources of SDR 10.1 billion. Financing toward this goal has been provided by a broad cross-section of the IMF's membership. Total effective commitments by lenders to the ESAF Trust amounted to SDR 9.7 billion as of April 30, 1998. The commitment period for ESAF Trust loans to eligible members runs through December 31, 2000, with disbursements to be made through the end of 2003.

Contributions to the Subsidy Account enable loans from the ESAF Trust to be provided at a highly concessional rate of interest (currently 0.5 percent a year). The total value of bilateral subsidy contributions is estimated at SDR 3.7 billion. In addition, the Board transferred SDR 0.4 billion from the SDA to the Subsidy Account in early 1994. This contribution by the IMF, including the interest it will earn, is valued at SDR 0.6 billion.

The availability of resources in the Subsidy Account, net of subsidies already paid, rose from SDR 1,562 million as of April 30, 1997, to SDR 1,629 million as of April 30, 1998. The ESAF Trust made interest payments of SDR 172 million to lenders in 1997/98, of which SDR 23 million was financed by payments of interest by borrowers from the Trust and the balance of SDR 149 million was drawn from the resources of the Subsidy Account.

Details of SAF and ESAF arrangements, and of borrowing agreements and subsidy contributions for the ESAF Trust, are provided in Appendix II (Tables II.1, II.5, and II.10).

ESAF-HIPC Trust

The ESAF-HIPC Trust was established in February 1997 to make grants or loans, or both, to eligible members that qualify for assistance under the Initiative for Heavily Indebted Poor Countries (HIPC) and to subsidize the interest rate on interim ESAF operations to ESAF-eligible members (see Chapter IX). Contributions to the Trust have been received from six countries. To proceed quickly with the implementation of the HIPC Initiative, the Board amended the ESAF Trust Instrument to permit the transfer of up to SDR 250 million from the Reserve Account of the ESAF Trust to the SDA for financing special ESAF operations, provided other resources are not available. All creditors to the Loan Account of the ESAF Trust consented to such a transfer. In addition, to augment the resources available in the ESAF-HIPC Trust, the Board decided to forgo the reimbursement to the GRA of the costs of administering the ESAF Trust in 1997/98 and to transfer SDR 40.7 million from the ESAF Trust Reserve Account to the ESAF-HIPC Trust. The Board also decided that no reimbursement would be made to the GRA in 1998/99 and authorized quarterly transfers totaling an estimated SDR 45 million from the ESAF Trust Reserve Account to the ESAF-HIPC Trust.

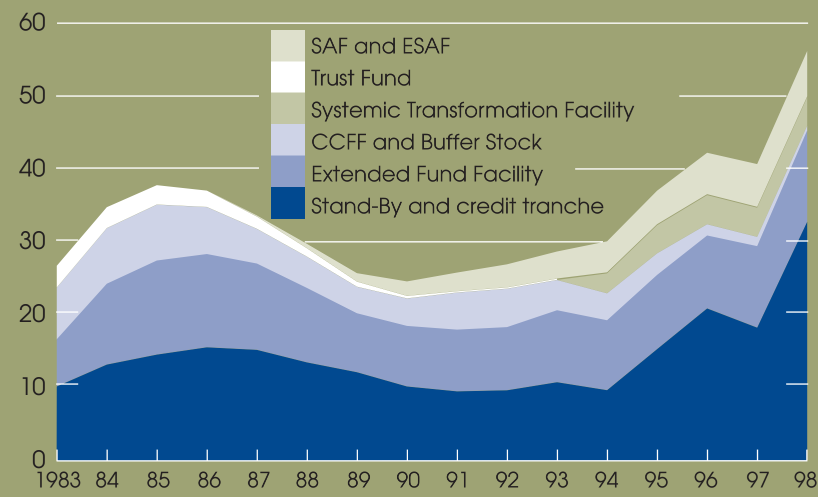
In April 1998, Uganda reached its completion point under the HIPC Initiative and SDR 51.5 million was disbursed in the form of a grant, which is being held in an administered account to be used to service a part of Uganda's debt to the IMF under a schedule agreed with the Ugandan authorities.[23] Resources available to the ESAF-HIPC Trust from bilateral contributions (including accrued interest) amounted to SDR 3.6 million at the end of April 1998.

