

# INTERNATIONAL MONETARY FUND

ANNUAL REPORT 2010 SUPPORTING A BALANCED GLOBAL RECOVERY



# THE INTERNATIONAL MONETARY FUND

The IMF is the world's central organization for international monetary cooperation. With 187 member countries (as of June 2010), it is an organization in which almost all of the countries in the world work together to promote the common good. The IMF's primary purpose is to safeguard the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to buy goods and services from one another. This is essential for achieving sustainable economic growth and raising living standards.

All of the IMF's member countries are represented on its Executive Board, which discusses the national, regional, and global consequences of each member's economic policies. This *Annual Report* covers the activities of the Executive Board and Fund management and staff during the financial year May 1, 2009, through April 30, 2010.

The main activities of the IMF include

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

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

Additional information on the IMF and its member countries can be found on the Fund's website, [www.imf.org](http://www.imf.org).

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Ancillary materials for the *Annual Report*—Web Boxes, Web Tables, Appendixes (including the IMF's financial statements for the financial year ended April 30, 2010), and other pertinent documents—can be accessed via the *Annual Report* web page at [www.imf.org/external/pubs/ft/ar/2010/eng](http://www.imf.org/external/pubs/ft/ar/2010/eng). Print copies of the financial statements are available from IMF Publication Services, 700 19th Street, N.W., Washington, DC 20431. A CD-ROM version of the *Annual Report*, including the ancillary materials posted on the web page, is also available from IMF Publication Services.

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### The IMF's financial year is May 1 through April 30.

The unit of account of the IMF is the SDR; conversions of IMF financial data to U.S. dollars are approximate and provided for convenience. On April 30, 2010, the SDR/U.S. dollar exchange rate was US\$1 = SDR 0.661762, and the U.S. dollar/SDR exchange rate was SDR 1 = US\$1.51112. The year-earlier rates (April 30, 2009) were US\$1 = SDR 0.667632 and SDR 1 = US\$1.49783.

"Billion" means a thousand million; "trillion" means a thousand billion; minor discrepancies between constituent figures and totals are due to rounding.

As used in this Annual Report, the term "country" does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.

## MESSAGE FROM THE MANAGING DIRECTOR AND CHAIR OF THE EXECUTIVE BOARD



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

As I reflect on the past year, one key lesson comes to mind: the economic policy collaboration that served the world so well during the crisis must be sustained. This is really one of the great legacies of the crisis—perhaps for the first time in history, countries came together in a spirit of solidarity to face common problems with common solutions.

The global economy is recovering, even if the crisis is not yet completely behind us. Some countries are growing strongly, while others are seeing much weaker rebounds, and risks to global growth have once again risen in recent months. In this globalized world, events that start in a single country can have repercussions far beyond that country. The challenges ahead are great—especially in terms of reigniting strong, sustainable, and balanced growth and creating jobs. Now more than ever, the unity of purpose that guided world leaders during the crisis must be maintained. Of course, cooperation does not mean uniformity, and diverse policies must respond to diverse challenges.

During the crisis, the IMF supported policy cooperation, striving to respond effectively to the serious challenges faced by our membership. We committed more than US\$200 billion in lending and pumped another US\$283 billion in SDRs into the system. Our new Flexible Credit Line provided a strong safety net for countries with exemplary records. Since the crisis began in 2008, we have tripled our concessional lending commitments to low-income countries, charging zero interest through 2012. And we emphasized country ownership by making our lending programs more flexible, streamlining policy conditions, and being responsive to the needs of the most vulnerable groups in crisis countries.

I believe our efforts helped soften the blow of the crisis. In program countries, output losses were smaller relative to past crises, and the kinds of wrenching adjustment seen in the past—large movements in exchange rates and interest rates—were avoided. Spreads narrowed for the countries with arrangements under the Flexible Credit Line. And in most cases, including among low-income countries, fiscal policy was able to act as a brake on the economic downturn.

As we look to the future, the IMF needs to become even more responsive and effective in addressing the new challenges facing our membership. Last year in Istanbul, the International Monetary and Financial Committee asked us to address four key reform areas: our mandate, our financing role, multilateral surveillance, and governance. We have made much progress over the past year. On surveillance, we must be seen as both a truth-teller and a trusted policy advisor. We need to focus more on systemic and cross-country issues, to take advantage of our true value added. And on lending, we are examining several options to strengthen global financial safety nets to help prevent crises and mitigate systemic shocks. These reforms are ongoing and reflect our continuing efforts to adapt our mandate to the realities of the modern world.

Finally, we need to forge ahead with quota and governance reforms, to give a greater voice to the dynamic emerging markets and developing countries that are becoming ever more important in the global economy. This is a difficult and complex area, but I am confident we can make further progress by the end of the year. These reforms will help build a more relevant IMF, a more legitimate and truly representative IMF, and—above all—a more effective IMF.

I am proud of the IMF's accomplishments over the past year, and I look forward to continuing to work with our membership to address the pending challenges facing the global economy.

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The *Annual Report* of the IMF's Executive Board to the Fund's Board of Governors is an essential instrument in the IMF's accountability. The Executive Board is responsible for conducting the Fund's business and consists of 24 Executive Directors appointed by the IMF's 187 member countries, while the Board of Governors, on which every member country is represented by a senior official, is the highest authority governing the IMF. The publication of the *Annual Report* represents the accountability of the Executive Board to the Fund's Board of Governors.

## LETTER OF TRANSMITTAL TO THE BOARD OF GOVERNORS



July 29, 2010

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, 2010, 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, 2011, are presented in Chapter 5. The audited financial statements for the year ended April 30, 2010, of the General Department, the SDR Department, and the accounts administered by the IMF, together with reports of the external audit firm thereon, are presented in Appendix VI, which appears on the CD-ROM version of the Report, as well as at [www.imf.org/external/pubs/ft/ar/2010/eng/index.htm](http://www.imf.org/external/pubs/ft/ar/2010/eng/index.htm). The external audit and financial reporting processes were overseen by the External Audit Committee, comprising Mr. Thomas O'Neill, Mr. Ulrich Graf, and Ms. Amelia Cabal, as required under Section 20(c) of the Fund's By-Laws.

Handwritten signature of Dominique Strauss-Kahn in black ink.

**Dominique Strauss-Kahn**

Managing Director and Chair of the Executive Board



# 1 | OVERVIEW



# 1 | OVERVIEW

**As FY2010 drew to a close,<sup>1</sup> the global economy appeared to be emerging from the worst recession in over 60 years.** The recovery remained uneven, however, with some economies growing very robustly, while others were experiencing more tepid rebounds, and downside risks were increasing—and continued to do so in early FY2011. Policies are needed to address these risks and set the stage for a return to strong and sustained global growth.

During the year, the IMF remained at the center of the international community's efforts to return the global economy to a sustainable growth path. Efforts focused on providing policy advice to members to support recovery, reinforcing the global financial safety net, and fortifying the international financial system. Work advanced on strengthening the Fund, with a focus on reviewing the institution's mandate, modernizing its surveillance work, ensuring that it has adequate financial resources, and reforming its governance structure. In other areas, the restructuring of the income and expenditure sides of the budget continued, human resource policies were modified, transparency increased, and outreach efforts broadened.

## EMERGING FROM THE GREAT RECESSION

The global financial crisis that erupted in 2008 took a devastating toll on the world economy. The availability of credit fell, trade collapsed, capital flows dried up, growth slumped, and unemployment rose significantly. While the epicenter of the crisis was a number of advanced economies (and specifically the financial sectors in those countries), the crisis was quickly transmitted to all corners of the globe.

Policymakers responded to the crisis by implementing a set of bold and aggressive monetary, fiscal, and financial sector policy measures that were delivered in an environment of unprecedented cooperation. These concerted policy actions were successful in arresting and then reversing the downward economic spiral. Financial market conditions improved, and the first signs of an emerging recovery became evident in the second half of 2009, with growth gaining steam in early 2010. Nevertheless, the recovery remained moderate and uneven, with advanced country growth relatively weak, but emerging markets and low-income countries generally rebounding strongly.

Although the recovery is proceeding, the outlook is subject to considerable risks. A key task ahead is to reduce sovereign vulnerabilities, which could threaten financial stability and extend the crisis, as public debt levels have increased significantly. The unwinding of monetary accommodation, though necessary and already under way in major emerging markets and some advanced economies, may need to wait in the major advanced economies, in favor of fiscal adjustment and the withdrawal of emergency support to the financial sector. Lingering high unemployment remains a core policy challenge with both macroeconomic and social implications, raising the concern that temporary joblessness will be transformed into structural unemployment. Financial reform must also be high on the policy agenda, and the contours of such reform are clear: higher quantity and quality of capital and better liquidity risk management, a toolkit to address systemic risk in general and too-important-to-fail institutions in particular, and a practical framework to facilitate resolution of cross-border issues. Finally, to restore and sustain robust global growth, demand needs to be rebalanced across countries.

## THE IMF'S ROLE IN SUPPORTING A DURABLE RECOVERY

During FY2010, the IMF played a key role in supporting the turnaround in global economic activity. It advocated policy responses that supported the recovery and set the stage for sustained growth, including through a key role in the Group of Twenty (G-20) meetings, and provided support to countries through large programs, including precautionary Flexible Credit Lines (FCLs). It also introduced a number of new measures and advocated policy adaptations in several areas:

- **Strengthening the global financial safety net.** The IMF expanded its lending resources during FY2010 and approved and implemented a general allocation of Special Drawing Rights (SDRs) to infuse liquidity into the global economy. It revised and expanded its financing facilities to ensure their continued alignment with member needs through the crisis and its aftermath. Responding to the particularly severe impact of the crisis on many low-income countries, the Fund increased its concessional lending capacity and modified the framework through which it conducts such lending. The Fund's Executive Board approved 14 nonconcessional financing arrangements totaling SDR 72.2 billion during the financial year, with the majority (SDR 52.2 billion) linked to FCLs. Additionally, loan commitments under the Fund's concessional facilities for low-income countries increased sharply, to SDR 2.2 billion.
- **Maintaining policy stimulus until a sustained recovery in private demand is apparent, while designing, communicating, and beginning to implement credible medium-term fiscal consolidation strategies, depending on countries' specific circumstances.** The Fund's advice was that fiscal stimulus should be fully implemented, except in countries that faced large increases in risk premiums, where the urgency was greater and consolidation needed to begin. If macroeconomic developments proceed as projected in the IMF's *World Economic Outlook*, most advanced economies should embark on fiscal consolidation in 2011. Consolidation strategies needed to be implemented in a way that was as "growth-friendly" as possible and accompanied by structural reforms that would



**Left** Workers manufacture petroleum gas canisters at a factory in Cikarang, Indonesia. **Right** IMFC meeting at the October 2009 Annual Meetings, Istanbul Congress Center, Turkey.

boost potential growth. Insofar as inflation expectations remained well anchored, monetary policy could continue being accommodative as fiscal consolidation progressed. Emerging markets would need to lead the tightening cycle, as they were experiencing faster recoveries than advanced economies. Looking forward, the balance of Fund policy advice has shifted toward fiscal consolidation and away from fiscal stimulus.

- **Reforms to strengthen the global financial system.** While IMF estimates of the losses suffered by financial systems during the crisis declined during the course of FY2010 as growth restarted and financial markets rebounded, financial institution balance sheets remained stressed in many cases. Fund policy advice deemed repairing balance sheets and revamping financial sector regulation and supervision to be essential for reducing risks and supporting the credit growth needed to underpin a durable recovery.
- **Policies to rebalance global growth.** IMF policy advice called for countries that ran excessively high external deficits before the crisis to put in place plans to consolidate their public finances to maintain investor confidence, again in ways that were as growth-friendly as possible. The onus would then fall on those countries that ran excessive current account surpluses to power global demand by shifting from export-propelled growth toward domestic demand. As the currencies of economies with excessive deficits depreciated, then it would follow that those of surplus countries must appreciate. The IMF advised that rebalancing should be supported by financial

sector reform and appropriate structural policies in both surplus and deficit countries.

- **Capacity building.** The crisis increased the importance of the IMF's technical assistance to build capacity in member countries, both for formulating and for implementing sound macroeconomic policies. The Fund responded urgently to increasing needs in this area, providing technical assistance to a number of countries particularly in dealing with macroeconomic aspects of the crisis.

## STRENGTHENING THE FUND TO MEET THE CHALLENGES AHEAD

Significant risks to the recovery remained as FY2010 ended and were expected to persist for some time. An increasing focus was therefore placed during the financial year on strengthening the IMF so it is fully equipped for its evolving role in the global economy. At the October 2009 Annual Meetings in Istanbul, the International Monetary and Financial Committee (IMFC) identified key priorities for the institution going forward:

- Reassess the mandate of the institution to encompass the full range of macroeconomic and financial sector policies that bear on global stability;
- Continue to strengthen its financing capacity, to help members cope with balance of payments problems, including financial volatility, and reduce the perceived need for excessive reserve accumulation;

- Sharpen multilateral surveillance and better integrate it into bilateral surveillance, and undertake further strengthening of cross-country, regional, and multilateral surveillance;
- Reform Fund governance, to increase the Fund's legitimacy and effectiveness.

### Reviewing the IMF's mandate

At the October 2009 Annual Meetings, the IMFC called on the IMF to "review its mandate to cover the full range of macro-economic and financial sector policies that bear on global stability," asking for a report by the 2010 Annual Meetings. Surveillance, financing, and the stability of the international monetary system—broad areas of focus in the Fund's mandate-related work—became a focus of staff papers and Board discussions in the closing months of FY2010 and continuing into the current financial year.

### Financing for the twenty-first century

#### IMF resources

Ensuring that the IMF has adequate resources to meet potential demands was a key focus of the Executive Board in FY2010. In accordance with objectives identified by G-20 leaders in April 2009 and subsequently endorsed by the IMFC, the IMF took rapid and decisive action to assess its available resources

and ensure their continuing adequacy for meeting members' needs. Discussions with a number of member countries regarding potential additional bilateral borrowing agreements began in the first half of 2009,<sup>2</sup> and 15 more agreements were signed and took effect in FY2010. Under a framework for issuance of notes to member countries and central banks that was approved by the Board during the year, three bilateral agreements to purchase IMF notes were also signed and became effective. The first use of borrowed resources made available under the various agreements took place in July 2009.

As the bilateral borrowing agreements were put in place as a rapid source of additional resources to meet crisis-driven financing needs, the IMF simultaneously moved to increase its lending resources on a more permanent basis. In November 2009, existing and potential new participants in the IMF's New Arrangements to Borrow (NAB)<sup>3</sup> reached agreement on an expanded and more flexible NAB. The Executive Board subsequently issued a decision expanding the NAB to SDR 367.5 billion (about US\$550 billion, at the end-FY2010 exchange rate) and adding 13 new participants, including a number of emerging market countries. In a subsequent discussion of the adequacy and composition of the IMF's lending resources, Executive Directors emphasized that the Fund is, and should remain, a quota-based institution, despite the large increase in available resources under the new NAB, and most saw a strong case for a substantial increase in the Fund's quotas, to ensure adequate quota resources to meet members' needs in most circumstances.

### Financing for member countries

In parallel with its efforts to ensure the adequacy of its resources, the IMF also worked extensively during the year on refining its lending toolkit to meet the needs of its member countries in the crisis and thereafter. The Board had approved a major overhaul of the Fund's nonconcessional lending framework at the end of FY2009, and in FY2010 it considered preliminary ideas on further modifications, including (1) refining the FCL by extending its duration, increasing the predictability of qualification, and removing the informal cap on access amounts; (2) establishing a Precautionary Credit Line for countries that do not meet the FCL's qualification requirements but have sound policies; and (3) developing a mechanism through which the IMF could offer liquidity lines to countries with potentially systemic effects. Further work is also planned to strengthen links with regional financing arrangements.

Extending the work it began in FY2009 with its reform of nonconcessional financing, the Executive Board in FY2010 approved reforms to the structure, conditionality, and financial terms of the IMF's concessional financing facilities for low-income countries. A new Poverty Reduction and Growth Trust (PRGT) was established to replace and expand the existing Poverty Reduction and Growth Facility-Exogenous Shocks Facility (PRGF-ESF) Trust, effective January 2010. Along with the new set of lending instruments, the IMF has more than doubled its financial assistance to low-income countries. Its concessional lending capacity is expected to increase

to US\$17 billion through 2014, including up to US\$8 billion in the first two years.

### Modernizing IMF surveillance

The global crisis emphasized the need to modernize IMF surveillance to ensure that spillovers from economic developments and policies in one country to others and the central role of the financial sector in affecting economic outcomes are adequately captured in surveillance assessments. The Board considered a number of proposals in this regard, including

- a greater focus on outward spillovers from countries whose policies or circumstances have an impact on the stability of the global system overall, thus helping bridge multilateral and bilateral perspectives;
- initiating new multilateral consultations as needed to foster collaboration and collective action on special topics that do not overlap with existing mechanisms (e.g., in the G-20 mutual assessment process) and to engage more with existing country groups; and
- strengthening financial sector surveillance by mapping interconnectedness across borders and sectors and the transmission channels of macrofinancial instability, filling gaps in financial sector data, and collaborating with key entities involved in financial stability work.



**Left** A fisherman dries fish on the Cape Maclear Peninsula in Malawi. **Right** IMFC meeting at the April 2010 Spring Meetings, IMF headquarters, Washington, D.C.

The Board also reviewed the Financial Sector Assessment Program (FSAP) during the year and strengthened it in a number of ways. It was agreed that expansion of country coverage and enhancement of the focus and frequency of assessments would increase the program's usefulness.

As part of a broader ongoing effort to increase its coordination with other international organizations, identified as a priority area by the Managing Director, the IMF made increased efforts in FY2010 to collaborate with other international bodies in areas related to its surveillance activities. In September 2009, the IMF was invited to play a role in the G-20 mutual assessment process, which has emphasized that coordinated economic policy has the potential to raise global growth in a sustained and balanced way. The IMF was asked to analyze how the G-20's respective national and regional policy frameworks fit together and examine the policies pursued by individual G-20 countries to assess whether they are collectively consistent with sustainable and balanced paths for the global economy. Together with the Financial Stability Board (FSB), the IMF also developed a semiannual early warning exercise to enhance capabilities for assessing risks to the global economy arising from events that, though unlikely, would have substantial impacts should they occur, and to identify options for mitigating these risks.

The crisis highlighted ways that data collection deficiencies impeded identification and evaluation of vulnerabilities, raising awareness of the importance of both sound data and strong data analysis in surveillance and policy. Working together, the IMF and FSB consulted extensively in FY2010 with official users of economic

and financial data in G-20 countries and at other international institutions, then issued recommendations on key information gaps revealed by the crisis. Through the launch of a website providing public access to a database of financial soundness indicators for selected member countries, the IMF took a step toward strengthening the international reporting of these indicators, one of the recommendations issued by the IMF-FSB study.

### Reforming IMF governance

As of the end of FY2010, the IMF's most recent quota reform, which was approved by the Board of Governors in April 2008, was still short of the required votes for ratification. The reform is intended, among other things, to advance the goals of increasing the voting share of dynamic emerging markets and enhancing the voice of low-income countries. In its April 2010 communiqué, the IMFC urged members to consent promptly to the reform. Work on additional quota reform began in FY2010 in the context of the Fourteenth General Review of Quotas, which is slated to be completed before January 2011. In its October 2009 communiqué, the IMFC expressed its support for a shift in quota share to dynamic emerging market and developing countries of at least 5 percent from overrepresented countries to underrepresented countries, using the current quota formula as a basis from which to work, and committed to protecting the voting share of the Fund's poorest members.

Responding to a call by the IMFC for a report on Fund governance, the Executive Board met in July 2009 for an initial discussion of the main issues and reform options from several reports and

consultations with civil society. The Executive Board presented its “Report to the IMFC on Reform of Fund Governance” prior to the October 2009 Annual Meetings, where the IMFC stressed the importance of governance reform in regard to Fund legitimacy and effectiveness. Subsequently, the Board discussed considerations on the size of the Fund (in connection with the Fourteenth General Review of Quotas), reforms to the IMFC process, the case for moving to an all-elected Executive Board, and the management selection process.

## **FINANCES, ORGANIZATION, AND ACCOUNTABILITY**

During FY2010, the IMF continued the implementation of a program of internal reforms approved by the Executive Board in 2008 to restructure both the IMF’s income and expenditures. On the income side, a key component of the reforms was the sale of a limited quantity of IMF gold, intended to enable the IMF to shift to a new income model and supplement its concessional lending resources. Approved by the Board in September 2009, gold sales were made to three central banks in October–November 2009, and sales on the market began in February 2010. On the expenditure side, significant further progress was made towards achieving permanent reductions in expenditures and staff positions.

In the area of human resources, the 2008 restructuring exercise led to a larger-than-expected number of voluntary separations just as crisis-related work generated a need for temporary additional

staff. An initial phase of internal redeployment was followed by a vigorous external recruitment effort that spilled over into FY2010. Recruitment efforts that were focused on underrepresented regions, part of ongoing activities to enhance diversity at the Fund, yielded encouraging, but mixed, results, and the Fund launched a Diversity Scorecard as a transparent way of tracking its progress toward achievement of its diversity objectives. Reforms were also introduced to sustain a positive performance culture and offer mechanisms for rewarding staff for high performance and provide avenues for career enhancement.

Important reforms to the IMF’s transparency policy during FY2010 continued a decade-long progression toward greater openness about the Fund’s activities. Among a number of changes made, the Board supported a shift to publication of country documents and related policy intention documents on a nonobjection basis and shortened the waiting period for archived documents to be made available to the public.

The IMF’s outreach efforts, like many aspects of its work, expanded and intensified as part of the response to the global crisis. Executive Directors and members of the management team stepped up visits to member countries, including a significant number of low-income countries. At the 2009 Annual Meetings in Istanbul, outreach activities aimed at stakeholders in economic policymaking worldwide included a Civil Society Policy Forum that brought together World Bank and Fund staff, civil society representatives, government officials, and others in a series of policy dialogs.



## 2 | DEVELOPMENTS IN THE GLOBAL ECONOMY AND FINANCIAL MARKETS



## 2 | DEVELOPMENTS IN THE GLOBAL ECONOMY AND FINANCIAL MARKETS

### **The past year has been a roller coaster for the global economy.<sup>4</sup>**

The severe financial crisis that followed the collapse of Lehman Brothers in September 2008 had a significant negative effect on the world economy, with global output falling by  $\frac{1}{2}$  percent in 2009. Advanced economies were the most significantly affected by the financial crisis, having to deal with a serious credit crunch, battered balance sheets, and rising unemployment. In these countries, output fell by  $3\frac{1}{4}$  percent in 2009. The crisis was transmitted swiftly across the globe through a number of channels—including a collapse in trade, a drying up of capital flows, and a drop in remittances. When the dust had settled, it became obvious that several emerging markets and low-income countries had been severely affected by the global crisis, the worst in over 60 years.

Policymakers responded to the crisis by implementing a set of bold and aggressive measures delivered in an environment of unprecedented cooperation. In monetary policy, countries pushed interest rates toward zero and embarked on unconventional measures. Central banks cooperated, with coordinated interest rate cuts and swap lines. In fiscal policy, countries adopted a countercyclical stance, accommodating the recession-induced increase in deficits and complementing it with a fiscal stimulus. All in all, major advanced economies and emerging markets delivered a 2 percent of GDP fiscal stimulus in 2009, and much of the gain came from the very act of coordination. Countries also put measures in place to support the financial system, including asset purchases, capital injections, and various types of guarantees.

These measures paid off. A recovery began to emerge in the second half of 2009 and gained steam in early 2010, although increased financial market volatility in May 2010 once again raised some questions about the recovery's durability. World growth is expected to hit  $4\frac{1}{2}$  percent in 2010 and  $4\frac{1}{4}$  percent in 2011, although the recovery is proceeding at varying speeds—trepidly in many advanced economies, more solidly elsewhere. Among advanced economies, the United States is growing faster than Europe or Japan. Among emerging markets and low-income countries, emerging Asia is out in front, while many emerging European and Commonwealth of Independent States economies are lagging behind. Advanced economies should grow by  $2\frac{1}{2}$  percent in 2010 and 2011. In contrast, annual growth in emerging markets and developing economies is projected to be  $6\frac{3}{4}$  percent in 2010 and  $6\frac{1}{2}$  percent in 2011, following a modest  $2\frac{1}{2}$  percent in 2009.

