Glossary

This glossary covers basic operational and financial terms as used in the IMF. Words in light *italics* are "see also" references.

A

Access Policy and Access Limits. The IMF has established policies that govern the use of its resources by members and define the maximum amounts that can be borrowed from the IMF by member countries. A member country's access limits are set as percentages of the member's *quota* and vary with the facility being used; the limits are reviewed periodically. The access limits for drawings under the *credit tranches* (normally through *Stand-By Arrangements*) and under the *Extended Fund Facility* (normally through *Extended Arrangements*) have remained unchanged since 1994—at 100 percent of quota annually and 300 percent of quota, cumulatively. The access limits under the three-year *Poverty Reduction and Growth Facility* arrangements are 140 percent of quota in normal circumstances and 185 percent of quota in exceptional circumstances. Access under the *Supplemental Reserve Facility* and *Contingent Credit Lines* is not subject to quota limits.

Accounting Unit. The IMF's unit of account in which its financial records are kept is the *special drawing right* (SDR). Members' currencies are valued by the IMF in terms of the SDR on the basis of their *representative rates* of exchange, normally against the U.S. dollar at spot market rates if available.

Accounts and Departments. The IMF operates its financial functions through the *General Department*, the *SDR Department*, and the *Administered Accounts*, which are accounting constructs and not organizational units. The financial functions of the IMF are discharged by the Treasurer's Department, which is an organizational unit of the staff.

Accounts of the IMF in Member Countries. The IMF's currency holdings are held in accounts of the IMF in designated *depositories* in member countries. These accounts are the No. 1 and No. 2 Accounts, and the Securities Account. The No. 1 Account is used for *quota* subscription payments, *purchases and repurchases*, repayment of borrowing, and sales of the member's currency. All these transactions may also be carried out through the Securities Account, which may be established by the member to hold nonnegotiable, non-interest-bearing notes, or similar obligations, payable to the IMF on demand. These notes or similar obligations are issued by the member as a substitute for the currency holdings of the IMF. The No. 2 Account is used for the IMF's administrative expenditures and receipts in the member's currency and within its territory.

Adequate Safeguards. Under the Articles, the IMF is to make its *general resources* temporarily available to members "under adequate safeguards." The IMF considers that the principal safeguard for repayment is a strong economic *adjustment program*. The IMF has also adopted specific measures to protect against misuse of IMF resources by ensuring that members have in place adequate accounting, reporting, and auditing systems and that they provide the IMF with timely, accurate, and comprehensive information. Other safeguards include IMF technical assistance, formal post-program monitoring, and codes and best practices relating to transparency, statistical reporting, and governance.

Adjustment Program. A detailed economic program, usually supported by use of IMF resources, that is based on an analysis of the economic problems of the member country and specifies the policies being implemented or that will be implemented by the country in the monetary, fiscal, external, and structural areas, as necessary, to achieve economic stabilization and set the basis for sustained economic growth.

Administered Accounts. Accounts established to perform financial and technical services that are consistent with the purposes of the IMF, including the administration of resources contributed by individual members to provide assistance to other members. All transactions involving the Administered Accounts are separate from those of the IMF's other accounts.

Amendments (to the Articles of Agreement). The *Articles of Agreement* have been amended three times. The First Amendment (July 1969) introduced the *special drawing right* (SDR). The Second Amendment (April 1978) reflected the change from the par value exchange system based on a fixed price for gold to an international monetary system permitting floating exchange rates. The Third Amendment (November 1992) allowed for the suspension of voting and certain related rights of a member that fails to fulfill any of its obligations under the Articles (other than obligations with respect to SDRs). The Board of Governors in September 1997 adopted a resolution to amend the Articles to allow for a special one-time allocation of SDRs. This proposed fourth amendment will become effective when three-fifths of membership having 85 percent of the total voting power have accepted it.

Arrangement. A decision by the IMF that gives a member the assurance that it stands ready to provide foreign exchange or SDRs in accordance with the terms of the decision during a specified period of time. An IMF arrangement—which is not a legal contract—is approved by the Executive Board in support of an *adjustment program*.

Articles of Agreement. An international treaty that sets out the purposes, principles, and financial structure of the IMF. The Articles, which entered into force in December 1945, were drafted by representatives of 45 nations at a conference held in Bretton Woods, New Hampshire.

