2 Nonconcessional Financial Operations

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 borrowing 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 FinancingN onconcessional 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. The Fourteenth

General Review, which became effective on January 26, 2016, doubles quotas and as of April 30, 2016, total quotas of all members amounted to approximately SDR 472 billion.[1] 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 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 (for all members) 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 145 percent of its quota annually and 435 percent cumulatively under normal access (Article V, Section 3(b) (iii)). 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.

[1] Approved quotas are slightly higher at SDR 477 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.

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 high correlation (and impact of size) of the quota variables.[3] 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 2012, 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.[4] In this report, the Executive Board noted that important progress had been made in identifying key 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.

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 all members have paid for their quota increases under the Fourteenth General Review, the IMF's total 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]

[3] 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).

[4] 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.

[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.

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	January 26, 2016

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 economies 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 March 3, 2011. (The 11.5 percent includes the 2006 ad hoc increases for four countries: China, Korea, Mexico, and Turkey.)

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).

[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 2.2 Agreed Changes in IMF Quotas

(Millions of SDRs)[1]

Year	Number of IMF Members	Proposed Quotas	Change in Proposed Quotas: New Members[2] Number	New Members[2] 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[12]	189	477,026.40[13]	4	185.8[14]	238,512.80[15]	—	238,698.60

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 in 2008.

[12] The conditions for the effectiveness of the Fourteenth General Review and proposed amendment to the Articles of Agreement on the reform of the Executive Board were met on January 26, 2016.

[13] Includes Kosovo, Nauru, South Sudan, and Tuvalu. South Sudan and Nauru joined in 2012 and 2016, respectively, but their membership resolutions provide for an initial quota as well as an increase once the Fourteenth General Review becomes effective.

[14] Includes the initial quotas of Kosovo, Nauru, South Sudan, and Tuvalu.

[15] Reflects the quota increases proposed in the respective membership resolutions of Nauru and South Sudan, after the effectiveness of the Fourteenth General Review.

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.

2.1.5 Recent Quota, Voice, and Governance Reforms

In September 2006, the Board of Governors adopted a resolution on Quota and Voice Reform (the "Singapore Resolution"). It included ad hoc quota increases for China, Korea, Mexico, and Turkey, implying an aggregate increase in quotas of 1.8 percent. The resolution also envisaged a second round of ad hoc quota increases based on the new formula to be developed, and proposed that any future increases be distributed with a view to achieving better alignment of members' quotas with their relative positions in the global economy. It also called for at least a doubling of the basic votes that each member possessed, for keeping the share of the basic votes in total voting power subsequently unchanged, and for steps to enable each Executive Director elected by a large number of members to appoint more than one Alternate Executive Director.

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. These quota increases were based on a simpler and more transparent quota formula that was adopted as part of the reform package. The reforms 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 and exceeding the minimum target set under the 2006 Singapore Resolution, (2) a mechanism that will keep constant the ratio of basic votes to total votes (set at 5.502 percent), 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). It was agreed that the quota increases under the Fourteenth General Review of Quotas would become effective when three general effectiveness conditions were met: (1) members with no less than 70 percent of the total of quotas on November 5, 2010, consented to the increases in their quotas (this threshold for member consents was reached on July 12, 2012); (2) entry into force of the Sixth

Amendment on Voice and Participation (this occurred on March 2, 2011); and (3) entry into force of the Board Reform Amendment, which would occur once the IMF certified that three-fifths of the members representing 85 percent of the total voting power had accepted it. (This condition was met on January 26, 2016, making the 2010 reforms effective.)

The 2010 quota reform package: (1) doubles quotas to approximately SDR 477 billion (about $659 billion), (2) shifts 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) protects the quota shares and voting power of the poorest members.[8] With this shift, the four largest emerging market economies (Brazil, China, India, and Russia) are now 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, ending the category of appointed Executive Directors. Previously the members with the five largest quotas appointed an Executive Director. Multicountry constituencies with seven or more members may appoint a second Alternate Executive Director so that the constituency is better represented on the Executive Board. The 2010 reforms also included an agreement to decrease the combined representation of advanced European economies on the Executive Board by two Executive Director positions. As of April 30, 2016, 177 members, accounting for 99.3 percent of total quotas had consented to quota increases and 167 members had completed the payments of their quota increases. With these payments, total quotas in the IMF reached SDR 471.6 billion.

In February 2016, the Board of Governors expressed regret that the Fifteenth Review of Quotas had not been completed by December 15, 2015, and called on the Executive Board to work on the Fifteenth Review with the aim of completing it by the 2017 Annual Meetings.

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 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

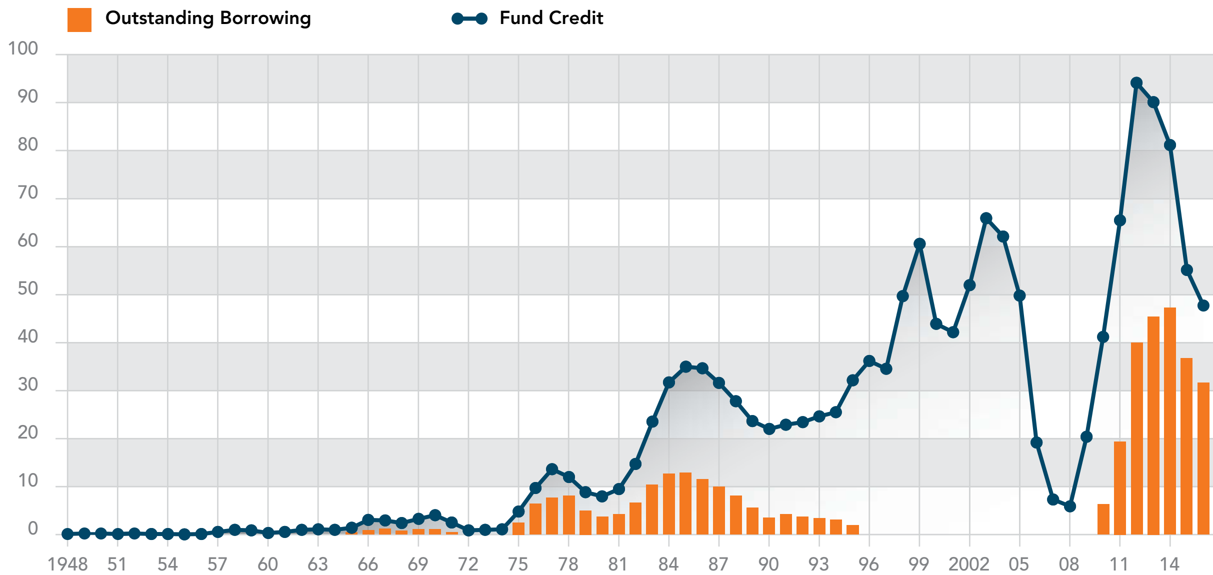
[8] A comparative table of quota shares before and after implementation of the reform is detailed in Quota and Voting Shares Before and After Implementation of Reforms Agreed in 2008 and 2010. http://imf.org/external/np/sec/pr/2011/pdfs/quota_tbl.pdf

[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.

Figure 2.1 The Size of the IMF

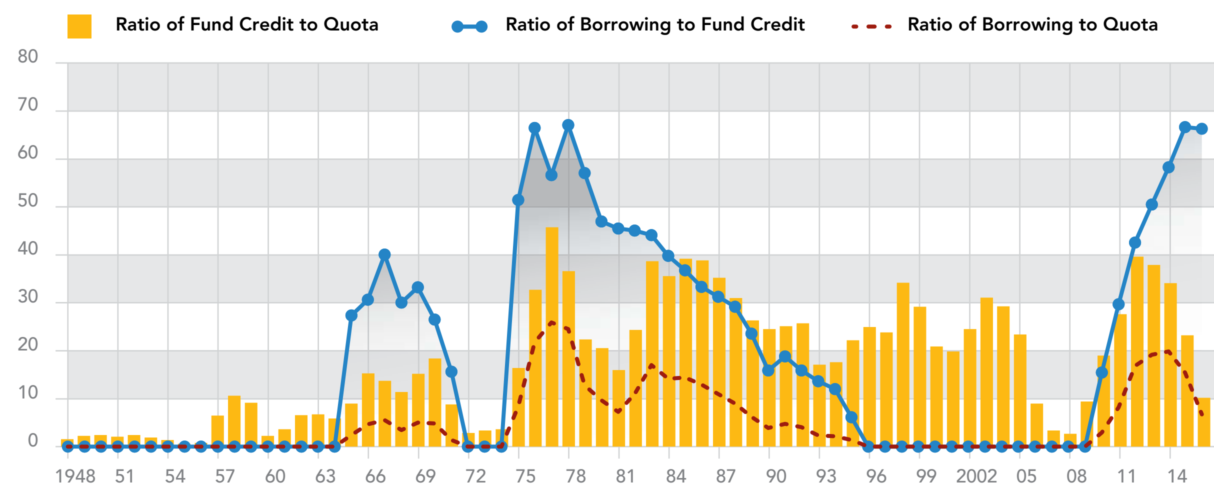
A. Levels of Fund Credit and Borrowing[1]

(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 borrowing, which can be mobilized more quickly than increases in quotas.

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

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.

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 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 and 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

[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.

Table 2.4 General and New Arrangements to Borrow

(Millions of SDRs; as of April 30, 2016)

Participant	NAB Before Rollback	NAB After Rollback[1]	GAB
Australia	4,370	2,220	—
Austria	3,579	1,818	—
Banco Central de Chile	1,360	691	—
Banco de Portugal	1,542	784	—
Bank of Israel	500	340	—
Belgium	7,862	3,994	595
Brazil	8,741	4,441	—
Canada	7,624	3,874	893
China	31,217	15,860	—
Cyprus	340	340	—
Danmarks Nationalbank	3,208	1,630	—
Deutsche Bundesbank	25,371	12,890	2,380
Finland	2,232	1,134	—
France	18,657	9,479	1,700
Greece[2]	1,655	841	—
Hong Kong Monetary Authority	340	340	—
India	8,741	4,441	—
Ireland[2]	1,886	958	—
Italy	13,578	6,899	1,105
Japan	65,953	33,509	2,125
Korea	6,583	3,345	—
Kuwait	341	341	—
Luxembourg	971	493	—
Malaysia	340	340	—
Mexico	4,995	2,538	—
Netherlands	9,044	4,595	850
New Zealand	624	340	—
Norway	3,871	1,967	—
Bangko Sentral ng Pilipinas	340	340	—
National Bank of Poland	2,530	1,285	—
Russian Federation	8,741	4,441	—
Saudi Arabia	11,126	5,653	—
Singapore	1,277	649	—
South Africa	340	340	—
Spain	6,702	3,405	—
Sveriges Riksbank	4,440	2,256	383
Swiss National Bank	10,905	5,541	1,020
Thailand	340	340	—
United Kingdom	18,657	9,479	1,700
United States	69,074	28,202	4,250
Total	**369,997**	**182,371**	**17,001**
Saudi Arabia[3]			1,500

Source: Finance Department, International Monetary Fund.

