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Classification of Reserve Position in the IMF

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As agreed at the Twenty-Ninth Meeting of the IMF Committee on Balance of Payments Statistics (The Committee) in October 2016, the research agenda included a request to the IMF to provide guidance on the instrument and maturity classification of Reserve Position in the IMF. This paper recommends that reserve position in the IMF be classified as other deposits without a maturity breakdown, according to its characteristics and recommendations of the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6). However, if a classification by original maturity is deemed necessary, it should be attributed as long-term, in line with the nature of its main component, the reserves tranche.

I. CHARACTERISTICS OF RESERVE POSITION IN THE IMF

1. *BPM6 provides the following definition for reserve position in the IMF and reserve tranche (the main component of reserve position in the IMF):*

- *Reserve position in the IMF is the sum of (a) the “reserve tranche,” that is, the foreign currency (including Special Drawing Rights) amounts that a member country may draw from the IMF at short notice; and (b) any indebtedness of the IMF (under a loan agreement)² in the General Resources Account that is readily available to the member country, including the reporting country's lending to the IMF under the General Arrangement to Borrow (GAB) and the New Arrangement to Borrow (NAB). While a member country must present a declaration of balance of payments-related need to make a purchase in the reserve tranche (reduction in reserve position), the IMF does not challenge a member's request for reserve tranche purchases. Convertible currencies from a reserve tranche purchase may be made available within days (paragraph 6.85).*
- *The reserve tranche represents the member's unconditional drawing right on the IMF, created by the foreign exchange portion of the quota subscription, plus increase (decrease) through the IMF's sale (repurchase) of the member's currency to meet the demand for use of IMF resources by other members in need of balance of payments*

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² Some of the bilateral borrowing agreements are currently structured as note purchase agreements rather than loan agreements. Nevertheless, provided that the encashment of the claims under the note purchase agreements is not subject to any limits, indebtedness under these agreements should be part of a member's reserve position in the Fund. The next balance of payments manual should include this update.

financing. A member's reserve position in the IMF constitutes part of its reserve assets in the international investment position (paragraph 7.77).³

II. INSTRUMENT CLASSIFICATION

2. Paragraphs 5.41 and 5.43 of the *BPM6* define transferable deposits and other deposits as follows:

- *Transferable deposits consist of all deposits that are (a) exchangeable for banknotes and coins on demand at par and without penalty or restriction and (b) directly usable for making payments by check, draft, giro order, direct debit or credit, or other direct payment facility (paragraph 5.41).*
- *Other deposits consist of all claims, other than transferable deposit, that are represented by evidence of deposit. ... Reserve position in the IMF is included in other deposits (paragraph 5.43).*

3. Paragraph 5.43 of *BPM6* recommends that reserve position in the IMF be classified as “other deposits”. In general, the two components of the reserve position in the IMF—the reserve tranche and indebtedness of the IMF—are not directly usable for making payments by a member country although the member country can draw convertible currencies from the reserve tranche purchase at short notice. Thus, this paper confirms the classification of reserve position in the IMF as other deposits as stated in the *BPM6*, rather than as transferable deposits.

III. MATURITY CLASSIFICATION

4. *BPM6* does not specify any maturity classification of reserve position in the IMF. Appendix 9 of the *BPM6* lists reserve position in the IMF within reserve assets components without maturity breakdown (*BPM6*, page 307). Consequently, STA does not include maturity breakdown of reserve position in the IMF in its report forms.

5. However, the classification by original maturity of reserve position in the IMF may be required for the presentation of specific data such as the net external debt position by

³ To use its reserve tranche in the IMF, a member may purchase foreign exchange from the IMF with its own currency, provided that it has a balance of payments need. The domestic currency, equal to the value of the foreign exchange, is paid into the IMF's No. 1 Account with the member's central bank or through the issuance to the IMF of a promissory note recorded in the IMF's Securities Account. The transaction is recorded in the balance of payments as a reduction in the member's reserve tranche in the IMF, which is offset by an increase in the member's other reserve assets (paragraph 7.78 of the *BPM6*).

institutional sector, maturity (original), and debt instrument (2013 *External Debt Statistics: Guide for Compilers and Users* (2013 *EDS Guide*), paragraphs 7.48–7.51).⁴

6. *BPM6*, paragraph 5.103, discusses the classification of a debt instrument as follows:

(a) Short-term is defined as payable on demand or with a maturity of one year or less.

(b) Long-term is defined as having a maturity of more than one year or with no stated maturity (other than on demand, which is included in short-term).

In principle, reserve position in the IMF could either be regarded as a deposit payable on demand or as a long-term instrument that is encashable at short notice.

7. STA proposes to classify the maturity of this instrument according to the long-term nature of the reserve position in the IMF. The reserve tranche is initially created by the reserve assets portion of the quota subscription made in other members' currencies or SDR that IMF member countries are assigned on joining the IMF.⁵ IMF quotas are a special case and they resemble a capital subscription to the IMF. Accordingly, the reserve tranche has no stated maturity and its nature conforms to a long-term instrument even though it is available on short notice in case of balance of payments needs. As an additional argument in favor of the proposal, other indebtedness of the IMF in the General Resources Account is typically subject to long-term maturities (e.g., 10 years) and extendable or renewable under certain conditions. Forcing compilers to discriminate between different components of the Reserve Position in the IMF (in terms of short-term or long-term maturity attribution) would be impractical.⁶

8. Therefore, this paper suggests that if a classification of reserve position in the IMF by original maturity is deemed necessary, it should be attributed as long-term, in line with the nature of its components.

Questions for the Committee:

1. *Do Committee members have views or comments on the instrument and maturity classification of the reserve position in the IMF?*

⁴ The net external position is calculated by deducting claims on nonresidents in the form of debt instrument (including deposits) from gross external debt.

⁵ Subsequently, a member's reserve tranche position can fluctuate, reflecting the payment of quota increases and the use of the member's currency by the IMF in its financial operations (e.g., a member's reserve tranche position is enlarged when its currency is used by the IMF to extend credit to another member).

⁶ The 2013 *EDS Guide* includes the following footnote: "it is recommended that all currency and deposits be included in the short-term category unless detailed information is available to make the short-term/long-term attribution (for instance, see 2013 *EDS Guide*, page 64)." As stated above though, for the reserve position in the IMF, information is available on the long-term nature of the instrument, so we consider this statement does not apply.

2. *Do Committee members view a classification by original maturity as necessary? If yes, should it be attributed as long-term, in line with the nature of its main component, the reserves tranche as well as of most of the IMF indebtedness in the General Resources Account?*