Web Box 3.3 The IMF's financing mechanism

The IMF's regular lending is financed primarily from the capital (quotas) subscribed by member countries. Each country is assigned a quota—based largely on the country's relative economic size—which determines its maximum financial commitment to the IMF. While quota subscriptions of member countries are its main source of financing, the IMF can supplement its resources through borrowing if it believes that resources might fall short of members' needs (see "Financial Support" in the chapter text).

A portion of the quota is provided in the form of reserve assets (foreign currencies acceptable to the IMF or SDRs) and the remainder in the country's own currency. The IMF extends financing by providing reserve assets to borrowers by calling on countries that are considered financially strong to exchange their own currency subscriptions for reserve assets.

A loan is disbursed by the IMF when a borrower "purchases" reserve assets from the IMF with its own currency. The loan is considered repaid when the borrower "repurchases" its currency from the IMF in exchange for reserve assets. The IMF levies a basic rate of interest (charge) on loans based on the SDR interest rate and imposes surcharges depending on the amount and maturity of the loan and the level of credit outstanding (see "Income, Charges, Remuneration, and Burden Sharing" in Chapter 5).

A country that provides reserve assets to the IMF as part of its quota subscription or through the use of its currency receives a liquid claim on the IMF (reserve tranche position) that can be encashed on demand to obtain reserve assets to meet a balance of payments financing need. These claims earn interest (remuneration) based on the SDR interest rate and are considered by members as part of their international reserve assets. As IMF loans are repaid (repurchased) by borrowers with reserve assets, these funds are transferred to the creditor countries, and the creditors' claims on the IMF are extinguished.

The "purchase/repurchase" approach to IMF lending affects the composition of the IMF's resources but not their overall size. An increase in loans outstanding will reduce the IMF's holdings of reserve assets and the currencies of members that are financially strong and increase its holdings of the currencies of countries that are borrowing from the IMF. The amounts of the IMF's holdings of reserve assets and the currencies of financially strong countries determine the IMF's lending capacity.

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