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

[1] Following the payments for quota increase under the Fourteenth Review in February 2016, the NAB was rolled back from SDR 370 billion to SDR 182 billion.

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

[3] Under an associated credit arrangement.

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, resulting in a shift in the composition of the Fund's lending resources from the NAB to quotas. The rollback of the NAB credit arrangements took place in February 2016. For each participant, this rollback became effective on the same day as the payment of the respective member's quota increase. As a result, the NAB has been rolled back from SDR 370 billion (about $514 billion) to SDR 182 billion (about $253 billion).

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] As of April 30, 2016, the IMF had approved 35 agreements of which 34 had become effective, under the 2012 Borrowing Agreements (bilateral loan and note purchase agreements) in the amount of SDR 281 billion.[16,17] This combined with NAB resources plus usable quota resources brought the IMF's total usable resources (taking into account prudential balances of 20 percent) at the end of April 2016 to SDR 688 billion (about $975 billion). The 2012 Borrowing Agreements provide a second line of defense after quota and NAB resources.[18]

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

[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.

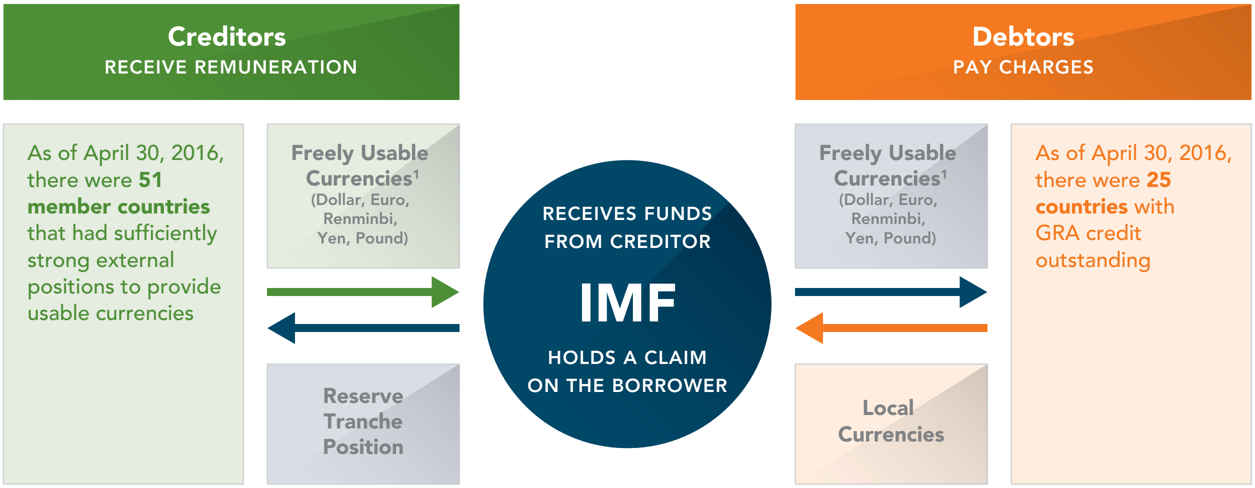
[16] The IMF approved agreements with Australia, Banca d'Italia, Banco de Mexico, Bank Negara Malaysia, Bank of Algeria, Bank of Finland, Bank of Malta, Bank of Slovenia, Bank of Thailand, Bangko Sentral ng Pilipinas, Brunei Darussalam, Central Bank of the Russian Federation, Central Bank of the Republic 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 2014, following consultations with lenders, the initial two-year term of agreements was extended by one year. In July 2015, the term was extended with consent from the lenders for another year to the maximum term of four years.

[18] Specifically, these resources cannot be drawn upon unless the agreements are activated in accordance with the Fund's Borrowing Guidelines, that is, the modified Forward Commitment Capacity (FCC) falls to or below SDR 100 billion taking into account all available uncommitted NAB resources and the NAB is activated or there are no available uncommitted resources under the NAB.

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.
[1]From October 1, 2016, the Chinese renminbi is included in the SDR basket as a freely usable currency.

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 five 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).

[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. From October 1, 2016, these are the U.S. dollar, euro, Chinese renminbi, 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."

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).

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 external position is sufficiently strong. The assessment of the external position relies on traditional indicators set out in the Articles of Agreement (balance of payments, reserve position, and exchange rate developments) supplemented by a small set of additional indicators, including in particular indicators of short-term external debt and debt service. 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 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

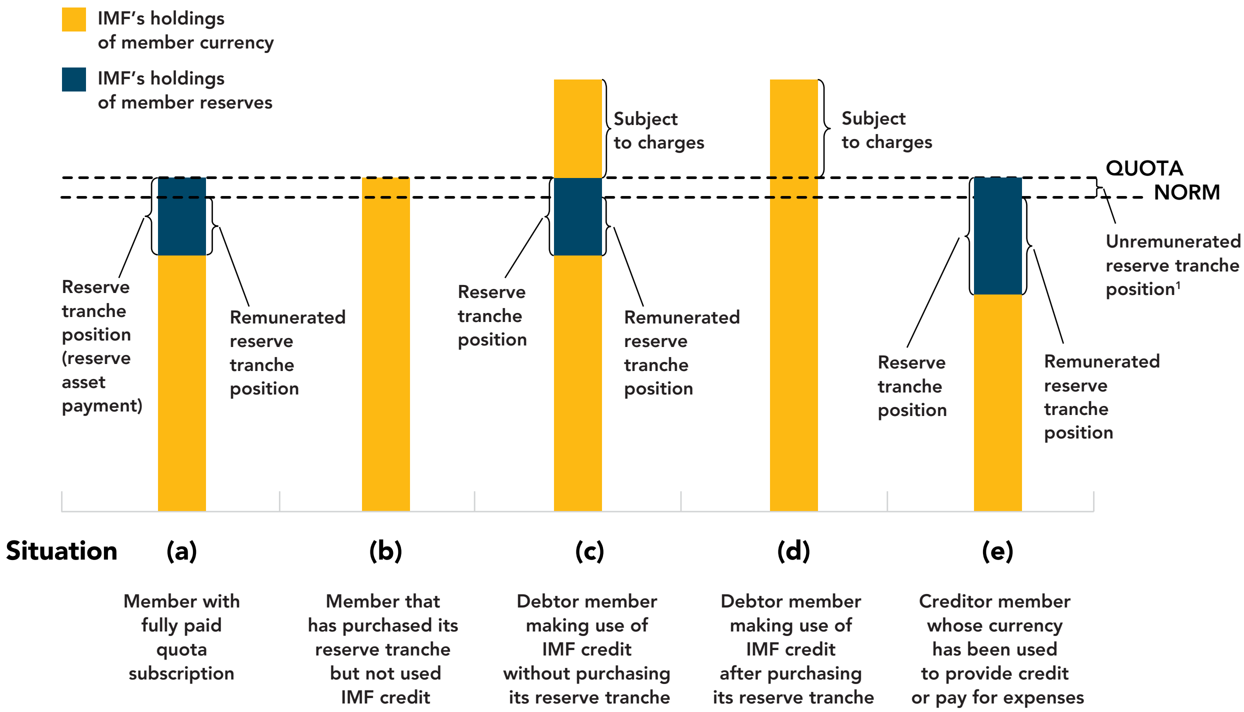
[22] To safeguard the liquidity of creditor claims and take account of the potential erosion of the IMF's resource base, a prudential balance is maintained. This prudential balance is calculated as 20 percent of the quotas of members that are used in the financing of IMF transactions. (Section 6.1.2).

[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 Member Positions in the General Resources Account



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.

Source: Finance Department, International Monetary Fund.
[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, this portion of quota was paid in gold and was unremunerated. The remuneration of members' reserve tranche portion is determined in reference to the norm. The norm of remuneration is the sum of (1) 75 percent of a member's quota before the Second Amendment of the Articles, and (2) subsequent quota increases. Reserve tranche positions above the norm are not remunerated.

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 under borrowing arrangements) remain broadly balanced over time in relation to quotas. These guidelines tend to equalize FTP members' positions in the IMF as a share of quota, although this balancing process is less rapid when there are relatively few receipts of currency.[27] There are also operational considerations, which

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

[27] If the currencies of some members are used relatively less in transfers and/or more in receipts during the quarter than initially planned, these members will have lower reserve positions relative to the average

explain temporary deviations from full proportionality. Both currencies and SDRs are used in the FTP for transfers (credits) from the Fund to GRA borrowing members but only currencies are included in the transactions plan for receipts (repayments) from borrowing members; repayments in SDRs are not managed through the plan.

The IMF closely monitors its liquidity position in order to maintain an adequate lending capacity. The 1-year-Forward Commitment Capacity, or FCC, indicates the amount of resources available for new lending over the next 12 months (Chapter 6).

2.2.2 NAB Resource Mobilization Plan

The Resource Mobilization Plan (RMP), which was introduced under the amended NAB in April 2011, balances the flexibility that allows for effective use of the NAB for crisis prevention with the principle of adequate burden sharing (that is, proportionality) among NAB participants. The RMP is approved on a quarterly basis by the Executive Board for use of NAB resources to fund GRA financing. Previously, the NAB could be activated only on a loan-by-loan basis through procedures that were complex and relatively lengthy (for example, more than 3 weeks when the NAB was activated in 1998).

The RMP specifies for each participant the maximum amount of calls under its NAB credit arrangements during the plan period and is generally considered in conjunction with the Financial Transactions Plan.[28] In considering the RMP and the FTP jointly, the Executive Board decides on the use of quota and NAB borrowed resources in the IMF's operations and transactions conducted through the GRA. When the RMP is approved by the Board, the maximum amount of calls that would be allocated to individual participants under their credit arrangement would normally be determined in such a way that would result in the available commitments (that is, undrawn balances) of participants being of equal proportion relative to their credit arrangements (assuming calls for the maximum authorized amount would be made under each credit arrangement).

The procedure for using NAB resources to fund GRA financing involves three steps: (1) establishment of an activation period; (2) approval of a Resource Mobilization Plan; and (3) calls on participants. The three steps are designed to provide participants with increasingly specific notice of the IMF's intention to draw under their arrangements.

Under the NAB, a proposal by the IMF's Managing Director for the establishment of an activation period must be accepted by participants representing 85 percent of total credit arrangements of participants eligible to vote and be approved by the IMF's Executive Board. The NAB has been activated 11 times.

- In December 1998, the NAB was activated to finance a Stand-By Arrangement for Brazil, when the IMF called on funding of SDR 9.1 billion, of which SDR 2.9 billion was used.
- In April 2011, the amended NAB was activated for a maximum period of six months in the amount of SDR 211 billion (about $319 billion).
- The amended NAB has been activated a further nine times for a maximum period of 6 months beginning October 1, 2011; April 1, 2012; October 1, 2012; April 1, 2013; October 1, 2013; April 1, 2014; October 1, 2014, April 1, 2015; and October 1, 2015. On February 25, 2016, the IMF Executive Board terminated early the activation period under the NAB (which had originally covered October 1, 2015 through March 31, 2016), in light of the effectiveness of the Fourteenth General Review of Quotas on January 26, 2016.