The uneven nature of the recovery will likely continue. The rapid rebound in emerging markets and developing economies reflects a more favorable starting position—in many cases, financial sectors in these countries were healthy and they ran prudent fiscal policies, giving them leeway to support activity during the downturn. In contrast, growth in many advanced economies is being held back by lasting damage to financial sectors and household balance sheets. In these regions, the recovery will be more sluggish than in the past.

Following a deep freeze, global financial markets also began to thaw. Risks to global financial stability have fallen substantially, but stability is not yet assured. The IMF's estimates of banking system write-downs through 2010 were revised downward from US\$2.8 trillion to US\$2.3 trillion. But while the aggregate situation is looking up, problem areas remain, and banks still face considerable challenges: a large amount of short-term funding needs to be financed over the next couple of years, more and higher-quality capital will be needed, and not all losses have yet been written down. In this environment, the recovery of private sector credit is bound to be weak, as credit demand is subdued and supply is constrained. Small and medium-sized enterprises are likely to bear the brunt of tight credit.

Despite the recovery in global growth, the outlook is subject to considerable uncertainty, especially with fiscal vulnerabilities coming to the fore in the advanced economies. Downside risks have clearly risen. Sovereign risks could threaten financial stability and extend the crisis. Markets have become increasingly unsettled by the significant fiscal consolidation challenges faced by some countries. This loss of confidence is already having serious effects, and the threat of contagion overshadows the recovery, especially in Europe. Room for policy maneuver in many advanced economies has become more limited, and in some cases exhausted, leaving the fragile recoveries exposed to new shocks.

A key task ahead is to reduce sovereign vulnerabilities. Fiscal policy appropriately cushioned the precipitous drop in private demand and staved off a far deeper recession, but public debt levels have moved significantly higher. Indeed, the debt-to-GDP ratio in advanced economies is expected to exceed 100 percent by 2014, 35 percentage points higher than before the crisis. Most of this increase is due to the slump in activity, with discretionary stimulus measures accounting for a relatively small portion. Fast-growing countries and those under pressure from

financial markets should start tightening. Most advanced economies do not need to tighten in 2010, but should commit to credible adjustment plans. And if the recovery proceeds as projected, they should initiate fiscal adjustment in 2011, in line with the evolving balance of IMF policy advice away from fiscal stimulus toward fiscal consolidation. With looming demographic pressures in advanced economies adding to medium-term fiscal challenges, entitlement reform should be a priority.

Fiscal adjustment must go hand in hand with measures to boost growth. Structural policies to kick-start economic activity, make labor markets more effective, and boost productivity are important in many advanced economies.

Monetary accommodation will also need to be unwound. In the major advanced economies, monetary tightening can take a back seat to fiscal adjustment and the withdrawal of emergency support to the financial sector, especially since inflation expectations remain well anchored and capacity utilization is still low. But in major emerging markets and in some advanced economies that are at the forefront of the recovery, central banks have already begun to reduce the degree of monetary accommodation. In some emerging markets, overcapacity in some sectors and deteriorating credit quality signal the need to tighten credit.

The uneven nature of the global recovery is complicating the policy environment, as different countries and different regions face different obstacles to restoring strong, balanced, and sustainable growth. A key issue is that countries that are recovering more quickly are tightening policy, while interest rates in advanced economies need to stay low for some time. This lack of synchronization is leading to some unintended side effects, one of them being a heavy influx of capital flows to emerging markets. These flows are a welcome recovery from the crisis and reflect the strong growth prospects of these economies. However, policymakers need to be mindful that surges in inflows could lead to exchange rate overshooting, asset price bubbles, and financial instability. So far, there is no system-wide evidence of bubbles, although there are a few hot spots, and risks could build up.

In emerging markets with excessively large current account surpluses, it makes sense for monetary tightening to go hand in hand with nominal effective exchange rate appreciation as excess demand pressures build. But in other emerging markets, monetary tightening could be complicated, as it would attract more

capital inflows. As well as leading to exchange rate appreciation and undermining competitiveness, this could encourage a buildup of asset bubbles and undermine financial stability. Countries have a number of tools for addressing excess capital inflows—fiscal tightening, some buildup of reserves, macroprudential measures, and controls on capital flows if deemed necessary under certain circumstances.

Lingering high unemployment remains a core policy challenge. It is difficult to declare an end to the crisis when so many people in so many countries cannot find jobs. In advanced economies, unemployment is expected to stay close to 9 percent through 2011, and then only to decline slowly. Unemployment also remains endemic across many developing countries. Aside from its macroeconomic implications, high unemployment poses major social problems. A leading concern is that temporary joblessness will be transformed into structural unemployment. Sustained high unemployment may also raise the threat of increased trade protectionism. Specific labor market policies could help limit the damage—adequate unemployment benefits are key to supporting household confidence, protecting household incomes, and avoiding large increases in poverty. Education and training programs can help reintegrate the unemployed into the labor force and boost their human capital.

Financial reform must also be high on the policy agenda, especially since financial sector inefficiencies and regulatory and supervisory failure played a major role in this crisis. To support financial stability, swift resolution of nonviable financial institutions and restructuring of those with a commercial future is imperative. The continued existence of too-important-to-fail institutions represents a risk, as these institutions could

use their funding advantage to consolidate their positions even further.

The contours of regulatory reform are clear: higher quantity and quality of capital and better liquidity risk management, a toolkit to address systemic risk in general and in too-important-to-fail institutions in particular, and a practical framework to facilitate resolution of cross-border issues. Policymakers must strike the right balance between seeking the safety of the financial system and keeping it innovative and efficient. Failure to act could undermine the recovery, perpetuate moral hazard, and increase the risk of countries going their own way rather than seeking a cooperative solution. Since implementation matters as much as regulation itself, supervision needs to be strengthened by making it more proactive. If regulatory reform does not go hand in hand with stronger supervision, it will not be effective.

To restore and sustain robust global growth, global demand needs to be rebalanced. Countries that ran excessively high external deficits before the crisis need to consolidate their public finances in ways that limit damage to potential growth and demand. The onus then falls on those countries that ran excessive current account surpluses to power global demand. As the deficit countries increase savings in response to lower expectations about future income, the surplus countries will need to shift from export-propelled growth toward domestic demand. They can boost internal demand by spending on social safety nets and improving infrastructure. As the currencies of economies with excessive deficits depreciate, then it follows that those of surplus countries must appreciate. Rebalancing should be supported by financial sector reform and appropriate structural policies in both surplus and deficit countries.

# 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.

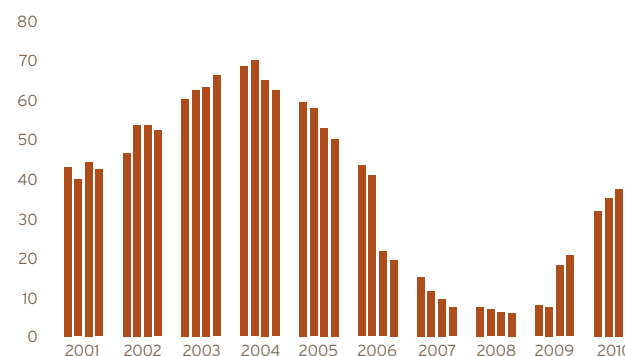
## FINANCIAL SUPPORT TO FOSTER RECOVERY

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),<sup>5</sup> 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.<sup>6</sup> (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 <sup>1</sup>
<b>CREDIT TRANCHES AND EXTENDED FUND FACILITY<sup>3</sup></b>			
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.
<b>SPECIAL FACILITIES</b>			
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.	
<b>FACILITIES FOR LOW-INCOME MEMBERS UNDER THE POVERTY REDUCTION AND GROWTH TRUST</b>			
Extended Credit Facility (ECF) (2010) <sup>5</sup>	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.

<sup>1</sup> 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.

<sup>2</sup> 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.



Access limits <sup>1</sup>	Repurchase (Repayment) Terms		
	Charges <sup>2</sup>	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). <sup>4</sup>	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). <sup>4</sup>	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). <sup>4</sup>	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).

<sup>3</sup> *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.

<sup>4</sup> 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.

<sup>5</sup> 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.<sup>1</sup> 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.<sup>2</sup>

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.

<sup>1</sup> 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](http://www.imf.org/external/np/sec/pr/2010/pr10187.htm)).

<sup>2</sup> 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/](http://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.<sup>7</sup> 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.<sup>8</sup> 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.<sup>9</sup> The report, assessing IMF-supported programs in 15 countries,<sup>10</sup> 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
<b>New arrangements</b>			
Angola	27-month Stand-By	November 23, 2009	858.9
Bosnia and Herzegovina	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
<b>Subtotal</b>			<b>72,213.6</b>
<b>Augmentations of arrangements<sup>1</sup></b>			
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
<b>Subtotal</b>			<b>5,422.7</b>
<b>Total</b>			<b>77,636.3</b>

Source: IMF Finance Department.

<sup>1</sup> For augmentation only the amount of the increase is shown.

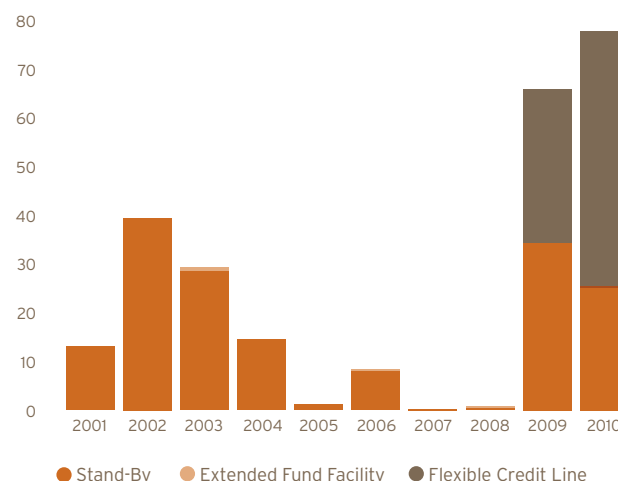
A notable instance of IMF emergency assistance in FY2010 was US\$114 million provided to Haiti shortly after the devastating earthquake that struck the country in January 2010.<sup>11</sup> Web Box 3.1 provides additional information, including statistics on IMF emergency financing provided during the 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.<sup>12</sup> 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.

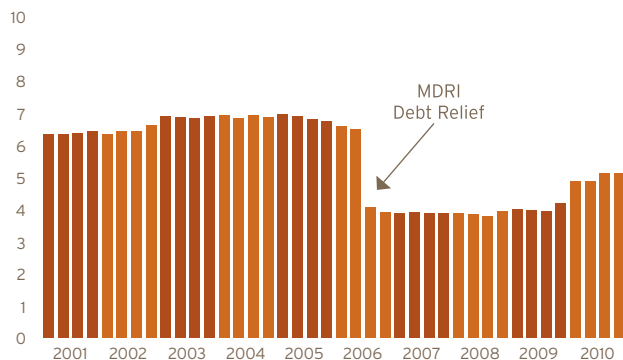
**Figure 3.2**  
Arrangements approved during financial years ended April 30, 2001-10 (In billions of SDRs)



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.<sup>13</sup>

**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.<sup>14</sup> (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
<b>New three-year Extended Credit Facility<sup>1</sup> arrangements</b>		
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
<b>Subtotal</b>		<b>1,070.4</b>
<b>Augmentations of Extended Credit Facility arrangements<sup>2</sup></b>		
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
<b>Subtotal</b>		<b>323.6</b>
<b>New Exogenous Shocks Facility arrangements</b>		
Ethiopia	August 26, 2009	153.8
Maldives	December 4, 2009	8.2
Mozambique	June 30, 2009	113.6
Tanzania	May 29, 2009	218.8
<b>Subtotal</b>		<b>494.3</b>
<b>Augmentations of Exogenous Shocks Facility arrangements<sup>2</sup></b>		
Senegal	June 19, 2009	72.8
<b>Disbursements under Exogenous Shocks Facility rapid-access component</b>		
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
<b>Subtotal</b>		<b>248.3</b>
<b>Total</b>		<b>2,209.4</b>

Source: IMF Finance Department.

<sup>1</sup> Previously Poverty Reduction and Growth Facility.<sup>2</sup> 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.<sup>1</sup> 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.

<sup>1</sup> For further information on SDRs, see "Factsheet: Special Drawing Rights" ([www.imf.org/external/np/exr/facts/sdr.htm](http://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.<sup>15</sup> 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 Novem-

ber 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.<sup>16</sup> 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.<sup>17</sup> 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.<sup>18</sup> 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.<sup>19</sup>

### 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.<sup>20</sup>

### 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.<sup>21</sup> 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.<sup>22</sup> 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.<sup>23</sup> 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,<sup>24</sup> 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,<sup>25</sup> 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,<sup>26</sup> 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."<sup>27</sup> 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,<sup>28</sup> 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.<sup>1</sup> 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](http://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.<sup>29</sup>

### 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.<sup>30</sup> Executive Directors agreed with the IMF staff’s finding<sup>31</sup> 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 macro-financial 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.<sup>32</sup> 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.<sup>33</sup>

### 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.<sup>34</sup>

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.<sup>35</sup> 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

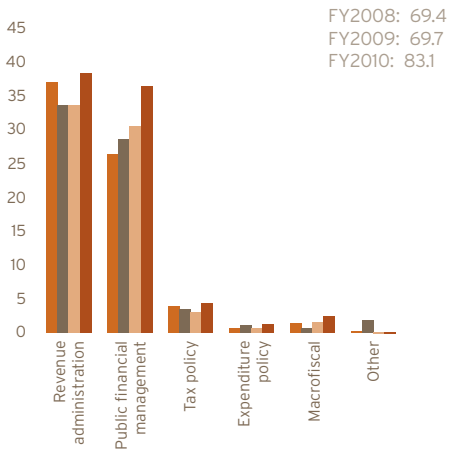
Capacity building, comprising technical assistance and training, is a core area of the IMF's work and is an essential part of the efforts

**Figure 3.4**

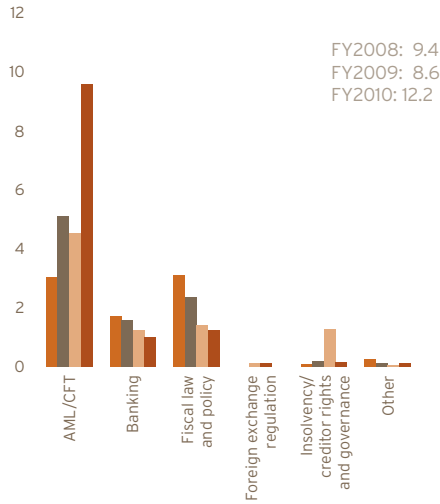
TA delivery by departments and topics (In person-years)

● FY2007 ● FY2008 ● FY2009 ● FY2010

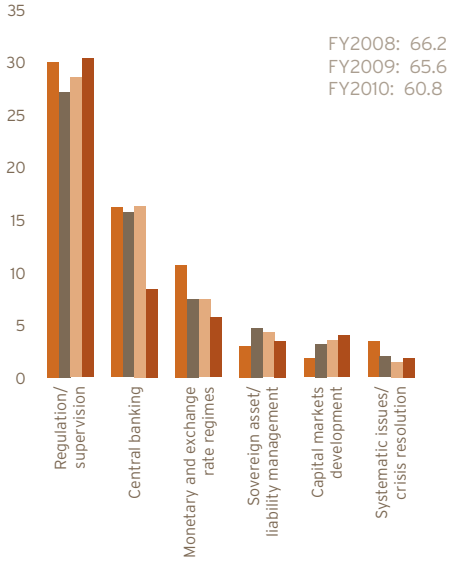
**Fiscal Affairs**



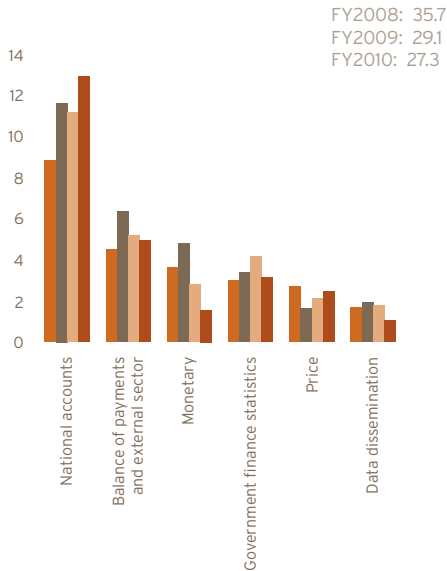
**Legal**



**Monetary and Capital Markets**



**Statistics**



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:

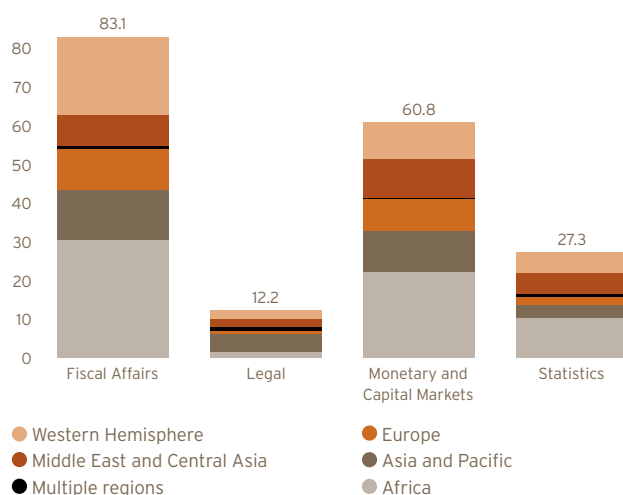
- cash management, spending controls, and budget frameworks, to protect government liquidity and help operationalize credible fiscal adjustment paths (Greece, Iceland, Jamaica, Latvia, Poland, Romania);
- strengthening tax administration in response to sharp crisis-related revenue declines (Greece, Hungary, 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.

**Figure 3.5**  
TA delivery during FY2010 by department and region  
(In person-years)



Source: IMF Office of Technical Assistance Management.



**Left** Governor Ewald Nowotny of the Oesterreichische National Bank, IMF Managing Director Dominique Strauss-Kahn, and State Secretary Andreas Schieder of the Austrian Federal Ministry of Finance 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.<sup>36</sup> 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.<sup>37</sup> 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).<sup>38</sup> 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
<b>Headquarters</b>				
Course weeks	87	78	54	58
Participant weeks	3,182	2,813	1,974	1,992
<b>Regional Training Centers</b>				
Course weeks	152	172	158	163
Participant weeks	4,586	5,280	4,737	5,067
<b>Overseas</b>				
Course weeks	33	35	42	36
Participant weeks	983	1,071	1,211	1,012
<b>Distance learning</b>				
Course weeks	16	18	16	18
Participant weeks	657	675	570	646
<b>Total</b>				
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<sup>39</sup>—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).<sup>40</sup> 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.<sup>41</sup> 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.<sup>42</sup> 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.<sup>43</sup>

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,<sup>44</sup> to a number of steps to begin addressing data gaps in the context of the SDDS:<sup>45</sup>

- including, on an encouraged basis,<sup>46</sup> 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.<sup>47</sup> 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,<sup>48</sup> 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.

# 4 | STRENGTHENING THE FUND FOR THE CHALLENGES AHEAD



## 4 | STRENGTHENING THE FUND FOR THE CHALLENGES AHEAD

**At the October 2009 Annual Meetings, the IMFC endorsed the following broad priorities for the IMF for the period ahead:**

(1) reassessing the institution's mandate to encompass the full range of macroeconomic and financial sector policies that bear on global stability; (2) continuing to strengthen its financing capacity, to help members cope with balance of payments problems, including financial volatility, and reduce the perceived need for excessive reserve accumulation; (3) sharpening multilateral surveillance and better integrating it into bilateral surveillance, and undertaking further strengthening of cross-country, regional, and multilateral surveillance; and (4) reforming Fund governance, to increase the institution's legitimacy and effectiveness.

## REASSESSING THE IMF'S MANDATE

The Fund's work on its mandate responds to a call by the IMFC, at the October 2009 Annual Meetings, for the Fund to "review its mandate to cover the full range of macroeconomic and financial sector policies that bear on global stability, and to report back to the Committee by the time of the next Annual Meetings."<sup>49</sup> The mandate work covers three broad areas: surveillance, financing, and the stability of the international monetary system. Following its initial reflections on the mandate in FY2010, the Board undertook additional work in specific areas for completion of a report to be presented to the IMFC at the October 2010 Annual Meetings. The report was also informed by extensive outreach with country authorities, academics, and civil society.

### Initial Executive Board discussion

The Executive Board's initial discussion on how to strengthen the Fund's mandate took place in February 2010.<sup>50</sup> Executive Directors underscored that progress in updating the Fund's mandate should move in parallel with broader governance reform, particularly on the size and realignment of quotas.

In the area of surveillance, most Executive Directors supported, or were open to, exploring a formal Board decision on multilateral surveillance, including modalities for discussing reports that focus on the broader systemic effects of individual country policies. Most also saw scope for further strengthening the Fund's bilateral surveillance, including through thematic Article IV consultations. In regard to financial sector issues, Executive Directors stressed the need for close collaboration with other international bodies and standard setters, as well as greater availability of financial data.

Executive Directors emphasized that any new initiatives in the area of financing require a thorough analysis of the underlying assumptions, need to be anchored in the Fund's core mandate, and must be grounded in a careful assessment of the Fund's recently reformed lending instruments, including those for concessional lending (see "Concessional Financing" later in this chapter). Most were interested in considering innovative means of strengthening the global financial safety net, including exploring the merits of multicountry credit lines and support to regional liquidity pools.

While considering that the Fund could achieve meaningful reforms of its mandate under the existing legal framework, most Executive Directors were open to amending the Articles

of Agreement where it proves necessary. Some favored a two-stage approach, involving first reforms possible under the Articles, followed if needed by reforms requiring amendment of the Articles, and some cautioned against introducing new obligations that could infringe upon national sovereignty, noting risks of overstretching the Articles.

### Subsequent work

A number of other mandate-related discussions in March and April 2010 followed up on this initial February Board meeting, considering various aspects of the mandate more specifically. Executive Directors took a preliminary look at the Fund's resources for providing financing to its members, in the context of the Fourteenth General Review of Quotas. They also considered a number of initial proposals in relation to the Fund's financing role. Ways to modernize IMF surveillance and strengthen financial sector surveillance as well were the topic of another mandate-related meeting. These discussions are covered in detail in subsequent sections of this chapter on Fund financing, surveillance, and governance, respectively.

### Next steps

The Board's consideration of the Fund's mandate extended into the early months of FY2011, with an informal briefing on next steps in the Fund's future financing role, a discussion of further considerations on realigning quota shares, in the context of the Fourteenth General Review of Quotas, and a further discussion of governance reform.

## FINANCING FOR THE TWENTY-FIRST CENTURY

In mid-April 2010, shortly after the Board's approval of the expansion of the NAB (see "Proposed Expansion of the New Arrangements to Borrow" later in this chapter), Executive Directors made an initial assessment of the adequacy and composition of Fund resources in the context both of the mandate and of the Fourteenth General Review of Quotas. They emphasized that the Fund is, and should remain, a quota-based institution, despite the large increase in available resources under the new NAB.

The Board's discussion noted that the size of Fund quotas relative to global GDP, trade, and capital flows had shrunk sharply since the last general quota increase in 1998. Most Executive Directors saw a strong case for a substantial increase in the Fund's quotas, to ensure adequate quota resources to meet members' needs in most circumstances.

## Ensuring adequate resources for the IMF's work

In line with the IMFC's endorsement of objectives laid out by G-20 leaders in April 2009 (see "Financial Support to Foster Recovery" in Chapter 3), the IMF moved swiftly on several fronts to ensure that resources available to it would remain sufficient to meet those needs.

### Bilateral borrowing frameworks and arrangements

Although the quota subscriptions of its member countries are its main source of resources for providing financing to its members<sup>51</sup>—and the Executive Board has emphasized that this is and should remain the case—the IMF can temporarily supplement its quota resources, if needed, through borrowing (see Box 4.1 on the role of borrowed and quota-based resources in Fund financing). Two standing multilateral borrowing agreements, the General Arrangements to Borrow and the New Arrangements to Borrow, have been in place for a number of years to assist the Fund with supplementary resources (see Web Box 4.1).