B

Basic Period. Each of the consecutive periods of five years (or less) during which a determination is made whether there is a global need for additional international reserves to justify a new allocation of SDRs. There has not been any allocation since the Third Basic Period (1978–81).

Basic Rate of Charge. The interest charge that is applied to outstanding IMF credit financed from the IMF's *general resources*. The basic rate of charge, which is set as a proportion of the weekly *SDR interest rate*, is applied to the daily balance of all outstanding *purchases* (credit) during each of the IMF's financial quarters. The basic rate is subject to a *surcharge*.

Benchmark Bond Index. Under the IMF's investment strategy for the assets held for concessional assistance, the benchmark is a customized index comprising one- to three-year government bond indices for Germany, Japan, the United Kingdom, and the United States with each market weighted to reflect the currency composition of the SDR basket.

Benchmarks. In the context of IMF programs, a point of reference against which progress may be monitored. Benchmarks are not necessarily quantitative and frequently relate to structural variables and policies. Some benchmarks may be converted to *performance criteria*, required to be observed in order to qualify for phased borrowings. In addition, quantitative benchmarks are set for the quarters for which there are no performance criteria, and structural benchmarks may be set for any date.

Burden Sharing. A policy, under decisions adopted by the Executive Board of the IMF since 1986, regarding the sharing, between members paying *charges* and members receiving *remuneration*, of the financial consequences to the IMF of overdue obligations. An amount equal to overdue charges (excluding special charges) and an allocation to the *Special Contingent Account* are generated each quarter by an upward adjustment of the rate of charge and a downward adjustment of the rate of remuneration.

C

Charges, Periodic. Charges (interest) payable by a member on its outstanding use of IMF credit. Charges are normally levied quarterly (see *Basic Rate of Charge, Special Charges*).

Commitment Fee (Stand-By or Extended Arrangement Charge including amounts available under the Supplemental Reserve Facility and the Contingent Credit Line). A charge is payable at the beginning of each period (usually one year) on the resources committed for that period. This fee is refunded when committed resources are drawn.

Compensatory Financing Facility. A special IMF financing facility that provides resources to members who encounter balance of payments difficulties, arising out of export shortfalls or excess costs of cereal imports that are temporary and result from events that are largely beyond the members' control.

Conditionality. Economic policies that members intend to follow as a condition for the use of IMF resources. These are often expressed as *performance criteria* (e.g., monetary and budgetary targets) or *benchmarks*, are generally monitored through *program reviews*, and are intended to ensure that the use of IMF credit is temporary and consistent with the borrowing country's *adjustment program*.

Contingent Credit Line (CCL). The CCL is aimed at preventing the spread of a financial crisis, by enabling countries that are basically sound and well managed to put in place precautionary financing in case a crisis should occur. Short-term financing would be provided under a *Stand-By Arrangement* primarily to help members overcome the balance of payments financing needs arising from a sudden and disruptive loss of market confidence due to contagion, and largely generated by circumstances beyond the members' control.

Credit Tranche Policies. Policies under which members may make use of IMF credit to address general balance of payments problems. The credit tranche policies are distinct from special policies (facilities) the IMF has adopted to address special balance of payments problems. The amount of such use is related to a member's *quota*. Early in its history, the IMF made credit available in four tranches (segments), each equal to 25 percent of a member's quota. Provided a member is making reasonable efforts to solve its balance of payments problems, it can make use of IMF resources up to the limit of the first credit tranche on fairly liberal terms. Requests for use of more resources (in the upper credit tranches) require substantial grounds for expecting that the member's balance of payments difficulties will be resolved within a reasonable period of time. Such use is almost always made under a *Stand-By Arrangement*, entailing *phasing* of purchases, *performance criteria*, and reviews—in other words, higher *conditionality*.

Creditor (or Reserve) Position in the IMF. A member has a creditor (or reserve) position in the IMF if it has lent its currency to the IMF under a loan agreement, and/or the member has not purchased its *reserve tranche* with the IMF, and/or the IMF has used the holdings of the member's currency—which were acquired by the IMF as part of the member's *quota* payment—to provide financial assistance to other members. More precisely, the creditor (or reserve) position is the sum of any outstanding borrowing by the IMF from the member and the member's *reserve tranche position*.

