OVERVIEW OF THE IMF AS A FINANCIAL INSTITUTION

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The International Monetary Fund was founded some 70 years ago near the end of World War II. The founders aimed to build a framework for economic cooperation that would forestall the kinds of economic policies that contributed to the Great Depression of the 1930s and the global conflict that ensued. The world has changed dramatically since 1944, bringing extensive prosperity to many countries and lifting millions out of poverty. The IMF has evolved as well, but in many ways its main purpose—to support the global public good of financial stability and prosperity—remains the same today as when the organization was established.

Throughout its history, the organization has played a central role within the international financial architecture. With its near-global membership of 188 countries, the IMF is uniquely positioned to help member governments take advantage of the opportunities and manage the challenges posed by globalization and economic development more generally.

More specifically, the IMF continues to serve a number of critical international functions, including to provide a forum for cooperation on international monetary issues; facilitate the growth of international trade, thus promoting job creation, economic growth, and poverty reduction; promote exchange rate stability and an open system of international payments; and lend countries foreign exchange when needed, on a temporary basis and under adequate safeguards, to help them address balance of payments problems. Marked by massive movements of capital and shifts in comparative advantage, globalization has affected IMF member countries' policy choices in many areas. Helping its members benefit from globalization, while avoiding potential pitfalls, is an important task for the IMF.

A core responsibility of the IMF is to provide resources to member countries experiencing actual or potential balance of payments problems, meaning that the country cannot find sufficient financing on affordable terms to meet its net international payments (for example, for imports or external debt redemptions). This financial assistance enables countries to rebuild their international reserves, stabilize their currencies, continue paying for imports, and restore conditions for strong economic growth, while implementing policies to correct underlying problems without resorting to measures that could be destructive to national or international prosperity. Unlike development banks, the IMF does not lend for specific projects.

The global financial crisis of 2007–09 highlighted how economically interconnected countries have become. During the crisis, the IMF mobilized on many fronts to support its members. To meet the ever-increasing financing needs of countries hit by the crisis and help strengthen global economic and financial stability, the IMF significantly bolstered its lending capacity. It did so both by securing large bilateral borrowing agreements from individual member countries and/or their agencies and by expanding the New Arrangements to Borrow (NAB) as a first step, as well as obtaining commitments to increase quota subscriptions of member countries—the IMF's main source of financing. The IMF has refined its general lending framework to make it better suited to member countries' needs, in particular to give greater emphasis to crisis prevention. The IMF also undertook an unprecedented reform of its policies toward low-income countries and significantly boosted the resources and concessional lending available to the world's poorest countries. To increase its permanent resource base and strengthen its legitimacy, in December 2010, the IMF's member countries also agreed to a historic quota and governance reform to double quotas and increase the role of emerging market and developing economies in the decision-making of the institution while simultaneously preserving the voice of the low-income members.

This chapter describes the evolution of the IMF's financial structure and operations, its role and functions, governance structure, and the nature of recent reforms. It provides an overview of the material covered in detail in subsequent chapters, looking in turn at the IMF's nonconcessional financing (Chapter 2), concessional financing (Chapter 3), the Special Drawing Rights (SDR) mechanism (Chapter 4), income generation (Chapter 5), and financial risk management (Chapter 6). The chapter concludes with suggested sources for further information on IMF finances.

1.1 ROLE AND PURPOSES OF THE IMF

The IMF is a cooperative international monetary organization whose nearly universal membership comprises 188 countries. It was established in 1945, together with the International Bank for Reconstruction and Development (known as the World Bank), under agreements reached by delegates from 44 countries who convened during July 1944 at the Bretton Woods Conference.

The responsibilities of the IMF derive from the basic purposes for which the institution was established, as set out in

Article I of the IMF Articles of Agreement—the charter that governs all policies and activities of the IMF:

- To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
- To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
- To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
- In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

In pursuit of these objectives, the key activities of the IMF can be classified under three areas—lending, surveillance, and the provision of capacity-building services:

- **Lending functions** of the IMF are tailored to address the specific circumstances of its diverse membership. The IMF is probably best known as a financial institution that provides resources to member countries experiencing temporary balance of payments problems (actual or potential). This financial assistance enables countries to rebuild their international reserves, stabilize their currencies, continue paying for imports, and restore conditions for strong economic growth, while implementing policies to correct underlying problems. The IMF is also actively engaged in promoting economic growth and poverty reduction for its poorer members facing a protracted or short-term balance of payments need by providing financing on concessional terms. Nonconcessional loans are provided mainly through Stand-By Arrangements, the Flexible Credit Line, the Precautionary and Liquidity Line, and the Extended Fund Facility. The IMF may also provide emergency assistance via the Rapid Financing Instrument to all its members facing urgent balance of payments needs. Low-income countries may borrow on concessional terms from the IMF as a trustee of the Poverty Reduction and Growth Trust, currently through the Extended Credit Facility, the Standby Credit Facility, and the Rapid Credit Facility.
- **Surveillance functions** stem primarily from the IMF's responsibility for overseeing the international monetary system and the policies of its members, a task entrusted to the IMF following the collapse of the Bretton Woods fixed exchange rate system in the early 1970s. These activities include bilateral surveillance, which is the regular monitoring and peer review by other members of economic and financial developments and policies in each member country. Regional and multilateral surveillance is conducted through ongoing reviews of world economic conditions, financial markets, fiscal developments and outlooks, and through oversight of the international monetary system. Following the global financial crisis, the IMF undertook several major initiatives to strengthen surveillance in a more globalized and interconnected world and adopted an Integrated Surveillance Decision in July 2012.[1]
- **Capacity building** and other services to members of the IMF include provision of technical assistance and external training; creation and distribution of international statistical information and methodologies; and establishment and monitoring of standards and codes for international best practice in several areas, including timely country economic and financial statistics, monetary and fiscal transparency, assessment of financial sector soundness, and promotion of good governance.

To sum up, the IMF is much more than a lending institution. It is concerned not only with the economic problems of individual member countries but also with the working of the international monetary system as a whole. Its activities are aimed at promoting policies and strategies through which its members can work together to ensure a stable world financial system and sustainable economic growth. The IMF provides a forum for international monetary cooperation, and thus for an orderly evolution of the global system, and it subjects wide areas of international monetary affairs to the

[1] This Decision became effective in January 2013 and provides the legal framework for surveillance to cover spillovers (how economic policies in one country affect others) as well as deepening the IMF's analysis of risks and financial systems. www.imf.org/external/np/exr/facts/isd.htm.

covenants of law, moral suasion, and mutual understanding. The IMF must also stand ready to deal with financial crises, which not only affect individual members but can also threaten the entire international monetary system.

All operations of the IMF are conducted under a decision-making structure that has evolved over time (Box 1.1). The governance structure attempts to strike a balance between representation of its members and the operational necessities of managing an effective financial institution. Although every member country is represented separately on the Board of Governors, most members form combined constituencies on the much smaller Executive Board, which conducts the day-to-day business of the IMF. Members' voting power is based mainly on the size of their quotas, or capital subscriptions, which are intended to reflect members' relative economic positions in the world economy. This structure gives the greatest voice to the institution's largest contributors, although smaller members are protected through a system of basic votes.[2] Moreover, the Executive Board bases most of its decisions on consensus, without a formal vote. This procedure ensures the thorough consideration of all points of view.

The IMF is a quota-based institution, and quotas play a number of key roles; they not only determine a country's voting power and maximum financial commitment but are also relevant for access to IMF resources. The IMF normally conducts general reviews of quotas every 5 years. These reviews provide an opportunity to assess the appropriate size of the Fund and the distribution of quotas among its members. In the past, general quota increases have been distributed largely in proportion to existing quota shares with a smaller amount of the quota increases generally allotted to realign members' quotas with their relative positions in the world economy as reflected in their calculated quota shares, which are based on a quota formula designed for this purpose.[3]

Because past adjustments have been largely proportional to existing quotas, changes in the distribution of actual quotas have lagged behind global economic developments. Consequently, in order to safeguard and enhance the institution's credibility and effectiveness, in 2006 the IMF began a process to review and reform the quota and voice of its member countries. The specific aim was to better align members' quota shares with their economic positions in the world economy and to enhance the voice of low-income countries in the governance of the IMF.

At its annual meeting in Singapore in September 2006, the Board of Governors adopted a resolution requiring the IMF Executive Board to implement a comprehensive program of reforms that, when complete, would increase the representation of dynamic economies (many of which are emerging market economies) whose position and role in the global economy has increased and would make quota and voting shares in the Fund more reflective of changes in global economic realities in the future. Similarly, the voice and participation of low-income countries was to be enhanced through an increase in basic votes which, at a minimum, would be sufficient to preserve their voting shares.

During the first stage of this reform, the Board of Governors agreed that the countries whose quota shares were most out of line with their relative positions in the world economy—namely, China, Korea, Mexico, and Turkey—would receive ad hoc quota increases as a down payment on an adjustment for a broader set of countries based on a new formula. An ad hoc increase for 54 underrepresented members was agreed in 2008; it used a simpler and more transparent quota formula as the basis and became effective in March 2011. The 2008 Quota and Voice Reforms strengthened the representation of dynamic economies, many of which are emerging market economies. They also enhanced the voice and participation of low-income countries through (1) a tripling of basic votes—the first such increase since the IMF's creation in 1945, (2) a mechanism to keep constant the ratio of basic votes to total IMF voting power, and (3) a measure enabling Executive Directors representing seven or more members to each appoint a second Alternate Executive Director.

Building on this reform, in December 2010, the Board of Governors approved a major Quota and Governance Reform in connection with the completion of the Fourteenth General Review of Quotas and a proposed amendment of the IMF's Articles of Agreement on the reform of the Executive Board.[4] The reform package—once effective—will (1) double quotas to approximately SDR 477 billion (currently about $671 billion), (2) shift more than 6 percent of quota shares to dynamic emerging market and developing economies and from overrepresented to underrepresented countries (exceeding the 5 percent target set by the International Monetary and Financial Committee in 2009), and (3) protect the quota shares and voting power of the poorest

[2] A member's voting power is equal to its basic votes, which are the same for all members, plus one additional vote for each SDR 100,000 in quota. Basic votes therefore help to strengthen the relative voting power of those members with the smallest quotas. See Appendix 1 for the IMF's quota structure.

[3] The major variables in the quota formula have been GDP, external openness, variability of external receipts, and reserves. The central role of quotas and the quota formula are discussed in Chapter 2.

[4] As part of the 2010 Quota and Governance Reform, the Board of Governors requested that the Executive Board complete a comprehensive review of the quota formula by January 2013 and bring forward the timetable for completion of the Fifteenth General Review of Quotas to January 2014.

members. With this shift, the four largest emerging market economies (Brazil, China, India, and Russia) will be among the IMF's 10 largest shareholders, alongside France, Germany, Italy, Japan, the United Kingdom, and the United States. In addition, the 2010 reform moves the IMF to an all-elected Executive Board. The combined representation of advanced European economies on the Executive Board is set to decrease by two Executive Director chairs, and there is increased scope for appointing second Alternate Executive Directors to enhance the representation of multicountry constituencies.

1.2 EVOLUTION OF THE IMF'S FINANCIAL STRUCTURE

The most salient feature of the IMF's financial structure is that it is continuously evolving. The IMF has introduced and refined a variety of lending facilities and policies over the years to address changing conditions in the global economy or the specific needs and circumstances of its members.[5] It has also discontinued or modified such adaptations when appropriate.