2.3 The Asset Side

2.3.1 Financial Policies and Facilities: The GRA Lending Toolkit

The lending instruments of the IMF have evolved over time. In the early years, IMF lending took place exclusively on the basis of general policies governing access in what became known as the credit tranches and, in particular, under Stand-By Arrangements. Beginning in the 1960s, special policies were developed to deal with balance of payments problems of particular origin, resulting over time in a variety of policies on the use of IMF resources.[29]

All decisions on the extension of IMF credit are made by the Executive Board. These decisions follow a formal request from the member country and are supported by an assessment by the IMF staff of the nature and magnitude of the balance of payments problem, the adequacy of the policy response, and the capacity of the member to repay the IMF. In 1995, the IMF specified streamlined procedures under an Emergency Financing Mechanism to allow for expedited Executive Board approval of IMF financial support. This mechanism is used in circumstances representing, or threatening, a crisis in a member's external accounts that requires an immediate response from the IMF.

Since the early 1990s, a number of factors have driven changes in the IMF's financial role: the emergence of volatile private capital flows as a principal source of financing for emerging market economies, increasing integration and liberalization of capital markets, and, more generally, increasing globalization and growing financial interdependence among IMF members. In response to the changes in the global environment and in the nature of members' balance of payments difficulties, the IMF has adapted

envisaged under the plan. Fewer receipts will automatically be allocated to those members in subsequent periods, so as to maintain, over time, balanced reserve positions in the Fund.

[28] A participant that is not included or is not proposed to be included in the FTP because of its balance of payments and reserve position would also not be included in the RMP for the relevant period.

[29] A comprehensive review of the IMF lending instruments, conducted in 2009 is available on the Internet: Review of Fund Facilities—Analytical Basis for Fund Lending and Reform Options: www.imf.org/external/pp/longres.aspx?id=4322.

the policies governing its financing facilities and instruments, access, and conditionality.

In response to the Asian crisis of 1997–98, changes were introduced in early 2000 to the nature and terms of access in the credit tranches. For members facing capital account crises, new facilities were made available with higher access and shorter repayment periods, consistent with the revolving nature of IMF resources.

In the wake of the 2007–09 global financial crisis, the IMF strengthened the GRA lending toolkit to better help member countries meet their financing needs while safeguarding IMF resources (Table 2.5). A major aim was to enhance crisis-prevention tools to accompany the existing tools for crisis resolution. New lending instruments were created, including the Flexible Credit Line (FCL), Precautionary and Liquidity Line (PLL), and Rapid Financing Instrument (RFI). These measures were designed to bolster confidence and reduce balance of payments pressures during periods of heightened systemic risk (Figure 2.4).

2.3.1.1 STAND-BY ARRANGEMENTS

Stand-By Arrangements (SBAs) have long been the core lending instrument of the institution and are still the first option for

Table 2.5 Financial Terms under IMF General Resources Account Credit

Credit Facility (year adopted)[1]	Purpose	Conditions	Phasing and Monitoring	Access Limits[1]	Charges[2]	Repayment Schedule (years)	Installments
Stand-By Arrangements (SBA) (1952)	Short- to medium-term assistance for countries with short-term balance of payments difficulties	Adopt policies that provide confidence that the member's balance of payments difficulties will be resolved within a reasonable period	Generally quarterly purchases (disbursements) contingent on observance of performance criteria and other conditions	Annual: 145% of quota; cumulative: 435% of quota	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 36 months)[3]	3¼–5	Quarterly
Extended Fund Facility (EFF) (1974) (Extended Arrangements)	Longer-term assistance to support members' structural reforms to address long-term balance of payments difficulties	Adopt up to 4-year program, with structural agenda and annual detailed statement of policies for the next 12 months	Quarterly or semiannual purchases (disbursements) contingent on observance of performance criteria and other conditions	Annual: 145% of quota; cumulative: 435% of quota	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 51 months)[3]	4½–10	Semiannual
Flexible Credit Line (FCL) (2009)	Flexible instrument in the credit tranches to address all balance of payments needs, potential or actual	Very strong ex ante macroeconomic fundamentals, economic policy framework, and policy track record	Approved access available up front throughout the arrangement period; 2-year FCL arrangements are subject to a midterm review after 1 year	No preset limit	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 36 months)[3]	3¼–5	Quarterly

(*Continued*)

Table 2.5 (*Continued*)

Credit Facility (year adopted)[1]	Purpose	Conditions	Phasing and Monitoring	Access Limits[1]	Charges[2]	Repayment Schedule (years)	Installments
Precautionary and Liquidity Line (PLL) (2011)	Instrument for countries with sound economic fundamentals and policies	Sound policy frameworks, external position, and market access, including financial sector soundness	Large front-loaded access, subject to semiannual reviews (for 1- to 2-year PLL)	125% of quota for 6 months; 250% of quota available upon approval of 1- to 2-year arrangements for the first year; total of 500% of quota after 12 months of satisfactory progress	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 36 months)[3]	3¼–5	Quarterly
Rapid Financing Instrument (RFI) (2011)	Rapid financial assistance to all member countries facing an urgent balance of payments need	Efforts to solve balance of payments difficulties (may include prior actions)	Outright purchases without the need for full-fledged program or reviews	Annual: 37.5% of quota; cumulative: 75% of quota	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 36 months)[3]	3¼–5	Quarterly

[1] The IMF's lending through the General Resources Account (GRA) is primarily financed from the capital subscribed by member countries; each country is assigned a quota that represents its financial commitment. A member provides a portion of its quota in Special Drawing Rights (SDRs) or the currency of another member acceptable to the IMF and the remainder in its own currency. An IMF loan is disbursed or drawn by the borrower's purchase of foreign currency assets from the IMF with its own currency. Repayment of the loan is achieved by the borrower's repurchase of its currency from the IMF with foreign currency.

[2] The rate of charge on funds disbursed from the GRA is set at a margin (currently 100 basis points) over the weekly SDR interest rate. The rate of charge is applied to the daily balance of all outstanding GRA drawings during each IMF financial quarter. In addition, a one-time service charge of 0.5 percent is levied on each drawing of IMF resources in the GRA, other than reserve tranche drawings. An up-front commitment fee (15 basis points on committed amounts of up to 115 percent of quota; 30 basis points for amounts in excess of 115 percent and up to 575 percent of quota; and 60 basis points for amounts in excess of 575 percent of quota) applies to the amount available for purchase under arrangements (SBAs, EFFs, PLLs, and FCLs) that may be drawn during each (annual) period; this fee is refunded on a proportionate basis as subsequent drawings are made under the arrangement.

[3] Surcharges were introduced in November 2000. A new system of surcharges took effect August 1, 2009, and was updated on February 17, 2016, with some limited grandfathering for existing arrangements.

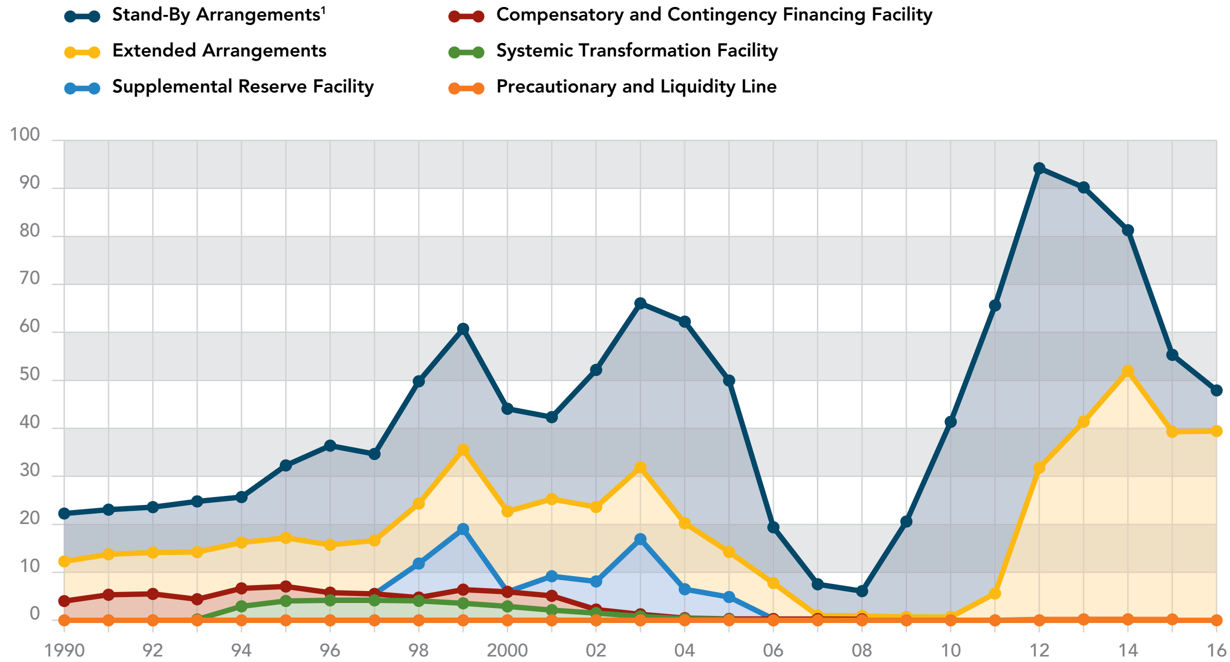
assisting members with balance of payments needs. These are lines of credit from the IMF under which a "member is assured that it will be able to make purchases from the General Resources Account in accordance with the terms of the decision during a specified period and up to a specified amount."[30] SBAs were initially intended as precautionary instruments to be drawn only if payment difficulties emerged, but they have become a common source of external financing.

The SBA is designed broadly to help countries address short- to medium-term balance of payments problems. Program targets are designed to address these problems, and purchases are conditional on achieving these targets. The length of an SBA is typically 12 to 24 months, but no more than 36 months, and repurchase is due within 3¼ to 5 years of purchase. SBAs may be provided on a precautionary basis—under which countries choose not to draw approved amounts but retain the option to do so if conditions deteriorate—both within the normal access limits and in cases of exceptional access (Section 2.3.2.2). The SBA provides for flexibility with respect to phasing, with front-loaded access when appropriate.

[30] Article XXX (b).

Figure 2.4 Outstanding IMF Credit by Facility, 1990–2016

(Billions of SDRs; as of April 30 each year)



Source: Finance Department, International Monetary Fund.

[1] Includes small amounts from outright purchases under the credit tranches and emergency assistance.

2.3.1.2 EXTENDED FUND FACILITY

This facility was established in 1974 to help countries address medium- and longer-term balance of payments problems that reflect structural impediments requiring fundamental economic reform. Extended arrangements under the Extended Fund Facility (EFF) are thus longer than SBAs—typically no longer than 3 years at approval, with a maximum extension of an additional year when appropriate. However, a maximum duration of 4 years is also allowed at the time of approval, predicated on a balance of payments need beyond 3 years, the prolonged nature of the adjustment required to restore macroeconomic stability, and adequate assurance of the member's ability and willingness to implement deep and sustained structural reform. Repurchase is due within 4½ to 10 years of purchase.