Cross Conditionality, Avoidance of. To avoid duplication of requirements by the IMF and the World Bank—known as cross-conditionality—there is an understanding that each institution must proceed with its own financial assistance according to the standards laid down in its respective *Articles of Agreement* and the policies adopted by its Executive Board. In other words, compliance with the requirements of one institution ought not be made a condition for the availability of financial assistance by the other institution. A country must, however, be a member of the IMF in order to join the World Bank.

Currency Holdings. The currency holdings of the IMF are the resources held at the disposal of the IMF in the IMF No. 1 Account, No. 2 Account, and Securities Account in its member countries, which are obtained as a result of members' *quota* payments and transactions between the IMF and members.

D

Depository and Fiscal Agency. Each member designates a fiscal agency (ministry of finance, central bank, or similar entity) to conduct financial transactions with the IMF and a depository (central bank or similar agency) to maintain the *accounts of the IMF* (the IMF No. 1 and No. 2 Accounts and the Securities Account). Each 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. The depository also holds for safe custody on behalf of the IMF nonnegotiable, non-interest-bearing notes, or similar instruments, issued by the member in substitution for part of the IMF's currency holdings.

Designation Plan. A list of participants in the *SDR Department* whose balance of payments and reserve positions are sufficiently strong for them to be called upon ("designated") to provide *freely usable currency* in exchange for SDRs within a financial quarter, together with the amounts they may be called upon to provide. The designation plan is established in advance of each financial quarter (currently only on a precautionary basis) by approval of the Executive Board.

E

Early (or Advance) Repurchase. A *repurchase* made before the end of the established maximum repurchase period. Under specific circumstances, the IMF may call upon a member to make an early repurchase.

Early Repurchase Expectation. The expectation of repurchase (repayment) in advance of its originally scheduled due date. According to the *Articles of Agreement*, a member is normally expected to repurchase its currency (make repayment of usable currencies) as its balance of payments and reserve positions improve. The IMF has also adopted early repayment schedules, pursuant to which members are expected to make repurchases of outstanding purchases in the credit tranches, under the *Compensatory Financing Facility* and the *Extended Fund Facility* earlier than the schedule of repurchase obligations. A separate early purchase expectation also applies to purchases made under the *Supplemental Reserve Facility* and the *Contingent Credit Lines*. Such repurchases are expected one year before they become due. At the request of the member, the IMF may decide to extend the expectation periods, though not beyond the due dates.

ELRIC. The five key areas of control and governance within a central bank that are considered for the adequacy of safeguards for IMF resources in assessments by the IMF are summarized under the acronym ELRIC as follows: *E*xternal audit mechanism, *L*egal structure and independence, financial *R*eporting, *I*nternal audit mechanism, and system of internal *C*ontrols.

Emergency Assistance. Since 1962, the IMF has provided emergency assistance in the form of *purchases* to help members overcome balance of payments problems arising from sudden and unforeseeable natural disasters. This assistance was extended in September 1995 to cover certain post-conflict situations. Assistance for post-conflict situations, as well as for natural disasters, is normally limited to 25 percent of quota, and in the case of post-conflict assistance, is available only if the member intends to move within a relatively short time to an upper *credit tranche* arrangement.

Emergency Financing Mechanism. A set of exceptional procedures to facilitate rapid Executive Board approval of IMF financial support for a member while ensuring the conditionality necessary to warrant such support. These emergency measures are used only in circumstances representing, or threatening to give rise to, a crisis in a member's external accounts that requires an immediate IMF response.

Enhanced Structural Adjustment Facility. A facility established in December 1987 to provide assistance on concessional terms to low-income member countries facing protracted balance of payments problems. In 1999, the facility was strengthened to make poverty reduction a key and more explicit focus, and its name was changed to the *Poverty Reduction and Growth Facility.*

Excluded Holdings. The part of a member's currency held in the General Resources Account that reflects the member's use of IMF credit and is therefore excluded when determining the member's *reserve tranche position* in the IMF. When determining a member's reserve tranche position, holdings in the IMF No. 2 Account that are less than $1/10$ of 1 percent of the member's quota also are excluded.