- 1945–60: The IMF facilitated a move to convertibility for current payments, meaning that member countries were able to freely convert the currencies of one member country into those of another. Restrictions on trade and payments that had been put in place before and during World War II were removed, and there was relatively little financing by the IMF.
- 1961–70: To meet the pressures on the Bretton Woods fixed exchange rate system, the IMF developed a new supplementary reserve asset, the Special Drawing Right or SDR. It also developed a standing borrowing arrangement with the largest creditor members to supplement its resources during times of systemic crisis.
- 1971–80: The two world oil crises led to an expansion in IMF financing and the development of new lending facilities funded from borrowed resources. It also marked the IMF's expansion into concessional lending to its poorest members.
- 1981–90: The developing country debt crisis triggered a further sharp increase in IMF financing, with higher levels of assistance provided to individual countries than in the past. These programs were also financed in part by borrowed resources.
- 1991–2000: The IMF established a temporary lending facility to smooth the integration into the world market system of formerly centrally planned economies, primarily in Central and Eastern Europe. IMF financing facilities also were restructured to meet members' demands in an environment of increasingly globalized financial markets, where large and sudden shifts in international capital flows led to payment imbalances originating in the financial account rather than the current account of the balance of payments.
- 2001–06: The world economy experienced a period of sustained economic growth, expanding trade and capital flows, and relatively low inflation and interest rates. This extended period of relatively benign economic conditions—and, in many cases, high commodity prices—spurred rapid growth, produced strong external positions, and led to a sharp decline in outstanding IMF credit. At the same time, the IMF's focus turned to the growing challenges posed by the acceleration of globalization, including the need to strengthen and modernize the surveillance process, seek new ways to support emerging market economies, and deepen its engagement with low-income countries.

1.3 MEASURES TAKEN SINCE THE ONSET OF THE FINANCIAL CRISIS

In 2007, the U.S. subprime mortgage market soured, ushering in the global financial crisis that struck with full force in the fall of 2008 with the collapse of Lehman Brothers. In response, the IMF mobilized on a number of fronts to support its member countries. In particular, the IMF significantly increased its lending capacity through borrowing, completed a general quota review that resulted in an agreement to double its quota resources, and implemented two SDR allocations. It refined its general lending framework to place greater emphasis on crisis prevention, reformed its policies toward low-income countries, increased its concessional lending resources, strengthened its surveillance mechanisms, and reformed its governance framework.

1.3.1 Borrowing

A key element of international efforts to overcome the global financial crisis was the agreement of the Group of Twenty industrialized and emerging market economies

[5] The provision of financial assistance by the IMF to its members through the General Resources Account (GRA) is not "lending" either technically or legally. IMF financial assistance provided through the GRA takes place by means of an exchange of monetary assets, similar to a swap. Nevertheless, this purchase and repurchase of currencies from the IMF, with interest charged on outstanding purchases, is functionally equivalent to a loan and its subsequent repayment. Accordingly, for ease of reference, the terms "lending" and "loans" are used throughout this publication to refer to these arrangements, as explained in Section 2.2.

(G20) in April 2009 to increase borrowed resources available to the IMF, complementing its quota resources by up to $500 billion. This resulted in a tripling of the IMF's lending resources, which were about $250 billion before the crisis. The International Monetary and Financial Committee (IMFC) endorsed this broad goal. The overall financing increase was accomplished in two steps, first through bilateral financing from IMF member countries (the 2009 round of bilateral agreements) and second by incorporating (folding) this financing into the expanded and more flexible New Arrangements to Borrow (NAB).[6]

In April 2012, the IMFC and G20 jointly called for further enhancement of IMF resources for crisis prevention and resolution through temporary bilateral loans and note purchase agreements. In response, in June 2012, the Executive Board endorsed modalities for a new round of bilateral borrowing—the 2012 Borrowing Agreements (see Borrowing by the IMF).

1.3.2 Quotas

As discussed in Section 1.1, the 2010 Quota and Governance Reform and the completion of the Fourteenth General Review of Quotas in December 2010 will lead to a doubling of quotas to approximately SDR 477 billion (currently about $671 billion). Once the package is accepted by the membership and the reform goes into effect, there will be a rollback in the NAB credit arrangements from around SDR 370 billion to around SDR 182 billion.

1.3.3 SDRs

Postcrisis measures also included a new general allocation of SDRs. In 2009, in addition to increasing the IMF's lending capacity, the membership agreed to make a general allocation of SDR 161.2 billion (or approximately $250 billion), resulting in a nearly tenfold increase in SDRs. This represented a significant increase in reserves available to help member countries, including many low-income countries.

1.3.4 General Lending Framework

The IMF also refined its lending framework to offer higher loan amounts and tailor its lending toolkit to the evolving needs of the membership. New facilities were introduced in the General Resources Account (GRA) to complement existing instruments. The Flexible Credit Line (FCL), introduced in April 2009 and further enhanced in August 2010, is a lending tool for countries with very strong fundamentals. It provides large, up-front access to IMF resources as a form of insurance for crisis prevention and involves no policy conditions once a country is approved. Benefits to countries that have used the FCL include lower borrowing costs and more room for policy maneuver.

In 2011, the Executive Board approved a further set of reforms to bolster the flexibility and scope of the GRA lending toolkit. There were two key reforms. First, existing GRA emergency assistance tools were consolidated under a single instrument, the Rapid Financing Instrument (RFI). This increased the flexibility of support to countries facing urgent balance of payments needs, including those stemming from exogenous shocks. Second, the Precautionary Credit Line (PCL) was replaced by the Precautionary and Liquidity Line (PLL), a more flexible instrument that can be used not only to address potential but also actual balance of payments needs. This added flexibility provides IMF members that have strong fundamentals with policy insurance against future shocks.

1.3.5 Resources and Lending to Low-Income Countries

Since 2009, the IMF has advanced its support for low-income countries through the Poverty Reduction and Growth Trust (PRGT), reflecting the changing nature of economic conditions in these countries and their increased vulnerability as a result of the global financial crisis. The PRGT provides three lending windows, which were established in January 2010 and further refined in April 2013. These three lending vehicles are tailored to provide flexible support to the increasingly diverse needs of low-income members: (1) the Extended Credit Facility (ECF) provides medium- to long-term support; (2) the Standby Credit Facility (SCF) provides flexible support to address low-income countries' short-term financing and adjustment needs; and (3) the Rapid Credit Facility (RCF) provides rapid support through a single up-front payout for low-income countries facing urgent financing needs.

The IMF has introduced a new interest rate structure that links the concessional interest rates paid on PRGT lending to the SDR interest rate and is subject to regular review. Exceptional interest relief has been extended to all low-income countries—zero interest on all concessional loans until the end of 2016. The IMF also set up a more flexible concessional financing framework. This included establishing a General Loan Account (GLA) and a General Subsidy Account (GSA) to receive and provide financing for all PRGT facilities and special loan and subsidy accounts to accommodate donors' preference for making contributions to specific facilities. In September 2012, the Executive Board approved a strategy to make the PRGT self-sustaining. The

[6] The NAB is a set of credit arrangements between the IMF and 38 member countries and institutions including a number of emerging market economies. Further details are provided in Chapter 2.

strategy relies on the use of resources from the partial distribution of the IMF's general reserves linked to the windfall from earlier gold sales. In July, 2015, the Board approved changes to access policies for the IMF's concessional facilities, raising access limits and norms in general by 50 percent and rebalancing the funding mix of concessional to nonconcessional financing under blended arrangements with a view to target concessional financing better on the poorest and most vulnerable members while preserving the self-sustained lending capacity of the PRGT. The Board also undertook its biennial review of eligibility for concessional financing, approving a list of 69 countries that will be able to borrow under the PRGT.

In June 2010, the IMF established a Post-Catastrophe Debt Relief (PCDR) Trust, which allowed the Fund to join international debt relief efforts for very poor countries hit by catastrophic natural disasters. In February 2015, the IMF expanded the circumstances under which it can provide exceptional assistance to its low-income members to include public health disasters. The PCDR was transformed into the Catastrophe Containment and Relief (CCR) Trust, as a vehicle to provide exceptional support to countries confronting major natural disasters, including not just catastrophic disasters such as massive earthquakes, but also life-threatening, fast-spreading epidemics.

1.4 THE IMF'S FINANCIAL STRUCTURE AND LENDING MECHANISMS

The IMF provides financing to its members through three channels, all of which serve the common purpose of transferring reserve currencies to member countries: regular (nonconcessional) lending from the GRA; concessional lending from the PRGT; and the SDR Department. Regular and concessional lending operations involve the provision of financing to member countries under "arrangements" with the IMF that are similar to lines of credit. A large majority of IMF lending arrangements condition use of these lines of credit (facilities) on achievement of economic stabilization objectives agreed between the borrowing member and the IMF. The IMF may also create international reserve assets by allocating SDRs to members, which can use them to obtain foreign exchange from other members. Use of SDRs is unconditional, although a market-based interest rate is charged.

The basic financial structure of the IMF is summarized in Box 1.2, which includes references to the chapters of this publication where each of the three financing channels is discussed in detail (regular lending in Chapter 2, concessional lending in Chapter 3, and use of SDRs in Chapter 4). Chapter 5 explains how the IMF generates income through lending and investment activities to finance its administrative expenditures. Chapter 6 describes the IMF's financial risk-management framework. Brief summaries of the contents of these chapters follow.

1.4.1 Nonconcessional Financing (Chapter 2)

Unlike other international financial institutions such as the World Bank or regional development banks, the IMF is not technically a lending institution. Instead, the IMF is a repository for its members' currencies and a portion of their foreign exchange reserves. The IMF uses this pool of currencies and reserve assets to extend credit to member countries when they face economic difficulties as reflected in their external balance of payments.

The IMF's regular lending is financed from the fully paid-in capital subscribed by member countries. Such lending is conducted through the General Resources Account of the General Department, which holds the capital subscribed by members. A country's capital subscription is its IMF quota. At the time it joins, each country is assigned a quota based broadly on its relative position in the world economy, and this represents its maximum financial commitment to the IMF.[7]

The IMF's quota-based currency holdings can be supplemented by GRA borrowing. Borrowing by the IMF to finance the extension of credit through the GRA is an important complement to the use of quota resources. Borrowing is currently conducted under its main standing borrowing arrangement, the New Arrangements to Borrow (NAB), as well as through bilateral agreements.[8] However, as the IMF is a quota-based institution, borrowing is understood to be a temporary supplement, in particular during periods of financial crisis but also as a bridge to general quota increases.

The lending instruments of the IMF have evolved over the years. Initially, IMF lending took place exclusively on the basis of general policies governing access to its resources in what became known as the credit tranches and, in particular, under Stand-By Arrangements (SBA). Beginning in the 1960s, special policies were developed to deal with various balance of payments problems that had particular causes.

After 2008, in the wake of the global financial crisis, the IMF strengthened the GRA lending toolkit to meet member countries' financing needs while safeguarding IMF resources. Existing lending instruments were modified and new ones were created, including the Flexible Credit Line

[7] Quotas also determine a country's voting power in the IMF, define the basis for its access to IMF financing, and determine its share of SDR allocations.

[8] Another standing borrowing arrangement, the General Arrangements to Borrow (GAB), can also be used in limited cases.

(FCL), the Precautionary and Liquidity Line (PLL), and the Rapid Financing Instrument (RFI).

1.4.2 Concessional Financing (Chapter 3)

The IMF lends to poor countries on concessional terms that involve interest rates of zero to no more than 0.75 percent. Until the end of 2016, the interest rate on concessional lending will be zero. Concessional lending is meant to enhance these countries' ability to pursue sustainable macroeconomic policies to promote growth and reduce poverty. The IMF also provides assistance on a grant basis to heavily indebted poor countries (HIPCs) to help them achieve sustainable external debt positions. Concessional lending began in the 1970s and was strengthened over time. In July 2009, the Executive Board approved a comprehensive reform of the IMF's concessional facilities. Such assistance is now provided mainly through the facilities of the Poverty Reduction and Growth Trust (PRGT).