IMF Income, Charges, and Burden Sharing

At the beginning of each financial year, the IMF sets the rate of charge on the use of its resources as a proportion of the weekly SDR interest rate to achieve a target amount of net income to add to its reserves. This method of setting the rate of charge has been in use for a number of years. By ensuring that its operational income closely reflects its operational costs, which depend largely on the SDR interest rate, the IMF tries to minimize the possible need for a discrete increase in the rate of charge during the financial year.

[23]On April 7, 1998, the IMF established the "Umbrella Account for HIPC Operations" to receive and administer resources on behalf of eligible member countries that qualify for assistance under the terms of the ESAF-HIPC Trust. Within the umbrella account, the IMF will establish an individual subaccount for each member receiving resources from the ESAF-HIPC Trust. These resources were used to meet part of the member's debt-service payments on existing debt to the IMF.

Figure 8
Total IMF Credit Outstanding to Members, Financial Years Ended April 30, 1983–98
(Billions of SDRs)



In April 1997, the proportion of the rate of charge to the SDR interest rate for 1997/98 was set at 109.6 percent to achieve a net income target of SDR 99 million—or 5 percent of the IMF's reserves at the beginning of the financial year—with the proviso that any income in excess of the target (excluding operational income generated from the use of credit under the SRF, discussed below) be used to reduce retroactively the proportion of the rate of charge for the year. Following a review of the IMF's income position at midyear, the proportion of the rate of charge to the SDR interest rate was reduced retroactively to 107.0 percent for 1997/98, and SDR 31 million was returned to members that had paid charges through the third quarter of the financial year. Furthermore, at the end of the financial year, after actual income exceeding the target of SDR 22 million had been returned to members that paid charges during the year, the proportion of the rate of charge to the SDR interest rate was reduced retroactively to 105.6 percent for 1997/98. The average rate of charge on the use of IMF resources in 1997/98 was 4.41 percent, before adjustments for burden sharing, which are discussed below (Appendix II, Table II.14).

As described above, in December 1997, the IMF established the Supplemental Reserve Facility. The IMF levies a surcharge, in addition to the regular rate of charge, on the use of credit under the SRF. During the first year from the date of approval of financing under this facility, the surcharge is set at 300 basis points above the basic rate of charge; it increases by an additional 50 basis points at the end of the first year, and every six months thereafter, until the surcharge reaches 500 basis points. Net operational income generated from the use of credit under the SRF during 1997/98, after meeting the expenses of administering the ESAF Trust, amounted to SDR 65 million, which was placed to the General Reserve.

The IMF pays remuneration to a member on the amount by which its norm for remuneration exceeds the IMF's holdings of its currency, excluding holdings that reflect the member's use of IMF credit. The norm for remuneration is calculated as the sum of 75 percent of the member's quota on April 1, 1978, plus any increases in quota consented to and paid after that date. For members joining the IMF after April 1, 1978, the norm is calculated as the sum of (1) a percentage of the member's quota equal to the weighted average of the norms of all existing members relative to quota on the date of the member's admission, and (2) any increases in the member's quota consented to and paid after that date. The rate of remuneration, before the adjustments under the burden-sharing mechanisms discussed below, is set at 100 percent of the SDR interest rate, which averaged 4.18 percent in 1997/98.

The IMF continues to have measures in place to strengthen its financial position, in view of the existence of overdue financial obligations. First, a target amount of net income is determined each year to be added to IMF reserves, which provide protection against administrative deficits and losses of a capital nature. Second, debtor and creditor members share equally—through adjustments to the rate of charge and the rate of remuneration—the financial costs to the IMF of deferred overdue charges and of the allocation to the first Special Contingent Account (SCA-1), which, for 1997/98, was set at 5 percent of reserves at the beginning of the year (SDR 99 million). These adjustments, however, cannot reduce the rate of remuneration to less than 85 percent of the SDR interest rate. The SCA-1 was established as a precautionary measure to protect the IMF against the risks associated with overdue obligations; as of April 30, 1998, SCA-1 balances amounted to SDR 884 million. These burden-sharing procedures have been extended by the Board through 1998/99.