Extended Arrangement. An *arrangement* supported by resources under the *Extended Fund Facility.*

Extended Burden Sharing. The IMF established a second *Special Contingent Account (SCA-2)* on July 1, 1990, and decided to place SDR 1 billion to the account within about five years (through quarterly decreases to the rate of *remuneration* and increases to the *basic rate of charge*). These actions were taken to safeguard against possible losses arising from undischarged repurchase obligations related to purchases financed by the encashment of *"rights"* following the successful completion of a *rights accumulation program*. The SCA-2 was terminated in 1999. The balances in the account were refunded to the contributing members, many of whom chose to transfer these balances to the PRGF-HIPC Trust.

Extended Fund Facility. A financing facility under which the IMF supports medium-term economic programs that generally run for three years and are aimed at overcoming balance of payments difficulties resulting from macroeconomic and structural problems. Typically, an economic program states the general objectives for the three-year period and the specific policies for the first year; policies for subsequent years are spelled out in program reviews.

F

Financial Transactions Plan. The Executive Board adopts a financial transactions plan for each upcoming quarter specifying the amounts of SDRs and selected member currencies to be used in *purchases and repurchases* (transfers and receipts) expected to be conducted through the General Resources Account during that period.

First Credit Tranche Purchase. See *Credit Tranche Policies*.

Floating Facilities. *Purchases* (loans) under the special facilities, other than the *Extended Fund Facility* (currently the *Compensatory Financing Facility, emergency assistance*, and the *Supplemental Reserve Facility*, and the *Contingent Credit Line*), are not counted in calculating annual and cumulative access limits under the IMF's general policy on access limits. These are therefore termed "floating facilities" in terms of access to IMF resources. However, for the purpose of determining the level of conditionality (whether first tranche or higher), all purchases are taken into account.

Freely Usable Currency. A currency that the IMF has determined is widely used to make payments for international transactions and widely traded in the principal exchange markets. At present, the euro, Japanese yen, pound sterling, and U.S. dollar are classified as freely usable currencies.

G

General Arrangements to Borrow (GAB). Long-standing arrangements under which 11 industrial countries stand ready to lend to the IMF to finance *purchases* (loans) that aim at forestalling or coping with a situation that could impair the international monetary system. The GAB currently amount to SDR 17 billion, and there is also an associated agreement with Saudi Arabia for SDR 1.5 billion.

General Department. Comprises the General Resources Account, the Special Disbursement Account, and the Investment Account (not activated).

General Resources. Assets, whether *ordinary* (owned) or borrowed, maintained within the IMF's General Resources Account.

H

Heavily Indebted Poor Countries (HIPC) Initiative. The HIPC Initiative, adopted in 1996, provides exceptional assistance to eligible countries to reduce their external debt burdens to sustainable levels, thereby enabling them to service their external debt without the need for further debt relief and without compromising growth. The HIPC Initiative is a comprehensive approach to debt relief that involves multilateral, Paris Club, and other official and bilateral creditors. To ensure that debt relief is put to effective use, assistance under the HIPC Initiative is limited to PRGF- and IDA-eligible countries that have established a strong track record of policy implementation under PRGF- and IDA-supported programs. It is expected that as many as 36 IMF members could qualify for assistance under the enhanced HIPC Initiative (see below).

- ***Eligibility.*** A country must satisfy three criteria for HIPC assistance: (1) be eligible for concessional assistance from the IMF and World Bank; (2) face an unsustainable debt burden; and (3) establish a track record of reform and sound policies. All countries also must have adopted a Poverty Reduction Strategy Paper (PRSP) through a broad-based participatory process by the *decision point* and have made progress in implementing this strategy for at least one year by the *completion point* (see below).

- ***Decision and Completion Points.*** Under the HIPC framework, the IMF and the World Bank determine the eligibility of a member and the amount of HIPC assistance to be committed at the decision point—the point at which the member completes its first (typically three-year) record of good policy performance under programs supported by the IMF and the World Bank. Beginning from the decision point, an eligible member may receive interim assistance of up to 20 percent annually and 60 percent in total (25 percent and 75 percent, respectively, in exceptional circumstances) of the committed amount of HIPC assistance between the decision point and the completion point—the point when the member has fulfilled all policy-related conditions for HIPC assistance. Remaining undistributed HIPC Initiative assistance is delivered at the completion point.