Concessional lending activities are undertaken separately from the IMF's regular lending operations, using resources provided voluntarily by members (independently of their IMF capital subscriptions) along with some of the IMF's own resources. The concessional lending and debt relief operations are trust based, which allows for more flexibility in differentiating among members and mobilizing resources. The use of trusts also removes certain credit and liquidity risks from the balance sheet of the GRA. The resources are administered under the PRGT for concessional lending and, for debt relief, under the Poverty Reduction and Growth—Heavily Indebted Poor Countries (PRGT-HIPC) Trust, the Multilateral Debt Relief Initiative (MDRI) trust (MDRI-II),[9] and the Catastrophe Containment and Relief (CCR) Trust. The IMF acts as trustee for all four of these trusts, mobilizing and managing resources for all the concessional operations.

1.4.3 The SDR (Chapter 4)

The SDR is a reserve asset created by the IMF and allocated to participating members in proportion to their IMF quotas to meet a long-term global need to supplement existing reserve assets. A member may use SDRs to obtain foreign exchange from other members and to make international payments, including to the IMF. The SDR is not a currency, nor is it a liability of the IMF; instead, it serves primarily as a potential claim on freely usable currencies. Members are allocated SDRs unconditionally and may use them to obtain freely usable currencies in order to meet a balance of payments financing need without undertaking economic policy measures or repayment obligations. A member that makes net use of its allocated SDRs pays the SDR interest rate on the amount used whereas a member that acquires SDRs in excess of its allocation receives the SDR interest rate on its excess holdings.

Decisions to allocate SDRs are made for successive basic periods of 5 years. As of April 30, 2015, there have been only three general allocations of SDRs and one special allocation under the Fourth Amendment to the Articles of Agreement. Most recently in 2009, a general allocation was made to help mitigate the effects of the global financial crisis, and the special allocation under the Fourth Amendment to enable all members of the IMF to participate in the SDR system on an equitable basis also became effective. The 2009 allocations raised total cumulative SDR allocations to about SDR 204 billion.

The SDR serves as the unit of account for the IMF, and the SDR interest rate provides the basis for calculating the interest charges on regular IMF financing and the interest rate paid to members that are creditors to the IMF. The value of the SDR is based on a basket of currencies comprising the U.S. dollar, euro, Japanese yen, and pound sterling and is determined daily based on exchange rates quoted in the major international currency markets (see SDR Basket).

1.4.4 Income Generation (Chapter 5)

The IMF generates income primarily through lending activities and investment activities. Since its establishment, the IMF has relied primarily on lending activities to fund its administrative expenses, including its pension and employee benefit expenses. Lending income is derived from the charges (interest on loans) that are levied on the outstanding use of credit in the General Resources Account. In addition to the basic rate of charge, the use of IMF credit under certain circumstances is subject to surcharges, and all IMF credit is subject to service charges, commitment fees on credit lines, and special charges. A small amount of income is also generated by receipt of interest on the IMF's SDR holdings.

Over the years, a number of measures have allowed the IMF to diversify its sources of income. In 1978, the Second Amendment to the IMF's Articles of Agreement authorized establishment of the Investment Account (IA). The Investment Account was activated in 2006 (largely in light of the deterioration in the IMF's income position as a result of a decline in credit outstanding) with a transfer from the General Resources Account of SDR 5.9 billion. In 2008, the Executive Board endorsed a new income model to allow the IMF to diversify its sources of income through the establishment of an endowment in the Investment Account funded with the profits from a limited sale of gold holdings and to expand investment authority to enhance returns.

[9] There is no longer any outstanding MDRI-eligible debt to the IMF. As part of the strategy to fund the CCR Trust, the MDRI-I trust was liquidated in February 2015, and the MDRI-II Trust will also be liquidated.

Broadening the IMF's investment authority required an amendment to the Articles of Agreement, which became effective in 2011, following ratification by the required majorities of the members. The amendment authorized expansion of the range of instruments in which the IMF could invest according to the rules and regulations to be adopted by the Executive Board. New rules and regulations for the Investment Account came into effect in January 2013 and were amended in March 2014.

1.4.5 Financial Risk Management (Chapter 6)

The Articles of Agreement require that the IMF establish adequate safeguards for the temporary use of its resources. The IMF has an extensive risk-management framework in place, including strategies to address the institution's strategic and operational risks as well as more traditional financial risks.

The financial structure of the IMF, especially the need for its resources to revolve for use by other members, requires that members with financial obligations to the institution repay them as they fall due. The IMF has implemented a multilayered framework to mitigate the full range of financial risks it faces in fulfilling its mandate, including credit, liquidity, income, and market risks.

Credit risks typically dominate, reflecting the IMF's core role of providing balance of payments support to members when other financing sources are not readily available. Credit risks can fluctuate widely because the IMF does not target a particular level of lending or lending growth, and so it must rely on a comprehensive set of measures to mitigate credit risk. The IMF's primary tools are its strong lending policies governing access, phasing, program design, and conditionality. These policies include assessments of members' capacity to implement adjustment policies and repay the IMF. An exceptional access framework for larger commitments subjects potential borrowers to higher scrutiny, including eligibility criteria and a supplemental assessment of financial risks to the IMF whenever such lending is considered by the Executive Board.

The IMF also has systems in place to assess safeguards procedures at members' central banks and address overdue financial obligations. In the event a country falls into arrears, the IMF has an agreed strategy that includes a burden-sharing mechanism to cover any income losses. There is also a framework to assess the adequacy of precautionary balances, which serve as a buffer against the financial consequences of residual credit risks, helping to ensure that members' reserve positions remain of high quality and readily available to meet their balance of payments needs, even under adverse circumstances.

1.5 INFORMATION SOURCES ON IMF FINANCES

1.5.1 IMF Website

Comprehensive and timely data on IMF finances are available on the IMF website (www.imf.org). Financial data are presented in aggregate form for the institution as a whole and for each member country. The IMF Finances portal (www.imf.org/external/fin.htm) provides ready access to current and historical data on all aspects of IMF lending and borrowing operations.

The IMF Finances portal links to general information on the financial structure, terms, and operations of the institution, including electronic versions of this publication. Data sets include the following and are updated regularly as indicated:

- exchange rates (twice daily)
- IMF interest rates (weekly)
- financial activities and status of lending arrangements (weekly)
- financial resources and liquidity (monthly)
- financial statements (monthly)
- financing of IMF transactions (quarterly)
- financial position of members in the IMF (monthly)
- disbursements and repayments (monthly)
- projected obligations to the IMF (monthly)
- IMF credit outstanding (monthly)
- lending arrangements (monthly)
- SDR allocations and holdings (monthly)
- arrears to the IMF (monthly).

Additional information is available through a mobile app, IMF Finances, free for download on mobile devices. The app currently displays 10 years of IMF financial data in aggregate and country formats, including credit outstanding, lending arrangements, past transactions, projected payments, and SDR interest rates.

1.5.2 Contacts in the Finance Department

Questions concerning any aspect of the financial structure and operations of the IMF should be sent by email directly to the staff of the Finance Department at IMFfinances@imf.org.

Box 1.1 The Decision-Making Structure of the IMF

The IMF's decision-making structure consists of a Board of Governors, an Executive Board, a Managing Director, and a staff of nearly 3,000 that roughly reflects the diversity of its membership. The Board of Governors is the highest decision-making body of the IMF; it consists of one Governor and one Alternate appointed by each member country. The members of the Board of Governors are usually ministers of finance, heads of central banks, or officials of comparable rank, and they normally meet once a year.

An International Monetary and Financial Committee (IMFC), currently composed of 24 IMF Governors, ministers, or others of comparable rank (reflecting the composition of the Executive Board and representing all IMF members), usually meets twice a year. The IMFC advises and reports to the Board of Governors on the management and functioning of the international monetary system, proposals by the Executive Board to amend the Articles of Agreement, and any sudden disturbances that might threaten the international financial system. The Development Committee, which is currently composed of 25 World Bank Governors, Ministers, or others of comparable rank (reflecting the composition of the World Bank Executive Board and representing all IMF members), has a similar composition, surveys the development process, reports to the Board of Governors of the World Bank and the IMF, and makes suggestions on all aspects of the broad question of the transfer of resources to developing economies.

The IMF Executive Board is responsible for "conducting the business of the Fund" and exercises the powers delegated to it by the Board of Governors.[1] It functions in continuous session at IMF headquarters, currently consists of 24 Executive Directors, and is chaired by the Managing Director.[2] The Managing Director is selected by the Executive Board and is the chief of the operating staff of the IMF and "conduct[s], under the direction of the Executive Board, the ordinary business of the Fund." The Deputy Managing Directors are appointed by the Managing Director, and their appointment and terms of service are subject to the approval of the Executive Board.

The current 24 Executive Directors are either appointed or elected biennially by the IMF's membership.[3] The five member countries with the largest quotas are each required to appoint an Executive Director (that is, they must each appoint an Executive Director and may not participate in the biennial regular election of other Executive Directors). The Articles of Agreement also permit two Executive Directors to be appointed by members whose currencies have been most used in the IMF General Resources Account in the two years immediately preceding an election if they are not already among those with the five largest quotas.[4] Nineteen of the Executive Directors are currently elected by the membership.

The Articles of Agreement provide that the number of elected Executive Directors may be increased or decreased by the Board of Governors for each regular election. The flexibility accorded to the Board of Governors by the Articles allows it to (1) determine the size of the Executive Board in light of developments in the size of the IMF's overall membership and (2) recalibrate the size of the Executive Board if desired in the event one or two members were entitled to appoint an Executive Director pursuant to Article XII, Section 3(c).

A key feature of the 2010 Quota and Governance Reform is a proposal to amend the Articles of Agreement to eliminate the category of appointed Executive Directors (Board Reform Amendment). Accordingly, when this amendment enters into force, all Executive Directors will be elected (including members with the five largest quotas in the Fund).[5]

In addition to the Proposed Board Reform Amendment and the doubling of quotas, the 2010 reform package includes two important commitments that will become operational after the three conditions for effectiveness of the 2010 Quota and Governance Reform have been met.[6] First, in order to achieve greater representation for emerging market and developing economies, the number of Executive Directors representing advanced European economies would be reduced by two no later than the first regular election of Executive Directors following the entry into force of the Proposed Seventh Amendment. Second, an Executive Board consisting of 24 elected Executive Directors would be maintained, and the number of directors would be reviewed every 8 years.

A number of important decisions specified in the Articles of Agreement require either 70 percent or 85 percent of the total voting power; other decisions are made by a majority of the votes cast.[7]

[1] Article XII, Section 3 (a).

[2] The default size of the Executive Board is 20 but may be increased or decreased by the Board of Governors for the purposes of each regular election by an 85 percent majority of the total voting power.

[3] Article XII, Section 3 (b).