As the potential size of the demand for Fund financing arising from the global crisis became apparent, however, to ensure

that it had adequate resources to meet members' needs even in extreme scenarios, the Fund entered into discussions with a number of member countries regarding potential bilateral borrowing agreements. These discussions focused attention on the operational issues involved in Fund borrowing, and in June 2009, the Executive Board discussed and agreed on an operational framework for the Fund's use of borrowed resources.<sup>52</sup> The framework has four key features: (1) an initial limit of SDR 15 billion per borrowing agreement on the encashability of claims under loan or note purchase agreements in case of balance of payments need; (2) a prudential balance ratio of 20 percent to be applied on the amounts made available under borrowing; (3) an initial one-to-one ratio of borrowed to quota resources to be used in disbursements; and (4) equitable burden sharing among lenders. The Board chose not to establish a limit on borrowing by the Fund but emphasized that if warranted, such a limit could be established at any time.

The first of the IMF's bilateral loan agreements following the outbreak of the crisis, with Japan, was signed and became effective during FY2009. Fifteen additional agreements, for a total amount equivalent to SDR 61 billion, became effective in FY2010. These 15 agreements were signed with Canada, Norges

#### Box 4.1

### Role of borrowed and quota-based resources in IMF financing

Quota subscriptions are the basic source of the Fund's financing, although on a temporary basis borrowing by the Fund can provide an important supplement to its resources. Under the Articles of Agreement, the Fund is authorized to borrow to replenish its holdings of currencies in the General Resources Account that are needed in connection with its financing transactions (Article VII, Section 1(i)).

Though they currently have virtually identical costs, quota-based and borrowed resources have some other distinct advantages and disadvantages that reflect their different roles in Fund financing:

- The primary advantage of relying on quota resources lies in their compatibility with the quota-based nature of the Fund, their permanent availability, and the ease with which they can be drawn upon. Once the Fund has selected members with sufficiently strong external positions to participate in financing its operations, those members are obligated to meet these calls up to the limit of their quotas. The permanent availability of these resources ensures the Fund's ability to respond quickly to members' needs. A key disadvantage of quota resources is that they are fixed into the medium term. Securing the broad consensus required for an increase in quotas can take several years.

- The principal advantage of Fund borrowing stems from the flexibility it offers. Borrowing arrangements with a limited number of official lenders are easy to put in place relative to quota increases involving all members, and as such they provide a convenient temporary supplement to quota-based resources. Moreover, the Fund's standing multilateral borrowing arrangements provide an important source of supplementary resources to the Fund (see Web Box 4.1). However, an overreliance on borrowed resources has the potential of jeopardizing the cooperative and monetary character of the Fund. Also, unlike quota-based resources, resources under the standing arrangements become available only after the arrangements have been activated, whereas bilateral borrowing agreements may specify certain limits to amounts that can be drawn over shorter periods of time (e.g., initial one- to two-year terms, extendable by agreement to up to five-year terms, with weekly and/or monthly limits).

The "Guidelines for Borrowing by the Fund" established by the Executive Board outline some of the key elements of the Fund's framework for borrowing. Moreover, the operational modalities for the use of borrowed resources are subject to continuous review, including in the context of the Fund's quarterly Financial Transactions Plans and semiannual Liquidity Reviews.

**Table 4.1**  
Bilateral loan and note purchase agreements in effect as of April 30, 2010 (in billions)

	Effective date	Currency and amount	U.S.-dollar equivalent <sup>1</sup>
<b>Loan agreements</b>			<b>200.3</b>
Japan	February 13, 2009	USD 100.00	100.0
Canada	July 6, 2009	USD 10.00	10.0
Norges Bank	July 14, 2009	SDR 3.00	4.6
EU of which:			85.7
United Kingdom	September 1, 2009	SDR 9.92	15.5
Deutsche Bundesbank	September 22, 2009	EUR 15.00	22.2
De Nederlandsche Bank NV	October 5, 2009	EUR 5.31	7.8
Danmarks Nationalbank	November 4, 2009	EUR 1.95	2.9
Banco do Portugal	November 30, 2009	EUR 1.06	1.6
France	December 2, 2009	EUR 11.06	16.7
National Bank of Belgium	February 12, 2010	EUR 4.74	6.4
Central Bank of Malta	February 12, 2010	EUR 0.12	0.2
Slovak Republic	February 12, 2010	EUR 0.44	0.6
Czech National Bank	March 31, 2010	EUR 1.03	1.4
Swedish Riksbank	April 9, 2010	EUR 2.47	3.3
Bank of Finland	April 26, 2010	EUR 1.30	1.7
Spain	April 26, 2010	EUR 4.14	5.5
<b>Note purchase agreements</b>			<b>69.9</b>
People's Bank of China	September 2, 2009	SDR 32.00	49.9
Brazil	January 22, 2010	USD 10.00	10.0
Reserve Bank of India	March 8, 2010	USD 10.00	10.0
<b>Total loan and note purchase agreements</b>			<b>270.3</b>

Source: IMF Finance Department.

<sup>1</sup> Converted at prevailing exchange rate on the effective date of the agreement.

Bank, the United Kingdom, the Deutsche Bundesbank, De Nederlandsche Bank, Danmarks Nationalbank, Banco do Portugal, France, the National Bank of Belgium, the Central Bank of Malta, the Slovak Republic, the Czech National Bank, the Swedish Riksbank, the Bank of Finland, and Spain (see Table 4.1).

In addition to bilateral loans, the IMF can also issue notes to member countries and their central banks under note purchase agreements. In July 2009, the Executive Board approved a framework for the issuance of such notes.<sup>53</sup> Note purchase agreements were concluded in FY2010 with the People's Bank of China, Brazil, and the Reserve Bank of India (see Table 4.1).

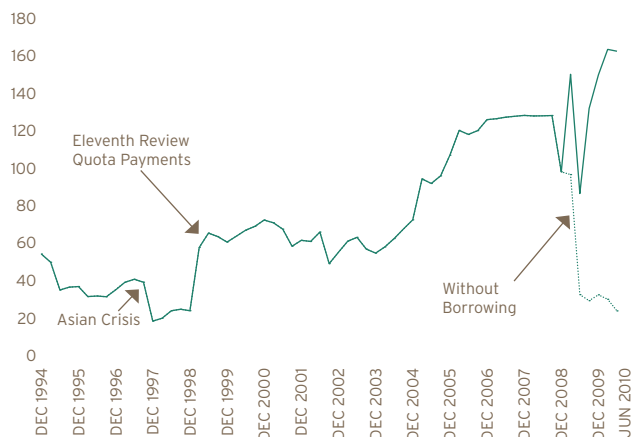
As of the end of FY2010, total resources made available to the IMF under bilateral loan and note purchase agreements stood at about SDR 174 billion (US\$270.3 billion), and work continued toward making additional supplementary resources available for use under bilateral agreements in FY2011 (see Table 4.1). Even with the record level of outstanding credit and undrawn commitments, the expanded borrowing capacity made available under the bilateral agreements has boosted the Fund's forward commitment capacity (FCC) to a record level of SDR 161.9 billion (US\$239.4 billion), as of end-June 2010 (see Figure 4.1).

The Fund started drawing on the borrowed resources available to it under the various agreements in July 2009.<sup>54</sup> During FY2010, total borrowing by the Fund under bilateral loan and note purchase agreements amounted to SDR 6.4 billion.

### Proposed expansion of the New Arrangements to Borrow

In November 2009, the 26 participants in the IMF's New Arrangements to Borrow, along with potential new participants, reached agreement on an expanded and more flexible NAB of up to US\$600 billion.<sup>55</sup> Subsequently, in April 2010, the Executive Board adopted a formal decision that would expand the NAB to SDR 367.5 billion (about US\$550 billion) and add 13 new participants, including a number of emerging market countries as significant contributors to the expansion.<sup>56</sup> To make the expanded NAB a more effective tool of crisis prevention and management, the current loan-by-loan activation would be replaced by the establishment of general activation periods of up to six months, subject to a maximum level of commitments specified in each activation proposal, to fund any GRA financing needs approved during the activation period. For the expanded NAB to become operational, current

**Figure 4.1**  
**One-year forward commitment capacity,**  
**December 1994–June 2010 (In billions of SDRs)**



Source: IMF Finance Department.

NAB participants will need to consent to the proposed amendments to the NAB decision and increases in credit arrangements, and new participants will need to notify the Fund of their adherence to the NAB. For many current and future participants, this will involve domestic approval procedures, including legislative approval. According to the decision, by the time of the next NAB renewal decision (in late 2011), the Fund and the participants will review, among other factors, the impact of the Fourteenth General Review of Quotas on the overall size of quotas and consult on possible modifications.

### Enhancing IMF financing

The acute volatility and fierce contagion in the global crisis focused attention on the need to enhance the IMF's role in preventing crises and dampening contagion effects from shocks. The Board's work on reforming the mandate included an initial discussion of the IMF's future financing role in April 2010.<sup>57</sup> A number of preliminary ideas were considered:

- refinements of the FCL—which would remain dedicated to countries with very strong fundamentals and policies—principally by doubling the duration of purchase rights under the FCL, increasing the predictability of qualification, and removing the implicit cap on access amounts.
- establishment of a Precautionary Credit Line (PCL) targeted at countries with good policies that do not qualify for the FCL. The PCL would have streamlined ex post conditionality focused on addressing any residual vulnerabilities.
- development of a mechanism to enable the IMF to offer liquidity lines to a limited set of countries that are assessed to be systemic in that their stability would help preserve confidence in the core of the global financial system. This mechanism would complement the role played by central

banks and other institutions by helping contain contagion stemming from a systemic shock.

Executive Directors were generally supportive of improving the design of the FCL, including doubling the duration of purchase rights to one year. Although there was sympathy for increasing predictability of qualification, most Executive Directors did not support maintaining a running list of countries qualifying for the FCL and preferred the flexibility embedded in the current approach of making assessments when arrangements are requested. Executive Directors also asked for further work on exit strategies.

Executive Directors were open to considering ways to strengthen the attractiveness of precautionary instruments available to members that do not meet the FCL's qualification bar. They saw considerable scope for further strengthening the Fund's engagement with regional financial arrangements and requested proposals by staff on the operational aspects of lending options.

Staff were asked to give further consideration to the issues raised in the discussion and provide the Board with specific proposals on FCL refinements and the design of the PCL before the 2010 Annual Meetings. Further discussion of the IMF's financing toolkit took place in FY2011.

### Nonconcessional (General Resources Account) financing

To enable the IMF to better meet members' needs in the context of the crisis and strengthen its capacity to prevent and resolve crises, the Executive Board approved a major overhaul of the Fund's nonconcessional financing framework at the end of FY2009.<sup>58</sup> (A review and reform of concessional lending instruments for low-income members, pursued as a complementary step, was completed in FY2010; see the next section, "Concessional Financing.") All aspects of the IMF's nonconcessional lending instruments and policies were assessed in the overhaul: the existing GRA facilities, the conditionality framework, access levels, maturities, charges, surcharges, and fees. The reforms approved included modernizing IMF conditionality for all borrowers, introducing the Flexible Credit Line, enhancing the flexibility of the Fund's traditional Stand-By Arrangement, doubling normal access limits for nonconcessional resources, simplifying cost and maturity structures, and eliminating certain seldom-used facilities. As a result of the reforms, IMF-supported programs are now tailored to individual country circumstances and focus on the most immediate issues for resolving the crisis that prompted the need for the program. Structural performance criteria have been discontinued (for all IMF financing, including that from the PRGT in support of programs for low-income countries) and replaced by more flexible monitoring of macro-critical structural reforms seen as essential to a country's recovery.

In the context of the overhaul, the Executive Board asked staff to prepare a report addressing the problem of "blackout periods" under GRA arrangements,<sup>59</sup> which have important





**Left** Passengers disembark from buses in Bogotá, Colombia. **Right** Workers repair the underground deep drainage tunnel system in Mexico City.

implications particularly in regard to precautionary arrangements, given that the crisis prevention and confidence-enhancing role of these arrangements depends on strong assurances that resources under the arrangements will be available if needed.

The Board approved an “Extended Rights to Purchase” framework in October 2009 aimed at addressing the problems created by blackout periods.<sup>60</sup> The framework provides members with continued access under an arrangement for up to 45 days after a test date, without necessarily having to demonstrate observance of periodic performance criteria specified for that test date. The member must meet a number of conditions to qualify, including having met (or obtained a waiver for) all periodic performance criteria as of the preceding test date and being current on all other requirements under the arrangement.

### Concessional financing

#### *Modifications to concessional financing facilities*

In 2008 and the first half of 2009, low-income countries were hit first by sharp increases in the prices of food and fuel, and then by the global financial crisis. The IMF responded to the growing international consensus, reflected in calls from its low-income country members and from the G-20 heads of state, for swift policy action to meet the needs of the developing world. In the

first half of 2009 it increased substantially its assistance to low-income countries, while making the conditionality attached to these loans more flexible and streamlined.

Building on these measures, in July 2009, the Executive Board approved wide-ranging modifications to upgrade the IMF’s concessional financing facilities for low-income countries, fundamentally reforming the structure and financial terms of these facilities (see Box 4.2).<sup>61</sup> The decision adopted by the Executive Board established a Poverty Reduction and Growth Trust, replacing and expanding the existing Poverty Reduction and Growth Facility–Exogenous Shocks Facility Trust. The changes to the Trust’s facilities took effect in January 2010, once all lenders to the Loan Account and contributors to the Subsidy Accounts of the PRGF–ESF Trust had consented to them.

Executive Directors underscored that all three of the new facilities created under the reform—the Extended Credit Facility, the Standby Credit Facility, and the Rapid Credit Facility—aim to assist low-income countries in achieving stable and sustainable macroeconomic positions consistent with strong and durable poverty reduction and growth and stressed the centrality of countries’ own poverty reduction and growth strategies in Fund-supported programs. They welcomed the increased grant element of Fund lending to low-income countries, including temporary interest relief to help them cope with the global crisis, and supported periodic reviews of the applicable interest rates to limit fluctuations in concessionality and subsidy costs when world interest rates change.

**Box 4.2****Key aspects of the 2009 concessional lending reform**

- **Scaled-up concessional financial assistance to low-income countries**, up to US\$4 billion per year in each of 2009 and 2010, compared with US\$1.2 billion in 2008. A total of up to US\$17 billion could be provided over the period through 2014.
- **Doubling access to Fund financing**, with access rules that are consistent across facilities. Together with a new policy that facilitates the use of arrangements that blend concessional and GRA resources, the reforms reduce low-income countries' need to resort to purely nonconcessional financing.
- **A more effective structure of facilities for low-income countries**, within the Fund's newly created PRGT, that makes the Fund's concessional lending instruments more flexible and tailored to low-income countries' increasing diversity. The new structure consists of
  - the Extended Credit Facility (ECF), successor to the PRGF, which allows the Fund to provide sustained program engagement and financing for countries facing protracted balance of payments difficulties;
  - the Standby Credit Facility (SCF), similar to the Stand-By Arrangement widely used by emerging markets, which provides financial assistance and policy support to low-income countries with shorter-term or episodic financing needs emanating from a range of sources and also allows for precautionary use; and
- the Rapid Credit Facility (RCF), which quickly provides a limited amount of financing in response to urgent needs, including for Emergency (Natural Disaster and Post-Conflict) Assistance, with reduced conditionality particularly appropriate to the transitory nature of the financing need or to instances in which policy implementation capacity is constrained.
- **More-streamlined conditionality**, with more flexibility in defining structural reform objectives.
- **Regular reviews of interest rates on concessional facilities**, to limit fluctuations in concessionality and subsidy costs when world interest rates change. In response to the particularly serious economic dislocations resulting from the global crisis, low-income countries also received exceptional relief of all interest payments on outstanding concessional loans due to the IMF through the end of 2011—effectively, an interest rate of zero on these loans for this period.
- **Additional resources for concessional financing**, with additional loan resources of SDR 9 billion (plus up to a further SDR 2 billion in loan resources raised as a prudential balance to cover PRGT lenders' encashment rights) mobilized from bilateral contributions as under the previous framework, and new subsidy resources of SDR 1.5 billion in end-2008 net present value terms mobilized from the IMF's internal resources, including resources linked to gold sales, and through bilateral contributions.

Executive Directors stressed the need to mobilize additional loan resources promptly and called on existing and potential lenders to be forthcoming with additional contributions. They agreed that, to accommodate the additional loan resources, the existing borrowing limit of the PRGT of SDR 20 billion should be raised to SDR 30 billion, and that the loan commitment and drawdown periods should be extended to end-2015 and end-2018, respectively. Most Executive Directors supported a proposed financing package to secure additional subsidy resources of SDR 1.5 billion (in end-2008 net present value terms). Most also agreed that the strategy for subsidy financing would involve the use of windfall profits arising from gold sales;<sup>62</sup> to the extent that the realized windfall profits fell short of the required contribution, the difference would be generated through investment income from the gold endowment. Executive Directors noted that the agreed-upon strategy regarding the use of gold-sales-linked resources for financing

subsidy needs would guide future Board decisions to be taken after the completion of the gold sales. They emphasized that the feasibility of the reform of the Fund's facilities for low-income countries and associated financing framework was dependent on the implementation of the above-described strategy for the use of resources linked to gold sales.

In February and March 2010, the IMF signed borrowing agreements through which the Bank of Spain, the Danmarks Nationalbank, and the government of Canada will each provide resources to the PRGT, expanding the Fund's resources for concessional lending to low-income countries.<sup>63</sup> Additional commitments to provide resources for the PRGT were made by the governments of China and Norway as well during FY2010, with the formal agreements signed, or expected to be signed, in the early months of FY2011. Efforts to secure additional PRGT resources are ongoing.

In March 2010, Executive Directors endorsed reforms to facilitate the mobilization of loan resources for concessional lending, particularly from those creditors that desire to provide loan resources in SDRs (which had previously not been permitted). The reforms, when they become effective, will allow for the issuance of notes by the PRGT and the establishment of an encashment regime for concessional lending.

### *Review of the Debt Sustainability Framework*

In the wake of the wide-ranging reform of the IMF's financial facilities for low-income countries in July, and as part of IMF efforts to ensure that its policies and instruments remain adapted to the needs of its members, particularly low-income countries, the Executive Board reviewed selected aspects of the joint IMF-World Bank debt sustainability framework (DSF) for low-income countries in August 2010.<sup>64</sup> The DSF, introduced in 2005 and last reviewed in 2006, has several objectives: (1) guiding low-income countries' borrowing decisions and creditors' lending decisions, consistently with progress towards the countries' development goals and long-term debt sustainability; (2) improving IMF and World Bank assessments and policy advice on debt issues; and (3) helping detect potential difficulties early so that preventive action can be taken. The August review, initiated the previous March in the Board's discussion of changing patterns in low-income country financing,<sup>65</sup> focused on options to enhance the framework's flexibility, seeking to address concerns that it had unduly constrained the ability of low-income countries to borrow and, in light of the global crisis, that it might be too procyclical. (See Box 4.3 for highlights of the revised framework.)<sup>66</sup>

The Executive Board approved revised guidelines with regard to external debt performance criteria in Fund arrangements, based on a menu of options and strengthened analytical underpinnings.<sup>67</sup> The revised guidelines take into account members' debt vulnerabilities and their macroeconomic and public financial management capacities, assessed in accordance with the methodology set forth in the guidelines. No member is subjected to more stringent requirements than under the previous guidelines, and greater flexibility is applied in all cases except when debt sustainability is a serious concern and the member's macroeconomic and public financial management capacity is limited. Executive Directors urged staff to remain vigilant to the risk of less-concessional finance displacing more-concessional finance. Several suggestions were made for staff on the policy's operational modalities, including with regard to capacity assessment, transparency in program documents, and public communication of the changes, which were appropriately reflected in a guidance note to Bank and Fund staff.<sup>68</sup>

### *Revised framework for concessional finance eligibility*

In January 2010, the Board approved a new framework for determining which member countries are eligible to use the

IMF's concessional financial resources under the PRGT (see Box 4.4), completing the IMF's overhaul of its concessional financing facilities for low-income countries. The new framework preserves access to the IMF's concessional financing for members most in need, while ensuring uniformity of treatment of members by establishing transparent criteria for entry and graduation.<sup>69</sup> Six countries—Albania, Angola, Azerbaijan, India, Pakistan, and Sri Lanka—graduated from PRGT eligibility under the new framework, which became effective in April 2010.

Executive Directors expressed a range of views on the thresholds proposed for entry into and graduation from PRGT eligibility; at the same time, they recognized the trade-offs involved and the need to strike the appropriate balance. On the one hand, less stringent graduation criteria would allow members to graduate earlier from relying on scarce concessional resources. On the other hand, premature graduation could pose undue risks to the member's financial sustainability. Noting the judgmental element inherent in the framework's market access criterion and vulnerability assessments, Executive Directors underscored the importance of applying the framework consistently and objectively, though recognizing that some degree of flexibility is appropriate. They welcomed the fact that the determination of eligibility would remain closely aligned with International Development Association (IDA) practices, and the large majority of IDA-eligible countries would remain PRGT-eligible. Executive Directors also supported the extension to all small countries of the existing exceptional treatment of small islands in determining PRGT eligibility, to ensure uniformity of treatment for all members with similar vulnerabilities, as well as the proposed modification to the rules for blending concessional and GRA financing.

### *Review of the Policy Support Instrument*

The Policy Support Instrument (PSI), created in October 2005, enables the IMF to support low-income countries that do not need Fund financial assistance.<sup>70</sup> Since 2005, seven PSIs have been approved for six member countries, all in Africa (see Web Table 4.1).

The Executive Board concluded a review of the IMF's experience with the PSI—the first since its inception—in July 2009.<sup>71</sup> Executive Directors broadly shared the staff's judgment that the PSI has generally met its goals and expectations.<sup>72</sup> They noted the staff's assessment that economic performance of PSI users had generally been at least as good as, or better than, that of other comparator groups of low-income countries. They were reassured by survey results that member countries found the PSI to be a useful instrument in circumstances where there is no immediate need for Fund financing. They observed that surveyed views on the PSI's signaling role were less positive than those on other aspects of the PSI. On balance, the Board considered that there was no pressing need to modify the PSI.

**Box 4.3****Highlights of the revised Debt Sustainability Framework**

- **Greater recognition of the impact of public investment on growth.** Executive Directors agreed that analyzing the investment-growth nexus requires a country-specific approach, using a broad range of indicators, supplemented with model-based approaches, where appropriate.
- **More explicit consideration of workers' remittances in debt sustainability analyses.** Noting the increased significance of remittances as a source of external financing in low-income countries in recent years, Executive Directors agreed that greater flexibility should be applied in taking account of the size of remittances when assigning risk ratings.
- **More flexible treatment of external debt of state-owned enterprises.** Most Executive Directors supported excluding from debt sustainability analyses (DSAs) the debt of state-owned enterprises that pose a limited fiscal risk for the government and can borrow without a government guarantee.
- **Streamlined DSAs.** Most Executive Directors supported a streamlining of DSA requirements: full DSAs every three years, with streamlined annual updates in the interim, barring a major change in the debt outlook and program-related requirements.

**Box 4.4****Revised eligibility criteria for concessional finance use**

The framework ratified by the Executive Board establishes differentiated sets of criteria for entry onto and graduation from the list of countries that are eligible to use the IMF's concessional resources. Countries become eligible for concessional financing if their annual per capita income is below a certain threshold (the same one used by the World Bank Group to determine eligibility for IDA resources) and they have not had substantial access to international financial markets for an extended period of time. Countries are expected to graduate from the PRGT eligibility list if they

- have either a persistently high level of income, exceeding twice the IDA per capita income threshold, or capacity to access international financial markets on a durable and substantial basis; and
- do not face serious near-term risks of a sharp decline in per capita income, loss of market access, and/or debt vulnerabilities.

Graduation from PRGT eligibility becomes effective three months after the adoption of the pertinent Executive Board decision and does not affect existing concessional Fund support or ongoing discussions on new financing requests. Moreover, countries that have arrangements in place remain PRGT-eligible for the full duration of the arrangement, and their graduation upon completion of the Fund-supported program does not affect the terms of outstanding concessional or subsidized credit. Countries' PRGT eligibility is reviewed every two years.