As part of the strengthened cooperative strategy to resolve the problem of protracted overdue financial

Table 13
Arrears to the IMF of Countries with Obligations Overdue by Six Months or More
(Millions of SDRs; end of period)

	Financial Year Ended April 30					
	1993	1994	1995	1996	1997	1998
Amount of overdue obligations	3,006.4	2,911.3	2,982.6	2,174.9	2,212.2	2,261.2
Number of countries	12	9	8	6	7	7
Of which:						
General Department	2,767.9	2,729.2	2,808.8	2,001.3	2,023.1	2,066.5
Number of countries	11	8	7	5	5	5
SDR Department	50.2	51.7	46.6	53.4	73.3	79.1
Number of countries	12	9	8	6	7	7
Trust Fund	188.3	130.4	127.2	120.2	115.8	115.6
Number of countries	6	4	4	3	3	3
Number of ineligible members	7	5	5	4	4	4

obligations to the IMF, extended burden-sharing arrangements were established in July 1990 that provided for further adjustments to the rate of charge and the rate of remuneration. The additional precautionary balances generated under these arrangements were placed to a second Special Contingent Account (SCA-2). The SCA-2 was established as a safeguard against potential losses on credit extended from the GRA under a successor arrangement, following successful completion of a "rights accumulation program" (under which a country in protracted arrears accumulates "rights" to future IMF purchases through its adjustment and reform efforts; see next section), and also to provide additional liquidity for financing the encashment of accumulated rights. The adjustments under the extended burden-sharing arrangements ended in 1996/97, after the target amount of SDR 1 billion had been accumulated in the SCA-2.

Settlements of overdue charges previously deferred amounted to SDR 6.5 million in 1997/98, of which SDR 1.2 million had given rise to burden-sharing adjustments. When deferred charges that have resulted in burden-sharing adjustments are settled, an equivalent amount is refunded to the members that paid additional charges or received reduced remuneration. Cumulative refunds amounted to SDR 961.9 million as of April 30, 1998. Balances in the SCA-1 will be returned to contributors when all overdue financial obligations have been settled or at such earlier time as the IMF may decide. Balances in the SCA-2 will be returned when all outstanding purchases related to the encashment of rights have been repurchased or at such earlier time as the IMF may decide.

Unpaid charges due by members in protracted arrears and contributions to the SCA-1 resulted in adjustments to the basic rate of charge of 18 basis points and to the rate of remuneration of 21 basis points during 1997/98. The adjusted rate of charge and the adjusted rate of remuneration averaged 4.59 percent and 3.97 percent, respectively, during the financial year.

Following the retroactive reductions of charges totaling SDR 53 million, net income of SDR 164 million for 1997/98 was placed to the IMF's reserves, of which SDR 65 million was placed to the General Reserve. Total reserves increased to SDR 2.1 billion as of April 30, 1998, from SDR 2.0 billion a year earlier. For 1998/99, the Board agreed to set the proportion of the rate of charge to the SDR interest rate at 107 percent, so as to achieve a target amount of net income of SDR 107 million, in addition to the amount of net income generated under the SRF.

Precautionary balances generally available to protect the IMF's financial position against the consequences of overdue repurchases in the GRA—that is, reserves plus the balances in the SCA-1—totaled SDR 3.0 billion as of April 30, 1998, equivalent to 293 percent of outstanding GRA credit to member countries in arrears to the IMF by six months or more (SDR 1.0 billion). Total precautionary balances—reserves and the balances in the two Special Contingent Accounts—amounted to SDR 4.0 billion, equivalent to 8.1 percent of total outstanding GRA credit as of April 30, 1998.

In April 1998, the Board considered the level and adequacy of the IMF's precautionary balances. In reaching a judgment on the adequacy and the appropriate rate of accumulation of precautionary balances, Directors were guided by two general principles: precautionary balances should cover fully the credit outstanding to members in protracted arrears to the IMF; and precautionary balances should include a margin for the risk exposure related to credit extended to members currently meeting their payment obligations to the IMF in a timely manner. After taking into account the significant expansion of outstanding IMF credit during 1997/98—and such qualitative factors as the strength and perseverance of members' adjustment programs and members' progress toward medium-term balance of payments viability—Directors agreed to accelerate the rate of accumulation of the IMF's precautionary balances. As mentioned above, the rate of charge for 1998/99 was set at 107 percent of the SDR interest rate to generate non-SRF income of SDR 107 million, equivalent to 5 percent of the IMF's reserves at the beginning of the financial year, and an equal amount is

Table 14
Arrears to the IMF of Countries with Obligations Overdue by Six Months or More, by Type and Duration, as of April 30, 1998
(Millions of SDRs)