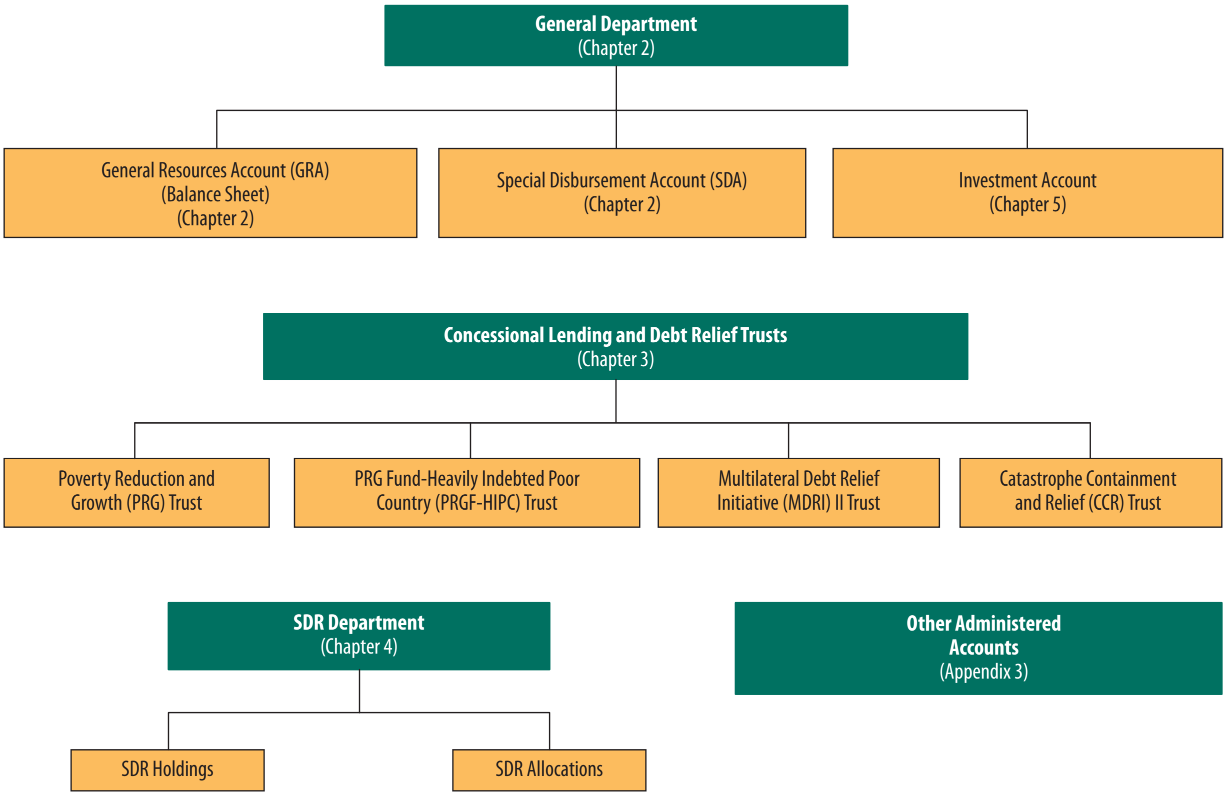
[4] Article XII, Section 3 (b) (c). The last IMF member to appoint an Executive Director pursuant to Article XII, Section 3(c), was Saudi Arabia in 1990.

[5] For further information, see IMF Board of Governors Approves Major Quota and Governance Reforms, December 16, 2010: www.imf.org/external/np/sec/pr/2010/pr10477.htm.

[6] No quota increase under the Fourteenth General Review of Quotas can become effective until three general effectiveness conditions are met: (1) members with no less than 70 percent of the total of quotas on November 5, 2010, consent to the increases in their quotas (this has been met), (2) the Sixth Amendment on Voice and Participation enters into force (which occurred on March 2, 2011), and (3) the proposed Board Reform Amendment becomes effective. The proposed Board Reform Amendment enters into force once the IMF certifies that three-fifths of the members representing 85 percent of the total voting power have accepted it (this is the only remaining condition to be met).

[7] See Appendix 2 on Special Voting Majorities for Selected Financial Decisions.

Box 1.2 Financial Structure of the IMF



Source: Finance Department, International Monetary Fund.
Note: Chapter numbers refer to where in this publication each topic is discussed. Chapter 6 covers "Financial Risk Management." SDR = Special Drawing Right.

ADDITIONAL READING

Articles of Agreement of the International Monetary Fund: http://www.imf.org/external/pubs/ft/aa/index.htm

Integrated Surveillance Decision, *IMF Factsheet*: www.imf.org/external/np/exr/facts/isd.htm

IMF Articles of Agreement—*Articles XII, Section 3. Executive Board*: http://www.imf.org/external/pubs/ft/aa/index.htm#a12s3

IMF Board of Governors Approves Major Quota and Governance Reforms, Press Release No. 10/477, December 16, 2010: www.imf.org/external/np/sec/pr/2010/pr10477.htm

IMF Board of Governors Approves Quota and Related Governance Reform, Press Release No. 06/205, September 18, 2006: http://www.imf.org/external/np/sec/pr/2006/pr06205.htm

IMF Executive Board Approves Major Overhaul of Quotas and Governance, Press Release No. 10/481, November 5, 2010: https://www.imf.org/external/np/sec/pr/2010/pr10418.htm

IMF Finances portal: www.imf.org/external/fin.htm

IMF website: www.imf.org

Members Date of Entry to the IMF: www.imf.org/external/np/sec/memdir/memdate.htm

The Catastrophe Containment and Relief Trust, *IMF Factsheet*: https://www.imf.org/external/np/exr/facts/ccr.htm

"To Help Countries Face Crisis, IMF Revamps its Lending," *IMF Survey Magazine*, March 24, 2009: www.imf.org/external/pubs/ft/survey/so/2009/new032409a.htm

NONCONCESSIONAL FINANCIAL OPERATIONS 2

The IMF resources are held in the General Department, which consists of three separate accounts: the General Resources Account (GRA), the Special Disbursement Account (SDA), and the Investment Account (IA). The GRA is the principal account of the IMF and handles by far the largest share of transactions between the IMF and its members. The GRA can best be described as a pool of currencies and reserve assets largely built from members' fully paid capital subscriptions in the form of quotas (Box 2.1).

Quotas are the building blocks of the IMF's financial and governance structure. An individual member's quota broadly reflects its relative economic position in the world economy and also takes into account the quotas of similar countries. Quotas determine the maximum amount of financial resources that a member is obliged to provide to the IMF, its voting power in the IMF, and its share of Special Drawing Right (SDR) allocations. The financial assistance a member may obtain from the IMF is also generally based on its quota.

Quota subscriptions are the basic source of financing for the GRA. The IMF may also supplement its quota resources by borrowing. Borrowing by the IMF to finance the extension of credit through the GRA is an important complement to the use of quota resources, but it remains the exception rather than the rule and is used to supplement quota resources on a temporary basis (generally used only during periods of economic crisis).

This chapter starts by explaining the resources and liabilities of the GRA and the IMF's quota system, including the quota formula and the periodic reviews of the overall size of the IMF in the context of the general quota reviews. It then reviews recent quota, governance, and voice reforms. It describes the borrowing arrangements used to supplement quota resources, including the General Arrangements to Borrow (GAB), New Arrangements to Borrow (NAB), and bilateral agreements. This is followed by a description of the IMF's Financing Mechanism of the General Resources Account and how the IMF makes resources available to member countries.

The second part of the chapter describes the asset side of the GRA. It outlines the lending toolkit and traces the evolution and responsiveness of lending policies to changes in the nature of balance of payments disturbances and to the recent expansion of IMF credit in the wake of the 2007–09 global financial crisis, including the review of IMF lending terms and conditions. The remainder of the chapter consists of a historical review of the sources and uses of gold in the IMF. The chapter concludes with a review of the balance sheet and income statement.

2.1 FINANCING NONCONCESSIONAL LENDING OPERATIONS: RESOURCES AND LIABILITIES

2.1.1 Quotas

The IMF is a quota-based institution. Each member country is assigned a quota based broadly on its relative economic position in the world economy and pays a capital subscription to the IMF equal to that quota. Quotas are expressed in SDRs, and their size is determined by the IMF's Board of Governors. As of April 30, 2015, total quotas of all members amounted to approximately SDR 238 billion.[1] Once the quota reform under the Fourteenth General Review becomes effective, quotas will double to approximately SDR 477 billion. A list of members and their quotas is provided in Appendix 1.

Quotas constitute the primary source of the IMF's financial base and play several key roles in its relationship with its members.

- **Subscriptions:** A member's quota subscription determines the maximum amount of financial resources it must provide to the IMF. The IMF's regular lending is financed from the fully paid-in capital subscribed by member countries.[2] A quarter of a member's quota subscription is normally paid in reserve assets (SDRs or foreign currencies acceptable to the IMF), with the remainder paid in the member's own currency (Box 2.2). The IMF has made arrangements to help members with insufficient reserves pay the reserve asset portion of their quota subscription payment through a same-day no-cost IMF lending operation (see Box 4.6).
- **Voting power:** Quotas largely determine the distribution of voting power to IMF members and thereby their decision-making and representation on the Executive Board. A member's total votes are equal to its basic votes plus one additional vote for each SDR 100,000 in quota. The number of basic votes is the same for

[1] Approved quotas are slightly higher at SDR 238.5 billion, reflecting the fact that some members have not yet paid for approved quota increases.

[2] The IMF's quota-based currency holdings can be supplemented by GRA borrowing. However, as the IMF is a quota-based institution, borrowing is understood to be a temporary supplement, in particular during periods of financial crisis but also as a bridge to general quota increases.

all members, which helps strengthen the relative voting power of members with smaller quotas. In the context of the 2008 Quota and Voice Reforms, basic votes tripled from 250 a member, where they had stood since the IMF's inception. In addition, a mechanism was adopted to fix the ratio of total basic votes to total votes. This became effective in March 2011. The total number of basic votes now adjusts automatically when quotas are increased to ensure that basic votes represent 5.502 percent of total votes. Many decisions are made by a simple majority vote, although special voting majorities are required for some important financial decisions (see Appendix 2).

- **Access to financing:** Quotas continue to play a role in determining member countries' access to IMF resources, subject to limits set by the Articles of Agreement and the Executive Board. For example, under Stand-By and Extended Arrangements, a member can borrow up to 200 percent of its quota annually and 600 percent cumulatively under normal access. In exceptional circumstances, these access limits may be exceeded (see the subsection on access policy).
- **SDR holdings:** Quotas also determine a member's share in a general allocation of SDRs (Article XVIII, Section 2(b)).

The initial quotas of the original members of the IMF were determined at the Bretton Woods Conference in 1944 (Schedule A of the Articles of Agreement); those of subsequent members have been determined by the IMF's Board of Governors, based on principles consistent with those applied to existing members. The IMF can adjust quotas within the context of five-year general reviews and on an ad hoc basis outside of general reviews. An 85 percent majority of voting power in the Board of Governors is needed to change quotas.

The determination of the quota of a new member is based on the principle that a member's quota should be in the same range as the quotas of existing members of comparable economic size and characteristics. Operationally, this principle has been applied through the use of quota formulas and use of comparator countries. Since the IMF's inception, the calculated quota shares derived from the quota formulas have been used to help guide decisions regarding the relative size and distribution of members' actual quotas (Box 2.3).

2.1.2 The Quota Formula

Quota formulas have evolved over time. The original formula devised at Bretton Woods in 1944 contained national income, official reserves, imports, export variability, and the ratio of exports to national income.

A multi-formula approach was adopted in the early 1960s, when the Bretton Woods formula was revised and supplemented by four other formulas containing the same basic variables but with larger weights for external trade and export variability. The Bretton Woods formula, with its relatively high weight on national income, generally favored large economies, while the additional four formulas tended to produce higher quotas than the Bretton Woods formula for smaller, more open economies. This multi-formula approach was further modified in the early 1980s.

In 2008, as part of the Quota and Voice Reforms, the complex multi-formula approach was greatly simplified and made more transparent. A single formula was adopted that relates a member's quota to its output, external openness, economic variability, and international reserves (Box 2.3). The revised approach was based on four principles—the formula should be (1) simple and transparent; (2) consistent with the multiple roles of quotas; (3) produce results that are broadly acceptable to the membership; and (4) feasible to implement statistically based on timely, high-quality, and widely available data. It was widely agreed that GDP should be the most important variable in the formula because of its central role in determining the relative economic position of members.