2.3.1.3 FLEXIBLE CREDIT LINE

The FCL is for countries with very strong fundamentals, policies, and track records of policy implementation and is useful for both crisis prevention and crisis resolution. It is established as a window in the credit tranches, permitting its use in addressing any balance of payments problem. FCL arrangements are approved at the member country's request if certain qualification criteria are met (ex ante conditionality). The length is 1 or 2 years (with an interim review of continued qualification after a year), and the repurchase period the same as for the Stand-By Arrangement. Access is determined on a case-by-case basis, is not subject to the exceptional access framework, and is available through a single up-front purchase. Purchases are not subject to ex post conditionality like the SBA or extended arrangements because countries meeting the FCL qualification criteria are expected to implement appropriate macroeconomic policies. There is flexibility to draw on the credit line any time after approval or to treat it as precautionary.

2.3.1.4 PRECAUTIONARY AND LIQUIDITY LINE

The PLL constitutes an additional financing tool of the IMF to meet flexibly the needs of member countries with sound economic fundamentals but with some remaining vulnerabilities that preclude them from using the FCL. The PLL is established as a window in the credit tranches, permitting its use in addressing any balance of payments problem. It is designed as a credit line, with large and frontloaded financing available, that can be granted at the member country's request if the member meets certain qualification criteria (ex ante conditionality), with purchases subject to applicable ex-post conditionality.

PLL arrangements can have duration of either 6 months, or 1 to 2 years. The 6-month duration is available for countries with actual or potential short-term balance of payments needs that can make credible progress in addressing their vulnerabilities during the 6-month period. Up to 125 percent of a member country's quota can normally be made available upon approval of a 6-month PLL arrangement. However, if a country's balance of payments need results from the impact of an exogenous shock, including heightened regional or global stress, access could be up to 250 percent. Renewal of 6-month PLL arrangements is normally possible only after a 2-year cooling-off period from the date of approval of the previous 6-month PLL arrangement unless the member's balance of payments need is longer than originally anticipated due to the impact of exogenous shocks. PLL arrangements of 1 to 2 years are subject to an annual access limit of 250 percent of quota upon approval and a cumulative limit of 500 percent of quota.

2.3.1.5 RAPID FINANCING INSTRUMENT

The RFI provides rapid and low-access financial assistance to member countries that face an urgent balance of payments need without the need for a full-fledged program.[31] It can provide support to meet a broad range of urgent needs, including those arising from commodity price shocks, natural disasters, postconflict situations, and emergencies resulting from fragility. As a single, flexible mechanism with broader coverage, the RFI replaced the IMF's previous emergency assistance policy which encompassed Emergency Natural Disaster Assistance (ENDA) and Emergency Post-Conflict Assistance (EPCA).

Access under the RFI is limited to 37.5 percent of quota a year and 75 percent of quota on a cumulative basis. The level of access depends on the country's balance of payments need. Financial assistance provided under the RFI is subject to the same financing terms as under an SBA.

Financial assistance under the RFI is provided in the form of outright purchases without the need for a full-fledged program or reviews. A member country requesting emergency assistance is required to cooperate with the IMF to make efforts to solve its balance of payments difficulties and to describe the general economic policies it proposes to follow.

2.3.1.6 TRADE INTEGRATION MECHANISM

The Trade Integration Mechanism (TIM) aims to mitigate concerns, particularly in developing economies, about financing balance of payments shortfalls that are a result of multilateral liberalization. The TIM is not a special facility to provide new resources under special terms; financial support for balance of payments difficulties arising from trade-related adjustment is already provided under the IMF's existing lending facilities. Instead, the TIM is designed to increase the predictability of resources available under existing facilities. The explicit emphasis is on trade adjustment in order to ensure that its impact is carefully estimated and incorporated into any IMF-supported programs. In addition, the TIM contains a "deviation feature," which provides countries with a greater degree of certainty that IMF financing will be available to assist with larger-than-anticipated adjustment.

2.3.2 Credit Outstanding

Credit outstanding represents loans already provided to members under the various IMF facilities and instruments. This section describes the general terms and conditions of IMF lending.

2.3.2.1 BALANCE OF PAYMENTS NEED

The Articles of Agreement charge the IMF with implementing policies on the use of its general resources to assist members in resolving their balance of payments problems. Commitments of Fund resources can be approved when the member has an actual, prospective, or potential balance of payments need. However, a member may purchase the amounts committed only if the member represents that it has an actual balance of payments need and up to the amount of said need, even in the case of reserve tranche purchases. Fund resources may be made available to members through different IMF financing facilities and instruments. Fund financing usually takes place under an IMF arrangement, which is similar to a conditional line of credit and is associated with the implementation of an economic reform program in the member country.

The concept of a balance of payments need refers to (1) the balance of payments position of the member, (2) its foreign reserve position, and (3) developments in its reserves.[32] These three elements are regarded as separate, and a representation of need may be based on any one. An operational framework has been developed over the years to assess the magnitude of balance of payments deficits and the adequacy of foreign reserves. In the implementation of this framework, the member's particular circumstances are taken into account.

To make a purchase the member has to represent that it has a balance of payments need which may not be challenged ex ante by the Fund. However, the IMF may take remedial action after a purchase under an arrangement or after a reserve tranche purchase has been made if it finds that the conditions for the purchase were not met, including the balance of payments need.

2.3.2.2 ACCESS POLICY

The policy governing access by members to IMF financial resources has changed over time to reflect members' changing financing needs balanced against the need to safeguard the revolving nature of the institution's resources and liquidity needs. Access policy is intended to meet members' balance of payments

[31] The Rapid Financing Instrument is similar to the Rapid Credit Facility (RCF) for member countries eligible for the Poverty Reduction and Growth Trust.

[32] Article V, Section 3(b)(ii).

need, reassure them about the scale of possible financing, and serve as an IMF risk-management tool. Quantitative limits on access are based on the members' quotas and are used to ensure uniformity of treatment of members. The policies are intended to encourage members to approach the institution for assistance at an early stage of any potential balance of payments difficulties to avoid the need for more drastic policy action and to limit the impact of the adjustment on other members.

The Exceptional Access Framework, approved in 2002 (and modified subsequently), was intended to enhance clarity and predictability for both members and markets about the IMF's response to crises, while at the same time strengthening the safeguards of IMF resources. The framework clarified the circumstances under which above-normal-level access is appropriate and imposed constraints as access increased. This was achieved by defining exceptional access criteria and enhanced procedures.

The four substantive criteria for exceptional access are (1) the member is experiencing or could experience balance of payments pressures that cannot be met within normal financing limits; (2) there is a high probability that debt is sustainable in the medium term, based on a rigorous and systematic analysis;[33] (3) the member has prospects for gaining or regaining private capital market access within a timeframe and on a scale sufficient to meet its obligations falling due to the Fund; and (4) a member's policy program provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.

The framework also sets out stronger procedures for decisions on proposals for exceptional access. The strengthened Exceptional Access Policy requires (1) early consultation with the Executive Board; (2) a concise note for such informal Board meetings, outlining a diagnosis of the problem, the policy measures needed, the appropriateness of and necessity for exceptional access, and the likely timetable for discussions; (3) a staff report evaluating the case for exceptional access based on the above-mentioned four criteria; and (4) an ex post evaluation (EPE) of all programs with exceptional access within 1 year of the end of the arrangement.

Current policies governing access to IMF resources in the General Resources Account can be summarized as follows:

- The criteria for determining access in individual cases concern a member's (1) actual, prospective, or potential balance of payments need, taking into account other sources of financing and the desirability of maintaining a reasonable level of reserves; (2) capacity to repay, the critical component of which is the strength of the member's adjustment policies; and (3) outstanding use of, and record in using, IMF resources.
- Access by a member to the GRA is subject to the following limits: (1) 145 percent of quota on purchases over a 12-month period; and (2) 435 percent of quota cumulatively, net of scheduled repurchase obligations. Access to the GRA above the following limits is subject to the Exceptional Access Policy. Hard access ceilings, of 250 percent of quota annually and 500 percent of quota cumulatively, apply to the Precautionary and Liquidity Line. Similarly, hard limits of 37.5 percent annually and 75 percent cumulatively apply to the Rapid Financing Instrument (Figures 2.5 and 2.6).

[33] Where the member's debt is assessed to be unsustainable ex ante, exceptional access will only be made available where the financing being provided from sources other than the Fund restores debt sustainability with a high probability. Where the member's debt is considered sustainable but not with a high probability, exceptional access would be justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources. Financing provided from sources other than the Fund may include, inter alia, financing obtained through any intended debt restructuring.

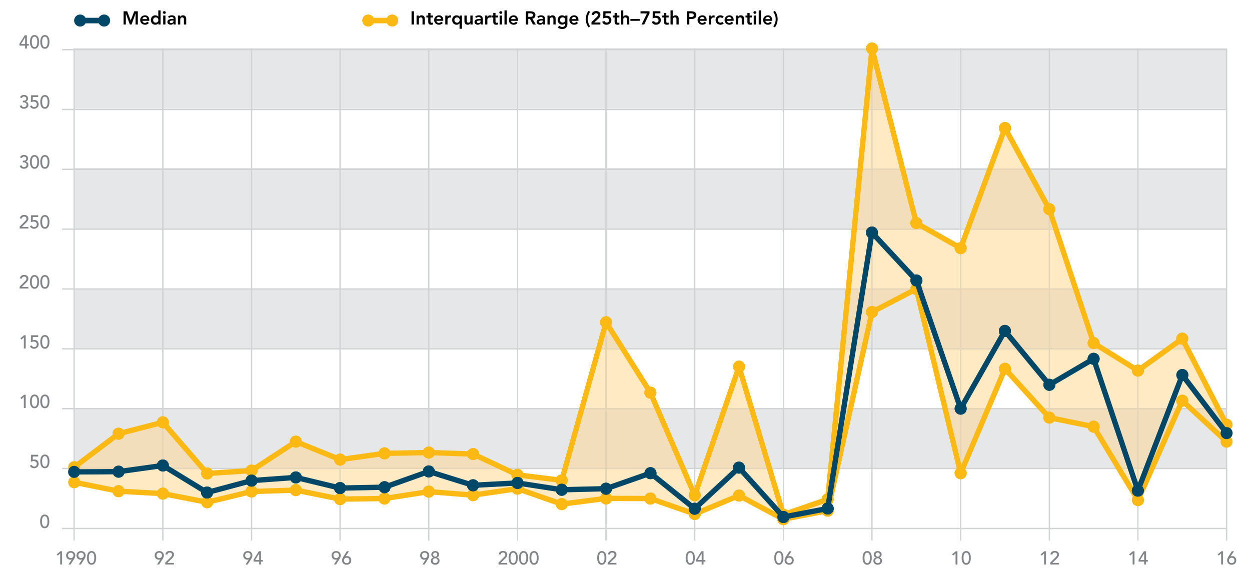
2.3.2.3 CONDITIONALITY AND PHASING

Two important features of IMF lending are policy conditionality and the phasing of disbursements. Conditionality serves two important functions: (1) to help member countries solve their balance of payments problems within the period of a Fund-supported program and (2) to provide the needed assurances that the member will be able to repay the IMF. Phasing is the mechanism that supplies conditionality with the necessary traction and supports liquidity management.