		By Type			By Duration			
	Total	General Department (incl. SAF)	SDR Department	Trust Fund	Less than one year	1–2 years	2–3 years	3 years or more
Afghanistan, Islamic State of	2.5	—	2.5	—	1.2	1.1	0.3	—
Congo, Democratic Republic of the	334.0	328.6	5.4	—	35.0	34.9	29.5	234.7
Iraq	33.0	—	33.0	—	4.1	3.7	4.1	21.1
Liberia	454.6	407.4	16.4	30.8	10.9	10.4	11.2	421.9
Somalia	194.3	180.4	6.2	7.7	6.2	6.9	7.3	173.9
Sudan	1,156.2	1,079.0	0.1	77.1	25.4	25.2	29.0	1,076.6
Yugoslavia, Federal Republic of (Serbia/Montenegro)	86.6	71.1	15.5	—	5.5	9.1	9.7	62.3
Total	**2,261.2**	**2,066.5**	**79.1**	**115.6**	**88.3**	**91.3**	**91.2**	**1,990.3**

to be added to the SCA-1. Furthermore, net operational income from the SRF for 1998/99, after meeting the expenses of administering the ESAF Trust, will be placed to the IMF's General Reserve at the end of the financial year.

Overdue Financial Obligations

The level of outstanding overdue financial obligations to the IMF increased slightly in 1997/98 to SDR 2.3 billion on April 30, 1998, from SDR 2.2 billion a year earlier.[24] There were no new cases of protracted arrears in 1997/98, and the number of countries in arrears to the IMF by six months or more remained at seven. Selected data on arrears to the IMF are shown in Table 13, and further information on countries' overdue obligations by type and duration is shown in Table 14.

As of April 30, 1998, four countries were ineligible to use the general resources of the IMF, pursuant to declarations under Article XXVI, Section 2 *(a)*—the Democratic Republic of the Congo (formerly Zaïre), Liberia, Somalia, and Sudan. These four countries accounted for 95 percent of total overdue obligations to the IMF on that date. Declarations of noncooperation—a further step under the strengthened cooperative strategy (see below)—were in effect with respect to three countries: the Democratic Republic of the Congo (issued February 14, 1992), Liberia (March 30, 1990), and Sudan (September 14, 1990). The voting rights of two countries remained suspended in 1997/98: the Democratic Republic of the Congo (effective June 2, 1994) and Sudan (August 9, 1993).

[24]The data in this section include the overdue financial obligations of the Federal Republic of Yugoslavia (Serbia/Montenegro), which has not yet completed arrangements for succession to IMF membership.

Progress Under the Strengthened Cooperative Strategy

The strengthened cooperative strategy to resolve the problem of protracted overdue obligations to the IMF has been in effect since May 1990. The three key elements of the strategy—prevention, intensified collaboration, and remedial measures—continued to be implemented in 1997/98 to prevent the emergence of new arrears and to help overdue countries find solutions to their arrears problems.

The main *preventive element* against the emergence of new arrears is the specification and implementation of a strong and comprehensive macroeconomic adjustment program supported by an IMF arrangement. Such a program would include appropriate conditionality with respect to the use of IMF resources, technical assistance in the formulation and implementation of the program, and the assurance, through multilateral efforts as necessary, of adequate financing in support of the program. In addition, assessments of member countries' medium-term balance of payments viability and capacity to repay the IMF play an important role.

The *intensified collaborative aspect* of the arrears strategy was designed to help cooperating member countries in arrears to the IMF resolve their arrears problems. It provides a framework for members in arrears to establish a strong track record of policy performance and payments to the IMF, and in turn, to mobilize bilateral and multilateral financial support for their adjustment efforts and to clear arrears to the IMF and other creditors. Pursuit of the intensified collaborative approach, including use of the rights approach described below, has succeeded in resolving several cases of members with large and protracted arrears. It has also contributed to an improvement in policy performance and payments to the IMF by some other overdue members.

The rights approach, established in 1990, allows an eligible member (limited to the 11 members that were in protracted arrears to the IMF at the end of 1989) to establish a track record of policy performance and payments to the IMF to serve as a basis for the accumulation of "rights" to disbursements from the IMF under a subsequent arrangement following the clearance of arrears to the IMF. In light of the risks associated with large disbursements to countries previously in protracted arrears, the SCA-2 was established as an added precautionary measure and to provide additional liquidity to assist in the financing of encashments of rights under arrangements in the GRA. To allay concerns about access to ESAF resources by these countries, the IMF pledged to mobilize up to three million ounces of gold, in respect of encashments of rights under ESAF arrangements, in the event of a potential shortfall in resources available to meet ESAF Trust obligations.