There were differences of view among members over whether GDP should be calculated at market exchange rates or purchasing-power-parity (PPP) rates. The final blended variable represents a compromise and comprises 60 percent market-based GDP and 40 percent GDP at PPP. External openness retained its traditional importance in the quota formula, reflecting members' relative participation in global trade and finance, and variability and reserves were also retained as indicators of relative potential need by members for IMF resources and of potential to contribute to IMF resources, respectively. The formula contains a compression factor that mitigates the impact of size of the quota variables. Both the use of PPP GDP and the compression factor are compromise elements that the Executive Board agreed to include subject to review after 20 years.

In December 2010, the Board of Governors approved a major Quota and Governance Reform (discussed in Chapter 1 and here under General Reviews). As part of this reform a comprehensive review of the quota formula was called for by January 2013.

In FY2013, the Executive Board held several discussions on the quota formula review and, in January 2013, submitted a report on the outcome of the review to the Board of Governors.[3] In this report, the Executive Board noted that important progress had been made in identifying key

[3] The Executive Board's report to the Board of Governors is available on the IMF's website: www.imf.org/external/np/pp/eng/2013/013013.pdf.

elements that could form the basis for a final agreement on a new quota formula. It was agreed that achieving broad consensus on a new quota formula would best be done in the context of the Fifteenth General Review of Quotas rather than through a stand-alone process. The principles spelled out in 2008 would continue to apply. The Executive Board agreed that GDP should remain the most important variable. It was also agreed that openness was an important aspect of the formula. There was also considerable support for retaining the reserves variable. Extensive consideration was given to the role of variability, which seeks to capture members' potential need for IMF resources; however, given the lack of empirical evidence between variability and actual demand for IMF resources, there was considerable support for dropping variability from the formula. It was generally agreed that the quota formula should continue to include a compression factor to help moderate the influence of size in the quota formula.[4]

2.1.3 Quota Increases under General Reviews

The IMF conducts general reviews of all members' quotas at least every five years.[5] Such reviews allow the IMF to assess the adequacy of quotas in terms of members' needs for conditional liquidity and the IMF's ability to finance those needs. A general review also allows for adjustments to members' quotas to reflect changes in their relative positions in the world economy. Of the general reviews conducted to date, only one (in 1958/59) was outside the five-year cycle.

The main issues addressed in general quota reviews are the size of an overall increase in quotas and the distribution of the increase among the members. General reviews do not always result in quota increases. Six reviews concluded that no increase in overall quotas was needed. In the other eight reviews, the overall quota increase ranged from 31 percent to 100 percent (Tables 2.1 and 2.2). Once the quota increases under the Fourteenth General Review become effective, the IMF's total approved quotas will double to SDR 477 billion.

Quota increases during general reviews have comprised one or more of three possible elements: (1) an equiproportional element distributed to all members according to their existing quota shares; (2) a selective element distributed to all members in accordance with the quota formula; and (3) an ad hoc element distributed to a subset of members according to an agreed key. The selective element results in changes in quota shares among members. For any overall increase in quotas, the larger the selective increase, the greater the redistribution of quota shares. In the past, the selective component has tended to be relatively small, but its use and ad hoc distributions have increased recently to accelerate redistribution of quota shares to reflect changing global economic dynamics, particularly the greater role of emerging market and developing economies. For example, under the Fourteenth Review, the selective element (in accordance with the quota formula) represented 60 percent of the total. The remaining 40 percent was allocated as ad hoc increases based primarily on the GDP-blend variable, which resulted in significant changes in the distribution of quota shares. The poorest members were also protected.[6]

2.1.4 Ad Hoc Quota Increases

A member may request an ad hoc quota adjustment at any time outside of a general review.[7] Since 1970, there have been several ad hoc increases in quotas outside the framework of a general review. An ad hoc quota increase for China in 1980 was associated with the change in representation of China in the IMF (The People's Republic of China replaced Taiwan Republic of China) and took into account the fact that China's initial quota had never been increased. Saudi Arabia received an ad hoc increase in 1981 to better reflect its position in the world economy and also from the desire to strengthen the IMF's liquidity position during the developing economy debt crisis before completion of the Eighth Review. A quota increase for Cambodia occurred in 1994, on the resumption of its active relations with the IMF, since its quota had not been increased since 1970. China received a further ad hoc quota increase in 2001 to better reflect its position in the world economy following its resumption of sovereignty over Hong Kong SAR.

The ad hoc increase for Japan in the context of the Ninth Review represents the only ad hoc increase for an individual country agreed within the context of a general quota review since 1970. Ad hoc increases were an important aspect of the 2008 Reforms. The IMF Board of Governors in 2006 agreed on initial ad hoc quota increases for four clearly underrepresented countries—China, Korea, Mexico, and Turkey—which became effective immediately. In 2008, there was agreement on ad hoc increases for a total of 54 underrepresented members (again including the initial four), which became effective in March 2011 (Table 2.3).

[4] A compression factor of 0.95 is applied to the weighted sum of the four variables in the quota formula. This reduces the dispersion in calculated quota shares across members and has the effect of reducing the share calculated under the formula for the largest members and raising those for all other countries (see Box 2.3).

[5] Article III, Section 2(a).

[6] See IMF Quota and Governance Reform—Elements of an Agreement—Report of the Executive Board to the Board of Governors, and Board of Governors' Resolution 66-2, adopted December 15, 2010: www.imf.org/external/np/pp/eng/2010/103110.pdf.

[7] Under Article III, Section 2(a), the IMF may, "if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned."

Table 2.1 General Reviews of Quotas

(Percent)

Review of Quotas	Board of Governors' Adoption of Resolution	Equiproportional Increase[1]	Selective Increase[2]	Ad hoc Increase[3]	Overall Increase	Entry into Effect
First Quinquennial	March 8, 1951		n.a.	n.a.		
Second Quinquennial	January 19, 1956		n.a.	n.a.		
1958/59	February 2, 1959 April 6, 1959[4]	50.0	0.0	10.7	60.7	April 6, 1959
Third Quinquennial	December 16, 1960		n.a.	n.a.		
Fourth Quinquennial	March 31, 1965	25.0	0.0	5.7	30.7	February 23, 1966
Fifth General	February 9, 1970	25.0	0.0	10.4	35.4	October 30, 1970
Sixth General[5]	March 22, 1976	variable	variable	variable	33.6	April 1, 1978
Seventh General	December 11, 1978	50.0	0.0	0.9	50.9	November 29, 1980
Eighth General	March 31, 1983	19.0	28.5	0.0	47.5	November 30, 1983
Ninth General	June 28, 1990	30.0	20.0	0.0	50.0	November 11, 1992
Tenth General	January 17, 1995		n.a.	n.a.		
Eleventh General	January 30, 1998	33.75	6.75	4.5	45.0	January 22, 1999
Twelfth General	January 30, 2003		n.a.	n.a.		
Thirteenth General	January 28, 2008		n.a.	n.a.		
Fourteenth General[6]	December 15, 2010	0.0	60.0	40.0	100.0	

Source: Finance Department, International Monetary Fund.
Note: n.a. = not applicable; no increase proposed.
[1] Distributed to all members in proportion to existing quota shares.
[2] Distributed to all members in proportion to calculated quota shares.
[3] Distributed to a subset of countries based on agreed criteria.
[4] The February 1959 resolution provided for an equiproportional increase of 50 percent and special increases for three members. The resolution adopted in April 1959 provided for special increases for 14 additional members.
[5] The quota shares of the major oil exporters were doubled with the stipulation that the collective share of the developing countries would not fall. Different increases applied to different groups of countries and individual countries' increases within groups varied considerably.
[6] Between the Thirteenth and Fourteenth General Reviews, the Executive Board approved the 2008 Reform on April 28, 2008, which provided ad hoc increases for 54 countries. These raised total quotas by 11.5 percent and became effective on March 3, 2011. (The 11.5 percent includes the 2006 ad hoc increases for four countries: China, Korea, Mexico, and Turkey.)

2.1.5 Recent Quota, Voice, and Governance Reforms

A set of reforms was approved by the Board of Governors in April 2008 that came into effect on March 3, 2011, with the entry into force of the "Voice and Participation" amendment to the Articles of Agreement. The 2008 Quota and Voice Reforms strengthened the representation of dynamic economies, many of which are emerging market economies, through ad hoc quota increases for 54 member countries. They also enhanced the voice and participation of low-income countries through (1) a tripling of basic votes—the first increase since the IMF was established in 1945, (2) a mechanism that will keep constant the ratio of basic votes to total votes, and (3) a measure enabling each Executive Director representing 19 or more members to appoint a second Alternate Executive Director.

In December 2010, the Board of Governors approved a Quota and Governance Reform which included the completion of the Fourteenth General Review of Quotas and a proposed amendment to the Articles of Agreement on the reform of the Executive Board (called the Board Reform Amendment), which is awaiting approval by the membership. When effective, this reform package will (1) double quotas to approximately SDR 477 billion (currently about $671 billion), (2) shift more than 6 percent of quota shares to dynamic emerging market and developing economies and from overrepresented to underrepresented countries (exceeding the 5 percent target set by the International Monetary and Financial Committee [IMFC] in 2009), and (3) protect the quota shares and voting power of the poorest members. With this shift, the four largest emerging market economies (Brazil, China, India, and Russia) will be among the IMF's 10 largest shareholders, along with France, Germany, Italy, Japan, the United Kingdom, and the United States. In addition, under the 2010 reform, all members of the Executive Board will be elected, and there is increased scope for appointment of a second Alternate Executive Director to enhance representation of multicountry constituencies. There was also agreement that the combined representation of advanced European economies on the Executive Board would be decreased by two Executive Director positions.

No quota increase under the Fourteenth General Review of Quotas can become effective until three general effectiveness conditions are met: (1) members with no less than

Table 2.2 Agreed Changes in IMF Quotas

(Millions of SDRs)[1]

			Change in Proposed Quotas				
			New Members[2]				
Year	Number of IMF Members	Proposed Quotas	Number	Quotas	General Review	Ad Hoc and Other	Total[3,4]
1944[5]	40	7,514.00	40	7,514.00	—	—	—
1950	49	8,036.50	10	649.50	—	(2.00)[6]	522.50
			(1)	(125.00)	—	—	—
1955	58	8,750.50	10	837.00	—	2.00[6]	714.00
			(1)	(125.00)	—		
1959	69	14,640.25	11	404.50	5,328.75	156.50[7]	5,889.75
1965	102	20,932.00	34	756.75	4,791.75	793.25	6,291.75
			(1)	(50.00)	—	—	—
1970	116	28,776.00	14	204.25	7,393.50	246.25	7,844.00
1976	133	38,976.40	17	445.40	9,755.00	—	10,200.40
1978	141	59,605.50	8	140.10	19,839.00	650.00	20,629.10
1983	146	89,236.30	5	394.40	28,176.50	1,059.90	29,630.80
1990	154	135,214.70[8]	10	1,016.75	45,082.15	—	45,978.40
			(2)	(120.50)			
1998	183[9]	212,029.00	31	12,736.65	65,802.95	40.00	76,814.30
			(2)	(1,765.30)			
2001	183	213,711.00	—	—	—	1,682.00[10]	1,682.00
2006[11]	184	217,528.10	1	8.20	—	3,808.90	3,817.10
2008[11]	185	238,327.80	1	27.50	—	20,772.20	20,799.70
2010	188	477,023.60[12]	3	183.8[13]	238,512.00	—	238,695.80

Source: Finance Department, International Monetary Fund.