Conditionality covers both the design of IMF-supported programs—that is, the macroeconomic and structural policies—and the specific tools used to monitor progress toward the goals outlined by the country in cooperation with the IMF. Conditionality helps countries solve balance of payments problems without resorting to measures that are harmful to national or international prosperity. At the same time, the conditional measures are meant to safeguard IMF resources by ensuring that the country's balance of payments will be strong enough to permit repayment of the loan. Hence, conditionality tends to increase with access, and requests for use of IMF resources beyond the first credit tranche require higher justification of the member's expectation that its balance of payments difficulties will be resolved within the period of its program. All conditionality under an IMF-supported program must be critical to the achievement of macroeconomic program goals or for monitoring of the program, or necessary for the implementation of specific provisions under the Articles of Agreement or policies adopted under them.

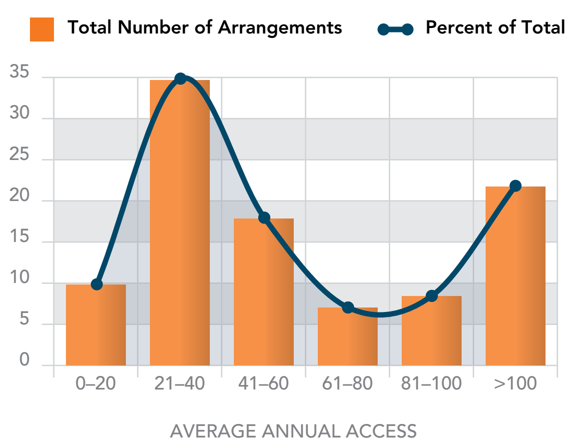
To support program ownership, the member country has primary responsibility for selecting, designing, and implementing the policies that will make the IMF-supported program successful. The program is described in a letter of intent (often with a more detailed memorandum of economic and financial policies attached). The program's objectives and policies depend on country circumstances, but the overarching goal is always to restore

Figure 2.5 Median and Interquartile Range for Annual Average Access under Stand-By and Extended Arrangements[1]
(Percent of quota)



Source: Finance Department, International Monetary Fund.
Note: Annual average access is calculated as a percent of a member's quota on approval divided by the number of years under the arrangement.
[1]Differences from prior publication are due to inclusion of Fund arrangements previously omitted, adjustments to annual average access, or extension of ongoing arrangements from prior years.

Figure 2.6 Distribution of Average Annual Access under Stand-By and Extended Arrangements, 1990–2016
(Percent of total arrangements)



Source: Finance Department, International Monetary Fund.
Note: Annual average access is calculated as total access as a percent of a member's quota on approval of the program divided by the number of years under the arrangement.

or maintain balance of payments viability and macroeconomic stability while setting the stage for sustained, high-quality growth and, in low-income countries, for reducing poverty (Box 2.5).

Most IMF financing features disbursements made in installments that are linked to demonstrable policy actions. Program reviews provide a framework for the IMF's Executive Board to assess periodically whether the IMF-supported program is on track and whether modifications are necessary.

Conditionality takes various forms:

- Prior actions are measures that the member needs to undertake before the IMF's management is prepared to recommend Executive Board approval of financing, completion of a review, or granting of a waiver. This is necessary when it is critical for the successful implementation of the program that such actions be taken to underpin the up-front implementation of important measures.
- Quantitative performance criteria (QPCs) are specific and measurable conditions that are so critical so as to stop the disbursements in the event of nonobservance. QPCs normally include targets on monetary and credit aggregates, international reserves, fiscal balances, and external borrowing.

- Indicative targets supplement QPCs to assess progress. Sometimes they take the place of QPCs when the data about economic trends is uncertain (for example, for the later months of a program). As uncertainty is reduced, these targets typically are converted to QPCs, with appropriate modifications.
- Structural benchmarks are (often unquantifiable) reform measures that are critical to achieve program goals and are intended as markers to assess program implementation during a review.

If a QPC is not met, the Executive Board may approve a formal waiver to enable a review to be completed if it is satisfied that the program will nonetheless be successfully implemented, either because the deviation was minor or temporary or because the country authorities have taken or will take corrective actions. Structural benchmarks and indicative targets do not require waivers if they are not met but are assessed in the context of a review of the overall program performance.

The choice between even phasing and uneven phasing of disbursements depends on the balance of payments need and the path of adjustment. These choices are made on a case-by-case basis: resources are typically fairly evenly disbursed over the arrangement period, but a concentration of adjustment at the beginning of an arrangement may justify front-loading of purchases. The frequency of purchases may also be affected by the length of lags in the reporting of data related to performance criteria.

2.3.2.4 EXTENDED RIGHTS TO PURCHASE: BLACKOUT PERIODS

The Extended Rights to Purchase (ERP) Policy instituted in October 2009 and subsequently amended aims to remedy problems arising from "blackout periods" in Stand-By Arrangements and extended arrangements. These blackout periods refer to the temporary interruption of access to accumulated but undrawn purchase rights. These occur when the test date for relevant periodic performance criteria is reached but the data on such performance criteria are unavailable. Blackout periods reflect the IMF's need to safeguard its resources; interrupting purchase rights when data are stale reduces the risk that a member will draw when its program is off track. Currently, access is maintained for a maximum period (an "extension period") of 45 days following each test date.[34]

Before the ERP Policy was put in place, whenever access to accumulated but undrawn purchase rights was interrupted, such access was reinstated only when (1) all data on the relevant performance criteria for that test date were available and showed that the performance criteria were met or (2) when waivers of applicability were granted by the Executive Board for data not yet reported. The ERP Policy was reviewed in January 2013 and was left practically unchanged, and the decision on the reduction of blackout periods from 2009 was extended to all GRA arrangements that have periodic performance criteria.[35]

2.3.2.5 REPURCHASE POLICIES

The repurchase policies of the IMF are intended to ensure the revolving character of its resources and are an essential element of its overall risk-mitigation framework. All purchases from the IMF are subject to predetermined repurchase schedules.[36] The length of the repurchase period and the number of repurchase installments vary according to the policy or facility under which the credit is extended. While credit tranche terms allow for specific repurchase periods under Article V, Section 7(b) of the Articles of Agreement, the expectation is that members will repay the IMF as soon as their balance of payments and reserve positions allow.

A member is free to make advance repurchases at any time. At the discretion of the member, advance repurchases may be attributed to any outstanding purchases. In this way, a member is free to reduce the IMF's holdings of its currency corresponding to prior purchases and thereby reduce or eliminate its obligation to pay interest. Repurchases may be made, at the choice of the repurchasing member, in SDRs or in currencies selected by the IMF according to the policies and procedures for the use and receipt of currencies under the quarterly Financial Transactions Plan.[37]

Under the Articles, the IMF has the authority to postpone the date for the discharge of a repurchase within the maximum repurchase period by a majority of the votes cast, provided that the postponement does not cause the repurchase to exceed the maximum repurchase period (Article V, Section 7(g)).[38] However no such decision has been taken in the last 30 years.

2.3.3 Gold Holdings

Gold played a central role in the international monetary system until the collapse of the Bretton Woods system of fixed exchange rates in 1973. Since then, the role of gold has been gradually

[34] Under the ERP Policy, the extension period is up to 45 days but can be shorter if the data-reporting deadlines in the Technical Memorandum of Understanding (TMU) expire before the 45-day extension. In IMF-supported programs, TMUs typically specify that data must be reported in less than 45 days.

[35] See Blackout Periods in GRA Arrangements and the Extended Rights to Purchase Policy—A Review, January 2013.

[36] An 85 percent majority of the total IMF voting power is required to change the repurchase schedules, and any such periods apply to all members Article V, Section 7(c) and (d).

[37] See discussion in Section 2.2.1. Under a decision adopted in the late 1970s, members are permitted to combine all repurchases due within a calendar month provided the combined repurchase is completed no later than the last day of the month and that no single repurchase remains outstanding for a period exceeding the maximum permitted under the relevant policy of the IMF. This option has been rarely used (Zambia in 1985 and Greece in June 2015).

[38] Postponement beyond the maximum repurchase period allowed under the arrangement could be considered only in the event that the IMF determined that discharge on the due date would result in exceptional hardship for the member and if the longer period for repurchase is consistent with the revolving nature of the use of IMF resources. Such a decision requires approval by a 70 percent majority of the total voting power (Article V, Section 7(g)). The IMF has not approved any extensions in repurchases beyond the maximum repurchase period.

reduced. However, it is still an important asset in the reserve holdings of a number of countries, and the IMF remains one of the largest official holders of gold in the world with 90.474 million ounces (2,814 metric tons) of gold, held at designated depositories. The IMF's total gold holdings are valued on its balance sheet at SDR 3.167 billion on the basis of historical cost. As of April 30, 2016, the IMF's holdings amounted to SDR 82.1 billion (at market prices). Consistent with the IMF's new income model, the Executive Board agreed in April 2008 to a strictly limited gold sale of 403.3 metric tons to be used to establish an endowment to bolster the IMF's income. Resources linked to these gold sales were also used to boost the IMF's capacity for concessional lending to eligible low-income countries.

2.3.3.1 GOLD IN THE ARTICLES OF AGREEMENT

The IMF acquired virtually all its gold holdings through four main types of transactions included in the original Articles of Agreement. First, the original Articles prescribed that 25 percent of initial quota subscriptions and subsequent quota increases be paid in gold. This has been the largest source of the IMF's gold. Second, all payments of charges (interest on members' use of IMF credit) were generally made in gold. Third, a member wishing to purchase the currency of another member could acquire it by selling gold to the IMF. The major use of this provision was the sale of gold to the IMF by South Africa in 1970–71. Finally, members could use gold to repay the IMF for credit previously extended.

The Second Amendment to the Articles of Agreement in April 1978 eliminated the use of gold as the common denominator of the post–World War II exchange rate system and as the basis of the value of the SDR. It also abolished the official price of gold and abrogated the obligatory use of gold in transactions between the IMF and its members. It furthermore required that the IMF, when dealing in gold, avoid managing its price or establishing a fixed price.

The Articles of Agreement now limit the use of gold in the IMF's operations and transactions. The IMF may sell gold outright on the basis of prevailing market prices and may accept gold in the discharge of a member's obligations at an agreed price, based on market prices at the time of acceptance. These transactions in gold require an 85 percent majority of total voting power. The IMF does not have the authority to engage in any other gold transactions—such as loans, leases, swaps, or use of gold as collateral—nor does it have the authority to buy gold.

The Articles of Agreement also allow for the restitution of the gold the IMF held on the date of the Second Amendment (April 1978) to countries that were members as of August 31, 1975. Restitution involves the sale of gold to this group of members at the former official price of SDR 35 an ounce, with such sales made to members who agree to buy it in proportion to their quotas on the date of the Second Amendment. A decision to restitute gold would require an 85 percent majority of the total voting power in the Executive Board. The Articles of Agreement do not provide for the restitution of gold acquired by the IMF after the date of the Second Amendment.