- ***Enhanced HIPC Initiative.*** The original HIPC Initiative was modified and enhanced in 1999. The enhanced HIPC Initiative aims at providing deeper, faster, and broader debt relief to qualified members. Under this framework, the IMF and the World Bank determine the qualification of a member and the amount of HIPC assistance to be committed at the *decision point* (see above) of the program.

- ***PRGF-HIPC Trust.*** The Trust for Special PRGF Operations for the Heavily Indebted Poor Countries (HIPC) and Interim PRGF Operations. The trust was established in February 1997 to channel special assistance to eligible heavily indebted poor countries.

Holdings Rate. The exchange rate of a member's currency against the SDR, at which the IMF holds the currency of the member. The holdings rate is based on market exchange rates (see *accounting unit* and *representative rate*).

I

Interim Assistance. Beginning from the decision point under the *HIPC Initiative*, a qualified member may receive interim assistance of up to 20 percent annually and 60 percent in total (25 percent and 75 percent, respectively, in exceptional circumstances) of the committed amount in HIPC assistance between the decision point and the completion point.

Interim PRGF. The period between 2002 and 2005 is deemed the "interim" period since it is framed initially by the expected full commitment of loan resources available to the current PRGF Trust and subsequently by the intended initiation of operations under a *self-sustained PRGF.*

L

Liquidity Ratio. The ratio of the IMF's net uncommitted usable resources to its liquid liabilities. It is a measure of the IMF's lending capacity.

M

Maintenance of Value. See *Valuation Adjustment*.

Management Letter. Under IMF safeguards assessments, a letter issued by an external auditor to the management of a central bank that draws attention to material weaknesses in the internal control systems that have come to the attention of the auditor during the audit of financial statements (see *Safeguards*).

Medium-Term Instruments. Under the IMF's investment strategy, these instruments perform similarly to domestic government bonds, but are claims on the Bank for International Settlements (BIS) that offer liquidity and the possibility to benefit from a credit spread over domestic bonds.

Misreporting. The term misreporting is used broadly to cover situations in which a member provides incorrect information to the IMF.

N

Net Present Value (NPV). The NPV of debt is a measure that takes into account the degree of concessionality. It is the sum of all future debt-service obligations (interest and principal) on existing debt, discounted at the market interest rate. Whenever the interest rate on a loan is lower than the market rate, the resulting NPV of debt is smaller than its face value, with the difference reflecting the grant (concessionality) element.

New Arrangements to Borrow (NAB). Arrangements under which 25 member countries or their financial institutions stand ready to lend to the IMF under circumstances similar to those covered by the *General Arrangements to Borrow (GAB)*. The total amount of the NAB is SDR 34 billion, and the combined amount that can be drawn under the NAB and the GAB also cannot exceed SDR 34 billion.

Noncomplying Purchase. A *purchase* (loan) made under a *Stand-By* or an *Extended Arrangement* that the member is later found not entitled to have made—that is, the purchase was made on the basis of incorrect information. The IMF has a set of guidelines that apply in such cases and can call on the member to repay all or part of that purchase early (see also *Misreporting*).

O

Ordinary Resources. Assets held in the General Resources Account that derive from members' *quota* subscription payments and the undistributed net income from the use of these resources.

Outright Purchase. A *purchase* (loan) that is not made under any IMF arrangement.

P

Performance Criteria. Macroeconomic indicators such as monetary and budgetary targets, typically set on a quarterly basis, and, in some cases specific structural measures, for the member to qualify for purchases under the *phasing* schedule for *Stand-By Arrangements* in the upper credit tranches and for extended arrangements under the *Extended Fund Facility*; or on a typically six-month basis for disbursements under *Poverty Reduction and Growth Facility* Arrangements (see also *Benchmarks*).

Phasing. The practice of making the IMF's resources available to its members in installments over the period of an *arrangement*. The pattern of phasing can be even, front-loaded, or back-loaded, depending on the financing needs and the speed of adjustment.

Post-Program Monitoring. A formal safeguard measure introduced by the IMF in 2000 to monitor the economic performance of members whose *arrangements* have expired but who still have substantial IMF credit outstanding.