[1] Quotas in the IMF were expressed in U.S. dollars at the equivalent of the 1934 official gold price until the Sixth General Review of Quotas in 1976, when the IMF's unit of account switched to the SDR, again valued at the 1934 official gold price. Consequently, the U.S. dollar and SDR, through 1970, are directly comparable at an exchange rate of SDR 1 = US$1.

[2] Countries that withdrew from membership or whose memberships were conferred to successor countries are shown in parentheses.

[3] As of the dates of adoption of Board of Governors' resolutions proposing adjustments in members' quotas.

[4] Total change in proposed quota equals quota increases for new members, plus increases under General Quota Reviews, as well as ad hoc and other increases.

[5] Excluding Australia, Haiti, Liberia, New Zealand, and the U.S.S.R., which did not join the IMF at the time of the Bretton Woods Agreement (see Schedule A of the Articles of Agreement), and including increases agreed for Egypt, France, the Islamic Republic of Iran, and Paraguay shortly after the IMF began operations.

[6] The quota of Honduras was reduced at its request for 1948 but was restored to the original amount in 1951.

[7] Includes SDR 121.0 million of special allocations for countries with small quotas.

[8] Includes Cambodia, which did not participate in the Ninth General Review.

[9] Includes the Federal Republic of Yugoslavia, which had not yet succeeded to IMF membership. On December 20, 2000, the Executive Board of the IMF determined that the Federal Republic of Yugoslavia had fulfilled the necessary conditions for membership.

[10] Ad hoc increase for China.

[11] The Quota and Voice Reform was implemented in two rounds. In 2006, initial ad hoc quotas increases were agreed for four of the most out of line members (China, Korea, Mexico, and Turkey). This was followed by a second round of ad hoc quota increases for 54 members that were agreed to in 2008.

[12] As of April 30, 2014, the completion of the Fourteenth General Review and a proposed amendment to the Articles of Agreement on the reform of the Executive Board were awaiting approval by the membership.

[13] Includes Kosovo, South Sudan, and Tuvalu. South Sudan joined in 2011, but its membership resolution provides for an initial quota as well as an increase once the Fourteenth General Review becomes effective.

Table 2.3 Countries Eligible for the Ad Hoc Quota Increases Agreed under the 2008 Quota and Voice Reforms
(Millions of SDRs)

Member	New Quota	Member	New Quota
Albania	60.0	Lebanon	266.4
Austria	2,113.9	Lithuania	183.9
Bahrain	176.4	Luxembourg	418.7
Bhutan	8.5	Malaysia	1,773.9
Botswana	87.8	Maldives	10.0
Brazil	4,250.5	Mexico	3,625.7
Cabo Verde	11.2	Norway	1,883.7
Chad	66.6	Oman	237.0
China	9,525.9	Palau	3.5
Costa Rica	187.1	Philippines	1,019.3
Cyprus	158.2	Poland	1,688.4
Czech Republic	1,002.2	Portugal	1,029.7
Denmark	1,891.4	Qatar	302.6
Ecuador	347.8	San Marino	22.4
Equatorial Guinea	52.3	Seychelles	10.9
Eritrea	18.3	Singapore	1,408.0
Estonia	93.9	Slovak Republic	427.5
Germany	14,565.5	Slovenia	275.0
Greece	1,101.8	Spain	4,023.4
India	5,821.5	Syria	346.8
Ireland	1,257.6	Thailand	1,440.5
Israel	1,061.1	Timor-Leste	10.8
Italy	7,882.3	Turkey	1,455.8
Japan	15,628.5	Turkmenistan	98.6
Kazakhstan	427.8	United Arab Emirates	752.5
Korea	3,366.4	United States	42,122.4
Latvia	142.1	Vietnam	460.7

Source: Finance Department, International Monetary Fund.

70 percent of the total of quotas on November 5, 2010, consent to the increases in their quotas (this has been met); (2) the Sixth Amendment on Voice and Participation enters into force (which occurred on March 2, 2011); and (3) the proposed Board Reform Amendment becomes effective. The proposed Board Reform Amendment enters into force once the IMF certifies that three-fifths of the members representing 85 percent of the total voting power have accepted it (this is the only remaining condition to be met). As of April 30, 2015, 147 members having 77.2 percent of the total voting power had accepted the proposed amendment to reform the Executive Board, and 164 members having 80.3 percent of IMF quotas (as of November 5, 2010) had consented to their proposed quota increases.[8]

As part of the agreed package of 2010 Quota and Governance Reform, the Board of Governors asked the Executive Board to complete a comprehensive review of the quota formula by January 2013 and to advance the timetable for the completion of the Fifteenth General Review of Quotas to January 2014. As the Board Reform Amendment has not yet entered into force, the initiation of the work on the Fifteenth Review has been put on hold to facilitate the achievement of the required acceptance threshold for the entry into force of the Board Reform Amendment, which is as noted above one of the general conditions for effectiveness of the quota increases under the Fourteenth General Review of Quotas. In January 2014, the Board of Governors agreed to move the deadline for the completion of the Fifteenth Review to January 2015.

In its report to the Board of Governors in January 2015, the Executive Board noted that it had so far delayed commencement of its work on the Fifteenth Review in order to facilitate the implementation of the 2010 Reforms. The Executive Board reiterated its agreement that achieving broad consensus on a new quota formula would best be done in the context of the Fifteenth Review, and that the discussion on this issue would be integrated and move in parallel with the discussion on the Fifteenth Review. In its Resolution No. 70-1, adopted on February 18, 2015, the Board of Governors called for the

[8] A comparative table of quota shares before and after implementation of the reform is detailed in Quota and Voting Shares Before and After Implementation of Reforms Agreed in 2008 and 2010. http://imf.org/external/np/sec/pr/2011/pdfs/quota_tbl.pdf

completion of the Fifteenth Review by December 15, 2015, in line with the deadline mandated for the regular reviews of quotas under the Articles of Agreement.

2.1.6 Borrowing by the IMF

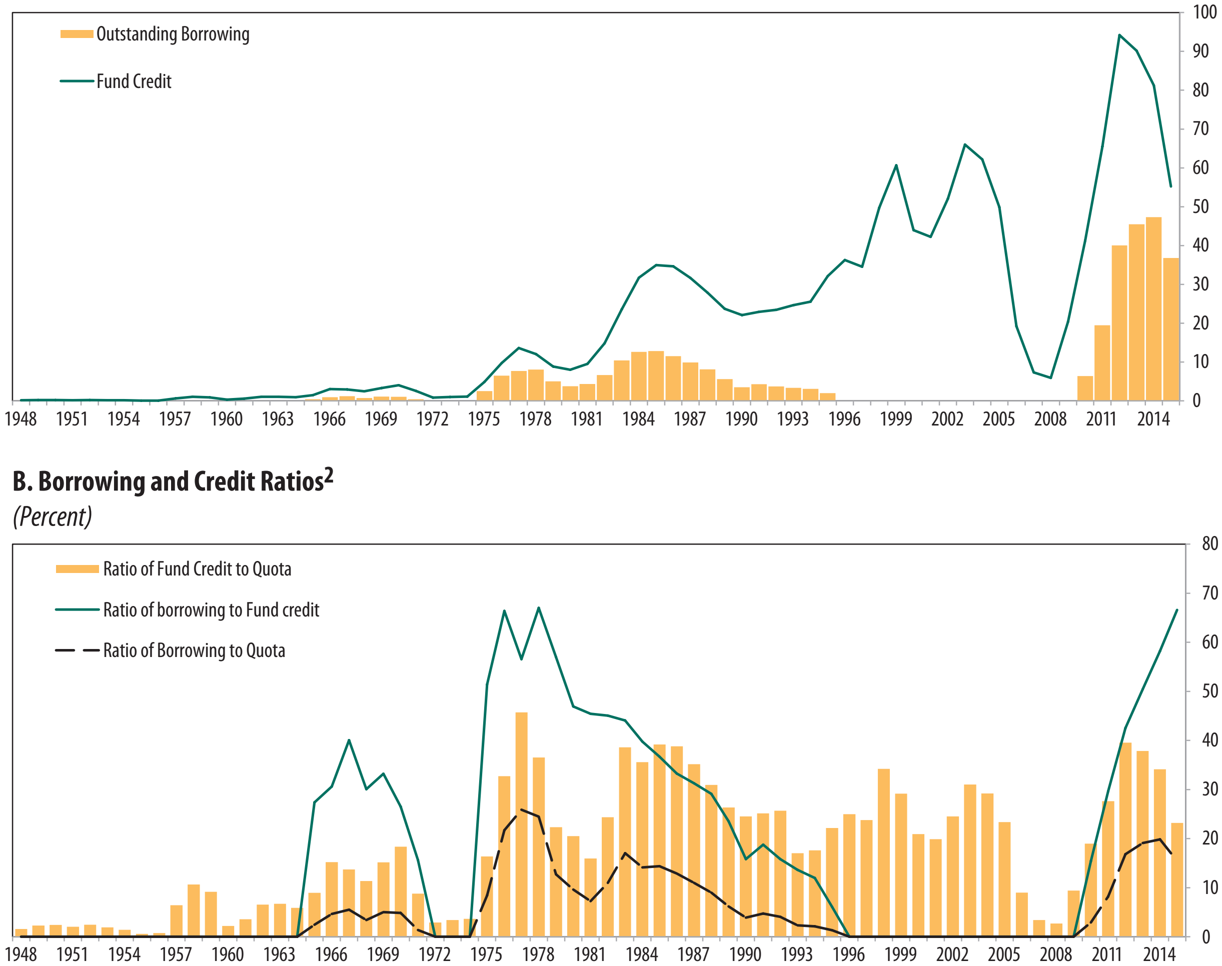
While quota subscriptions of member countries are its primary source of financing, the IMF can supplement its quota resources through borrowing if it believes that resources may fall short of members' needs. Borrowing has played an important role in providing temporary, supplemental resources to the institution at critical junctures. The IMF maintains two standing borrowing arrangements with official lenders: the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). The NAB is the first and principal recourse in the event of a need for supplementary resources. In 2011, the NAB was enlarged and its participation broadened to strengthen IMF liquidity. At times of heightened global risk, a broad group of member countries have also moved to strengthen the IMF's resources through bilateral loan and note purchase agreements. The IMF may also borrow from private markets, but it has not done so to date.

Official borrowing has at times played a critical role in ensuring that there are sufficient resources to assist IMF members (Figure 2.1). Since 2009, borrowing from bilateral sources and under the enlarged NAB has enabled the IMF to provide substantial financial support to help members deal with the adverse effects of the global financial crisis, both on a precautionary basis and to meet actual balance

Figure 2.1 The Size of the IMF

A. Levels of Fund Credit and Borrowing[1]
(Billions of SDRs at Fiscal Year-End)

B. Borrowing and Credit Ratios[2]
(Percent)



Source: Finance Department, International Monetary Fund.

[1]Fund credit outstanding increased rapidly in response to the global financial crisis. A large portion of this rise in credit was financed by Fund borrowing, which can be mobilized more quickly than increases in quotas.

[2]The relative size of Fund borrowing to Fund credit outstanding has recently approached levels last seen in the 1970s.

of payments needs. At the same time, access to borrowed resources has also allowed the IMF to maintain a strong commitment capacity to meet all members' new requests for financial support, even as outstanding credit and undrawn financing under IMF arrangements rose to record levels.

2.1.6.1 General Arrangements to Borrow

The General Arrangements to Borrow (GAB) has been in place since 1962 (Table 2.4). It was originally conceived as a means by which the main industrialized countries could stand ready to lend to the IMF up to a specified amount of their currencies. These loans would be made when supplementary resources were needed by the IMF to help finance drawings by GAB participants when such financing would forestall or cope with an impairment of the international monetary system. The industrialized countries have the largest quotas and may, when necessary, claim a large proportion of the IMF's usable resources; the GAB provided support for the IMF's financial soundness and ensured that resources available to other countries would not be reduced.