The deadline for entry into a rights accumulation program has been extended on a number of occasions. Most recently, in March 1998, the Board agreed to extend the availability of the rights approach until the spring 1999 meeting of the Interim Committee. The rights approach was instrumental in the clearance of arrears and normalization of IMF relations with three members—Peru, Sierra Leone, and Zambia. Five other rights-eligible members—Cambodia, Guyana, Honduras, Panama, and Vietnam—settled their arrears without recourse to the rights approach. Of the 11 rights-eligible countries, Liberia, Somalia, and Sudan continue to have outstanding overdue obligations to the IMF.

The preventive and collaborative elements of the arrears strategy are complemented by *remedial measures* that seek to protect the IMF's resources from further use by members in arrears and set in motion a concerted effort to resolve the problems of those members. These measures consist of concrete actions to be taken on the basis of a specified timetable. This timetable provides a framework for the Board's consideration of various measures, which are implemented if the Board considers that, taking into account the particular circumstances of the case, the member concerned is not cooperating with the IMF in addressing the problem of its overdue obligations.

When a member country has been in arrears to the IMF for a month, the Managing Director notifies the Board concerning the member's overdue financial obligations. Six such notifications were issued in 1997/98. In five of these cases, the arrears were cleared before the issuance of a complaint, which occurs after arrears have been outstanding for two months. Prior to the issuance of a complaint, when a member has been in arrears for six weeks, the Managing Director is to consult with and recommend to the Board that a communication concerning the member's situation be sent to all, or selected, IMF Governors. Two such consultations took place in 1997/98. In the event, as the arrears that gave rise to one of them were cleared shortly thereafter, only one set of telexes was sent to selected Governors. A complaint (with regard to arrears in the General Department) was subsequently issued under Rule K-1 with respect to this member. This complaint was withdrawn following clearance of the member's arrears in October 1997.

The Board reviewed Liberia's overdue obligations to the IMF on March 2, 1998, for the first time in three years, following an improvement in the political and security situation in Liberia. The Board decided not to proceed with the next step under the timetable of remedial measures—namely, initiating the procedure on suspending the member's voting rights—in light of Liberia's recent efforts to cooperate with the IMF, including making regular monthly payments to the IMF, and the authorities' commitment to implement further policy reforms in the period ahead. The Board decided to review Liberia's overdue obligations again within six months.

The Board reviewed the decision suspending the voting rights of the Democratic Republic of the Congo on two occasions during 1997/98. At the most recent review, on March 18, 1998, the Board regretted the further increase in the Democratic Republic of the Congo's arrears to the IMF and noted the intention of the authorities to resume payments to the IMF; the Board urged the authorities to finalize agreement with the staff on a schedule of regular monthly payments. While the Board welcomed the authorities' recent policy efforts, it urged them to maintain a close policy dialogue with the staff with a view to formulating, as early as conditions permitted, a comprehensive adjustment and reform program that could be monitored by the staff. The Board decided to review the Democratic Republic of the Congo's overdue obligations to the IMF again by June 29, 1998; at that time, it would consider initiating the procedure on compulsory withdrawal, unless the Congo had resumed cooperation with the IMF in the areas of policy implementation and payments performance.

Compulsory withdrawal is the final and most severe sanction in the scale of remedial measures. In the case of Sudan, which has the largest and most protracted arrears to the IMF, the procedure for compulsory withdrawal was initiated on April 8, 1994, with a complaint issued by the Managing Director. The Board considered this complaint on two occasions during 1997/98. At the most recent review, on February 27, 1998, the Board again deferred action on a recommendation to the Board of Governors, in the light of Sudan's regular monthly payments to the IMF and continued satisfactory implementation of the program of economic adjustment presented to the IMF in 1997; its adoption of a strengthened program for 1998 to be monitored by the IMF staff; and its proposed payments schedule for 1998, which would lead to a further reduction in Sudan's arrears to the IMF. The decision provided that the next review of the Managing Director's complaint with respect to Sudan's compulsory withdrawal would be held within 12 months, or at the next Article IV consultation, whichever was earlier. The Board further decided that if Sudan failed to continue its satisfactory performance, the Board would meet promptly to review the situation and recommend compulsory withdrawal to the Board of Governors. The Board encouraged Sudan to enter into discussions with IMF staff on measures to extend and broaden the staff-monitored program and to make all efforts to increase payments to the IMF and to regularize relations with other creditors, as the basis for closer cooperation with the IMF in the medium term.