To ensure uniformity of treatment for members with similar vulnerabilities, the new framework also extends to all small countries (those with populations of less than one million) the existing exceptional treatment of small islands in determining PRGT eligibility, which involves less stringent criteria regarding per capita income. The policy for blending concessional and GRA financing has also been revised to ensure consistency with the new eligibility framework.

## SHARPENING IMF SURVEILLANCE

In April 2010, the Board considered how to modernize the mandate and modalities of IMF surveillance as well as how to strengthen financial sector surveillance.<sup>73</sup>

In regard to multilateral surveillance, most Executive Directors supported, or could support on a trial basis, producing reports on outward spillovers for countries whose policies or circumstances might significantly affect the stability of the system, complementing the Fund's Article IV consultation reports (see "Bilateral Surveillance" in Chapter 3). Many noted, however, that such analysis, as well as other cross-country issues, could, where appropriate, be integrated into existing products—for example, Article IV consultation reports, *Regional Economic Outlooks*, or restructured, shorter *World Economic Outlooks* and *Global Financial Stability Reports*—or into a new, shorter, consolidated report that would bring together existing work and the new initiative on spillovers. Many Executive Directors supported, or were open to, the idea of multilateral consultations, on an as-needed basis, on specific topics that have systemic implications, to foster collaboration and collective action. Many also saw merit in a multilateral surveillance decision to clarify the Fund's role and provide a framework for engaging policymakers.

In the area of bilateral surveillance, many Executive Directors considered thematic multicountry reports a useful vehicle for promoting a better understanding of cross-country linkages. Executive Directors underscored the importance of ensuring that surveillance takes place within a reasonable time frame.

On the subject of improving risk assessment through financial sector surveillance, most Executive Directors supported plans to obtain, through global financial networks, data necessary for the Fund to assess spillovers and their implications for macrofinancial stability. Most also agreed that the Fund should seek more regular access to data on individual financial institutions, building on the modalities already in place for FSAP assessments, and deepen its engagement with key global financial institutions.

Turning their attention to improving the traction of financial sector surveillance, most Executive Directors supported, or could go along with, the staff's proposal to make the FSAP stability module a mandatory part of surveillance for members with systemically important financial systems. Executive Directors stressed the importance of the Fund's engaging with other international bodies, in particular the FSB, based on a clearer delineation of responsibilities. They were generally open to exploring ways to enhance collaboration between the Fund and financial sector standard-setting bodies, based on the Fund's role in assessing implementation of standards and the importance of these standards for macrofinancial stability.

Given concerns about a potential expansion of resource needs flowing from the various proposals, it was observed that some ideas could be pursued on a trial basis, which, as experience was gained, would help better gauge resource implications. Executive Directors cautioned that new initiatives should not be implemented at the expense of bilateral surveillance.

### Review of the Financial Sector Assessment Program

Assessments under the FSAP provide valuable input for the IMF's Article IV consultations,<sup>74</sup> and the crisis demonstrated the need for an even more seamless integration of these two strands of the Fund's work. In a September 2009 review of the IMF's experience with the FSAP over the preceding 10 years, the Executive Board agreed to steps to strengthen the FSAP further and to enhance the integration of financial sector analysis into surveillance, taking account of the lessons learned over the decade of experience with the FSAP and during the global crisis (see Box 4.5).<sup>75</sup> Executive Directors agreed that the FSAP's usefulness could be enhanced by expanding country coverage and improving the focus and frequency of assessments, particularly assessments of financial stability, and they broadly endorsed proposed reforms to enhance the flexibility, responsiveness, and analytical rigor of assessments.

Executive Directors also agreed that modular assessments, as well as enhanced off-site monitoring, would introduce much-needed flexibility into FSAPs and help better align assessments with country needs and priorities. They supported conducting partial risk-based updates to Reports on Observance of Standards and Codes (ROSCs), following an initial comprehensive assessment. They also supported introducing into FSAP assessments a standardized risk assessment matrix, which would identify threats to financial sector stability and assess their likelihood and implications for macrofinancial stability. They emphasized the importance of broadening the coverage of cross-border issues and supported further work to develop an integrated analytical framework for capturing macrofinancial linkages and assessing risks. With regard to financial sector coverage in low-income countries, it was felt that closer attention should be paid to the impact of underdeveloped financial markets on the effectiveness of macroeconomic policies and the economy's ability to absorb shocks.

### Work with other international organizations and initiatives

Though the IMF has a long-standing history of working closely with other organizations, such as the World Bank, the regional development banks, the World Trade Organization, and UN agencies,<sup>76</sup> its crisis work has brought it into collaborative relationships with a variety of other organizations and bodies, most notably, the G-20 and FSB, and has prompted its participation in broad-based initiatives such as the European Bank Coordination Initiative.

**Box 4.5****Revisions to the Financial Sector Assessment Program**

In light of strengths and weaknesses revealed by the crisis, in September 2009, the IMF and World Bank revamped the FSAP. Though key elements of the program remain unchanged (participation remains voluntary, and the IMF still collaborates with the World Bank on assessments involving low-income and emerging market countries), a number of new features were introduced:

- **More candid and transparent assessments**, through the introduction of a risk assessment matrix;
- **An improved analytical toolkit**, enabling better identification of linkages between the broader economy and the financial sector and coverage of a greater variety of sources of risk;

- **More flexible modular assessments**, tailored to country needs;
- **Better cross-country perspectives**; and
- **Better targeting of standards assessments**.

These new features will help in integration of FSAP findings into the Fund's bilateral surveillance, by giving greater scope for higher-frequency, more-focused assessments and by encouraging greater cross-country comparability. The design of the FSAP is also being reconsidered in the context of the broader discussion of the Fund's mandate.

From the beginning of the crisis, G-20 leaders have called upon the IMF, both on its own and in collaboration with other organizations, to undertake a number of tasks to ensure that the path out of the crisis is smooth, steady, and most of all, the correct one. Early in the crisis, the G-20 tasked the IMF, in collaboration with the FSB, with developing an early warning exercise (see, in Chapter 3, "IMF Surveillance and Policy Priorities in Response to the Crisis" and Box 3.3). More recently, it solicited the IMF's advice on the most effective ways to ensure that the financial sector contributes to the costs of ensuring its viability (see "Work on Financial Sector Levy" in Chapter 3). And of course, the IMF is a key player in the G-20 mutual assessment process (see, again, "IMF Surveillance and Policy Priorities in Response to the Crisis").

Crisis work has also brought the IMF into more extensive cooperation with the FSB. As just noted, the Fund has partnered with the FSB in developing and executing the early warning exercise, which evolved, in part, from the Fund's existing vulnerability exercise. Additionally, the IMF is collaborating with the FSB and the Basel Committee on Banking Supervision in assessing the macroeconomic implications of implementing the Basel Committee's proposals to strengthen global capital and liquidity regulations. In FY2010, the IMF worked jointly with the FSB and Bank for International Settlements on a report for the G-20 on guidelines for assessing the

systemic importance of financial institutions, markets, and instruments, and on identifying and addressing gaps in data and information revealed by the crisis.

The Fund has also participated in a number of groups or initiatives that have either arisen out of the crisis or seen the importance of their work increase significantly because of it. Chapter 3 highlighted the IMF's work as chair of the Inter-Agency Group on Economic and Financial Statistics, specifically in connection with the Principal Global Indicators website, which provides economic and financial data for G-20 countries. A particularly important instance of the IMF's group collaboration is its participation in the European Bank Coordination Initiative (informally, the "Vienna Initiative").<sup>77</sup> Responding to a lack of a framework for coordinated response in the face of a potential crisis-driven outflow of capital from emerging Europe, the IMF, along with a number of other international financial institutions (most notably, the European Bank for Reconstruction and Development and European Commission), initiated a series of meetings, the first in January 2009. In those meetings international financial institutions and policymakers from home and host countries met with commercial banks active in emerging Europe to discuss what measures might be needed to reaffirm their presence in the region in general, and more specifically in countries that were receiving balance of payments support from the international financial institutions. The initiative played a

substantial role in stabilizing the situation and settling market expectations and created a dialogue between the private and public sectors. Equally important, it provided a platform for dialogue, thereby creating a degree of certainty in private markets that has been beneficial for the economic policies of the countries in question.

Through its Offices in Europe, the IMF works actively with European-based institutions, including the OECD and the European Union, with which the Fund has collaborated on a number of programs in Central and Eastern Europe, and more recently in the case of Greece.

## REFORMING IMF GOVERNANCE

### Management and organization

#### Report to the IMFC

Responding to a call by the IMFC in April 2009 for a report on Fund governance, the Executive Board met the following July for an initial discussion on the main issues and reform options based on several reports, including from the Committee of Eminent Persons headed by Trevor Manuel and the Independent Evaluation Office, and consultations with civil society (see Box 4.6).<sup>78</sup> The Board met again in September to consider a draft of the report to the IMFC, based on the broad guidance

provided in the initial discussion, that put forward specific proposals for immediate action and identified areas for further work. The Executive Board presented its “Report to the IMFC on Reform of Fund Governance” immediately prior to the October 2009 Annual Meetings in Istanbul, where the IMFC stressed the importance of governance reform in regard to the Fund’s legitimacy and effectiveness (see Web Box 4.2).<sup>79</sup>

In the Board’s preliminary discussion, Executive Directors considered five core issues: realigning quota shares; high-level engagement; effective decision making and representation at the Executive Board; open selection of Fund management (and more broadly, enhanced staff diversity); and an updating of the Fund’s mandate. The October report to the IMFC assessed and made recommendations in these same five areas. Executive Directors agreed that the report to the IMFC should outline concrete steps to achieve high-level engagement by ministers and governors of the kind evident in the global crisis—for example, by moving from formalistic IMFC meeting formats to more fluid and interactive ones, adopting a more inclusive leadership model like the G-20’s troika system, improving the communiqué drafting process, and incorporating mechanisms for accountability.

Expressing their agreement with the Managing Director’s view that a strong Executive Board is vital to the institution, Executive Directors stressed the importance of strengthening the

#### Box 4.6

### The Fourth Pillar: Engaging civil society in IMF governance reform

In September 2008, the Managing Director proposed to broaden inputs into the IMF’s governance reform, in response to calls from civil society organizations (CSOs) for a voice in the process.<sup>1</sup> Engaging civil society as a “fourth pillar” of the governance reform process was intended to complement the work undertaken by the other three “pillars”: the IMF’s Independent Evaluation Office, the IMF Executive Board Working Group on IMF Corporate Governance, and the Committee of Eminent Persons on IMF Governance Reform.

The Fourth Pillar consultation included a number of activities over a five-month period involving nearly 200 CSO representatives, think tank analysts, and academics from about 50 countries. A Washington, D.C.-based CSO—the New Rules for Global Finance Coalition—coordinated the consultation, and an external website was set up to enable CSOs to exchange ideas and provide their inputs.<sup>2</sup> Additionally, six videoconferences were organized in 11 countries<sup>3</sup> with participants from academia, CSOs, and the private sector. CSOs also met in July 2009 with Fund staff who drafted the Board papers on governance reform.

In September 2009, CSO representatives met with Executive Directors in an informal seminar at Fund headquarters to present their recommendations on governance reform. These recommendations were incorporated into the final Fourth Pillar Report,<sup>4</sup> which was formally presented to the Managing Director in a meeting with CSOs at the 2009 Annual Meetings.<sup>5</sup>

The Fourth Pillar consultation with CSOs has been a key component of the Fund’s ongoing engagement with nonofficial stakeholders, whose informal contribution has been helpful in framing the Fund’s policy discussion.

- 1 For additional information on the Fourth Pillar process, see “Engaging Civil Society in the Reform of IMF Governance,” *The IMF and Civil Society*, September 23, 2009 ([www.imf.org/external/np/exr/cs/news/2009/CS091.htm](http://www.imf.org/external/np/exr/cs/news/2009/CS091.htm)).
- 2 “The Fourth Pillar: IMF Consultations with CSOs on Governance Reform” (<http://thefourthpillar.ning.com/>).
- 3 These countries were Argentina, Ghana, India, Indonesia, Kazakhstan, Kenya, the Kyrgyz Republic, Mexico, Peru, South Africa, and Uruguay.
- 4 The “Report on the Civil Society (Fourth Pillar) Consultations with the International Monetary Fund on Reform of IMF Governance” is available on the New Rules for Global Finance website ([www.new-rules.org/fourth\\_pillar.htm](http://www.new-rules.org/fourth_pillar.htm)). French and Spanish versions are also available at the same URL.
- 5 See “IMF Governance Reform: Update from Istanbul,” *The IMF and Civil Society*, October 14, 2009 ([www.imf.org/external/np/exr/cs/news/2009/CS0100.htm](http://www.imf.org/external/np/exr/cs/news/2009/CS0100.htm)).

Board's role, with greater attention to strategic issues, facilitated by modernizing work practices. Among other things, this might include better use of Board committees, and lapse of time procedures and similar recommendations of the Executive Board Working Group report on governance reform, as well as consideration of alternative procedures for the Board's conduct of surveillance. They strongly disagreed, however, with proposals to redraw lines of responsibility—for example, devolving to management the function of surveillance, where strong peer review was felt to be critical. In regard to voting rules, Executive Directors stressed that the practice of deciding by consensus whenever possible has served the Fund well.

The Executive Board intends to finalize a revised process for the selection of management. The Board recognizes that the extent to which such a revised framework succeeds in actually creating an open, merit-based, and transparent process, as called for by the IMFC, will depend on whether the Fund's membership is willing to take full advantage of it. While acknowledging the challenge of reaching consensus on so large an issue, many Executive Directors favored more work on updating of the Fund's mandate, which has a bearing on governance insofar as it frames and shapes the issues and approaches put to the membership in the exercise of their voice and vote.

### Follow-up work on governance

Since the delivery of its report to the IMFC, the Executive Board has had a number of follow-up discussions on governance issues. An initial meeting kicking off the Fourteenth General Review of Quotas was held in March 2010, followed by a Board discussion in April of considerations surrounding the size of the Fund in connection with the Fourteenth General Review (see "Reassessing the IMF's Mandate" earlier in the chapter). The Board also held a discussion in March on two issues: reforms to the IMFC process to facilitate more effective deliberations, and the case for moving to an all-elected Executive Board. It took up the issue of instituting an open process for management selection at a restricted executive session in April and considered a concise progress report to the IMFC on governance reform at another April meeting. That report, "Executive Board Progress Report to the IMFC: The Reform of Fund Governance," was presented to the IMFC at the Spring Meetings.<sup>80</sup>

### Quota and voice

Quota subscriptions (see Web Box 4.3) are the primary source of the IMF's financial resources. The IMF's Board of Governors conducts general quota reviews at regular intervals (at least every five years), allowing the IMF to assess the adequacy of quotas in terms of members' financing needs and its own ability to help meet those needs, and to modify members' quotas to reflect changes in their relative positions in the world economy, thus ensuring that the decision-making

mechanism of the international financial system evolves with the changing structure of the global economy. The most recent of these reviews, the Thirteenth General Review, was concluded in January 2008, with no proposal by the Board of Governors to increase quotas; discussions in relation to the Fourteenth General Review, which is expected to be completed on an accelerated schedule before January 2011 (see "Fourteenth General Review of Quotas" later in this chapter), have already begun.

### Status of the April 2008 ad hoc quota reform

The most recent quota reform, approved by the Board of Governors in April 2008, aims to increase the voting share of dynamic emerging markets and provide greater voice to low-income countries. Under the ad hoc reform, 54 members would receive quota increases, and the Articles of Agreement would be amended to triple basic votes and put in place a mechanism to preserve the share of basic votes in total votes. As of April 30, 2010, 35 of the eligible 54 members had consented to the ad hoc quota increases included in the reform. Additionally, 70 members of the required 112, representing 72.9 percent, compared with the required 85 percent, of the total voting power, had accepted the proposed amendment to the Articles of Agreement. In its April 2010 communiqué, the IMFC urged members to consent promptly to the still-pending 2008 quota and voice reform.<sup>81</sup>

### Fourteenth General Review of Quotas

Work on additional quota reform is ongoing in the context of the Fourteenth General Review of Quotas, which is scheduled to be completed before January 2011, two years ahead of the original schedule. In its October 2009 communiqué, the IMFC expressed its support for a shift in quota share to dynamic emerging market and developing countries of at least 5 percent from overrepresented countries to underrepresented countries, using the current quota formula as the basis from which to work. It also committed to protecting the voting share of the poorest members.<sup>82</sup>

Executive Directors met in March 2010 to discuss initial considerations on the realignment of quota shares in connection with the Fourteenth General Review. There were also initial discussions in April on the issue of the size of the Fund (see "Financing for the Twenty-First Century" earlier in this chapter), which has a bearing on the question of realignment of quota.

### Membership

The Republic of Kosovo accepted the IMF's offer of membership and became the Fund's 186th member in June 2009.<sup>83</sup> The Board of Governors also adopted in FY2010 a resolution on membership for Tuvalu, in response to an application for membership submitted in FY2009. (Tuvalu subsequently became the Fund's 187th member in June 2010.)



# 5 | FINANCES, ORGANIZATION, AND ACCOUNTABILITY



## 5 FINANCES, ORGANIZATION, AND ACCOUNTABILITY

**In FY2010, the IMF continued the implementation of internal reforms approved in 2008. Work progressed on restructuring the income and expenditure sides of the IMF accounts.** Sales of IMF gold envisioned in the 2008 reforms, with the intention of enabling a move to a new income model for the Fund and supplementing its resources for concessional lending, were approved by the Board and began. On the expenditure side, further progress was made in aligning the Fund's medium-term budget with revised objectives involving permanent reductions in expenditures and numbers of staff.

In regard to personnel, staff changes in the Office of the Managing Director brought new faces to the management team, including a new Deputy Managing Director, Naoyuki Shinohara, and a Special Advisor to the Managing Director, Min Zhu. A memorial event in April commemorated the life and contributions of Jacques Polak, who helped found the Fund and shape it through its history.

Important reforms to the IMF's transparency policy continued a decade-long progression toward greater openness about the Fund's activities, and the Fund's outreach activities, like much of its other work, expanded and intensified in response to crisis demands.

## BUDGET AND INCOME

### Gold sales in support of new income model

A central component of the IMF's new income model, endorsed by the Executive Board in April 2008, is the establishment of an endowment funded by the profits from the sale of a portion of the Fund's gold (see "Income, Charges, Remuneration, and Burden Sharing" later in this chapter). In July 2009, the Board agreed that a limited portion of the proceeds from the gold sales would also be used to increase the Fund's resources for concessional lending to low-income countries, and the following September, it approved the sale of a strictly limited volume of the IMF's gold holdings (403.3 metric tons, representing one-eighth of the total holdings; see Web Box 5.1), to be conducted under modalities that would safeguard against disruption of the gold market<sup>84</sup> and in accordance with guidelines endorsed by the Board in February 2008. Under the modalities adopted, the Fund would offer gold for off-market sale to official sector holders such as central banks, then conduct phased on-market sales if necessary.<sup>85</sup> Subsequently, in October and November 2009, three central banks made gold purchases totaling 212 metric tons: the Reserve Bank of India (200 metric tons), the Bank of Mauritius (2 metric tons), and the Central Bank of Sri Lanka (10 metric tons).<sup>86</sup> Though these sales of gold to official holders were off-market transactions, they were conducted at market prices prevailing at the time.

With 191.3 metric tons remaining to sell, the IMF announced in mid-February 2010 that it would soon initiate on-market gold sales,<sup>87</sup> to be conducted in a phased manner over time, in accordance with the priority of avoiding disruption of the gold market. The initiation of on-market sales does not preclude further off-market gold sales directly to interested central banks or other official holders, which would reduce the amount of gold to be placed on the market.

At April 30, 2010, 62.1 percent of the 403.3 metric tons approved for sale had been sold.

### Income, charges, remuneration, and burden sharing

#### Income

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

through creation of an endowment funded with the profits from a limited sale of the Fund's gold holdings (approved by the Executive Board in September 2009, as previously discussed), a broadening of the IMF's investment authority to enhance returns on investments, and resumption of the practice of reimbursing the Fund for the cost of administering the PRGT.

Broadening the investment authority requires an amendment of the Fund's Articles of Agreement, and the proposed amendment is being considered by IMF members. As of April 30, 2010, the required threshold for entry into force of the amendment of 112 member consents with 85 percent of the total voting power had not been reached; 67 members with 74 percent of total voting power had provided consents.

#### Charges

The main sources of IMF income continue to be its lending activities and investments. The basic rate of charge (the interest rate) on IMF financing is determined at the beginning of each financial year as the SDR interest rate plus a margin expressed in basis points.<sup>88</sup> For FY2011, the Board agreed to keep the margin for the rate of charge unchanged from FY2010, at 100 basis points. Consistent with the new income model, the decision was guided by the principles that the margin should cover the Fund's costs for intermediation and buildup of reserves and that it should be broadly aligned with rates in the capital markets. Under this approach, a key objective is to keep the rate of charge stable and predictable.

In the IMF's new charges and maturities framework, approved in March 2009, level-based surcharges of 200 basis points are levied on the use of large amounts of credit (above 300 percent of a member's quota) in the credit tranches<sup>89</sup> and under Extended Arrangements. The IMF also levies time-based surcharges of 100 basis points on the use of large amounts of credit (with the same threshold as above) that remains outstanding for more than 36 months.

In addition to periodic charges and surcharges, the IMF also levies service charges, commitment fees, and special charges. A service charge of 0.5 percent is levied on each drawing from the General Resources Account. A refundable commitment fee on GRA arrangements, such as Stand-By Arrangements, as well as Extended and Flexible Credit Line Arrangements, is charged based on the amounts that may be drawn under the arrangement during each 12-month period. Commitment fees are levied at 15 basis points on amounts committed up to 200 percent of quota, 30 basis points on amounts committed

in excess of 200 percent and up to 1,000 percent of quota, and 60 basis points on amounts committed over 1,000 percent of quota. The fees are refunded when credit is used, in proportion to the drawings made. The IMF also levies special charges on overdue principal payments and on charges that are overdue by less than six months.

### Remuneration

On the expenditure side, the IMF pays interest (remuneration) to members on their creditor positions in the GRA (known as reserve tranche positions). The Articles of Agreement provide that the rate of remuneration shall be not more than the SDR interest rate, nor less than 80 percent of that rate. The rate of remuneration is currently set at the SDR interest rate, which is also the interest rate on IMF borrowing. In 2009, the Executive Board agreed to boost the IMF's financing capacity, via borrowing, as part of the near-term response to the global financial crisis (see "Ensuring Adequate Resources for the IMF's Work" in Chapter 4). At April 30, 2010, the IMF had borrowed funds from members through bilateral loans and note purchase agreements amounting to SDR 6.4 billion, with a further available amount in undrawn commitments of SDR 167.4 billion.

### Burden sharing

The IMF's rates of charge and remuneration are adjusted under a burden-sharing mechanism established in the mid-1980s that distributes the cost of overdue financial obligations equally between creditor and debtor members. Quarterly interest charges that are overdue (unpaid) for six months or more are recovered by increasing the rate of charge and reducing the rate of remuneration (burden-sharing adjustments). The amounts thus collected are refunded when the overdue charges are settled. In FY2010, the adjustments for unpaid quarterly interest charges averaged 1 basis point, reflecting the rise in IMF credit outstanding owing to the effect of the global crisis on members and a similar increase in member reserve tranche positions. The adjusted rates of charge and remuneration averaged 1.30 percent and 0.28 percent, respectively, in FY2010.

### Net income

The IMF's net income in FY2010, before taking account of the gold sales it conducted, was SDR 227 million, reflecting income from the high levels of lending activity and the Fund's investments. The returns net of fees on the IMF's investments were 2.53 percent, outperforming by 31 basis points the Board-approved benchmark index, which is constructed using the Merrill Lynch one- to three-year government bond indices for the euro, the yen, sterling, and the U.S. dollar, weighted to reflect the weights of each currency in the SDR basket. Profits from the gold sales in FY2010 were about SDR 3.8 billion and will be transferred to the Fund's Investment Account for investment in an endowment, as agreed under the new income

model, after the proposed amendment to the Articles of Agreement regarding broadening of the Fund's investment authority becomes effective.