In 1983, primarily in response to emerging strains in the international monetary system, the IMF and the GAB participants agreed to revise and enlarge the GAB from the equivalent of about SDR 6.3 billion to the present total of SDR 17 billion. At that time, the IMF also entered into an associated borrowing agreement with Saudi Arabia for an amount equivalent to SDR 1.5 billion. Subsequently, in connection with the establishment of the New Arrangements to Borrow (NAB) in 1998 (see below), the GAB was revised to allow calls only when a proposal for an activation period under the NAB is rejected by NAB participants.[9] The GAB does not add to the IMF's overall lending envelope, as outstanding drawings and available commitments under the NAB and the GAB may not exceed the total amount of NAB credit arrangements. In addition, GAB resources may be used only to finance purchases under Stand-By and Extended Arrangements, and GAB claims have a maximum maturity of 5 years. The GAB and the associated agreement with Saudi Arabia have been renewed six times, most recently for a period of 5 years beginning December 26, 2013.

The GAB was last activated in July 1998 for an amount equivalent to SDR 6.3 billion (SDR 1.4 billion of which was drawn) in connection with the financing of an extended arrangement for Russia. This activation, the first in 20 years, took place after the Executive Board made the decision to establish the NAB but before the NAB went into effect. This was the first time that the GAB was activated for the benefit of a nonparticipant. The activation for Russia was terminated in March 1999, when the IMF repaid the outstanding amount borrowed on implementation of the Eleventh General Review of Quotas and payment of the bulk of the quota increases.

Table 2.4 General and New Arrangements to Borrow

(Millions of SDRs; as of April 30, 2015)

Participant	NAB	GAB
Australia	4,370	—
Austria	3,579	—
Banco Central de Chile	1,360	—
Banco de Portugal	1,542	—
Bank of Israel	500	—
Belgium	7,862	595
Brazil	8,741	—
Canada	7,624	893
China	31,217	—
Cyprus	340	—
Danmarks Nationalbank	3,208	—
Deutsche Bundesbank	25,371	2,380
Finland	2,232	—
France	18,657	1,700
Greece[1]	1,655	—
Hong Kong Monetary Authority	340	—
India	8,741	—
Ireland[1]	1,886	—
Italy	13,578	1,105
Japan	65,953	2,125
Korea	6,583	—
Kuwait	341	—
Luxembourg	971	—
Malaysia	340	—
Mexico	4,995	—
Netherlands	9,044	850
New Zealand	624	—
Norway	3,871	—
Bangko Sentral ng Pilipinas	340	—
National Bank of Poland	2,530	—
Russian Federation	8,741	—
Saudi Arabia	11,126	—
Singapore	1,277	—
South Africa	340	—
Spain	6,702	—
Sveriges Riksbank	4,440	383
Swiss National Bank	10,905	1,020
Thailand	340	—
United Kingdom	18,657	1,700
United States	69,074	4,250
Total	**369,997**	**17,001**
Saudi Arabia[2]		1,500

Source: Finance Department, International Monetary Fund.

Note: Totals may not equal sum of components due to rounding. GAB = General Arrangements to Borrow; NAB = New Arrangements to Borrow.

[1] The credit arrangements for Greece and Ireland have not yet become effective.

[2] Under an associated credit arrangement.

[9] With the 2011 amendment of the NAB (see Section 2.1.6.2), the Fund continues to be guided by the principle that the NAB shall be the facility of first and principal recourse except in the event that a proposal for the establishment of an activation period under the NAB is not accepted, when a proposal for calls may be made under the GAB—and outstanding drawings and available commitments under the NAB and the GAB shall not exceed SDR 367 billion or such other amounts that may be in effect.

2.1.6.2 New Arrangements to Borrow

The New Arrangements to Borrow (NAB) is a set of credit arrangements between the IMF and 38 member countries and their institutions, including a number of emerging market economies (Table 2.4). Similar to the GAB, the NAB aims to provide supplementary resources to the IMF to forestall or cope with impairment of the international monetary system or to deal with an exceptional threat to the stability of that system. The NAB is used when the IMF needs to supplement its quota resources for lending purposes. The NAB is reviewed on a regular basis. The NAB decision is in effect for five years from its effective date and may be renewed. An IMF member or institution that is not currently a participant in the NAB may be accepted as a participant at any time if the IMF and participants representing 85 percent of the total credit arrangements agree to the request.

The original NAB was proposed at the 1995 Group of Seven (G7) Halifax Summit following the Mexican financial crisis.[10] Growing concern that substantially more resources might be needed to respond to future financial crises prompted summit participants to call on the Group of Ten (G10) and other financially strong countries to develop financing arrangements that would double the amount available to the IMF under the GAB.[11] In January 1997, the IMF's Executive Board adopted a decision establishing the NAB, which became effective in November 1998. The NAB is the facility of first and principal recourse for temporary supplementation of quota resources. Before it was expanded in 2009, the NAB was a set of credit arrangements between the IMF and 26 members and institutions.

In April 2009, as part of efforts to overcome the global financial crisis, and following agreements reached by the Group of Twenty (G20) industrialized and emerging market economies, the IMFC agreed to substantially increase the resources available to the IMF through an expanded and more flexible NAB.[12] Specifically, it was agreed to triple total precrisis lending capacity from about $250 billion to $750 billion in two steps—first, through bilateral financing from IMF member countries (the 2009 round of bilateral agreements) and, second, by incorporating (folding) this financing into the expanded and more flexible NAB. In April 2010, following discussions with participants, including new participants to the NAB, the Executive Board adopted a proposal to expand the NAB to SDR 367.5 billion (compared with SDR 34 billion under the original NAB), to make it more flexible, and to add 13 participants.[13] The amended NAB became effective March 11, 2011.

To make the expanded NAB a more effective tool of crisis prevention and management, the loan-by-loan activation under the original NAB was replaced by the establishment of general activation periods of up to 6 months. The activation periods are subject to a specified maximum level of commitment. The enlarged NAB became effective on March 11, 2011, and on November 2011, the National Bank of Poland joined the NAB as a new participant, bringing total resources to about SDR 370 billion and the number of new participants to 14.[14]

In the context of the agreement in December 2010 to double the IMF's quota resources under the Fourteenth General Review, it was agreed that this would be accompanied by a corresponding rollback of the NAB. Once this becomes effective, it will result in a shift in the composition of lending resources from the NAB to quotas without reducing the IMF's overall lending capacity.

2.1.6.3 Bilateral Loan and Note Purchase Agreements

The unprecedented shocks resulting from the global financial crisis led to a sharp increase in the demand for IMF financing, which was met by a multilateral response to increase the IMF's available lending resources. In February 2009, the IMF considered the options for supplementing its resources and decided that borrowing from the official sector was the most appropriate way to meet these short-term needs, including through bilateral loan and note purchase agreements, and enlargement and expansion of the NAB. However, it was reaffirmed that quota subscriptions are, and should remain, the basic source of IMF financing. During the 2009 bilateral borrowing round, the IMF signed 19 bilateral loan agreements and three note purchase agreements.

On April 20, 2012, the IMFC and G20 jointly called for further enhancement of IMF resources for crisis prevention and resolution through temporary bilateral loans and note purchase agreements. The Executive Board endorsed modalities for this new round of bilateral borrowing in June 2012. Total pledges under these 2012 Borrowing Agreements, made by 38 members or their central banks, amounted to $461 billion.[15] By the end of April 2015, the

[10] The G7 comprises Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

[11] The G10 comprises the countries of the G7 and Belgium, the Netherlands, and Sweden.

[12] The G20 comprises the countries in the G7 and Argentina, Australia, Brazil, China, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, and the European Union (EU).

[13] For conversion of NAB commitments to SDRs, the exchange rate on the date NAB participants agreed to its expansion, November 24, 2009, is used (1 SDR = US$1.602).

[14] The credit arrangements for Greece and Ireland have not become effective.

[15] The IMF also amended the Guidelines for Borrowing by the Fund ("Borrowing Guidelines"). The agreed borrowing modalities build on the framework for the 2009 bilateral borrowing agreements and, with respect to certain operational matters, on the subsequent reforms of the New Arrangements to Borrow.

IMF had approved 35 agreements of which 33 had become effective, under the 2012 Borrowing Agreements (bilateral loan and note purchase agreements) in the amount of SDR 271 billion.[16,17] This combined with SDR 370 billion of NAB resources plus usable quota resources brought the IMF's total usable resources (taking into account 20 prudential balances at the end of April 2015 to SDR 667 billion (around $940 billion).[18] The 2012 Borrowing Agreements provide a second line of defense after quota and NAB resources.

Borrowing arrangements have many common characteristics. For example, the IMF has consistently denominated its borrowing in SDRs, thereby avoiding exchange rate risk, and the interest rate under borrowing agreements has for many years been limited to the SDR interest rate in order to contain risk to the IMF's income.

2.2 THE IMF'S FINANCING MECHANISM

The IMF's lending is primarily financed from the quotas (capital) subscribed by member countries. Each country is assigned a quota and, as detailed above, this determines its maximum financial commitment to the IMF. A portion (25 percent) of the quota subscription payment is provided by the member country in reserve assets in the form of SDRs or the currencies of other financially strong members selected by the Fund and the remainder in its own currency. The IMF extends financing by selling IMF currency holdings and SDRs to borrowing members in exchange for their own domestic currency.

Members draw on the IMF's pool of members' currencies and SDRs through a purchase-repurchase mechanism. The member purchases either SDRs or the currency of another member in exchange for an equivalent amount (in SDR terms) of its own currency; the borrowing member later reverses the transaction through a repurchase of its currency held by the IMF with SDRs or the currency of another member.[19] The Fund only draws for its GRA financing operations on those members that are considered to be in a sufficiently strong balance of payments and reserve position. These members are included in the Financial Transactions Plan (FTP) which is reviewed by the Board on a quarterly basis (Section 2.2.1).

The currency of a member that the IMF considers to be in a sufficiently strong external position that its currency can be used to finance IMF transactions with other members through the Financial Transactions Plan is classified as a "usable currency." These members included in the FTP are obliged at the request of the purchasing member to convert their currency into a freely usable currency.[20] As an operational matter, all FTP members whose currency is not one of the four freely usable currencies always convert the balances of their currency sold into a freely usable currency of their choice, effectively providing reserve assets. A member that provides SDRs or other member's currency to the IMF as part of its quota subscription payment or whose currency is used in GRA lending operations 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.[21] These claims earn interest (remuneration) based on the SDR interest rate and are considered by members as part of their international reserve assets (Figure 2.2). When IMF loans are repaid (repurchased) by the borrower with reserve assets, these funds are transferred to the creditor countries in exchange for their currencies, and their creditor position in the IMF (reserve tranche) is reduced accordingly.

The purchase-repurchase approach to IMF lending affects the composition of the IMF's resources but not the overall size. An increase in loans outstanding reduces the IMF's holdings of usable currencies and increases the IMF's holdings of the currencies of countries that are borrowing from the IMF[22] (Figure 2.2).

[16] The IMF approved agreements with Australia, Banca d'Italia, Banco de Mexico, Bank Negara Malaysia, Bank of Algeria, Bank of Finland, Bank of Malta, Bank of Slovenia, Bank of Thailand, Bangko Sentral ng Pilipinas, Brunei Darussalam, Central Bank of the Russian Federation, Central Bank of the Republic of Turkey, Czech National Bank, Danmarks Nationalbank, De Nederlandsche Bank NV, Deutsche Bundesbank, France, Japan, Korea, Luxembourg, Narodowy Bank Polski, National Bank of Belgium, New Zealand, Norges Bank, Oesterreichische Nationalbank, People's Bank of China, Saudi Arabia, Slovak Republic, Spain, South African Reserve Bank, Sveriges Riksbank, Reserve Bank of India, the Monetary Authority of Singapore, and the United Kingdom.