2.3.3.2 THE IMF'S POLICY ON GOLD

The IMF's policy on gold is governed by the following five principles:

1. As an undervalued asset held by the IMF, gold provides fundamental strength to its balance sheet. Any mobilization of IMF gold should avoid weakening its overall financial position.
2. Gold holdings provide the IMF with operational maneuverability both in the use of its resources and by adding credibility to its precautionary balances. In these respects, the benefits of the IMF's gold holdings are passed on to the membership at large, including both creditors and borrowing members.
3. The IMF has a systemic responsibility to avoid causing disruptions that would adversely impact gold holders and gold producers or the functioning of the gold market.
4. The IMF should continue to hold a relatively large amount of gold among its assets, not only for prudential reasons, but also to meet unforeseen contingencies.
5. Profits from any gold sales should be retained, and only the investment income should be used for purposes that may be agreed by IMF members and are permitted under the Articles of Agreement.

2.3.3.3 IMF GOLD SALES, 2009–10

On September 18, 2009, the Executive Board approved the sale of 403.3 metric tons of gold (12.97 million ounces), which amounted to one-eighth of the IMF's total holdings of gold. The gold authorized for sale was acquired after the Second Amendment of the IMF's Articles of Agreement in April 1978.

The decision to sell gold was a key step toward implementing the new income model agreed in April 2008 to help put the IMF's finances on a sound long-term footing. A central component of the new income model was the establishment of an endowment funded by the profits from the sale of a strictly limited portion of the IMF's gold. The modalities for the gold sales were set to avoid disruption to the gold market.

In August 2009, the European Central Bank and 18 other European central banks announced the renewal of their agreement on gold sales (Central Bank Gold Agreement), which limited total annual gold sales by these institutions to 400 metric tons annually and 2,000 metric tons over the 5 years beginning on September 27, 2009. The announcement noted that the IMF's planned sale of 403 metric tons of gold could be accommodated within these ceilings. This ensured that gold sales by the IMF would not add to the announced volume of sales from official sources.

The first phase in the gold sales consisted of exclusively off-market sales to interested central banks and other official holders, which were conducted at market prices at the time of the transactions. In October and November 2009, the IMF sold 212 metric tons of gold in separate off-market transactions to three central banks: 200 metric tons to the Reserve Bank of India;

Table 2.6 Balance Sheet of the General Department
(Millions of SDRs; as of April 30, 2016)

Assets		Liabilities, Reserves and Retained Earnings	
Currencies		Other Liabilities	1,319
Usable Currencies	360,036	Special Contingent Account	1,188
Other Currencies	65,575	Borrowings	31,671
Credit Outstanding	47,798	Quotas, Represented By:	
		Reserve Tranche Positions	45,967
SDR Holdings	31,842	Subscription Payments	425,601
Investments	14,968	Total Quotas	471,568
Gold Holdings	3,167		
Other Assets	997	Reserves of the General Resources Account	18,438
		Retained Earnings of the Investment Account and Resources of the Special Disbursement Account	199
Total Assets	524,383	Total Liabilities, Reserves, Retained Earnings, and Resources	524,383

Source: Finance Department, International Monetary Fund.

Note: Numbers may not add to totals due to rounding.

2 metric tons to the Bank of Mauritius; and 10 metric tons to the Central Bank of Sri Lanka.

In February 2010, the IMF announced the beginning of sales of gold on the market. At that time, a total of 191.3 metric tons of gold remained to be sold. In order to avoid disrupting the market, the sales were to be conducted in a phased manner, following an approach adopted successfully by the central banks participating in the Central Bank Gold Agreement. The start of market sales did not preclude further off-market gold sales directly to interested central banks or other official holders. In September 2010, the IMF sold 10 metric tons to the Bangladesh Bank, reducing the amount of gold to be placed on the market.

In December 2010, the IMF concluded the gold sales after total sales of 403.3 metric tons of gold (12.97 million ounces), as authorized by the Executive Board. Total proceeds amounted to SDR 9.5 billion, of which SDR 4.4 billion was used to establish an endowment as stipulated under the new income model.

In February 2012, the Executive Board approved a distribution of SDR 700 million of the general reserve, attributed to windfall gold sale profits that resulted from a higher gold price than assumed in the new income model, subject to assurances that new subsidy contributions equivalent to at least 90 percent of the amount would be made available for the Poverty Reduction and Growth Trust (PRGT). This distribution, which became effective in October 2012, was part of a financing package endorsed by the Executive Board in July 2009, aimed at boosting the IMF's concessional lending capacity in 2009–14. In September 2012, the Executive Board approved the distribution of SDR 1.75 billion in reserves from the remaining windfall gold sale profits as part of a strategy to generate subsidy resources to ensure the longer-term sustainability of the PRGT. As with the earlier distribution, this was subject to assurances that new subsidy contributions equivalent to at least 90 percent of the amount to be distributed would be made available to boost the PRGT. In October 2013, a critical mass of 151 member countries committed the required new subsidy contributions, including by transferring their share in the partial distribution of the general reserve of SDR 1.75 billion to the PRGT.[39]

2.4 The IMF's Balance Sheet and Income Statement

2.4.1 The Balance Sheet

The balance sheet of the General Department summarizes the sources and uses of resources (Table 2.6).

The payment of quota resources is at the core of the IMF balance sheet. The payment of quotas results in currency holdings on the assets side of the balance sheet and resources on the liability side. As discussed in Section 2.2.1, the currencies of some members are considered to be usable for IMF lending and repayment operations, and these amounted to SDR 360 billion at the end of April 2016, representing the bulk of assets on the General Resources Account (GRA) balance sheet. Financing to debtor members is largely funded by use of these currencies, giving rise to credit outstanding and a corresponding reserve tranche position for the provider of the currencies (creditors to the Fund).

[39] In April 2014, the Executive Board adopted the necessary amendments to the PRGT Instrument to implement the self-sustained PRGT. This amendment became effective in November 2014 with the necessary consents from all lenders to the PRGT. See Chapter 3 for the discussion on the self-sustained PRGT.

Currencies that are not usable (other currencies) amounted to SDR 65.6 billion.[40]

The second major item is credit outstanding, which is the value of financing extended by the IMF to its members and was SDR 47.8 billion at the end of FY2016. Members with outstanding credit pay a market-related rate of interest on these loans, which fully covers the payment of interest to the creditors providing the resources to the IMF. Gold, valued at SDR 3.2 billion, represents a relatively small share of total assets.[41] The IMF receives no interest on its gold or currency holdings that do not result from the extension of IMF credit. The only interest-bearing asset held by the GRA other than its outstanding credit is its holdings of SDRs, which were SDR 31.8 billion at end FY2016.[42] The Investment Account (IA) holds resources transferred from the GRA for purposes of investment to generate additional income for the Fund. The IA held investments of SDR 15.0 billion at the end of April 2016 and as discussed in Chapter 5, these investments are an important aspect of the Fund's new income model. With the addition of some minor receivables and other assets, total assets of the General Department as of April 30, 2016, amounted to SDR 524.4 billion.

Total quota resources were SDR 472 billion as of April 30, 2016. Reserve tranche positions of member countries, which result from initial quota payments and changes due to the use and receipt of currencies in the IMF's financial operations, stood at SDR 46.0 billion. The amount of borrowing outstanding was SDR 31.7 billion. Adding reserves, the Special Contingent Account (see Chapter 6) and some other liabilities gives a total of SDR 524.4 billion in resources and liabilities in the General Department.

2.4.2 Operational Income

The IMF's income is derived mostly from charges levied on its lending activities and investment income. Chapter 5 provides detailed analysis of the various charges paid by Fund borrowers and reviews the history of these charges. It also provides further discussion of the Fund's investment mandate and objectives. The IMF had operational income in the financial year ended April 30, 2016, of SDR 1.4 billion, reflecting primarily income from the high levels of financing activity (Table 2.7).

Table 2.7 Income Statement of the General Department

(Millions of SDRs; as of April 30, 2016)

Operational income	
Interest and charges	1,327
Interest on SDR holdings	9
Net income from investments	(20)
Service charges and commitment fees	120
	1,436
Operational expenses	
Remuneration	12
Interest expense on borrowings	18
Administrative expenses	951
	981
Net operational income	455
Other comprehensive income[1]	543
Total comprehensive income	**998**
Total comprehensive income of the General Department comprises:	
Total comprehensive income of the General Resources Account	1,018
Total comprehensive (loss)/income of the Investment Account	(20)
Total comprehensive loss of the Special Disbursement Account	–
	998

Source: Finance Department, International Monetary Fund.

[1] Other comprehensive income relates to the remeasurement of the defined benefit obligation as required by International Financial Reporting Standards, the IMF's accounting framework.

2.4.3 Operational Expenses

The IMF pays interest (remuneration) to members on their creditor positions in the General Resources Account (the reserve tranche positions) except on a small portion as indicated above (Box 2.4). The Articles of Agreement provide for a rate of remuneration that is neither higher than the SDR interest rate nor lower than 80 percent of that rate. The current rate of remuneration is equal to the SDR interest rate. Whenever the IMF has borrowing arrangements in place, it also pays interest on any outstanding borrowing normally at the SDR interest rate.

2.4.4 Administrative Expenses

The IMF's administrative expenses include personnel, travel, building occupancy, and the like. Personnel and travel-related

[40] In the balance sheet of the General Resources Account, the IMF distinguishes between usable currencies and unusable (other) currencies (see Section 2.2. for the definition of "usable currency"). Unusable currencies include the currencies of borrowers from the General Resources Account and of members with weaker external positions that are not being used for credit purposes. The currencies of nonborrowers could become usable if the members' balance of payments positions improved.

[41] The IMF's holding of gold are valued at historical cost. For most of the gold holdings, this is SDR 35 a fine ounce. Market prices for gold are much higher, which imparts a fundamental strength to the IMF's financial position.

[42] The IMF does not receive allocations of SDRs, but rather obtains its SDRs in payment for the reserve asset portion of quota subscriptions and in settlement of charges and, to a lesser degree, repayment of credit. The IMF, in turn, uses these SDRs to pay interest on creditor positions and to provide credit to members. Since SDRs were created as a supplement to existing reserve assets, the IMF does not maintain large holdings of SDRs for long periods of time, but instead recirculates them to the membership.

outlays typically account for the largest of total administrative expenses. The General Resources Account is reimbursed for the cost of administering the SDR Department through an assessment levied in proportion to each participant's allocation of SDRs. The General Resources Account is also reimbursed for other administrative expenses such as expenses incurred in administering the Poverty Reduction and Growth Trust.

2.4.5 Net Income

The net income of the IMF is added each year to its reserves following the completion of the annual external audit. The Articles of Agreement also allow the IMF to distribute net income to its members; apart from the distribution of the windfall gold profits (see Section 2.3.3.3) no other distributions have been made by the IMF. The net income contributes to the accumulation of precautionary balances which helps ensure the value of members' reserve positions and safeguards the IMF's financing mechanism (see Chapter 6).