### Administrative and capital budgets

In April of each year, the IMF adopts a rolling three-year medium-term budget (MTB) consisting of a net administrative budget and a capital budget. Within this three-year budget, the Executive Board authorizes total net administrative expenditures, a limit on gross administrative expenditures, and an appropriation for capital projects for the first year of the MTB and takes note of the indicative budget envelopes for the following two years. For FY2010, the authorized net administrative expenditures amounted to US\$880 million (see Table 5.1) with a gross expenditure limit of US\$1,040 million, consisting of a gross budget of US\$979 million (see Table 5.1) and an approved carry-forward of up to US\$60 million of unused resources from the FY2009 administrative budget (equivalent to 6 percent of the approved budget for that year).<sup>90</sup> The Board also approved capital expenditures of US\$45 million (see Table 5.2).

FY2010 was the second year of a program of reforms, initiated with the FY2009 budget, aimed at reshaping the IMF so that it can deliver more-focused outputs cost-effectively. As part of this reform, the Fund's new structural steady-state budget—the indicative budget for FY2011 (and beyond)—entails a permanent reduction in expenditures by US\$100 million in real terms, and a reduction in the number of staff positions by 380, compared with the FY2008-10 MTB.

Despite the continuing global economic and financial crisis that erupted shortly after the IMF's reform efforts began, further progress was made in achieving the MTB objectives. The institution was able to respond to the increase in demands related to the crisis through a series of temporary measures. First, part of the staff who volunteered to leave the Fund stayed on temporarily and helped in early stages of the crisis. Second, financial resources were shifted between financial years through a carry-forward mechanism, allowing underspending from one year to finance temporary spending in another year, resulting in an actual carry-forward of US\$52 million for this purpose for FY2010. Third, limited-term experts were brought in to assist with the crisis response or to fill in for experienced staff who were deployed to crisis departments. Finally, resources were redeployed across departments to provide financing for the areas that were most directly affected by the crisis.

Actual net administrative expenditures in FY2010 amounted to US\$863 million, US\$69 million less than the budget,<sup>91</sup> mainly as the result of delays in replacing the greater-than-targeted number of staff who volunteered to leave the IMF as part of the reform-related downsizing.<sup>92</sup> Against this background, the budget strategy for FY2011-13 is to continue financing the Fund's crisis response while delivering the US\$100 million savings agreed. For

**Table 5.1**  
Administrative budget by major expenditure category, FY2008-13

(In millions of U.S. dollars)	FY2008		FY2009		FY2010		FY2011	FY2012	FY2013
	Budget	Outturn	Budget	Outturn	Budget <sup>1</sup>	Outturn	Budget <sup>1</sup>	Budget	Budget
Personnel	723	714	697	659	710	694	739	789	823
Travel	101	94	98	77	89	89	104	113	118
Buildings and other	161	158	164	150	168	162	169	180	191
Annual Meetings	0	0	0	0	5	5	0	0	5
Contingency reserves	10	0	8	-	7	-	0	4	8
Total gross budget/expenditures	994	967	967	885	979	950	1,013	1,086	1,144
Receipts	-71	-76	-99	-72	-100	-87	-122	-159	-173
<b>Total net budget/expenditures</b>	<b>922</b>	<b>891</b>	<b>868</b>	<b>813</b>	<b>880</b>	<b>863</b>	<b>891</b>	<b>927</b>	<b>971</b>
(In millions of FY2008 U.S. dollars)									
Personnel	723	714	670	633	659	644	660	677	679
Travel	101	94	94	74	83	82	93	97	97
Buildings and other	161	158	157	144	156	151	151	155	157
Annual Meetings	0	0	0	0	5	5	0	0	5
Contingency reserves	10	0	8	-	6	-	0	3	6
Total gross budget/expenditures	994	967	929	851	909	882	904	932	943
Receipts	-71	-76	-95	-69	-93	-81	-109	-136	-143
<b>Total net budget/expenditures</b>	<b>922</b>	<b>891</b>	<b>835</b>	<b>782</b>	<b>817</b>	<b>801</b>	<b>796</b>	<b>796</b>	<b>801</b>

Source: IMF Office of Budget and Planning.

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

<sup>1</sup> The administrative budget excludes provisions for crisis-related expenditures that are paid for through the carry-forward.  
The actual FY2010 and FY2011 carry-forward provisions amount to US\$52 million and US\$62 million, respectively.

**Table 5.2**  
Medium-term capital expenditure, FY2008-13 (In millions of U.S. dollars)

	FY2008		FY2009		FY2010		FY2011	FY2012	FY2013
	Budget	Outturn	Budget	Outturn	Budget	Outturn	Budget	Budget	Budget
Building facilities	21	16	17	17	15	12	17	23	24
Information technology	26	28	32	32	30	33	32	29	24
<b>Total capital expenditures</b>	<b>47</b>	<b>43</b>	<b>48</b>	<b>49</b>	<b>45</b>	<b>45</b>	<b>48</b>	<b>52</b>	<b>48</b>

Source: IMF Office of Budget and Planning.

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

FY2011, therefore, the budget approved by the Executive Board in April 2010 continues to make a distinction between structural spending and temporary spending, with the latter to be financed by the budget underrun incurred in FY2010.

For financial reporting purposes, the IMF's administrative expenses are accounted for in accordance with International Financial Reporting Standards (IFRS) rather than on a cash basis of budgetary outlays. These standards require accounting on an accrual basis and the recording and amortization of employee benefit costs based on actuarial valuations. Table 5.3 provides a detailed reconciliation between the FY2010 net administrative budget outturn of US\$863 million and the IFRS-based administrative expenses of SDR 725 million (US\$1,132 million) as reported in the audited IMF financial statements.

The approved net administrative expenditures for FY2011 amount to US\$891 million (see Table 5.1), with a gross expenditure limit of US\$1,079 million, consisting of a gross administrative budget of US\$1,013 million (see Table 5.1) plus an approved carry-forward of up to US\$66 million from the FY2010 budget.<sup>93</sup> The Fund's FY 2011-13 medium-term budget and departmental business plans have been formulated on the basis of a new outputs framework—responsibility areas (see Table 5.4 for a detailed breakdown)<sup>94</sup>—and new standard costs by pay grade.<sup>95</sup> Both initiatives are integral parts of wider budget reforms in the context of introducing the new Analytic Costing and Estimation System in the Fund.

The IMF Business Plan for FY2010 reflected the demands of the financial crisis—increased shares of resources to country program and financial support and global monitoring, with focus on early warning systems and financial safety nets, and more-coordinated and more-targeted technical assistance. The Business Plan for FY2011 reflects the IMF's priorities resulting from the decisions made at the 2009 Annual Meetings. The IMF's work in FY2011 will focus on global cooperative solutions to work out effective exit strategies from stimulus policies, strengthen oversight of economic and financial systems, and reform the global financial architecture. Concurrently, the IMF will continue to provide direct services to member countries through assistance and policy advice to countries affected by the crisis and substantial technical assistance for capacity building in less-developed member countries.

Actual capital expenditure in FY2010 was US\$45 million: US\$12 million for building facilities and US\$33 million for information technology (IT) projects (Table 5.2). Work on developing detailed long-term investment plans for the Fund's physical assets is underway; pending its completion, only the most critical capital facilities projects and some other necessary stand-alone projects are proceeding. (Even within this curtailed spending on capital projects, the IMF managed to win a coveted award during the year for environmental improvements in its headquarters buildings; see Box 5.1.) IT projects are on track and are contributing to the Fund's streamlining initiatives. For example, the recently introduced eReview system was initiated to modernize the review process for internal Fund

### Box 5.1

#### IMF headquarters buildings win LEED Gold Award

In December 2009, the IMF became the first international financial organization to be awarded the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) Gold for Existing Buildings—one of the highest environmental designations in the world.<sup>1</sup> Both of the Fund's headquarters buildings received the designation, joining, at the time, four other buildings in Washington, D.C. (four additional buildings in the District had also been recognized as of the end of FY2010).

The LEED rating system is a globally recognized rating for green buildings. LEED for Existing Buildings, an award verified by the Green Building Certification Institute, focuses on how well buildings are operated according to factors like their utilization of energy and water, recycling and reduction of waste, and the creation of a healthy work environment for staff.

Several major changes took place in the headquarters buildings to enable them to comply with the LEED requirements in the

months leading up to certification. Water fixtures were upgraded, flush valves and aerators were changed, and a broader no-smoking policy was instituted throughout the two buildings, prohibiting smoking within 25 feet of IMF entryways, operable windows, and air intakes.

Earning LEED certification is just one element in the Fund's overall sustainability program, launched in 2008, which focuses on three areas: continuing to reduce the IMF's energy and water use, improving its sustainable procurement, and its recycling program. As part of another notable sustainability initiative, in an effort to reduce its carbon footprint, the IMF has purchased credits to offset its carbon emissions for FY2008, FY2009, and FY2010 resulting from passenger air travel booked through the Fund's travel agency.

<sup>1</sup> See PR 09-442, "IMF Wins Coveted Environmental Award for Headquarters Buildings" ([www.imf.org/external/np/sec/pr/2009/pr09442.htm](http://www.imf.org/external/np/sec/pr/2009/pr09442.htm)).

**Table 5.3**  
**Administrative expenses reported in the financial statements** (In millions of U.S. dollars, unless otherwise indicated)

<b>FY2010 net administrative budget outturn</b>	<b>863</b>
Timing differences:	
Pension and postemployment benefits costs	207
Capital expenditure—amortization of current and prior years' expenditure	41
Amounts not included in the administrative budget (capital and restructuring budgets):	
Capital expenditure—items expensed immediately in accordance with IFRS	10
FY2010 IFRS restructuring costs <sup>1</sup>	11
<b>Total administrative expenses reported in the audited financial statements</b>	<b>1,132</b>
<b>Memorandum item:</b>	
Total administrative expenses reported in the audited financial statements (in millions of SDRs)	725

Sources: IMF Finance Department and Office of Budget and Planning.

Note: Components may not sum exactly to totals because of rounding. Conversions are based on the average FY2010 U.S. dollar/SDR exchange rate of 1.56.

<sup>1</sup> Represents costs recognized during FY2010. In accordance with IFRS, certain restructuring costs are recognized prior to actual cash outlays; the FY2008 financial statements included a provision of SDR 68 million, equivalent to US\$111 million.

**Table 5.4**  
**Budgeted expenditures shares by responsibility area, FY2008-13**  
 (Percentage shares of total gross expenditures, excluding reserves)

	FY2008 Outturn	FY2009 Outturn	FY2010 Outturn	FY2011 Budget	FY2012 Budget	FY2013 Budget
<b>Global cooperative economic solutions</b>	<b>33</b>	<b>32</b>	<b>33</b>	<b>31</b>	<b>30</b>	<b>30</b>
Lead the global economic policy dialogue	19	20	17	20	19	19
Global economic analysis	8	7	5	7	7	7
Cooperative economic policy solutions	3	3	3	3	3	3
Tools to prevent, resolve systemic crises	6	6	6	6	6	6
Regional approaches to economic stability	3	3	3	4	4	3
Oversight of the global economic and financial system	14	12	16	12	11	11
Development of international financial architecture	2	2	2	2	2	2
Data transparency	4	4	4	4	4	4
The role of the Fund in the international monetary system	7	7	9	6	6	6
<b>Direct member services</b>	<b>67</b>	<b>68</b>	<b>67</b>	<b>69</b>	<b>70</b>	<b>70</b>
Advise member countries on economic policies	26	25	23	22	21	22
Assessment of economic policies and risks	22	23	21	19	19	19
Financial soundness evaluations	2	1	1	2	2	2
Standards and codes	2	1	1	1	1	1
Support countries' economic policy adjustments	17	18	21	20	19	18
Arrangements supported by Fund resources	17	15	17	20	19	18
Arrangements not supported by Fund resources	0	3	4	0	0	0
Provide capacity building	24	25	24	27	29	31
Technical assistance	17	18	19	20	22	24
Training	7	7	4	7	7	7

Source: IMF Office of Budget and Planning.

Note: Components may not sum exactly to totals because of rounding. Support and governance expenditures are allocated across outputs. Excludes departmental carry-forward for FY2011.

**Box 5.2****Reducing administrative costs**

The Managing Director's commitment, upon his appointment, to reduce the Fund's administrative budget by US\$100 million has been achieved, through downsizing and aggressive pursuit of efficiency gains and other cost savings in ongoing operations. The application of strategic sourcing principles to several major service contracts has enabled the Fund to reduce costs while sustaining essential service levels. New initiatives to use

outsourced providers (both local and global) in areas such as information technology and translation services have also achieved substantial savings. Similarly, renegotiation of airline contracts has netted the Fund several million dollars in travel rebates. To create other administrative efficiencies, a number of efforts have focused on streamlining the document and policy review process, as well as other work practices.

documents and facilitate greater collaboration among area and reviewing departments. (See Box 5.2 for more on savings through administrative cost-cutting efforts at the Fund.) The Executive Board in April 2010 approved an appropriation of about US\$48 million for building facilities and IT projects beginning in FY2011 (Table 5.2). The capital budget envelope proposed for the FY2011-13 capital plan is US\$148 million.

Like the previous MTB, the FY2011-13 MTB was set in an unusually uncertain and challenging environment. Additional demands on the IMF, including the provision of financial support to member countries, work on improving the global financial architecture, and enhanced surveillance, are expected to continue in FY2011 and beyond. Furthermore, there are uncertainties regarding the outcome of discussions on the IMF's mandate (see Chapter 4). These discussions are expected to continue through the middle of FY2011, and their outcome could have budgetary consequences, which will need to be taken into account in future budget plans.

**Arrears to the IMF**

Overdue financial obligations to the IMF (including its Trusts) fell from SDR 1,326 million at end-April 2009 to SDR 1,309 million at end-April 2010 (Table 5.5). Sudan accounted for about 75 percent of remaining arrears, and Somalia and Zimbabwe for 18 and 7 percent, respectively. At end-April 2010, all arrears to the IMF were protracted (outstanding for more than six months); one-third consisted of overdue principal, the remaining two-thirds of overdue charges and interest. More than four-fifths represented arrears to the GRA, and the remainder to the Trust Fund and the PRGT. Zimbabwe is the only country with protracted arrears to the PRGT. The

general SDR allocation in August 2009 (see "SDR Allocations" in Chapter 3) enabled Somalia to settle its arrears in the SDR Department, and the Managing Director's complaint against the country under Rule S-1 was subsequently withdrawn. The SDR allocation has also facilitated Sudan and Somalia in remaining current in the SDR Department. Sudan and Somalia remain in protracted arrears to the GRA and the Trust Fund.

Under the IMF's strengthened cooperative strategy on arrears, remedial measures have been applied to address the protracted arrears. At the end of the financial year, Somalia and Sudan remained ineligible to use GRA resources. In May 2009, the Executive Board decided to lift the suspension of Fund technical assistance to Zimbabwe in targeted areas, and in February 2010, Zimbabwe's voting and related rights and its eligibility to use the GRA were restored. However, Zimbabwe will not be able to access resources from the GRA until it fully settles its arrears to the PRGT. A declaration of noncooperation, the partial suspension of technical assistance, and its removal from the list of PRGT-eligible countries remain in place as remedial measures related to Zimbabwe's outstanding arrears to the PRGT.

**Audit mechanisms**

The IMF's audit mechanisms comprise an external audit firm, an internal audit function, and an independent External Audit Committee (EAC) that has general oversight over the annual audit.

The external audit firm, which is selected by the Executive Board in consultation with the EAC and appointed by the Managing Director, is responsible for overseeing the IMF's



**Table 5.5****Arrears to the IMF of countries with obligations overdue by six months or more and by type**

(In millions of U.S. dollars; as of April 30, 2010)

	By type			
	Total	General Department (including Structural Adjustment Facility)	Trust Fund	PRGT
Somalia	230.0	221.9	8.1	0.0
Sudan	990.1	909.5	80.6	0.0
Zimbabwe	88.7	0.0	0.0	88.7
<b>Total</b>	<b>1,308.8</b>	<b>1,131.4</b>	<b>88.8</b>	<b>88.7</b>

Source: IMF Finance Department.

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

annual external audit, which includes an opinion on the financial statements of the IMF, accounts administered under Article V, Section 2(b), and the Staff Retirement Plan. At the conclusion of the annual audit, the EAC briefs the Executive Board on the results of the audit and transmits the report issued by the external audit firm, through the Managing Director and the Executive Board, for consideration by the Board of Governors. Two such briefings were conducted during FY2010, in July 2009 and January 2010.

The external audit firm is normally appointed for five years. Deloitte & Touche LLP is currently the IMF's external audit firm. It issued an unqualified audit opinion on the IMF's financial statements for the financial year ended April 30, 2010.

The IMF's internal audit function is assigned to the Office of Internal Audit and Inspection (OIA), which independently examines the effectiveness of the Fund's risk management, control, and governance processes. The OIA also serves as the secretariat for the Advisory Committee on Risk Management (ACRM). The OIA conducted about 30 audits and reviews in FY2010 in the following areas: financial audits on the adequacy of controls and procedures to safeguard and administer the IMF's financial assets and accounts, information technology audits to evaluate the adequacy of IT management and the effectiveness of security measures, and operational and effectiveness reviews of work processes, associated controls, and the efficacy of operations in meeting the Fund's overall goals. In line with best practices, the OIA reports to IMF management and to the EAC, thus ensuring its independence. In addition, the OIA briefs the Executive Board annually on its work program and the major findings and recommendations of its audits and reviews.

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

The EAC selects one of its members as chair, determines its own procedures, and is independent of the IMF's management in overseeing the annual audit. The EAC normally meets in Washington, D.C., each year in January, in June after the completion of the audit, and in July to report to the Executive Board. IMF staff and the external auditors consult with EAC members throughout the year. The 2010 EAC members are Mr. Thomas O'Neill, Corporate Director and former Chairman, PricewaterhouseCoopers Consulting; Mr. Ulrich Graf, Audit Director in charge of federal debt and financial policy for the Supreme Audit Institution of the Federal Republic of Germany; and Ms. Amelia Cabal, former Senior Partner of SyCip Gorres Velayo & Co, a member practice of Ernst & Young Global.

### Board briefings on control- and audit-related matters

The Executive Board receives periodic briefings from the Finance Department on control- and audit-related matters. Each briefing assesses emerging control and related issues. As noted previously, the Board is also briefed regularly on the OIA's work

program and activities, including major findings of its audits and reviews, and implementation of its recommendations. In a further step toward enhancing information sharing, in April 2010 the OIA's disclosure policy was amended to allow for the posting of all audits and reviews on an internal secure website accessible to Executive Directors and their alternates.

## Risk management

Efforts are ongoing to strengthen risk management at the IMF. The Board is briefed periodically on risk management issues; the most recent such briefing was in February 2010. In May 2009, the IMF hosted a forum, in coordination with the World Bank, International Finance Corporation, and Inter-American Development Bank, with participation of 14 international financial institutions, on best practices in risk management. An informal briefing of the Board took place in February 2010 and included reporting on overall and specific risks as well as developments in incident reporting, a process that has been recently implemented as part of the overall assessment of risks. The 2010 risk assessment discussion by the Board took place in May 2010. Directors broadly concurred with the assessment of the main risks presented in the report of the ACRM, agreeing that the Fund's more prominent role has had ramifications for its financial, operational, and strategic risks.

## HUMAN RESOURCES AND ORGANIZATION

Human resources management at the IMF aims at (1) supporting the Fund's evolving business objectives by attracting and retaining a high-caliber, diverse staff with a mix of relevant skills and experiences and (2) managing staff efficiently and effectively in an environment that rewards excellence and fosters teamwork. The Fund made significant progress toward these objectives in FY2010, including through the continuation of a strong recruitment drive and the implementation of key human resources reforms.

### Workforce characteristics

#### Recruitment

Recruitment activity peaked in FY2010. The 2008 restructuring exercise led to a larger-than-expected number of voluntary separations just as the crisis work added to the need for additional staff. Following an initial phase of internal redeployment, a stepped-up external recruitment drive continued at a brisk pace into FY2010. Recruitment reached an all-time high in 2009, as 281 new staff members were brought on board.

#### Staffing levels

At April 30, 2010, the IMF had 1,844 professional and managerial staff and 568 staff at other levels. Reflecting its evolving needs, the Fund hired a higher proportion of experienced economists and financial sector specialists in 2009. In addition, given the

temporary allocation of positions for crisis work, greater use was made of limited-term appointments for a period of two years. A list of the Fund's senior officers and the IMF's organization chart can be found on pages 74 and 75, respectively, of this Report.

### Diversity profile

The IMF makes every effort to ensure that staff diversity reflects the institution's membership, and the institution actively seeks candidates from all over the world. Of the IMF's 186 member countries at end-April 2010, 144 were represented on the staff. Web Tables 5.1-5.3 show the distribution of the IMF's staff by nationality, gender, and low-income and industrial countries.

Efforts to enhance diversity at the IMF are moving ahead in several ways. Recruitment activities in FY2010 included missions to Africa, the Middle East, and East Asia; hiring of diverse candidates through the Fund's midcareer interview panel, which assesses candidates' suitability for appointments as experienced economists; and concerted outreach to underrepresented regions, with encouraging, but mixed, results. In addition, the Fund recently launched a Diversity Scorecard to track progress toward diversity objectives in a transparent way.

The Fund also hosted a two-day World Diversity Leadership Summit, "Change in the U.S. and Globally: Leveraging Diversity Innovation for Competitive Advantage," in September 2009. About 400 participants, including senior policymakers, experts, and diversity practitioners from the private sector, government, and nongovernmental organizations, attended the summit, which examined global diversity best practices and case studies, as well as diversity legislative frameworks in Asia, Africa, Europe, and Latin America.

### Management salary structure for FY2010

Management remuneration is reviewed periodically by the Executive Board; the Managing Director's salary is approved by the Board of Governors. Annual adjustments are made on the basis of the Washington, D.C., consumer price index. Reflecting the responsibilities of each management position, as of July 1, 2009, the salary structure for management was as follows:

Managing Director	US\$441,980 <sup>96</sup>
First Deputy Managing Director	US\$384,330
Deputy Managing Directors	US\$366,030

The remuneration of Executive Directors was US\$230,790, and the remuneration of Alternate Executive Directors was US\$199,650. The average salary in FY2010 for IMF Senior Officers (see page 74) was US\$291,578.

### Key human resources reforms during the year

To sustain a positive performance culture and provide opportunities for staff to be rewarded for high performance and develop their careers, the Fund implemented a series of key reforms in FY2010:



**Left** IMF Human Resources staff participate in a workshop on recruitment strategies and candidate selection. **Right** Former Deputy Managing Director Takatoshi Kato addresses well-wishers at a farewell reception at IMF headquarters, Washington, D.C., February 2010.

- **Talent reviews for deciding on senior-level promotions.** These reviews ensure a more comprehensive, structured approach to assess readiness and potential for senior positions, and they provide guidance for staff development. Emphasis on external assignments as a desirable experience for senior staff was strengthened.
- **Reform of the Staff Retirement Plan (SRP).** The reform will make the SRP more attractive for shorter-serving staff; update the factors used to calculate lump sum payments to retirees under the plan's commutation option, increasing the payments to those electing this option; and adjust the formulas used for "grossing up" staff members' net-of-tax salaries in the calculation of their pension benefits. In addition, the SRP reform will facilitate mobility into and out of the Fund by seeking additional agreements with other organizations regarding the transfer of pension benefits and add a voluntary savings plan to offer staff members a convenient and tax-advantageous vehicle for retirement savings.
- **Rewards and Recognition Program.** To reward desirable behavior and exceptional effort, the Fund introduced a new program to show appreciation for staff excelling in categories such as teamwork, innovation, and leadership.
- **A new annual performance assessment system.** The system is anchored on setting objectives at the beginning of the year, measuring staff achievements against those objectives, providing regular feedback throughout the year, and enhancing the focus on career development.
- **Modernizing human resources service delivery.** The human capital management project, designed to streamline processes

as part of an ongoing investment in improving effectiveness, delivered further improvements in performance management and human resources services administration. Key advances included an automated annual performance review solution, development of a human resources data warehouse, and introduction of systems foundations for position management. Process improvements included the outsourcing of education verification and prior-employment reference checks for new hires.