SDR Department

The SDR is an international reserve asset created by the IMF under the First Amendment to its Articles of Agreement to supplement existing reserve assets. First allocated in January 1970, total SDR allocations amount to SDR 21.4 billion. SDRs are held largely by IMF member countries—all of which are participants in the SDR Department—with the balance held in the IMF's General Resources Account and by official entities prescribed by the IMF to hold SDRs. Prescribed holders do not receive SDR allocations, but they can acquire and use SDRs in transactions and operations with participants in the SDR Department and with other prescribed holders under the same terms and conditions as participants. During 1997/98, the number of prescribed holders remained unchanged at 15.[25]

The SDR is the unit of account for IMF operations and transactions. It is also used as a unit of account, or the basis for a unit of account, by a number of other international and regional organizations and international conventions. In addition, to a very limited extent, the SDR has been used to denominate financial instruments created outside the IMF by the private sector (private SDRs). At the end of 1997/98, the currencies of four member countries were pegged to the SDR.

Following a broad review of the role and functions of the SDR in the light of changes in the world financial system, and to ensure that all participants in the SDR Department would receive an equitable share of cumulative SDR allocations, the Board of Governors adopted a resolution in September 1997 proposing a Fourth Amendment to the IMF's Articles of Agreement.[26] If approved by the membership, the amendment would provide the authority under Article XV for a special one-time allocation of SDR 21.4 billion, which would raise all participants' ratios of cumulative SDR allocations to quota under the Ninth General Review of Quotas to a common benchmark ratio of 29.315788813 percent. Appendix II, Table II.11 shows the amount of SDRs each participant will be eligible to receive under the special allocation. The proposed amendment, which will become effective when approved by three-fifths of the members having 85 percent of the total voting power, also provides for future participants to receive a special allocation following the later of (1) the date of their participation or (2) the effective date of the Fourth Amendment. The proposed amendment would not affect the IMF's existing power to allocate SDRs based on a finding of a long-term global need to supplement reserves as and when that need arises.

Table 15
SDR Valuation Basket
(As of January 1, 1996)

Currency	Percentage Weight	Amount of Currency Units
U.S. dollar	39	0.582
Deutsche mark	21	0.446
Japanese yen	18	27.2
French franc	11	0.813
Pound sterling	11	0.105

SDR Valuation and Interest Rate Basket

Since January 1, 1981, the value of, and interest rate on, the SDR has been based on a basket of five currencies. In September 1995, the Board reviewed the valuation of the SDR, and the valuation basket was revised effective January 1, 1996. The currencies included in the current basket, which are those of the five member countries with the largest exports of goods and services during the five-year period ended one year prior to the date of the revision, are the same as those in the previous basket. The weights of the currencies were modified, however, to reflect changes in their relative importance in international trade and reserves, as measured by the value of exports of goods and services of the countries issuing them and the balances of the currencies held as reserves by members of the IMF. The initial weights and the corresponding amounts of each of the five currencies in the revised basket are shown in Table 15.

[25]Prescribed holders of SDRs are the African Development Bank, African Development Fund, Arab Monetary Fund, Asian Development Bank, Bank of Central African States, Bank for International Settlements, Central Bank of West African States, East African Development Bank, Eastern Caribbean Central Bank, International Bank for Reconstruction and Development, International Development Association, International Fund for Agricultural Development, Islamic Development Bank, Latin American Reserve Fund, and Nordic Investment Bank.

[26]See Appendix III.

Table 16
Transfers of SDRs
(In millions of SDRs)