[17] In September 2014, following consultations with lenders, the initial 2-year term of agreements was extended by 1 year.

[18] This takes into account a 20 percent prudential balance (see Chapter 6).

[19] This financing mechanism has its roots in the credit facilities between central banks before the IMF was established. In making a purchase, the member provides domestic currency to the IMF additional to the amount previously paid to the IMF to fulfill the member's quota subscription.

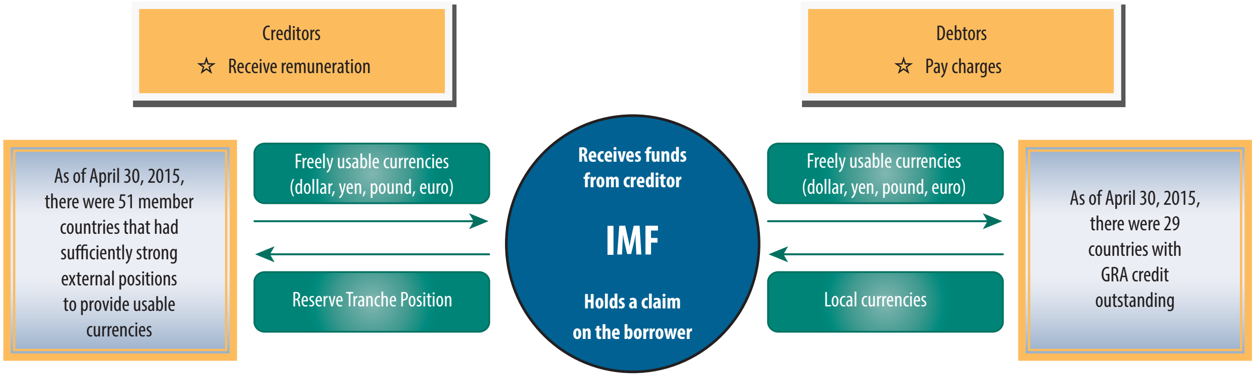
[20] A freely usable currency is one that the IMF has determined is widely used to make payments for international transactions and widely traded in principal markets; currently these are the U.S. dollar, euro, yen, and pound sterling (see Box 4.3).

[21] Article XXX(c) states "Reserve tranche purchase means a purchase by a member of special drawing rights or the currency of another member in exchange for its own currency which does not cause the Fund's holdings of the member's currency in the General Resources Account to exceed its quota."

[22] To safeguard the liquidity of creditor claims and take account of the potential erosion of the IMF's resource base, a prudential balance is maintained. This prudential balance is calculated as 20 percent of the quotas of members that are used in the financing of IMF transactions. (Section 6.1.2).

Figure 2.2 The IMF Lending Mechanism: An Exchange of Assets

Claims on the IMF are international reserves.



Source: Finance Department, International Monetary Fund.
Note: GRA = General Resources Account.

The total of the IMF's holdings of SDRs and usable currencies broadly determines the IMF's overall (quota-based) lending capacity (liquidity). Although the purchase-repurchase mechanism is not technically or legally a loan, it is the functional equivalent of a loan.[23] Financial assistance is typically made available to members under IMF lending arrangements that provide for the phased disbursement of financing consistent with relevant policies and depending on the needs of the member (Section 2.3). The arrangement normally provides specific economic and financial policy conditions that must be met by the borrowing country before the next installment is released. As a result, these arrangements are similar to conditional lines of credit. The IMF levies a basic rate of interest (charges) on loans that is based on the SDR interest rate and imposes surcharges (level and time based surcharges; see Chapter 5).

Alternative financial positions of members in the IMF's pool of resources in the GRA are illustrated in Figure 2.3. A member's purchase of currency reduces the IMF's holdings of that currency, enlarges the reserve tranche position of the country whose currency is purchased, and increases the IMF's holdings of the purchasing member's currency. Charges (interest) are levied on the use of IMF credit, which is obtained through purchases outside of the reserve tranche. Charges (interest) are not levied on purchases within the reserve tranche, as these resources are the member's own reserves. A member may choose whether or not to use its reserve tranche before utilizing IMF credit (Box 2.4).

The purchase-repurchase mechanism explains why the IMF's total resources do not vary from an accounting perspective as a result of its financial assistance—only the composition of the IMF's assets changes. Moreover, the overall value in SDR terms of member currencies held in the GRA's pool of resources is held constant over time through periodic additions to the amounts of currencies that are depreciating against the SDR and reductions of those that are appreciating.[24] This so-called maintenance of value provision is an obligation of members under the Articles of Agreement.[25]

2.2.1 The Financial Transactions Plan

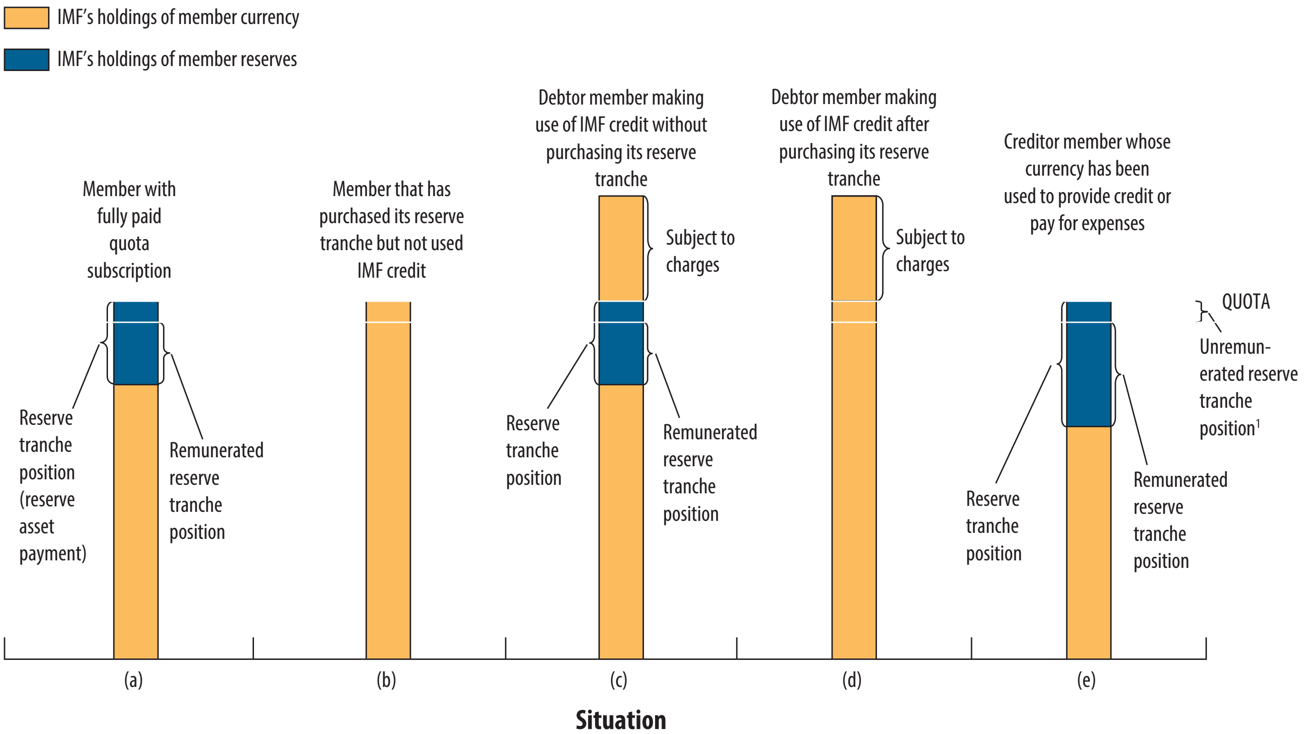
The quarterly Financial Transactions Plan (FTP) is used to manage the lending, repayment, and other (nonadministrative) operations and transactions of the GRA. A member is selected for inclusion in the plan for financing transactions based on a periodic finding by the Executive Board that the member's balance of payments and reserve position are sufficiently strong. The currencies of these members are considered usable for IMF lending and repayment operations for the duration of the quarter, while all other members' currencies are not considered usable for such purposes. Broadly speaking, financial resources contributed by members in accordance with the FTP are used for purchases (loan disbursements to borrowing members); as borrowers make repurchases (loan repayments) these resources are returned to FTP members. As noted, FTP members have an obligation

[23] For ease of reference, "loan" and "line of credit" are sometimes used in this publication instead of the internal IMF terminology.

[24] A member's currency held by the IMF is revalued in SDR terms (1) whenever the currency is used by the IMF in a transaction with another member, (2) at the end of the IMF's financial year (April 30), (3) at the request of a member during the year, (4) with respect to the euro and U.S. dollar, on the last business day of the month or on a daily basis respectively, and (5) on such other occasions, as the IMF decides.

[25] Article V, Section 11 (a).

Figure 2.3 Members' Financial Positions in the General Resources Account



Source: Finance Department, International Monetary Fund.

Situation (a): A member has paid its quota subscription in full; IMF has not used the currency in operation or transaction and member has not drawn on its reserve tranche position. The remunerated reserve tranche position excludes certain holdings (holdings acquired as a result of a member's use of IMF credit and holdings in the IMF No. 2 Account that are less than one-tenth of 1 percent of quota; see "IMF Accounts in Member Countries" in Section 2.6).
Situation (b): The member has drawn its reserve tranche position in full. The reserve tranche purchase is not subject to charges.
Situation (c): The member is using IMF resources but has not drawn its reserve tranche position. The level of holdings in excess of the member's quota is subject to charges.
Situation (d): The member is using IMF resources, in addition to having drawn its reserve tranche position. The level of holdings in excess of the member's quota is subject to charges.
Situation (e): The IMF has made use of the member's currency and pays the member remuneration accordingly.

[1] The unremunerated portion of the reserve tranche position is associated with 25 percent of members' quota on April 1, 1978. Prior to the Second Amendment of the Articles of Agreement, this portion of quota was paid in gold and was unremunerated. Since it is fixed in nominal terms, it has declined with subsequent quota increases after April 1, 1978.

to convert balances of their currency purchased from the IMF by other members into a freely usable currency of their choice. The IMF determines which members are in a sufficiently strong balance of payments position to meet this currency exchange obligation when drawing up its FTP. Accordingly, to facilitate their participation in the FTP, creditor members in the plan have standing arrangements with the IMF under which they have indicated which freely usable currency they are willing to exchange for their own currency used in purchase and repurchase transactions. All members whose currency is being used by the IMF to provide financing under the FTP receive liquid claims on the IMF (reserve tranche positions) that can be encashed to obtain freely usable currencies or SDRs at very short notice solely on presentation of a balance of payments need. Hence, reserve tranche positions are part of an individual member's international reserve assets (Box 2.4). From the perspective of its members, reserve tranche positions resulting from the use of a member's currency by the IMF are equivalent to the most creditworthy government paper, and the interest paid is market based but does not include a country or credit risk premium.

The currency allocation in the quarterly FTP seeks to broadly maintain even participation among members in relation to their quotas and is based on guidelines established by the Executive Board.[26] Transfers of currencies are allocated in direct proportion to members' quotas. Receipts are allocated to members to ensure that FTP members' positions in the IMF (from use of quota resources and claims

[26] See *Selected Decisions and Documents of the International Monetary Fund*, Twenty-Fifth Issue (Washington: IMF, 2000), pp. 260–65.