### Changes in the Office of the Managing Director

After six years of service to the IMF, Deputy Managing Director Takatoshi Kato left the IMF in February 2010 to return to his home country of Japan. During his time at the Fund, Kato supervised 73 countries and dealt with human resources and budget issues during the 2008 downsizing exercise and the recent global financial crisis. Shortly before his departure, IMF management, Board members, and several hundred staff members gathered to pay tribute and say farewell to Kato. The Managing Director praised Kato as a person who showed good humor in his work, worked as a consensus builder, and was always fair and respectful to staff. Human Resources Director Shirley Siegel lauded Kato's "dedication and clear focus" in modernizing human resources management in the Fund, and Executive Director Willy Kiekens, speaking on behalf of the Board, expressed appreciation for Kato's "admirable dedication, professionalism and effectiveness." As a token of appreciation, on behalf of IMF staff, the Staff Association Committee presented Kato with a certificate marking a contribution in Kato's name to Angkor Hospital in Cambodia. Noting that he had been "fortunate enough to have witnessed the changing fortunes of the IMF from the bottom to the top of the curve,"

Kato praised Fund staff for their “creative thinking, results orientation, and team spirit” and said he hoped to be counted as a member of the Fund family.

To succeed Kato, the Managing Director selected Naoyuki Shinohara, a former Vice Minister of Finance for International Affairs of Japan.<sup>97</sup> Shinohara, a Japanese national, holds degrees in economics from Tokyo University and in public affairs from Princeton University. In announcing Shinohara’s selection, the Managing Director emphasized his “vast experience in the arena of international finance,” adding that Shinohara had “a deep knowledge of the Fund and our work in all aspects.” The Managing Director selects and appoints the Fund’s Deputy Managing Directors, with the approval of the Executive Board. As is the practice for such appointments, the Managing Director consulted with the Board in making his selection of Shinohara to fill the vacancy created by Kato’s departure. Shinohara began his duties in late February 2010.

Also in February, the Managing Director announced his intention to appoint Min Zhu, Deputy Governor of the People’s Bank of China, as Special Advisor to the Managing Director,<sup>98</sup> noting that he would “play an important role” in working with the management team in “meeting the challenges facing our global membership in the period ahead, and in strengthening the Fund’s understanding of Asia and emerging markets more generally.” Zhu holds advanced degrees from Princeton and Johns Hopkins Universities and a bachelor’s degree from Fudan University and has published extensively on a wide range of international economic and financial issues. He assumed his duties as Special Advisor at the beginning of FY2011.

### Jacques Polak

At a memorial event in April 2010, current and former IMF staff members paid tribute to Jacques Polak for his many contributions, both personal and professional, throughout a lengthy and distinguished association with the Fund (see Box 5.3).

#### Box 5.3

#### Jacques Polak (1914-2010)

Staff past and present, Board members, family members, and representatives from the Dutch community, including the Crown Prince, were among those paying tribute in April to a giant in the Fund’s history, Jacques Polak, who passed away in February at the age of 95. At a special memorial event held at IMF headquarters, Polak was remembered as a visionary and intellectual who helped found and shape the Fund through its history, as well as a family man, friend, and mentor.

Polak’s ideas through six decades shaped not only the Fund as it is known today, but the very foundation of multilateralism and economic cooperation on which it stands. Born in 1914, Polak served as a member of the Netherlands delegation at the Bretton Woods Conference in 1944. He joined the Fund in 1947, serving as Director of the Research Department from 1958 until his retirement in 1979 and as Economic Counsellor beginning in 1966. After his retirement from staff, he served as a Special Advisor to the Managing Director, and from 1981 to 1986 as Executive Director for the Netherlands constituency. At the time of his death, he was almost certainly the last surviving delegate of Bretton Woods.

In his introduction, Executive Director Age Bakker, who served as master of ceremonies for the memorial event, said he was privileged to honor his former boss and good friend, whose “inspiration and good humor guided my further career.” Calling Polak “one of a kind,” Managing Director Dominique Strauss-Kahn

pointed out that Polak was more than a founder of the Fund, as he had served the institution through most of its history. “He was not only a brilliant economist but also a man of great integrity,” the Managing Director said.

Fund Historian James Boughton observed that Polak probably did more than anyone else to shape the IMF. “He gave intellectual clarity to the work the IMF was doing. He was the one who made it possible for staff to go to countries, explain to countries what policy changes they needed to make in order to qualify for international support, and be convincing in making that argument because they had the Polak Model behind them.” “With Jacques’ passing, the Fund has lost the last of the greats—the giants—of its formative years,” added Sir Andrew Crockett, who worked under Polak as Chief of the Special Studies Division for three years. Although Polak was writing influential papers well into his 90s, Crockett pointed out, he will always be best known for his formative work, including the Polak Model and SDRs: “No one can claim with greater justification to be the father of the SDR than Jacques Polak.” Crockett concluded: “There was only one Jacques Polak and sadly we won’t see his like again.”

Former Dutch Executive Director Onno de Beaufort Wijnholds, who worked with Polak in three stages of his own career at the Fund, summed up the immeasurable void that Polak’s passing would leave: “Jacques was a giant and a giant has fallen, and we will all miss him greatly.”

## ACCOUNTABILITY

### Transparency

#### Review of the IMF's transparency policy

Since the late 1990s, the IMF has published an increasing number of country reports, policy papers, and other documents, opened the IMF's archives to the public, and engaged actively with the public via the IMF's external website, press briefings, and general outreach. Communicating and engaging with the world at large is now a normal and essential part of the IMF's business.

In December 2009, the Executive Board concluded its most recent review of the IMF's transparency policy,<sup>99</sup> marking roughly a decade of efforts to increase the transparency of the IMF's operations. In their discussion, Executive Directors expressed a range of views, reflecting in part varying degrees

of concern about the trade-off between transparency and the Fund's role as a confidential advisor.

Most Executive Directors supported the adoption of the overarching principle for the Fund's approach to transparency that was proposed in the staff paper underpinning the discussion:<sup>100</sup> "The Fund will strive to disclose documents and information on a timely basis unless strong and specific reasons argue against such disclosure." Most also supported the proposed shift to publication of most country documents and related policy intention documents on a nonobjection basis, considering that it would encourage early consideration, both by staff and by authorities, of issues related to publication and would thus improve the timeliness of publication.

Recognizing the importance of publication in Use of Fund Resources (UFR) and Policy Support Instrument (PSI) cases—as regards signaling and public scrutiny of program design

#### Box 5.4

#### Changes to the IMF's transparency policy

##### INCREASING THE AMOUNT AND TIMELINESS OF INFORMATION

To strengthen its policies and make them more consistent, the IMF's Executive Board approved a series of changes, which include

- Publication of most country documents unless a member country objects, shifting the focus away from explicit permission to publish, which was required until the review.
- Extending the scope of documents that country authorities would be encouraged to publish to include reports on the health of a country's financial sector and its compliance with international codes and standards.
- Establishing an expectation, in cases involving Fund lending, that country authorities would indicate intent to consent to publish before the relevant Executive Board meeting.
- Extending presumed publication to most policy documents, including papers relating to the Fund's income, financing, or budget (unless these involve market-sensitive information).

##### ARCHIVES TO BE OPENED EARLIER

Interest in the Fund's archives has increased in recent years, and, together with other measures to enhance the IMF's accountability, the Board decided to shorten the wait for archived documents to be made available to the public. The main changes will

- Reduce lag time for public access to Board papers from 5 to 3 years.
- Reduce lag time for public access to Board minutes from 10 to 5 years.
- Enable web posting of selected digitized, archived material.
- Establish as a general rule that documents initially classified as "strictly confidential" will be declassified when they otherwise would become available under the time lag.<sup>1</sup>
- Help the public find its way on the Fund website, including development of a guide to IMF information for the public.<sup>2</sup>

<sup>1</sup> This provision applies only to documents produced after December 17, 2009.

<sup>2</sup> For additional information on the revisions to the IMF's transparency policy, see IMF Survey, "IMF to Increase Amount and Timeliness of Information" ([www.imf.org/external/pubs/ft/survey/so/2010/POL010810A.htm](http://www.imf.org/external/pubs/ft/survey/so/2010/POL010810A.htm)).

and conditionality—most Executive Directors supported establishing an expectation that members requesting UFR or a PSI indicate that they intend to consent to publication of the related Board documents before the Board meeting, or date of adoption of a lapse of time decision, to which those documents relate. Except as is already the case for exceptional access, access under the Flexible Credit Line, or access under the Fund's low-income facilities, a decision by the member not to publish would not affect management's determination whether or not to recommend approval of the member's request for UFR or a PSI.

Executive Directors saw merit in staff proposals to align the publication regime for staff reports on staff-monitored programs and related policy intention documents with that for Article IV consultation reports. They also supported a staff proposal to expand the presumed publication for policy documents and other noncountry documents prepared for the Board to include those on the Fund's income, financing and budget, those circulated for consideration on a lapse of time basis, and those prepared for informal Board meetings and Board seminars, unless there are strong and specific reasons not to publish, such as market sensitivity.

Executive Directors noted that, while the policy for deletions and corrections of Board documents remained appropriate, there was a clear need for greater consistency in its application and more evenhanded treatment. They reaffirmed that staff reports should not be negotiated with country authorities, in order to protect the integrity of the staff's analysis, and stressed the need to implement the modification policy consistently and evenhandedly, appealing to staff, management, and members to work together to ensure consistent adherence to the policy. It was agreed to retain the current practice of applying the current generic disclaimer on deletions to all published documents.

Executive Directors broadly supported proposals to improve procedures for declassifying documents and to allow web posting of archival material, consistent with resource constraints. They generally supported a proposed shortening of the time periods for public access to Executive Board documents and minutes of Executive Board meetings in the archives.

Given the importance of transparency for the Fund's effectiveness and credibility, most Executive Directors considered it desirable to review the transparency policy again relatively soon; an expectation was established that the next review would take place in 2012.

Following extensive discussions and in the spirit of compromise, Executive Directors broadly supported the proposed amendments to the transparency decision and archives policy (see Box 5.4). The changes approved by the Executive Board took effect in mid-March 2010.

### Publication of Article IV consultation reports

The IMF's Article IV consultation process, generally held each year with each Fund member (see "Bilateral Surveillance" in

Chapter 3), includes a report, submitted to the IMF's Executive Board for discussion, on the findings of the staff team assigned to conduct the consultation. In an effort to maximize the transparency of this process, with the agreement of the country in question, these reports are published on the IMF's website. Web Table 3.5 provides information on Article IV consultations with the Fund's member countries and publication of the associated Public Information Notices and staff reports.

Previously, publication of a country's Article IV report occurred only when the country specifically offered its consent. Under the IMF's revised transparency policy, as of March 2010, Article IV reports are now published on a nonobjection basis; that is, a country's agreement to publication is assumed unless the country specifically informs the Fund that the report should not be published.

## Independent Evaluation Office

### Role of Independent Evaluation Office and its evaluations

The Independent Evaluation Office (IEO) was established in 2001 to conduct independent and objective evaluations of IMF policies and activities with a view to increasing the Fund's transparency and accountability, strengthening its learning culture, and supporting the Executive Board's institutional governance and oversight responsibilities. The IEO does this primarily through the conduct of independent assessments of services provided by the Fund to its membership, under its mandate. This includes systematic evaluations of the IMF's general policies; comparative cross-country analyses of the IMF's economic policy advice, in the context both of surveillance and of IMF-supported programs; and evaluations of completed country operations. Under its terms of reference, the IEO is fully independent of Fund management and operates at arm's length from the Fund's Executive Board, to which it reports its findings.

The IEO publishes an Annual Report, which provides an overview of developments and a record of its activities during the preceding financial year; the 2010 report was published in July 2010. Completed evaluations, issues papers for ongoing evaluations, IEO Annual Reports, and other documentation on IEO activities can be found on the IEO website.<sup>101</sup>

In February 2010, following his recruitment by the Executive Board through a competitive selection process, Moises Schwartz assumed duties as the IEO's third Director, taking over from Thomas Bernes, whose term ended in July 2009.

### IEO work program

In March 2010, the IEO published final issues papers in connection with two ongoing evaluations, "The IMF's Role in the Run-Up to the Current Financial and Economic Crisis" and "Research at the IMF: Relevance and Utilization." Both evaluations are expected to be completed and submitted to the Board in FY2011.

As FY2010 drew to a close, the IEO was developing a new medium-term work program, under the guidance of its recently appointed Director (see above).

### Executive Board reviews of IEO reports and recommendations

As noted previously, although the IEO operates at arm's length from the IMF's Executive Board, it does report its findings to the Board, which reviews the findings. Soon after the Board discussion, IMF staff and management prepare and present to the Board a forward-looking implementation plan for Board-endorsed IEO recommendations. The implementation plan is part of a framework, established following an external evaluation of the IEO, that seeks to ensure a more systematic follow-up and monitoring of the implementation of Board-endorsed IEO recommendations.

In June 2009, the Board met to consider the findings of the IEO's evaluation of IMF involvement in international trade policy issues. In its evaluation report, which was released to the public shortly after the Board meeting,<sup>102</sup> the IEO put forward a set of recommendations aimed at prioritizing the Fund's work on trade. Based on those IEO recommendations that the Board endorsed at the June meeting, IMF staff and management prepared an implementation plan, which was approved by the Board at a meeting in December 2009.<sup>103</sup> At its meeting, the Board agreed that the proposals in the implementation plan fulfilled the requirements established in the framework for monitoring the implementation of IEO recommendations.

Also in December 2009, the Executive Board considered the IEO's evaluation of IMF interactions with its member countries, which was published in January 2010.<sup>104</sup> Subsequently, IMF staff prepared a plan for implementation of the Board's recommendations, which the Board discussed in FY2011.

### Implementation of Board-endorsed IEO recommendations

The Executive Board established the Periodic Monitoring Report (PMR) in 2007 to ensure that IEO recommendations that are subsequently endorsed by the Executive Board are followed up and systematically monitored. Previous PMRs have documented follow-up measures to IEO recommendations and stressed that close monitoring of implementation is important to maintain an effective institutional accountability framework and strong learning culture. Each PMR focuses on how the implementation of recent management implementation plans has advanced and whether outstanding recommendations from the previous PMR have been implemented.

The Executive Board's Evaluation Committee met in December 2009 to consider the Third Periodic Monitoring Report, which focused on the implementation status of the management implementation plan pertaining to recommendations in the IEO's evaluation of structural conditionality in IMF-supported programs, issued in May 2008.<sup>105</sup> (The monitoring report did

not include examinations of the status of the implementation plans that resulted from IEO recommendations based on IEO evaluations of trade and of IMF interactions with members.) The Board endorsed the report's conclusions: (1) that all key performance benchmarks related to the management information plans covered in the report had either been met or were on track for timely completion, (2) that no new remedial actions were proposed, and (3) that there were no outstanding performance benchmarks to be reviewed in the next report. However, the Evaluation Committee stressed that, in several cases, progress was still ongoing, and more needed to be done to achieve the broader policy objective underlying the specific IEO recommendation. The committee also noted that monitoring of several Board-endorsed IEO recommendations would continue in the context of regular Board reviews of various policy issues.

## Communications and outreach

### Communications/engagement with external stakeholders

#### *Expansion of IMF's outreach efforts*

Like many other aspects of the IMF's work, its outreach efforts have expanded as part of its response to the global crisis. In particular, FY2010 saw an increase in visits by IMF Executive Directors and members of the management team to various member countries. Outreach visits offer an opportunity for Board members and senior staff to learn more about issues affecting member countries and to reassure the membership of the Fund's commitment to providing needed support to member countries, which has taken on increasing importance in the context of the crisis.

Visits to member countries in FY2010 included a significant number to low-income countries (see Box 5.5), as is typically the case, given the Fund's particular commitment to low-income members (see "Support for Low-Income Countries" in Chapter 3). In addition to visits by management and Board members to low-income countries in Africa and Asia, the Managing Director also visited two European member countries, Poland and Romania, in March 2010, marking his first visit to the two countries as the organization's leader. In Poland, the Managing Director met with Prime Minister Donald Tusk, Finance Minister Jacek Rostowski, and National Bank President Sławomir Skrzypek (before his untimely death in the April 2010 plane crash that took the lives of many Polish leaders) to discuss global and regional economic developments. He also spoke to students of the Warsaw School of Economics about the economic, political, and social transition of the region since the fall of the Berlin Wall and the benefits and challenges of closer integration with the European Union, and he took part in a panel discussion on the same topic. In Romania, the Managing Director met with President Traian Băsescu, Prime Minister Emil Boc, Minister of Public Finance Sebastian Vlădescu, and Central Bank Governor Mugur Isărescu to discuss recent developments under

the authorities' economic program. He also discussed the IMF's role in the global crisis with students at the Academy of Economic Studies and addressed the Romanian parliament regarding Romania's economic outlook.

The 2009 Annual Meetings in Istanbul also offered a fertile venue for outreach activities aimed at various stakeholders in economic policymaking worldwide. A Program of Seminars conducted at the meetings, under the theme "The Financial Crisis and Its Impact on the Real Economy and Its Recovery," provided a premier global forum for private sector executives from around the world, high-level policymakers, and other leaders in the international development and financial fields to engage in dialogue to strengthen cooperation in the global economy. A highlight of the Program of Seminars was a tele-

vised BBC World Debate, "Global Financial Crisis: Can We Handle the Future?" in which the Managing Director participated as a panelist. A Civil Society Policy Forum brought together Bank and Fund staff, civil society representatives, government officials, and others in a series of policy dialogue sessions to discuss important issues being addressed during the Annual Meetings. Additionally, the Managing Director met with CSO representatives as the culminating step in the Fourth Pillar consultative process on IMF governance (see Box 4.6).

### *Outreach by the External Relations Department*

The IMF's External Relations Department has formal responsibility for the Fund's outreach program. The program gives high priority to three external constituencies—CSOs (including

#### **Box 5.5**

### IMF outreach in low-income countries

Outreach focuses on explaining the IMF's role and the reasons for the policy positions it takes or recommends. It is designed to convey key Fund messages to a broad range of external stakeholders. Typically outreach visits to member countries include consultations with policymakers and key opinion leaders—government authorities, members of parliamentary bodies, representatives of civil society, and private sector leaders—and offer Executive Board members and IMF management an opportunity to underscore the IMF's commitment to supporting member countries, particularly low-income countries. In FY2010, low-income countries in Africa and Asia were the focus of IMF outreach missions, and how the IMF could best support LIC members in recovery from the global crisis was the recurrent theme.

*Africa.* Outreach in Africa in FY2010 built on the success of the IMF-Government of Tanzania conference, "Changes: Successful Partnerships for Africa's Growth Challenge," in March 2009, where the IMF and African leaders forged a renewed partnership for growth in Africa. A few months after the Tanzania conference, in May 2009, IMF Managing Director Dominique Strauss-Kahn visited the Democratic Republic of Congo and Côte d'Ivoire, where he listened to and responded to suggestions on how the IMF could best help the countries respond to the global crisis. The trip included remarks by the Managing Director on the global financial crisis and its impact on Africa at the University of Cocody. In February 2010, the IMF's First Deputy Managing Director, John Lipsky, also visited Africa, traveling to Liberia and Ghana for discussions on how African countries had been impacted by the global economic crisis, how they had responded to it, and how the IMF could partner with them to support their return to sustainable growth and development. During the visit, he met with students at the University of Liberia and participated in a roundtable discussion with CSOs in Ghana.

In March 2010, the Managing Director again traveled to Africa, this time visiting Kenya, where he participated in a panel discussion, "Africa's Economic Transformation: The Road Ahead," as well as Zambia. The March trip gave the Managing Director an opportunity to discuss recent successes as well as challenges the continent needed to address, including the impact of global climate change, a problem that disproportionately affects Africa.

*Asia.* The Managing Director made his first visit to Central Asia since assuming leadership of the organization in June 2009, including stops in Tajikistan, the Kyrgyz Republic, and Uzbekistan (as well as Kazakhstan, which the Fund does not classify as a low-income country). The visit included a speech on the global financial crisis and its impact on Central Asia at the State Kyrgyz University in the Kyrgyz Republic. In October 2009, a mission of seven IMF Executive Directors visited Central Asia and the Caucasus, where their itinerary included visits to Georgia, Armenia, and Uzbekistan. The mission's focus echoed that of the Managing Director's visit to the area the preceding June, and the mission offered the opportunity for enhanced understanding at the IMF Executive Board of the challenges facing the countries. The First Deputy Managing Director traveled to Vietnam in March 2010 to attend an IMF-State Bank of Vietnam conference, "Post-Crisis Growth and Poverty Reduction in Developing Asia," in Hanoi. At the conference, senior government officials, businesspeople, academics, representatives of nongovernmental organizations, and members of the media discussed growth and poverty reduction in low-income countries in Asia following the global crisis. In his remarks, the First Deputy Managing Director noted that Asia is leading the way to strong global growth, but it faced a great challenge in ensuring that all people in Asia benefit from the region's vibrant economic performance.





**Left** Akere Muna of Transparency International poses a question during a meeting with leaders of civil society organizations, youth groups, unions, and think tanks in Nairobi, Kenya, March 2010. **Right** IMF Managing Director Dominique Strauss-Kahn with students from eight universities in the Middle East and Northern Africa following a BBC Arabic broadcast, Amman, Jordan, April 2010.

labor and trade unions), legislators, and civic and community outreach. Through its work with *civil society organizations*, the IMF engages those who advocate publicly on topics relevant to its work and who play a critical role in public views and debate. By facilitating and developing dialogue and capacity building with *legislators*, the IMF engages with decision-making bodies, such as national parliaments and congresses, that have a direct impact on countries' economic policy choices and react to and influence public debate. In the context of the global financial crisis, expanded efforts included seminars and meetings with legislators from European countries affected by the crisis and work with the U.S. Congress, which passed a package of measures related to the IMF that provided a big boost to international funding to combat the global economic crisis and expand the Fund's support for low-income countries. Finally, the IMF's interactions with *civic and community programs* represent its humanitarian outreach to its community. The Fund strives to help its neighbors in Washington and around the world by providing donations, volunteering, and supporting community initiatives. A cornerstone of these efforts is the Helping Hands Campaign, through which Fund staff can make donations to support organizations serving needy communities, which are matched at 50 percent by the Fund.

### *Regional Advisory Groups*

Work began in FY2010 on assembling Regional Advisory Groups composed of regional experts who can advise the Fund's area departments (African, Asia and the Pacific, European, Middle

East and Central Asia, and Western Hemisphere) on how the Fund can operate more effectively in the regions those departments represent. Initial meetings of the groups for the Middle East and Central Asia, Asia and the Pacific, and Africa were held in FY2010, with initial meetings of the remaining groups (Western Hemisphere, Europe) following in the early months of FY2011. A broader meeting encompassing all the groups is also slated for the 2011 Annual Meetings.