	Annual Averages[1]					Financial Years Ended April 30			
	1/1/70–4/30/78	5/1/78–4/30/81	5/1/81–4/30/83	5/1/83–4/30/87	5/1/87–4/30/95	1996	1997	1998	1/1/70–4/30/98
Transfers among participants and prescribed holders									
Transactions with designation									
From own holdings	221	294	815	165	—	—	—	—	5,016
From purchase of SDRs from IMF	43	1,150	1,479	1,744	123	—	—	—	14,727
Transactions by agreement	439	771	1,262	3,121	6,031	8,931	7,411	8,567	94,132
Prescribed operations	—	—	277	520	1,156	1,951	88	86	14,009
IMF-related operations	—	—	—	43	244	704	606	901	4,335
Net interest on SDRs	42	161	259	285	345	319	268	284	6,116
Total	**744**	**2,377**	**4,092**	**5,878**	**7,899**	**11,905**	**8,372**	**9,893**	**138,336**
Transfers from participants to General Resources Account									
Repurchases	306	809	702	991	1,695	5,572	4,364	2,918	36,756
Charges	259	620	1,233	2,574	1,766	1,985	1,616	1,877	36,386
Quota payments	24	1,703	175	1,591	1,625	70	—	—	25,097
Interest received on General Resources Account holdings	16	135	551	307	136	53	51	44	4,102
Assessments	1	1	2	4	4	4	4	4	75
Total	**606**	**3,269**	**2,662**	**5,466**	**5,226**	**7,683**	**6,035**	**4,844**	**102,417**
Transfers from General Resources Account to participants and prescribed holders									
Purchases	208	1,474	2,227	2,554	2,631	6,460	4,060	4,243	56,629
Repayments of IMF borrowings	—	88	86	614	1,091	—	—	—	11,620
Interest on IMF borrowings	4	27	183	443	254	—	—	—	4,286
In exchange for other members' currencies									
Acquisitions to pay charges	—	3	95	896	324	49	224	20	6,666
Acquisitions to make quota payments	—	114	—	—	—	—	—	—	341
Reconstitution	175	33	—	—	—	—	—	—	1,551
Remuneration	26	165	604	1,536	987	1,092	1,055	1,220	19,333
Other	29	7	22	17	59	259	27	90	1,226
Total	**442**	**1,911**	**3,217**	**6,059**	**5,346**	**7,859**	**5,366**	**5,574**	**101,655**
Total transfers	**1,792**	**7,556**	**9,971**	**17,404**	**18,472**	**27,448**	**19,773**	**20,256**	**342,408**
General Resources Account holdings at end of period	**1,371**	**5,445**	**4,335**	**1,960**	**1,001**	**825**	**1,494**	**764**	**764**

[1]The first column covers the period from the creation of the SDR until the Second Amendment to the Articles of Agreement; the second column covers the period of the SDR allocations in the third basic period and the Seventh General Review quota increases; after an intervening period represented by the third column, the fourth column covers the period of the Eighth General Review quota increases and before the introduction of the two-way arrangements to facilitate transactions by agreement; and the fifth column covers, except for the three most recent financial years, the period since the designation mechanism became of a precautionary nature.

Since August 1, 1983, the SDR interest rate has been calculated weekly as a weighted average of interest rates on selected short-term instruments in the five countries whose currencies are included in the valuation basket. With effect from January 1, 1991, the interest rates and instruments are the market yield on three-month treasury bills in the United States and the United Kingdom, the three-month interbank deposit rate in Germany, the three-month rate on certificates of deposit in Japan, and the three-month rate for treasury bills in France.

SDR Transactions and Operations

Total transfers of SDRs in 1997/98 increased slightly to SDR 20.3 billion from SDR 19.8 billion in 1996/97. An increase in transfers among participants and prescribed holders (SDR 1.5 billion) more than offset a decline in transfers involving the GRA

(SDR 1.0 billion). Contributing to the increase in transfers among participants and prescribed holders was a significant reduction in the SDR holdings of prescribed holders. Summary data on transfers of SDRs by participants, the GRA, and prescribed holders are presented in Table 16 (see also Appendix II, Table II.12).

Transfers of SDRs from participants to the GRA fell to SDR 4.8 billion in 1997/98 from SDR 6.0 billion in 1996/97, reflecting mainly a fall in repurchase obligations discharged in SDRs to SDR 2.9 billion in 1997/98 from SDR 4.4 billion in 1996/97. Because the expansion of credit outstanding took place in the second half of the financial year, charges paid in SDRs increased only slightly, to SDR 1.9 billion in 1997/98 from SDR 1.6 billion in 1996/97.

Transfers of SDRs from the GRA to participants and prescribed holders were constrained by the lower receipts of SDRs from participants, but rose slightly to SDR 5.6 billion in 1997/98 from SDR 5.4 billion in 1996/97. Members' purchases made in SDRs of SDR 4.2 billion represented the largest category of transfer, followed by remuneration payments of SDR 1.2 billion to members with creditor positions.