The IMF's net income in FY2016 amounted to SDR 1.0 billion. This reflected net operational income of SDR 0.5 billion (the difference between operational income of SDR 1.4 billion and operational expenses of SDR 1.0 billion) and actuarial gains of SDR 0.5 billion arising from the application of the International Accounting Standard 19 (amended IAS 19, Employee Benefits). The IAS 19 requires immediate recognition of all changes in the IMF's defined benefit obligation of postemployment benefit plans and the associated plan assets. Actuarial gains or losses are not included in net operational income, but instead are included in other comprehensive income to arrive at the overall income position for the Fund.

2.4.6 Valuation of Currencies

Currencies and securities held in the General Resources Account's pool of resources are valued in terms of the SDR on the basis of each member country's representative rate of exchange. Each member is obligated to maintain, in SDR terms, the value of the balances of the IMF's holdings of its currency in the General Resources Account but not of other holdings, such as those in the Special Disbursement Account or the Administered Accounts.[43] The total SDR value of the IMF's holdings of currencies in the General Resources Account is kept constant through changes to the amount of members' currency balances. Members must pay additional currency if their currency depreciates against the SDR, and the IMF refunds some of these currency holdings if a currency appreciates. This requirement is referred to as the "maintenance-of-value obligation," and it ensures that the IMF's resources are insulated from exchange rate fluctuations.

A member's currency held by the IMF is revalued in SDR terms under the following circumstances:

- when the currency is used by the IMF in a transaction with another member
- at the end of the IMF's financial year (April 30)
- at the end of the month for the euro and daily for the U.S. dollar
- at the request of a member during the year—for example, at the end of the member's financial year
- on such other occasions as the IMF may decide.

Whenever it becomes necessary to adjust the rate at which the IMF has recorded the use of a member's currency, the new rate becomes effective in the IMF's accounts at the close of business on that date. All holdings of a member's currency in the General Resources Account, including any unsettled obligations resulting from an earlier revaluation, are revalued at the new rate. The new rate is applied to all transactions in that currency, including administrative receipts and payments, until such time as the rate is again adjusted.

The currency valuation adjustments are part of the IMF's holdings of members' currencies. Whenever the IMF revalues its holdings of a member's currency, reflecting a change in its exchange rate with the SDR, an account receivable or an account payable is established for the amount of currency payable by or to the member in order to maintain the value of holdings of the member's currency in terms of the SDR.

2.5 SpecialDi sbursementAc count

The Special Disbursement Account (SDA) is the vehicle used to receive profits from the sale of gold held by the IMF at the time of the Second Amendment of the IMF's Articles of Agreement (1978). SDA resources can be used for various purposes as specified in the IMF's Articles of Agreement, including transfers to the GRA for immediate use in operations and transactions, transfers to the Investment Account, or to provide balance of payments assistance on special terms to developing economy members in difficult circumstances.

2.6 IMF Accounts in Member Countries

The IMF conducts its financial dealings with a member through the fiscal agency and the depository designated by the member. The fiscal agency may be the member's treasury (ministry of finance), central bank, official monetary agency, stabilization fund, or other similar agency. The IMF only deals with a member for financial operations through the designated fiscal agency. In addition, each member is required to designate its central bank as a depository for the IMF's holdings of the member's currency ("designated depository") or, if it has no central bank, a monetary

[43] Revaluation changes in members' currencies in relation to the SDR in the other IMF accounts (the SDA and the Administered Accounts) are reported as valuation gains and losses for those accounts.

agency or a commercial bank acceptable to the IMF. Most members of the IMF have designated their central bank as both the depository and the fiscal agency. The depository is required to pay out of the IMF's holdings of the member's currency, on demand and without delay, sums to any payee named by the IMF and to hold securities on behalf of the IMF should the member decide to issue nonnegotiable, non-interest-bearing notes or similar instruments in substitution for part of the IMF's currency holdings. Each member guarantees all assets of the IMF against loss resulting from failure or default on the part of the depository. Thus, the IMF's pool of currencies and reserve assets in the General Resources Account are not held at the IMF but in depositories in the member countries.

The depository maintains, without any service charge or commission, two accounts that are used to record the IMF's holdings of the member's currency: the IMF No. 1 Account and the IMF No. 2 Account. The No. 1 Account is used for IMF transactions, including subscription payments, purchases and repurchases (use and repayment of General Resources Account resources), and repayment of resources borrowed by the IMF. Payment of charges on the use of IMF credit and the IMF's payment of interest on reserve tranche positions are conducted in SDRs and therefore are not recorded in these accounts. Provided a minimum balance is maintained in the No. 1 Account, as explained below, all these transactions alternatively may be carried out through an IMF Securities Account. A member may establish an IMF Securities Account in order to substitute part of the holdings in the IMF No. 1 Account with nonnegotiable, non-interest-bearing notes or similar instruments payable to the IMF on demand when the currency is needed for the IMF's transactions. The depository holds these notes for safekeeping and acts as the agent of the IMF to obtain encashment of the notes in order to maintain, at all times, the minimum required balance in the No. 1 Account.[44] The No. 2 Account is used for the IMF's administrative expenditures and receipts (for example, from sales of IMF publications) in the member's currency and within its territory.

The balances in both the No. 1 and No. 2 Accounts that originate from the payment of the local currency portion of quota subscriptions do not yield any interest for the IMF. The local currency portion of the subscribed capital, while fully paid, is held in non-interest-bearing form and generates no income for the IMF until used and converted into claims on members in the form of use of IMF credit.

2.6.1 Disclosure of Financial Position with the IMF by Member Countries

The accounting treatment of IMF transactions should reflect the member's legal and institutional arrangements and the substance of the transactions and should comply with the applicable financial reporting framework.[45] For this reason, the disclosure of financial position with the IMF sometimes differs between members.

The financial position with the IMF is commonly presented in full in the member's central bank balance sheet. This means that the position in both the General Department and the SDR Department are included in the central bank's balance sheet. Membership in the SDR Department is typically presented by showing SDR holdings as an asset and the cumulative SDR allocation as a liability.

The member's position in the General Department can be shown either on a gross or a net basis. Under the gross method, the IMF No. 1, No. 2, and Securities Accounts are shown as liabilities, and the member's quota is shown as an asset. Members may also choose to reflect their financial position on a net basis. A member that has a reserve tranche position in the IMF and is not using IMF credit would present its reserve tranche position as an asset (Box 2.4). Members with a reserve tranche position that are also using credit in the General Resources Account would disclose the reserve tranche as an asset and currency holdings stemming from the use of IMF credit as a liability, since the IMF is not entitled to demand settlement or offset a member's use of credit from its reserve tranche position.

Additional considerations may arise when a member uses credit in the General Resources Account that is channeled to the state treasury for budget financing. If the IMF position is shown in the balance sheet of the central bank, the member may present the full liability related to the IMF holdings of the member's currency resulting from the use of such IMF credit with a corresponding asset due from the treasury, reflecting an on-lending arrangement.[46] Some central banks reflect the underlying securities issued by the member for the use of IMF credit directed to the state treasury in off-balance-sheet accounts and the resources received from the IMF as government deposits.

Appendix 4 illustrates how IMF membership could be presented on either a gross or a net basis in the balance sheet of a central bank.

[44] If any payment by the IMF reduces the balance in the No. 1 Account below a minimum of ¼ of 1 percent of the member's quota, the balance must be restored to that level by the next business day through the deposit of currencies or encashment of sufficient notes.

[45] This discussion presents IMF member positions in the General and SDR Departments.

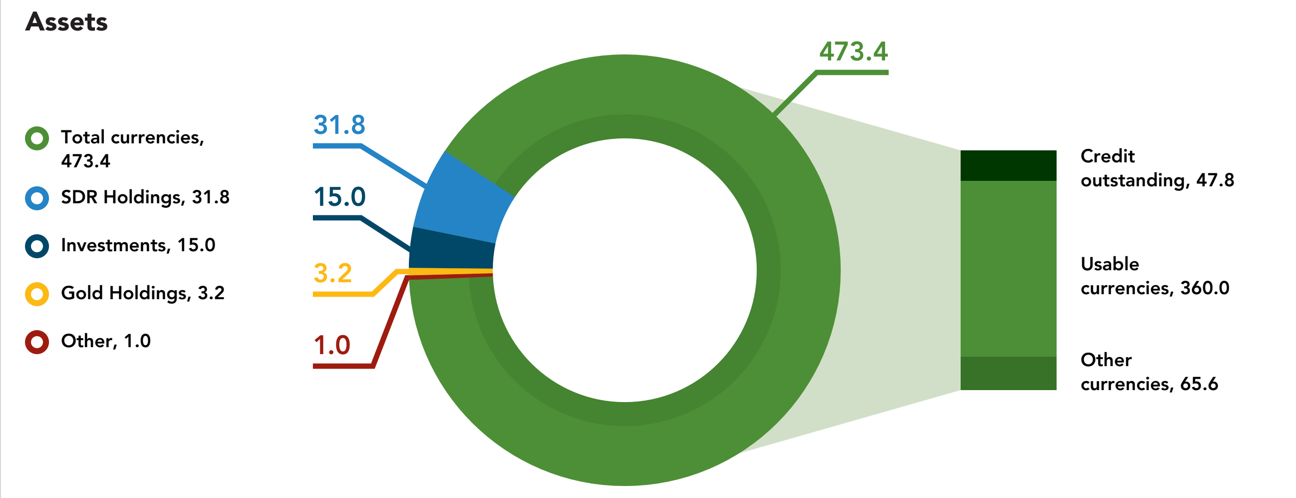
[46] Borrowing under the Poverty Reduction and Growth Trust (PRGT) is also typically reflected in the central bank's balance sheet.

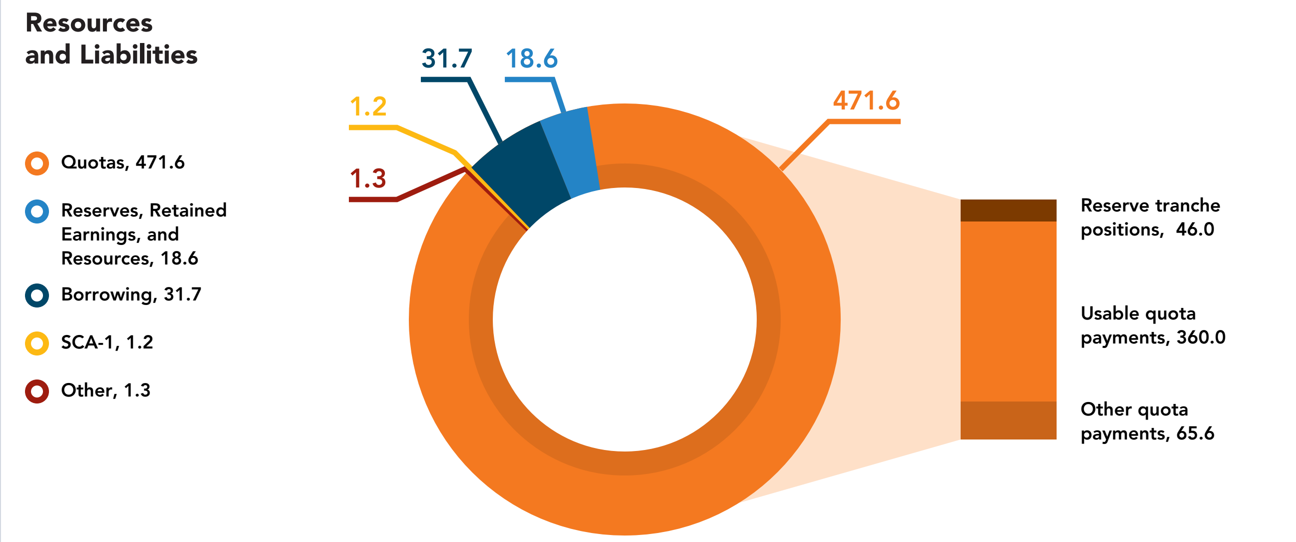
Box 2.1 GRA Balance Sheet Snapshot

(Billions of SDRs; as of April 30, 2016)

On the asset side of the balance sheet, financing for debtor members is largely funded by use of currencies of creditor members. Members with outstanding credit pay a market-related rate of interest on these loans which fully covers the payment of interest to the creditors providing resources to the IMF.