### *IMF Youth Dialog*

The goal of the IMF Youth Dialog is to work with the next generation of leaders on economic issues of particular relevance to them and to motivate their thinking at an early stage on policy measures that will be needed to secure sustainable economic growth in their region. University roundtable discussions, led by IMF staff, form an important part of the dialogue. The first of these was held in February 2010 at Lahore School of Economics in Pakistan, followed by others through mid-March in Egypt, Jordan, Lebanon, Morocco, Saudi Arabia, Tunisia, and the United Arab Emirates. This initial series of roundtables culminated in an April 4 town hall meeting in Amman, Jordan, between students from the region and the Managing Director, which was moderated and broadcast live across the region by BBC Arabic. Roundtables are expected to continue in FY2011 and to be followed by other events to continue and deepen the dialogue. The Youth Dialog also has an online dimension, with a website where visitors can interact and post their thoughts.<sup>106</sup>

## EXECUTIVE DIRECTORS AND ALTERNATES AS OF APRIL 30, 2010<sup>1</sup>

### APPOINTED

Meg Lundsager <i>Douglas A. Rediker</i>	United States
Daisuke Kotegawa <i>Hiroshi Yamaoka</i>	Japan
Klaus D. Stein <i>Stephan von Stenglin</i>	Germany
Ambroise Fayolle <i>Aymeric Ducrocq</i>	France
Alexander Gibbs <i>James Talbot</i>	United Kingdom

### ELECTED

Willy Kiekens (Belgium) <i>Johann Prader</i> (Austria)	Austria Belarus Belgium Czech Republic Hungary Kazakhstan Luxembourg Slovak Republic Slovenia Turkey
Age F. P. Bakker (Netherlands) <i>Yuriy G. Yakusha</i> (Ukraine)	Armenia Bosnia and Herzegovina Bulgaria Croatia Cyprus Georgia Israel Macedonia, former Yugoslav Republic of Moldova Montenegro Netherlands Romania Ukraine
Ramón Guzmán Zapater (Spain) <i>Carlos Pérez-Verdía</i> (Mexico)	Costa Rica El Salvador Guatemala Honduras Mexico Nicaragua Spain Venezuela, República Bolivariana de
Arrigo Sadun (Italy) <i>Panagiotis Roumeliotis</i> (Greece)	Albania Greece Italy Malta Portugal San Marino Timor-Leste

### ELECTED (CONTINUED)

HE Jianxiong (China) <i>LUO Yang</i> (China)	China
Thomas Hockin (Canada) <i>Stephen O'Sullivan</i> (Ireland)	Antigua and Barbuda Bahamas, The Barbados Belize Canada Dominica Grenada Ireland Jamaica St. Kitts and Nevis St. Lucia St. Vincent and the Grenadines
Duangmanee Vongpradhip (Thailand) <i>Adrian Chua</i> (Singapore)	Brunei Darussalam Cambodia Fiji Indonesia Lao People's Democratic Republic Malaysia Myanmar Nepal Philippines Singapore Thailand Tonga Vietnam
Hi-Su Lee (Korea) <i>Christopher Y. Legg</i> (Australia)	Australia Kiribati Korea Marshall Islands Micronesia, Federated States of Mongolia New Zealand Palau Papua New Guinea Samoa Seychelles Solomon Islands Vanuatu
Per Callesen (Sweden) <i>Jarle Berge</i> (Norway)	Denmark Estonia Finland Iceland Latvia Lithuania Norway Sweden

**ELECTED (CONTINUED)**

A. Shakour Shaalan (Egypt) <i>Sami Geadah</i> (Lebanon)	Bahrain Egypt Iraq Jordan Kuwait Lebanon Libyan Arab Jamahiriya Maldives Oman Qatar Syrian Arab Republic United Arab Emirates Yemen, Republic of
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Abdallah S. Alazzaz (Saudi Arabia) <i>Ahmed Al Nassar</i> (Saudi Arabia)	Saudi Arabia
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Samuel Itam (Sierra Leone) <i>Moeketsi Majoro</i> (Lesotho)	Angola Botswana Burundi Eritrea Ethiopia Gambia, The Kenya Lesotho Liberia Malawi Mozambique Namibia Nigeria Sierra Leone South Africa Sudan Swaziland Tanzania Uganda Zambia
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René Weber (Switzerland) <i>Katarzyna Zajdel-Kurowska</i> (Poland)	Azerbaijan Kyrgyz Republic Poland Serbia Switzerland Tajikistan Turkmenistan Uzbekistan
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Aleksei V. Mozhin (Russian Federation) <i>Andrei Lushin</i> (Russian Federation)	Russian Federation
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**ELECTED (CONTINUED)**

Jafar Mojarrad (Islamic Republic of Iran) <i>Mohammed Dairi</i> (Morocco)	Afghanistan, Islamic Republic of Algeria Ghana Iran, Islamic Republic of Morocco Pakistan Tunisia
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Paulo Nogueira Batista, Jr. (Brazil) VACANT	Brazil Colombia Dominican Republic Ecuador Guyana Haiti Panama Suriname Trinidad and Tobago
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Arvind Virmani (India) <i>P. Nandalal Weerasinghe</i> (Sri Lanka)	Bangladesh Bhutan India Sri Lanka
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Pablo Andrés Pereira (Argentina) <i>David Vogel</i> (Uruguay)	Argentina Bolivia Chile Paraguay Peru Uruguay
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Laurean W. Rutayisire (Rwanda) <i>Kossi Assimaidou</i> (Togo)	Benin Burkina Faso Cameroon Cape Verde Central African Republic Chad Comoros Congo, Democratic Republic of Congo, Republic of Côte d'Ivoire Djibouti Equatorial Guinea Gabon Guinea Guinea-Bissau Madagascar Mali Mauritius Niger Rwanda São Tomé and Príncipe Senegal Togo
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<sup>1</sup> The voting power of each chair can be found in Appendix IV on the Annual Report web page ([www.imf.org/external/pubs/ft/ar/2010/eng/index.html](http://www.imf.org/external/pubs/ft/ar/2010/eng/index.html)); changes in the Executive Board during FY2010 are listed in Appendix V on the Annual Report web page.

## SENIOR OFFICERS ON APRIL 30, 2010

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

### AREA DEPARTMENTS

Antoinette Monsio Sayeh  
*Director, African Department*

Anoop Singh  
*Director, Asia and Pacific Department*

Marek Belka  
*Director, European Department*

Masood Ahmed  
*Director, Middle East and Central Asia Department*

Nicolas Eyzaguirre  
*Director, Western Hemisphere Department*

### FUNCTIONAL AND SPECIAL SERVICES DEPARTMENTS

Andrew Tweedie  
*Director, Finance Department*

Carlo Cottarelli  
*Director, Fiscal Affairs Department*

Leslie Lipschitz  
*Director, IMF Institute*

Sean Hagan  
*General Counsel and Director, Legal Department*

José Viñals  
*Director, Monetary and Capital Markets Department*

Olivier Blanchard  
*Director, Research Department*

Adelheid Burgi-Schmelz  
*Director, Statistics Department*

Reza Moghadam  
*Director, Strategy, Policy, and Review Department*

### INFORMATION AND LIAISON

Caroline Atkinson  
*Director, External Relations Department*

Shogo Ishii  
*Director, Regional Office for Asia and the Pacific*

Emmanuel van der Mensbrugge  
*Director, Offices in Europe*

Elliott Harris  
*Special Representative to the United Nations*

### SUPPORT SERVICES

Shirley Siegel  
*Director, Human Resources Department*

Siddharth Tiwari  
*Secretary, Secretary's Department*

Frank Harnischfeger  
*Director, Technology and General Services Department*

Jonathan Palmer  
*Chief Information Officer, Technology and  
General Services Department*

### OFFICES

Daniel Citrin  
*Director, Office of Budget and Planning*

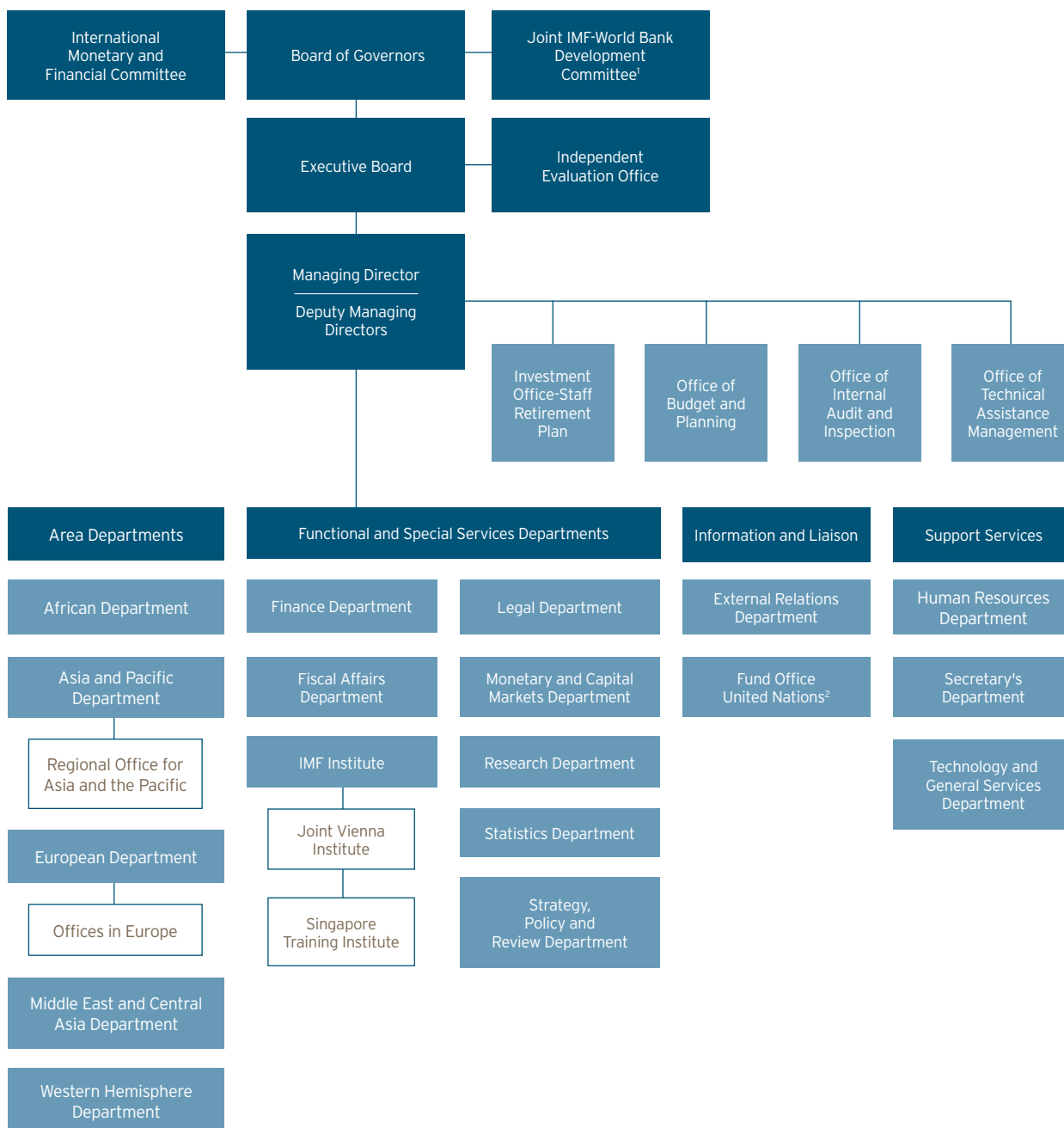
G. Russell Kincaid  
*Director, Office of Internal Audit and Inspection*

J. Roberto Rosales  
*Director, Office of Technical Assistance Management*

Moises J. Schwartz  
*Director, Independent Evaluation Office*

# IMF ORGANIZATION CHART

## ON APRIL 30, 2010



<sup>1</sup> Known formally as the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries.

<sup>2</sup> Attached to the Office of Managing Director.

# NOTES

## CHAPTER 1

- 1 The IMF's financial year (FY) runs from May 1 through April 30. The 2010 Annual Report covers FY2010, which began May 1, 2009, and ended April 30, 2010.
- 2 The first of the IMF's bilateral borrowing agreements, with Japan, was signed and became effective in FY2009.
- 3 The NAB is one of two standing borrowing agreements with IMF member countries.

## CHAPTER 2

- 4 This chapter is based on material in the April 2010 *World Economic Outlook* and *Global Financial Stability Report*. Summings Up of the Executive Board discussions on the October 2009 and April 2010 *World Economic Outlook* and *Global Financial Stability Report* are incorporated as part of the two publications, which are available on the IMF's website ([www.imf.org/external/pubs/ft/weo/2009/02/pdf/annex.pdf](http://www.imf.org/external/pubs/ft/weo/2009/02/pdf/annex.pdf) and [www.imf.org/external/pubs/ft/weo/2010/01/pdf/annex.pdf](http://www.imf.org/external/pubs/ft/weo/2010/01/pdf/annex.pdf), respectively, for the October and April WEO reports, and [www.imf.org/external/pubs/ft/gfsr/2009/02](http://www.imf.org/external/pubs/ft/gfsr/2009/02) and [www.imf.org/external/pubs/ft/gfsr/2010/01/pdf/annex.pdf](http://www.imf.org/external/pubs/ft/gfsr/2010/01/pdf/annex.pdf), respectively, for the October and April GFSRs) or via the Annual Report web page ([www.imf.org/external/pubs/ft/ar/2010/eng/index.htm](http://www.imf.org/external/pubs/ft/ar/2010/eng/index.htm)).

## CHAPTER 3

- 5 The arrangement with Moldova is a blended arrangement under the Extended Fund Facility and Extended Credit Facility.
- 6 Additional information on the FCL can be found in "Factsheet: The IMF's Flexible Credit Line" ([www.imf.org/external/np/exr/facts/fcl.htm](http://www.imf.org/external/np/exr/facts/fcl.htm)).
- 7 See Press Release (PR) 09-130, "IMF Executive Board Approves US\$47 Billion Arrangement for Mexico under the Flexible Credit Line" ([www.imf.org/external/np/sec/pr/2009/pr09130.htm](http://www.imf.org/external/np/sec/pr/2009/pr09130.htm)); PR 09-362, "IMF Executive Board Completes Review of Mexico's Performance under the Flexible Credit Line" ([www.imf.org/external/np/sec/pr/2009/pr09362.htm](http://www.imf.org/external/np/sec/pr/2009/pr09362.htm)); and PR 10-114, "IMF Executive Board Renews US\$48 Billion Flexible Credit Line Arrangement with Mexico" ([www.imf.org/external/np/sec/pr/2010/pr10114.htm](http://www.imf.org/external/np/sec/pr/2010/pr10114.htm)).
- 8 See PR 09-153, "IMF Executive Board Approves US\$20.58 Billion Arrangement for Poland under the Flexible Credit Line" ([www.imf.org/external/np/sec/pr/2009/pr09153.htm](http://www.imf.org/external/np/sec/pr/2009/pr09153.htm)); PR 09-161, "IMF Executive Board Approves US\$10.5 Billion Arrangement for Colombia under the Flexible Credit Line" ([www.imf.org/external/np/sec/pr/2009/pr09161.htm](http://www.imf.org/external/np/sec/pr/2009/pr09161.htm)); PR 09-367, "IMF Executive Board Completes Review of Colombia's Performance under the Flexible Credit Line" ([www.imf.org/external/np/sec/pr/2009/pr09367.htm](http://www.imf.org/external/np/sec/pr/2009/pr09367.htm)); and PR 09-383, "IMF Executive Board Completes Review of Poland's

Performance under the Flexible Credit Line" ([www.imf.org/external/np/sec/pr/2009/pr09383.htm](http://www.imf.org/external/np/sec/pr/2009/pr09383.htm)).

- 9 The report, "Review of Recent Crisis Programs," is available on the IMF's website ([www.imf.org/external/pp/longres.aspx?id=4366](http://www.imf.org/external/pp/longres.aspx?id=4366)).
- 10 Armenia, Belarus, Bosnia and Herzegovina, Costa Rica, El Salvador, Georgia, Guatemala, Hungary, Iceland, Latvia, Mongolia, Pakistan, Romania, Serbia, and Ukraine.
- 11 See PR 10-17, "IMF Executive Board Approves US\$114 Million in Aid to Haiti" ([www.imf.org/external/np/sec/pr/2010/pr1017.htm](http://www.imf.org/external/np/sec/pr/2010/pr1017.htm)).
- 12 The total includes SDR 0.1 billion in overdue Trust Fund loans to Somalia and Sudan.
- 13 See "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation 2009" ([www.imf.org/external/pp/longres.aspx?id=4365](http://www.imf.org/external/pp/longres.aspx?id=4365)).
- 14 See PR 09-264, "IMF Executive Board Backs US\$250 Billion SDR Allocation to Boost Global Liquidity" ([www.imf.org/external/np/sec/pr/2009/pr09264.htm](http://www.imf.org/external/np/sec/pr/2009/pr09264.htm)).
- 15 See PR 09-283, "IMF Governors Formally Approve US\$250 Billion General SDR Allocation" ([www.imf.org/external/np/sec/pr/2009/pr09283.htm](http://www.imf.org/external/np/sec/pr/2009/pr09283.htm)).
- 16 For additional information on the IMF's surveillance activities, see "Factsheet: IMF Surveillance" ([www.imf.org/external/np/exr/facts/surv.htm](http://www.imf.org/external/np/exr/facts/surv.htm)).
- 17 Until recently, Public Information Notices covering Article IV consultations were produced and published only when the member country expressly consented to their publication. Under revisions to the Fund's transparency policy approved by the Board in December 2009 that took effect in March 2010, these notices are now produced and published unless the member country specifically requests that they not be. See "Transparency" in Chapter 5.
- 18 The Articles of Agreement require the Fund to "oversee the international monetary system in order to ensure its effective operation." This function has become known as "multilateral surveillance."
- 19 Details of the Executive Board discussions regarding ECCU and euro area policies can be found in the Public Information Notices (PINs) issued after the discussions. See PIN 09-62, "IMF Executive Board Concludes 2009 Discussion on Common Policies of Member Countries of the Eastern Caribbean Currency Union" ([www.imf.org/external/np/sec/pn/2009/pn0962.htm](http://www.imf.org/external/np/sec/pn/2009/pn0962.htm)), and PIN 09-95, "IMF Executive Board Concludes 2009 Article IV Consultation on Euro Area Policies" ([www.imf.org/external/np/sec/pn/2009/pn0995.htm](http://www.imf.org/external/np/sec/pn/2009/pn0995.htm)). The Board also held discussions on policies in CEMAC and WAEMU during the year; no PINs were issued in connection with these Board discussions.
- 20 The REOs are available via the REO web page on the IMF's website ([www.imf.org/external/pubs/ft/reo/rerepts.aspx](http://www.imf.org/external/pubs/ft/reo/rerepts.aspx)). Materials related to the REOs published in FY2010 can also be found on the website.

- 21 Additional information on FSAP assessments, including a list of FSAP assessments conducted and access to Financial System Stability Assessments that are based on FSAP country reports, is available on the IMF's website ([www.imf.org/external/np/fsap/fsap.asp](http://www.imf.org/external/np/fsap/fsap.asp)).
- 22 See PR 09-336, "IMF Executive Board Revises Surveillance Priorities for 2008-2011" ([www.imf.org/external/np/sec/pr/2009/pr09336.htm](http://www.imf.org/external/np/sec/pr/2009/pr09336.htm)).
- 23 See PIN 10-06, "IMF Executive Board Endorses the Framework for the Fund's Involvement in the G-20 Mutual Assessment Process" ([www.imf.org/external/np/sec/pn/2010/pn1006.htm](http://www.imf.org/external/np/sec/pn/2010/pn1006.htm)).
- 24 For this reason—its close and complementary relationship to IMF surveillance—the discussion of the IMF's participation in the mutual assessment process has been included here. This participation is undertaken, however, as part of the IMF's technical assistance.
- 25 This role was outlined in a policy paper that provided the starting point for the Board's discussion, "The G-20 Mutual Assessment Process and the Role of the Fund" ([www.imf.org/external/np/pp/eng/2009/120209a.pdf](http://www.imf.org/external/np/pp/eng/2009/120209a.pdf)).
- 26 See "Communiqué of the Twenty-First Meeting of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund" ([www.imf.org/external/np/sec/pr/2010/pr10166.htm](http://www.imf.org/external/np/sec/pr/2010/pr10166.htm)).
- 27 See "Leaders' Statement: The Pittsburgh Summit, September 24-25, 2009" ([www.pittsburghsummit.gov/mediacenter/129639.htm](http://www.pittsburghsummit.gov/mediacenter/129639.htm)). For additional information on IMF staff work on the issue, see IMF Survey, "IMF Studies How to Pay for Financial Sector Rescues" ([www.imf.org/external/pubs/ft/survey/so/2010/int01110a.htm](http://www.imf.org/external/pubs/ft/survey/so/2010/int01110a.htm)).
- 28 See "IMF and Civil Society: Consultation on Financial Sector Tax" ([www.imf.org/external/np/extr/cs/news/2010/cso112.htm](http://www.imf.org/external/np/extr/cs/news/2010/cso112.htm)).
- 29 See "A Fair and Substantial Contribution by the Financial Sector: Final Report for the G-20" ([www.imf.org/external/np/g20/pdf/062710b.pdf](http://www.imf.org/external/np/g20/pdf/062710b.pdf)).
- 30 See PIN 09-76, "IMF Executive Board Holds Board Seminar on Debt Bias and Other Distortions: Crisis-Related Issues in Tax Policy" ([www.imf.org/external/np/sec/pn/2009/pn0976.htm](http://www.imf.org/external/np/sec/pn/2009/pn0976.htm)).
- 31 The Board seminar was based on a staff paper, "Debt Bias and Other Distortions: Crisis-Related Issues in Tax Policy" ([www.imf.org/external/np/pp/eng/2009/061209.pdf](http://www.imf.org/external/np/pp/eng/2009/061209.pdf)).
- 32 See PIN 09-118, "IMF Executive Board Discusses the Management of Crisis-Related Interventions in the Financial System" ([www.imf.org/external/np/sec/pn/2009/pn09118.htm](http://www.imf.org/external/np/sec/pn/2009/pn09118.htm)), as well as the staff paper that formed the basis of the Board's discussion, "Crisis-Related Measures in the Financial System and Sovereign Balance Sheet Risks" ([www.imf.org/external/np/pp/eng/2009/073109.pdf](http://www.imf.org/external/np/pp/eng/2009/073109.pdf)).
- 33 See "Guidance to Assess the Systemic Importance of Financial Institutions, Markets and Instruments: Initial Considerations: Report to the G-20 Finance Ministers and Central Bank Governors" ([www.imf.org/external/np/g20/pdf/100109.pdf](http://www.imf.org/external/np/g20/pdf/100109.pdf)).
- 34 See PIN 09-139, "Fiscal Rules Can Help Achieve Sustainable Public Finances, IMF Says" ([www.imf.org/external/np/sec/pn/2009/pn09139.htm](http://www.imf.org/external/np/sec/pn/2009/pn09139.htm)), as well as the policy paper on which the Board discussion was based, "Fiscal Rules—Anchoring Expectations for Sustainable Public Finances" ([www.imf.org/external/np/pp/eng/2009/121609.pdf](http://www.imf.org/external/np/pp/eng/2009/121609.pdf)).
- 35 See PIN 10-27, "IMF Discusses Exiting from Crisis Intervention Policies" ([www.imf.org/external/np/sec/pn/2010/pn1027.htm](http://www.imf.org/external/np/sec/pn/2010/pn1027.htm)), as well as the policy paper on which the Board discussion was based, "Exiting from Crisis Intervention Policies" ([www.imf.org/external/np/pp/eng/2010/020410.pdf](http://www.imf.org/external/np/pp/eng/2010/020410.pdf)), and three supplementary policy papers: "The Role of Indicators in Guiding the Exit from Monetary and Financial Crisis Intervention Measures—Background Paper" ([www.imf.org/external/np/pp/eng/2010/012810.pdf](http://www.imf.org/external/np/pp/eng/2010/012810.pdf)); "Strategies for Fiscal Consolidation in the Post-Crisis World" ([www.imf.org/external/np/pp/eng/2010/020410a.pdf](http://www.imf.org/external/np/pp/eng/2010/020410a.pdf)); and "Exiting from Monetary Crisis Intervention Measures—Background Paper" ([www.imf.org/external/np/pp/eng/2010/012510.pdf](http://www.imf.org/external/np/pp/eng/2010/012510.pdf)).
- 36 See PR 09-236, "IMF Inaugurates Technical Assistance Center for Central America, Panama and the Dominican Republic" ([www.imf.org/external/np/sec/pr/2009/pr09236.htm](http://www.imf.org/external/np/sec/pr/2009/pr09236.htm)).
- 37 See PR 09-454, "Pledging Conference Mobilizes US\$130 Million for Four IMF African Regional Technical Assistance Centers" ([www.imf.org/external/np/sec/pr/2009/pr09454.htm](http://www.imf.org/external/np/sec/pr/2009/pr09454.htm)).
- 38 See PR 09-108, "IMF to Start Operations Under Its First Topical Trust Fund Supporting Technical Assistance in Anti-Money Laundering and Combating the Financing of Terrorism" ([www.imf.org/external/np/sec/pr/2009/pr09108.htm](http://www.imf.org/external/np/sec/pr/2009/pr09108.htm)).
- 39 See IMF Survey, "IMF Works to Plug Data Gaps Exposed by Crisis" ([www.imf.org/external/pubs/ft/survey/so/2009/NEW072909A.htm](http://www.imf.org/external/pubs/ft/survey/so/2009/NEW072909A.htm)). The conference website, which includes a full program of events (with links to the materials presented), a list of participants, and a summary of the key recommendations, is also available ([www.imf.org/external/np/seminars/eng/2009/usersconf/index.htm](http://www.imf.org/external/np/seminars/eng/2009/usersconf/index.htm)).
- 40 See "The Financial Crisis and Information Gaps: Report to the G-20 Finance Ministers and Central Bank Governors" ([www.imf.org/external/np/g20/pdf/102909.pdf](http://www.imf.org/external/np/g20/pdf/102909.pdf)).
- 41 For more information on the IMF's data standards, see "Factsheet: IMF Standards for Data Dissemination" ([www.imf.org/external/np/extr/facts/data.htm](http://www.imf.org/external/np/extr/facts/data.htm)).
- 42 See PR 09-146, "The Republic of Serbia Begins Participation in the IMF's General Data Dissemination System" ([www.imf.org/external/np/sec/pr/2009/pr09146.htm](http://www.imf.org/external/np/sec/pr/2009/pr09146.htm)); PR 09-447, "The Socialist People's Libyan Arab Jamahiriya Begins Participation in the IMF's General Data Dissemination System" ([www.imf.org/external/np/sec/pr/2009/pr09447.htm](http://www.imf.org/external/np/sec/pr/2009/pr09447.htm)); PR 09-460, "Iraq Begins Participation in the IMF's General Data Dissemination System" ([www.imf.org/external/np/sec/pr/2009/pr09460.htm](http://www.imf.org/external/np/sec/pr/2009/pr09460.htm)); and PR 10-1, "Haiti Begins Participation in the IMF's General Data Dissemination System" ([www.imf.org/external/np/sec/pr/2010/pr1001.htm](http://www.imf.org/external/np/sec/pr/2010/pr1001.htm)).