Transfers among participants and prescribed holders rose to SDR 9.8 billion in 1997/98, from SDR 8.4 billion in 1996/97, largely reflecting increases in transactions by agreement and in IMF-related operations.[27] Transactions by agreement totaled SDR 8.6 billion during 1997/98, compared with SDR 7.4 billion in 1996/97. Participants continued to acquire substantial amounts of SDRs in transactions by agreement in order to discharge their financial obligations to the IMF; they also sold in transactions by agreement most of the SDRs they received in purchases and ESAF loan disbursements. For the most part, transactions by agreement continued to be conducted with the assistance of 12 members with standing arrangements with the IMF to buy or sell SDRs for one or more freely usable currencies at any time provided that their SDR holdings remained within certain limits. These "two-way" arrangements accommodated a very substantial proportion of desired acquisitions and sales of SDRs, obviating the need for recourse to the designation mechanism (Box 16). In this regard, the reduction in the holdings of prescribed holders during the year (by SDR 0.9 billion) was accommodated largely through transactions by agreement with members with two-way arrangements and had the effect of making more SDRs available for use by participants. Despite the improved supply of SDRs for transactions by agreement, requests for acquisitions totaling SDR 0.2 billion by a number of participants could not be met as of the end of the financial year. IMF-related operations, representing the use of SDRs in connection with the SAF and ESAF, increased to SDR 0.9 billion in 1997/98 from SDR 0.6 billion in 1996/97.

Box 16

Designation Plan

Article XIX of the IMF's Articles of Agreement provides for a designation mechanism under which participants whose balance of payments and reserve positions are deemed sufficiently strong are obliged, when designated by the IMF, to provide freely usable currencies in exchange for SDRs up to specified amounts. The designation mechanism ensures that, in case of need, participants can use their SDRs to obtain freely usable currencies at short notice. To ensure that such use is not for the sole purpose of changing the composition of reserves, a participant wishing to sell SDRs in a transaction with designation is required to make a representation to the IMF that it has a need to use its SDRs.

The designation mechanism is executed through quarterly designation plans, approved by the Board, which list participants subject to designation and set maximum limits to the amounts of SDRs that they can be designated to receive during the quarter.

Apart from a participant being "sufficiently strong" for designation, the amounts of designation for individual participants are determined in a manner that over time promotes equality in the "excess holdings ratios" of participants (i.e., SDR holdings above or below allocations as a proportion of participants' official gold and foreign exchange reserves).

Since September 1987, there have been no transactions with designation because potential exchanges of SDRs for currencies have been accommodated through voluntary transactions by agreement with other participants, primarily the 12 participants that have established with the IMF standing arrangements to buy or sell SDRs for one or more freely usable currencies at any time, provided that their SDR holdings remain within a certain range. These arrangements have helped accommodate members' desires to both buy and sell SDRs and have facilitated the circulation of SDRs in the system.

Pattern of SDR Holdings

The distribution of SDR holdings among various groups of holders changed somewhat in 1997/98, reflecting transfers during the year, with the IMF playing the major role in the circulation and redistribution of SDRs. In making transfers of SDRs under the quarterly operational budgets, the IMF has sought since early 1993 to maintain its SDR holdings in a range of SDR 1.0–1.5 billion by transferring each quarter the SDRs it receives to debtor members in connection with their purchases and to creditors in the payment of

[27]IMF-related operations are those between members and the IMF conducted through the intermediary of a prescribed holder.

remuneration. To meet part of the substantial demand for use of IMF resources that developed in the second half of the year, the IMF reduced its SDR holdings to levels below the lower end of its target range, while maintaining adequate provisions for the payment of remuneration to its creditor members. The GRA held SDR 0.8 billion as of April 30, 1998.

Debtor countries received more SDRs in purchases from the IMF and in transactions by agreement than they sold to obtain freely usable currencies or used to meet their financial obligations to the IMF, resulting in an increase in their SDR holdings relative to their net cumulative allocations (Appendix II, Table II.13). In terms of net cumulative allocations, the SDR holdings of nonindustrial countries increased from 60.5 percent to 69.4 percent during 1997/98, while the holdings of industrial countries increased from 99.8 percent to 107.0 percent. The latter was mainly because the industrial countries absorbed the reduction in the holdings of prescribed holders, which decreased during 1997/98 from SDR 1.3 billion to SDR 0.4 billion, largely as a consequence of changes in the IMF's investments of SAF and ESAF resources in official SDRs maintained with the Bank for International Settlements.