On the resources side of the balance sheet, the IMF pays interest (remuneration) to the providers of finance as well as on borrowed resources. The IMF does not remunerate available quota resources until they are used. Unusable currencies are composed of quota payments by members whose position is assessed by the Fund to be insufficiently strong to be included in the Financial Transactions Plan and be used in credit operations (see Section 2.2.1).





Source: Finance Department, International Monetary Fund.
Note: SCA-1 = Special Contingent Account.

Box 2.2 Quota Payment Procedures

The rules and regulations concerning the payment of a member's quota are stipulated in Article III (Quotas and Subscriptions) of the IMF's Articles of Agreement. Eligible members that consent to an increase in their quotas must typically pay their quota increases as follows:

- **Reserve asset portion:** Twenty-five percent of the quota increase must be paid in reserve assets. Originally, this portion was payable in gold. Since the Second Amendment of the IMF's Articles of Agreement in 1978, it is payable in SDRs or in the currencies of other members specified by the IMF, with their concurrence, or in any combination of SDRs and such currencies. In the event the specified currency of another member is not freely usable (see Section 2.2), balances of that member's currency are normally obtained by the paying member from the member whose currency was specified in exchange for a freely usable currency acceptable to that member. To effect this payment, (1) a member may use its own reserves (for example, its own SDRs or reserve currency holdings) or (2) if it lacks sufficient reserves, it may ask the IMF to arrange for an intraday interest-free SDR bridge loan from a willing creditor. To repay the bridge loan, a member must immediately draw down its newly created reserve tranche position in the same amount and use the proceeds to repay the loan.

- **Local currency portion:** The remainder of the quota increase (75 percent) is payable in a member's own currency to either the IMF No. 1 Account (Section 2.6) or through issuance of a promissory note to be held in the IMF's Securities Account with the member's designated depository, typically its central bank.

Payments of both portions of the quota must be made on the same agreed value date within 30 days of the later of (1) the date on which the member notifies the IMF of its consent to its new quota or (2) the date on which the increase in quota goes into effect. The Executive Board has the authority to extend the payment period.

Box 2.3 The Quota Formula

The quota formula includes four quota variables: GDP, openness, variability, and reserves. These are expressed as shares of the global totals, with the variables assigned weights totaling to 1.0. The formula also includes a compression factor that reduces dispersion in calculated quota shares.

The formula is

$$CQS = (0.5*Y + 0.3*O + 0.15*V + 0.05*R)^{k},$$

in which

CQS = calculated quota share;

Y = a blend of GDP converted at market rates and purchasing-power-parity (PPP) exchange rates averaged over a 3-year period (the weights of market-based and PPP GDP are 0.60 and 0.40, respectively);

O = the annual average of the sum of current payments and current receipts (goods, services, income, and transfers) for a recent 5-year period;

V = variability of current receipts and net capital flows (measured as a standard deviation from the centered 3-year moving average over a recent 13-year period);

R = the 12-month average over a recent year of official reserves (foreign exchange, SDR holdings, reserve position in the IMF, and monetary gold); and

k = a compression factor of 0.95. The compression factor is applied to the uncompressed calculated quota shares, which are then rescaled to sum to 100.

Box 2.4 The Reserve Tranche Position

In exchange for the reserve asset portion of its quota payment, an IMF member acquires a liquid claim on the IMF—much like a demand deposit in a commercial bank. This claim is called the reserve tranche position, and it is equal to the member's quota minus the IMF's holdings of the member's currency in the General Resources Account (excluding currency holdings that stem from the member's own use of credit and holdings—one tenth of 1 percent of the member's quota—held in the No. 2 Account for administrative payments).

The share of a member's subscription maintained in reserve assets is initially about 25 percent of the quota payment but varies over time: the reserve tranche position increases when the IMF uses the member's currency to lend to other members (or for administrative payments) and decreases when borrowing members use the currency to make repayments. Reserve tranche positions are part of each member's liquid international reserves because, when a member has a balance of payments need, it may convert its SDR-denominated reserve asset into SDRs or one or more freely usable currencies by drawing on the IMF. A member may also be obligated to provide if necessary reserve assets of up to 100 percent of its quota.

The reserve tranche can be considered as the "facility of first resort." It stands apart from the various financing facilities and instruments (see Section 2.3) in that a member's reserve tranche position is part of its own foreign exchange reserves. Purchases in the reserve tranche do not therefore constitute use of IMF credit. To preserve this character as a reserve asset available at the discretion of the member, the IMF has adopted reserve tranche policies:

- The definition of the reserve tranche (quota less holdings of the member's currency) explicitly excludes currency holdings arising from past use of IMF credit. This is intended to enable members to make purchases in the credit tranches without having first to use their reserve tranche. The member can choose which resources to use first.

- Purchases in the reserve tranche are subject to a representation by the member of a balance of payments need, as with any use of IMF resources, but the member's representation of need cannot be challenged by the IMF at the time the purchase request is made. (The IMF could, however review ex post whether the reserve tranche purpose was contrary to the purposes of the Fund and take remedial action.)

- Reserve tranche purchases are not subject to conditionality, charges, or repurchase expectations and obligations.

Balances of a member's currency are held by the IMF in designated depositories which are the members' central banks. Payment of the non-reserve-asset portion of quota subscriptions is normally in the form of promissory notes (nonnegotiable, non-interest-bearing securities) that are converted to currency on demand and are covered in the IMF No. 1 Account.

The IMF pays interest, called remuneration, on a member's reserve tranche position in the IMF, except on a small portion that is unremunerated. This unremunerated (non-interest-bearing) portion of the reserve tranche position was equal to 25 percent of the member's quota on April 1, 1978—that part of the quota that was paid in gold prior to the Second Amendment of the Articles of Agreement.

Historically, the gold tranche was never remunerated, and so this same amount was set aside as unremunerated when gold payment of subscriptions was ended. For members joining the IMF after that date, the unremunerated portion of the reserve tranche is set at the average unremunerated reserve tranche of all other members at that time.

The unremunerated portion of the reserve tranche remains fixed for each member in nominal terms, but because of subsequent quota increases, it is now significantly lower when expressed as a percentage of quotas.

Box 2.5 The Evolution of Conditionality

IMF lending has always involved policy conditions. Until the early 1980s, IMF conditionality focused largely on macroeconomic policies. Subsequently, the complexity and scope of structural conditions increased, reflecting the IMF's growing involvement in low-income and transition economies, where severe structural problems hamper economic stability and growth.

Since 2000, the IMF has become more flexible in the way it engages with countries on issues related to structural reform of their economies. In 2002, the IMF concluded an extensive review of conditionality using a consultative process, including public involvement aimed at enhancing the effectiveness of IMF programs through stronger country ownership. Accordingly, the IMF has been striving to focus more sharply on and be clearer about the conditions attached to its financing and to be flexible and responsive in discussing alternative policies with countries requesting financial assistance.

As part of a wide-ranging review of the IMF's lending toolkit in 2009, the IMF further modernized its conditionality framework in the context of a comprehensive reform to strengthen its capacity to prevent and resolve crises. The revised operational guidance to the IMF staff stipulates that structural conditions be focused on and tailored to member countries' individual policies and economic starting points. Moreover, structural performance criteria requiring formal waivers were eliminated, leaving structural reforms to be covered under regular reviews of overall program performance.

The 2011 Review of Conditionality concluded that conditionality in general has become better tailored to individual country needs, more streamlined, and better focused on core areas of IMF expertise. Programs are also better adapted to changing economic circumstances, which has helped increase the achievement of program objectives and safeguard social protection during crises (particularly in low-income countries).

Box 2.6 Key Gold Transactions

Outflows of gold from the IMF's holdings occurred under the original Articles of Agreement through sales of gold for currency and payments of remuneration and interest. Since the Second Amendment of the Articles of Agreement in April 1978, outflows of gold may occur only through outright sales. Key gold transactions included the following:

Sales for replenishment (1957–70): The IMF sold gold on several occasions during this period to replenish its holdings of currencies.

South African gold (1970–71): The IMF sold gold to members in amounts roughly corresponding to purchases during those years from South Africa.

Investment in U.S. government securities (1956–72): In order to generate income to offset operational deficits, some IMF gold was sold to the United States, and the proceeds were invested in U.S. government securities. Subsequently, a significant buildup of IMF reserves prompted the IMF to reacquire this gold from the U.S. government.

Auctions and "restitution" sales (1976–80): The IMF sold approximately one-third of its gold holdings (50 million ounces) following an agreement by its members to reduce the role of gold in the international monetary system. Half this amount was sold in restitution to members at the official price of SDR 35 per ounce; the other half was auctioned to the market to finance the Trust Fund established to support concessional lending by the IMF to low-income countries.

Off-market transactions in gold (1999–2000): In December 1999, the Executive Board authorized off-market transactions in gold of up to 14 million ounces to help finance IMF participation in the Heavily Indebted Poor Countries (HIPC) Initiative. Between December 1999 and April 2000, separate but closely linked transactions involving a total of 12.9 million ounces of gold were carried out between the IMF and two members (Brazil and Mexico) that had financial obligations falling due to the IMF. In the first step, the IMF sold gold to the member at the prevailing market price, and the profits were placed in a special account invested for the benefit of the HIPC Initiative. In the second step, the IMF immediately accepted back, at the same market price, the same amount of gold from the member in settlement of that member's financial obligations. The net effect of these transactions was to leave the balance of the IMF's holdings of physical gold unchanged.

Gold sales to fund endowment (2009–10): In September 2009, the Executive Board approved the sale of 403.3 metric tons of gold (12.97 million ounces) as a key step toward implementing a new income model agreed in April 2008 to help put the IMF's finances on a sound long-term footing. A central component of the new income model was the establishment of an endowment funded by the profits from the sale of a strictly limited portion of the IMF's gold which was acquired after the Second Amendment of the Articles.

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