- 43 See PR 09-437, "Cyprus and Malta Subscribe to the IMF Special Data Dissemination Standard" ([www.imf.org/external/np/sec/pr/2010/pr09437.htm](http://www.imf.org/external/np/sec/pr/2010/pr09437.htm)), and PR 10-19, "Jordan Subscribes to the IMF's Special Data Dissemination Standard" ([www.imf.org/external/np/sec/pr/2010/pr1019.htm](http://www.imf.org/external/np/sec/pr/2010/pr1019.htm)).
- 44 This work culminated in the publication of a paper on which the Board's discussions were based; see "Broadening Financial Indicators in the Special Data Dissemination Standard" ([www.imf.org/external/np/pp/eng/2010/022210a.pdf](http://www.imf.org/external/np/pp/eng/2010/022210a.pdf)).
- 45 See PIN 10-41, "Broadening Financial Indicators in the Special Data Dissemination Standard" ([www.imf.org/external/np/sec/pn/2010/pn1041.htm](http://www.imf.org/external/np/sec/pn/2010/pn1041.htm)).
- 46 Elements are included in the SDDS on either a "prescribed" (i.e., essential for analyzing a country's economic performance and policy) or an "encouraged" (i.e., additional information that may increase the transparency of a country's economic performance and policy) basis.
- 47 See PR 09-162, "BIS, ECB and IMF Publish Handbook on Securities Statistics" ([www.imf.org/external/np/sec/pr/2010/pr09162.htm](http://www.imf.org/external/np/sec/pr/2010/pr09162.htm)).
- 48 See PR 09-474, "Inter-Agency Group on Economic and Financial Statistics Launches Enhanced G-20 Statistical Web Site, IMF Announces" ([www.imf.org/external/np/sec/pr/2009/pr09474.htm](http://www.imf.org/external/np/sec/pr/2009/pr09474.htm)). The website is available at [www.principalglobalindicators.org](http://www.principalglobalindicators.org).
- #### CHAPTER 4
- 49 See PR 09-347, "Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund" ([www.imf.org/external/np/sec/pr/2009/pr09347.htm](http://www.imf.org/external/np/sec/pr/2009/pr09347.htm)).
- 50 See PIN 10-33, "The Fund's Mandate—An Overview of Issues and Legal Framework" ([www.imf.org/external/np/sec/pn/2010/pn1033.htm](http://www.imf.org/external/np/sec/pn/2010/pn1033.htm)), as well as the two staff papers on which the Board discussion was based, "The Fund's Mandate—An Overview" ([www.imf.org/external/np/pp/eng/2010/012210a.pdf](http://www.imf.org/external/np/pp/eng/2010/012210a.pdf)) and "The Fund's Mandate—The Legal Framework" ([www.imf.org/external/np/pp/eng/2010/022210.pdf](http://www.imf.org/external/np/pp/eng/2010/022210.pdf)).
- 51 Each member of the IMF is assigned a quota, based broadly on its relative size in the world economy and taking into account quotas of similar countries. A member country's quota determines, among other things, the maximum amount of financial resources that the member is obligated to provide to the IMF. Upon joining the Fund, a member pays its quota in a combination of reserve assets (i.e., SDRs or the currencies of other members specified by the Fund, typically widely accepted foreign currencies such as the U.S. dollar, euro, yen, or pound sterling) and its own currency. The IMF can then use its quota-funded holdings of currencies of members with strong balance of payments and reserve positions to provide financing to other members. Its holdings of these currencies, along with its own SDR holdings, make up the IMF's usable resources.
- 52 See PIN 09-83, "IMF Executive Board Discusses Operational Issues Related to Borrowing by the Fund and Reviews the Fund's Borrowing Guidelines" ([www.imf.org/external/np/sec/pn/2009/pn0983.htm](http://www.imf.org/external/np/sec/pn/2009/pn0983.htm)), and the staff paper that formed the basis for the Board's discussion, "Borrowing by the Fund—Operational Issues" ([www.imf.org/external/np/pp/eng/2009/061709.pdf](http://www.imf.org/external/np/pp/eng/2009/061709.pdf)), as well as the "Revised Guidelines for Borrowing by the Fund" issued in accordance with the Board's discussion ([www.imf.org/external/np/pp/eng/2009/061709a.pdf](http://www.imf.org/external/np/pp/eng/2009/061709a.pdf)).
- 53 See PR 09-248, "IMF Approves Framework for Issuing Notes to the Official Sector" ([www.imf.org/external/np/sec/pr/2009/pr09248.htm](http://www.imf.org/external/np/sec/pr/2009/pr09248.htm)). For additional details, see "Factsheet: Issuance of IMF Notes" ([www.imf.org/external/np/exr/facts/imfnotes.htm](http://www.imf.org/external/np/exr/facts/imfnotes.htm)).
- 54 See PR 09-272, "IMF Begins Drawing on Bilateral Borrowing Agreements" ([www.imf.org/external/np/sec/pr/2009/pr09272.htm](http://www.imf.org/external/np/sec/pr/2009/pr09272.htm)).
- 55 See PR 09-429, "NAB Participants Agree to Expand Fund's Borrowing Agreements to up to US\$600 Billion" ([www.imf.org/external/np/sec/pr/2009/pr09429.htm](http://www.imf.org/external/np/sec/pr/2009/pr09429.htm)).
- 56 See PR 10-145, "IMF Executive Board Approves Major Expansion of Fund's Borrowing Arrangements to Boost Resources for Crisis Resolution" ([www.imf.org/external/np/sec/pr/2010/pr10145.htm](http://www.imf.org/external/np/sec/pr/2010/pr10145.htm)).
- 57 See PIN 10-51, "The Fund's Mandate—Future Financing Role" ([www.imf.org/external/np/sec/pn/2010/pn1051.htm](http://www.imf.org/external/np/sec/pn/2010/pn1051.htm)), as well as the staff paper that formed the basis for the Board's discussion, "The Fund's Mandate—Future Financing Role" ([www.imf.org/external/np/pp/eng/2010/032510a](http://www.imf.org/external/np/pp/eng/2010/032510a)), and a supplementary paper, "The Fund's Mandate—Future Financing Role: The Current Lending Toolkit and Innovative Reform Options" ([www.imf.org/external/np/pp/eng/2010/032510b](http://www.imf.org/external/np/pp/eng/2010/032510b)).
- 58 See "The March Reforms" in Chapter 3 of the IMF's 2009 Annual Report ([www.imf.org/external/pubs/ft/ar/2009/eng/](http://www.imf.org/external/pubs/ft/ar/2009/eng/)).
- 59 During blackout periods, members with undrawn amounts under approved arrangements are nonetheless unable to draw on those arrangements, because data lags prevent them from demonstrating that they are meeting periodic performance criteria established under the arrangements, as they are required to do at periodic intervals known as test dates. The requirement to demonstrate progress on performance criteria was intended to safeguard Fund resources by interrupting members' access to those resources when data on whether they were meeting periodic performance criteria had become stale, thus reducing the risk that a member might draw on Fund resources when its program had gone off track. Depending on the length of data lags and the frequency of test dates, however, blackout periods could potentially result in over four months of blocked access in a given program year, even when a program is on track.
- 60 See "Reduction of Blackout Periods in GRA Arrangements" ([www.imf.org/external/np/pp/eng/2009/082509.pdf](http://www.imf.org/external/np/pp/eng/2009/082509.pdf)).



- 61 See PIN 09-94, "IMF Reforms Financial Facilities for Low-Income Countries" ([www.imf.org/external/np/sec/pn/2009/pn0994.htm](http://www.imf.org/external/np/sec/pn/2009/pn0994.htm)), and PR 09-268, "IMF Announces Unprecedented Increase in Financial Support to Low-Income Countries" ([www.imf.org/external/np/sec/pr/2009/pr09268.htm](http://www.imf.org/external/np/sec/pr/2009/pr09268.htm)).
- 62 "Windfall profits" refer to amounts received from gold sales in excess of the amount expected at the time the decision to sell some of the IMF's gold was made, when gold was valued at US\$850 per ounce.
- 63 See PR 10-50, "IMF Signs SDR 405 Million Borrowing Agreement with the Bank of Spain to Support Lending to Low-Income Countries" ([www.imf.org/external/np/sec/pr/2010/pr1050.htm](http://www.imf.org/external/np/sec/pr/2010/pr1050.htm)), PR 10-51, "IMF Signs SDR 200 Million Borrowing Agreement with the Danmarks Nationalbank to Support Lending to Low-Income Countries" ([www.imf.org/external/np/sec/pr/2010/pr1051.htm](http://www.imf.org/external/np/sec/pr/2010/pr1051.htm)), and PR 10-88, "IMF Signs SDR 500 Million Borrowing Agreement with the Government of Canada to Support Lending to Low-Income Countries" ([www.imf.org/external/np/sec/pr/2010/pr1088.htm](http://www.imf.org/external/np/sec/pr/2010/pr1088.htm)).
- 64 See PIN 09-113, "IMF Executive Board Reviews the Low-Income Country Debt Sustainability Framework and Adopts a More Flexible Policy on Debt Limits in IMF-Supported Programs" ([www.imf.org/external/np/sec/pn/2009/pn09113.htm](http://www.imf.org/external/np/sec/pn/2009/pn09113.htm)). The Board's discussion was based on a joint IMF-World Bank staff report, "A Review of Some Aspects of the Low-Income Country Debt Sustainability Framework" ([www.imf.org/external/np/pp/eng/2009/080509a.pdf](http://www.imf.org/external/np/pp/eng/2009/080509a.pdf)).
- 65 See PIN 09-39, "IMF Executive Board Discusses Changing Patterns in Low-Income Country Financing and Implications for Fund Policies on External Financing and Debt" ([www.imf.org/external/np/sec/pn/2009/pn0939.htm](http://www.imf.org/external/np/sec/pn/2009/pn0939.htm)).
- 66 See "Debt Limits in Fund-Supported Programs: Proposed New Guidelines" ([www.imf.org/external/np/pp/eng/2009/080509.pdf](http://www.imf.org/external/np/pp/eng/2009/080509.pdf)). External debt limits in Fund programs seek to prevent the buildup of unsustainable debts, while allowing for adequate external financing.
- 67 It should be noted here that although the objectives of the DSF relate specifically to low-income countries, the Fund's guidelines on external debt in IMF-supported programs apply to all financing under Fund arrangements to any member, not only to low-income countries.
- 68 See "Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries" ([www.imf.org/external/np/pp/eng/2010/01210.pdf](http://www.imf.org/external/np/pp/eng/2010/01210.pdf)).
- 69 See PIN 10-16, "IMF Reviews Eligibility for Using Concessional Financing Resources" ([www.imf.org/external/np/sec/pn/2010/pn1016.htm](http://www.imf.org/external/np/sec/pn/2010/pn1016.htm)).
- 70 For additional information on the Policy Support Instrument, see "Factsheet: Policy Support Instrument" ([www.imf.org/external/np/exr/facts/psi.htm](http://www.imf.org/external/np/exr/facts/psi.htm)).
- 71 See PIN 09-89, "IMF Executive Board Concludes the Review of Experience with the Policy Support Instrument" ([www.imf.org/external/np/sec/pn/2009/pn0989.htm](http://www.imf.org/external/np/sec/pn/2009/pn0989.htm)).
- 72 The Board's review was based on a staff analysis, "Review of the Experience with the Policy Support Instrument" ([www.imf.org/external/np/pp/eng/2009/060409.pdf](http://www.imf.org/external/np/pp/eng/2009/060409.pdf)).
- 73 See PIN 10-52, "IMF Executive Board Discusses Modernizing the Surveillance Mandate and Modalities and Financial Sector Surveillance and the Mandate of the Fund" ([www.imf.org/external/np/sec/pn/2010/pn1052.htm](http://www.imf.org/external/np/sec/pn/2010/pn1052.htm)), as well as the two policy papers on which the Board's discussion was based: "Modernizing the Surveillance Mandate and Modalities" ([www.imf.org/external/np/pp/eng/2010/032610.pdf](http://www.imf.org/external/np/pp/eng/2010/032610.pdf)) and "Financial Sector Surveillance and the Mandate of the Fund" ([www.imf.org/external/np/pp/eng/2010/031910.pdf](http://www.imf.org/external/np/pp/eng/2010/031910.pdf)).
- 74 For additional information, see "Factsheet: The Financial Sector Assessment Program (FSAP)" ([www.imf.org/external/np/exr/facts/fsap.htm](http://www.imf.org/external/np/exr/facts/fsap.htm)).
- 75 See PIN 09-123, "IMF Executive Board Reviews Experience with the Financial Sector Assessment Program, Options for the Future, and Complementary Reforms in Surveillance and the Assessment of Standards and Codes" ([www.imf.org/external/np/sec/pn/2009/pn09123.htm](http://www.imf.org/external/np/sec/pn/2009/pn09123.htm)). The Board's discussion was based on a joint IMF-World Bank staff paper, "The Financial Sector Assessment Program after Ten Years: Experience and Reforms for the Next Decade" ([www.imf.org/external/np/pp/eng/2009/082809b.pdf](http://www.imf.org/external/np/pp/eng/2009/082809b.pdf)).
- 76 For general information about the IMF's work with other organizations, see "About the IMF—Overview: Collaborating with Others" ([www.imf.org/external/about/collab.htm](http://www.imf.org/external/about/collab.htm)).
- 77 For additional information about the IMF's work with this initiative, see IMF Survey, "Agreement with Banks Limits Crisis in Emerging Europe" ([www.imf.org/external/pubs/ft/survey/so/2009/int102809a.htm](http://www.imf.org/external/pubs/ft/survey/so/2009/int102809a.htm)).
- 78 See PIN 09-98, "IMF Executive Board Discusses Governance Reform" ([www.imf.org/external/np/sec/pn/2009/pn0998.htm](http://www.imf.org/external/np/sec/pn/2009/pn0998.htm)), as well as the policy paper that provided the basis for the Board's discussion, "IMF Governance—Summary of Issues and Reform Options" ([www.imf.org/external/np/pp/eng/2009/070109.pdf](http://www.imf.org/external/np/pp/eng/2009/070109.pdf)).
- 79 "Executive Board Report to the IMFC on Reform of Fund Governance" ([www.imf.org/external/np/pp/eng/2009/100309.pdf](http://www.imf.org/external/np/pp/eng/2009/100309.pdf)).
- 80 The report is available at [www.imf.org/external/np/pp/eng/2010/042110a.pdf](http://www.imf.org/external/np/pp/eng/2010/042110a.pdf).
- 81 See PR 10-166, "Communiqué of the Twenty-First Meeting of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund" ([www.imf.org/external/np/sec/pr/2010/pr10166.htm](http://www.imf.org/external/np/sec/pr/2010/pr10166.htm)).
- 82 See PR 09-347, "Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund" ([www.imf.org/external/np/sec/pr/2009/pr09347.htm](http://www.imf.org/external/np/sec/pr/2009/pr09347.htm)).
- 83 See PR 09-158, "IMF Offers Membership to Republic of Kosovo" ([www.imf.org/external/np/sec/pr/2009/pr09158.htm](http://www.imf.org/external/np/sec/pr/2009/pr09158.htm)) and PR 09-240, "Kosovo Becomes the International Monetary Fund's 186th Member" ([www.imf.org/external/np/sec/pr/2009/pr09240.htm](http://www.imf.org/external/np/sec/pr/2009/pr09240.htm)).

## CHAPTER 5

- 84** When the European Central Bank and other central banks announced the renewal of the Central Bank Gold Agreement in September 2009, they noted that the IMF's gold sales, in the amount announced, could be accommodated within the agreement's ceilings, thus ensuring that the Fund's gold sales would not add to the announced volume of sales from official sources.
- 85** See PR 09-310, "IMF Executive Board Approves Limited Sales of Gold to Finance the Fund's New Income Model and to Boost Concessional Lending Capacity" ([www.imf.org/external/np/sec/pr/2009/pr09310.htm](http://www.imf.org/external/np/sec/pr/2009/pr09310.htm)).
- 86** See PR 09-381, "IMF Announces Sale of 200 Metric Tons of Gold to the Reserve Bank of India" ([www.imf.org/external/np/sec/pr/2009/pr09381.htm](http://www.imf.org/external/np/sec/pr/2009/pr09381.htm)), PR 09-413, "IMF Announces Sale of 2 Metric Tons of Gold to the Bank of Mauritius" ([www.imf.org/external/np/sec/pr/2009/pr09413.htm](http://www.imf.org/external/np/sec/pr/2009/pr09413.htm)), and PR 09-431, "IMF Announces Sale of 10 Metric Tons of Gold to the Central Bank of Sri Lanka" ([www.imf.org/external/np/sec/pr/2009/pr09431.htm](http://www.imf.org/external/np/sec/pr/2009/pr09431.htm)).
- 87** See PR 10-44, "IMF to Begin Market Sales of Gold" ([www.imf.org/external/np/sec/pr/2010/pr1044.htm](http://www.imf.org/external/np/sec/pr/2010/pr1044.htm)).
- 88** For an explanation of the SDR and related issues, see Box 3.2.
- 89** Credit tranches refer to Fund credit from the GRA that is subject to the set of general policies and terms that exist for Fund lending to address all types of balance of payments problems (referred to as "credit tranche" policies). 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. Disbursements above 25 percent of quota 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 Arrangement (and also the new Flexible Credit Line). Access to IMF resources outside an arrangement is rare and expected to remain so.
- 90** The actual carry-forward from FY2009 was US\$52 million.
- 91** The total net budget comprised US\$880 million plus a carry-forward of US\$52 million, bringing the total approved resource envelope to US\$932 million.
- 92** See "Outcome of the 2009 Downsizing," in the IMF's 2009 Annual Report.
- 93** The actual carry-forward from FY2010 proved to be US\$62 million.
- 94** The new framework was motivated by the need to communicate more clearly, both within and outside the institution, the nature of the Fund's work. It was also intended to make the discussion of outputs an integral part of the decision-making process when assessing necessary trade-offs.
- 95** As personnel costs account for about 70 percent of the Fund's total administrative expenditures, the Fund shifted from budgeting on the basis of standard costs for only 3 broad pay grade groups to 17 standard costs—one for each grade of the staff career ladder—for more accurate costing of the Fund outputs.
- 96** In addition, a supplemental allowance of \$79,120 is paid to cover expenses.
- 97** See PR 09-356, "IMF Managing Director Proposes Appointment of Naoyuki Shinohara as Deputy Managing Director" ([www.imf.org/external/np/sec/pr/2009/pr09356.htm](http://www.imf.org/external/np/sec/pr/2009/pr09356.htm)).
- 98** See PR 10-58, "IMF Managing Director Dominique Strauss-Kahn Names China's Zhu Min as Special Advisor" ([www.imf.org/external/np/sec/pr/2010/pr1058.htm](http://www.imf.org/external/np/sec/pr/2010/pr1058.htm)).
- 99** See PIN 10-04, "IMF Executive Board Reviews the Fund's Transparency Policy" ([www.imf.org/external/np/sec/pn/2010/pn1004.htm](http://www.imf.org/external/np/sec/pn/2010/pn1004.htm)).
- 100** See "Review of the Fund's Transparency Policy" ([www.imf.org/external/np/pp/eng/2009/102609.pdf](http://www.imf.org/external/np/pp/eng/2009/102609.pdf)).
- 101** [www.ieso-imf.org](http://www.ieso-imf.org).
- 102** See "IMF Involvement in International Trade Policy Issues" ([www.ieso-imf.org/eval/complete/eval\\_06162009.html](http://www.ieso-imf.org/eval/complete/eval_06162009.html)).
- 103** See PIN 10-35, "IMF Executive Board Discusses Implementation Plan Following IEO Evaluation of IMF Involvement in International Trade Policy Issues" ([www.imf.org/external/np/sec/pn/2010/pn1035.htm](http://www.imf.org/external/np/sec/pn/2010/pn1035.htm)), as well as the implementation plan ([www.imf.org/external/np/pp/eng/2009/111209.pdf](http://www.imf.org/external/np/pp/eng/2009/111209.pdf)).
- 104** See "IMF Interactions with Member Countries" ([www.ieso-imf.org/eval/complete/eval\\_01202010.html](http://www.ieso-imf.org/eval/complete/eval_01202010.html)).
- 105** See PIN 10-23, "IMF Discusses Third Periodic Monitoring Report on Implementing IEO Recommendations Endorsed by the Executive Board" ([www.imf.org/external/np/sec/pn/2010/pn1023.htm](http://www.imf.org/external/np/sec/pn/2010/pn1023.htm)), as well as the Third Periodic Monitoring Report ([www.imf.org/external/pp/longres.aspx?id=4417](http://www.imf.org/external/pp/longres.aspx?id=4417)).
- 106** [www.imfyouthdialog.org](http://www.imfyouthdialog.org).

# ACRONYMS AND ABBREVIATIONS

ACRM	Advisory Committee on Risk Management
AFRITAC	Africa Technical Assistance Center
AML/CFT	anti-money laundering/combating the financing of terrorism
CAPTAC-DR	Regional Technical Assistance Center for Central America, Panama, and the Dominican Republic
CEMAC	Central African Economic and Monetary Community
CSO	civil society organization
DSA	debt sustainability analysis
DSF	debt sustainability framework
EAC	External Audit Committee
ECCU	Eastern Caribbean Currency Union
ECF	Extended Credit Facility
EMU	European Monetary Union
ESF	Exogenous Shocks Facility
FCC	forward commitment capacity
FCL	Flexible Credit Line
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSI	financial soundness indicator
FY	financial year
G-20	Group of Twenty
GCC	Gulf Cooperation Council
GDDS	General Data Dissemination System
GFSM	<i>Government Finance Statistics Manual</i>
GFSR	<i>Global Financial Stability Report</i>
GRA	General Resources Account
HIPC	Heavily Indebted Poor Countries
IAG	Inter-Agency Group on Economic and Financial Statistics
IDA	International Development Agency
IEO	Independent Evaluation Office
IFRS	International Financial Reporting Standards
IMFC	International Monetary and Financial Committee
MDRI	Multilateral Debt Relief Initiative
MTB	medium-term administrative budget
NAB	New Arrangements to Borrow
OECD	Organization for Economic Cooperation and Development
OIA	Office of Internal Audit and Inspection
PCL	Precautionary Credit Line
PMR	Periodic Monitoring Report
PRGF	Poverty Reduction and Growth Facility
PRGT	Poverty Reduction and Growth Trust
PSI	Policy Support Instrument
RCF	Rapid Credit Facility
REO	<i>Regional Economic Outlook</i>
ROSC	Report on Observance of Standards and Codes
RTAC	Regional Technical Assistance Center
SCF	Standby Credit Facility
SDDS	Special Data Dissemination Standard
SDR	Special Drawing Right
TA	technical assistance
TTF	topical trust fund
UFR	Use of Fund Resources
WAEMU	West African Economic and Monetary Union
WEO	<i>World Economic Outlook</i>

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