Poverty Reduction and Growth Facility (PRGF). Established as the *Enhanced Structural Adjustment Facility* in 1987, enlarged and extended in 1994, and further strengthened in 1999 to make poverty reduction a key and more explicit element. The purpose of the facility is to support *adjustment programs* to strengthen substantially and in a sustainable manner balance of payments positions, and to foster durable growth, leading to higher living standards and a reduction in poverty. Seventy-seven low-income countries are currently PRGF-eligible. Loans are disbursed under three-year arrangements, subject to observance of *performance criteria* and the completion of program reviews. Loans carry an annual interest rate of 0.5 percent, with a 5½-year grace period and a 10-year maturity.

- ***Self-Sustained PRGF.*** Under a self-sustained *Poverty Reduction and Growth Facility*, loans would not be financed by PRGF Trust borrowing (as under the current PRGF), but by IMF resources currently in the PRGF Trust Reserve Account, on a revolving basis. The self-sustained PRGF is expected to become effective around 2006.

Precautionary Arrangement. A *Stand-By* or an *Extended Arrangement* under which the member has indicated to the Executive Board its intention not to make *purchases*. Members may cease to treat an arrangement as precautionary at any time, and may make purchases thereunder as long as the conditions (performance criteria, reviews, etc.) under the arrangement have been met.

Precautionary Balances. Financial resources held in the form of General and Special Reserves and in the first *Special Contingent Account* established in the context of the arrears strategy for dealing with existing or potential overdue obligations.

Prescribed Holder. A nonparticipant in the *SDR Department* that has been prescribed by the IMF as a holder of SDRs, including nonmembers, member countries that are not *SDR Department* participants, institutions that perform the functions of a central bank for more than one member, and other official entities.

Program Monitoring. Monitoring by the IMF, including through the conduct of *program reviews*, to determine whether the *performance criteria* specified and policy commitments made in the context of a concurrent *Stand-By* or an *Extended Arrangement* are being observed by the member receiving resources. See also *post-program monitoring*.

Program Review. Provides a framework to assess progress on policies that cannot easily be quantified or defined as *performance criteria* and to assess overall progress toward program objectives of macroeconomic adjustment and structural reform in the context of an IMF program. The completion of a review makes available the next installment for purchases under the arrangement.

Protracted Arrears. Arrears to the IMF of more than six months.

Purchases and Repurchases. When the IMF makes its *general resources* available to a member, it does so by allowing the member to purchase SDRs or other members' currencies in exchange for its own (domestic) currency. The IMF's general resources are, by nature, revolving: purchases (loans) have to be reversed by repurchases (repayments) in installments within the period specified for a particular policy or facility. Although the purchase-repurchase mechanism is not technically or legally a loan, it is the functional equivalent of a loan.

Q

Quota. The capital subscription, expressed in SDRs, that each member must pay to the IMF on joining. Up to 25 percent is payable in SDRs or other acceptable reserve assets and the remainder in the member's own currency. Quotas, which reflect members' relative size in the world economy, are normally reviewed and possibly adjusted every five years.

R

Rebalancing of Portfolio. Portfolio rebalancing ensures that the currency composition of the investment portfolio managed by the IMF matches as closely as practicable the currency composition of the SDR basket.

Remunerated Reserve Tranche Position. The IMF pays interest, called *remuneration*, on a member's *reserve tranche position* except on a small portion that is provided to the IMF as interest-free resources. This unremunerated (non-interest-bearing) portion of the reserve tranche position is 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 IMF's Articles. The gold tranche was never remunerated historically, so it was natural to set aside this same amount in terms of SDRs on this date as the unremunerated reserve tranche. For a member that joined the IMF after that date, the unremunerated reserve tranche is the same percentage of its initial quota as the average unremunerated reserve tranche was as a percentage of the quotas of all other members when the new member joined the IMF. The unremunerated 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 quota. At the present time, the average is equal to 3.8 percent of quota, but the actual percentage is different for each member.

Remuneration. The interest paid by the IMF every quarter on a member's *remunerated reserve tranche position*.

Representative Rate. The exchange rate of a member's currency, normally against the U.S. dollar, that is used in the IMF's *transactions* with that member—that is, a currency (other than the U.S. dollar) is valued in terms of the SDR in accordance with the value of the U.S. dollar in SDR terms and the representative rate of the other currency in terms of the U.S. dollar. If the member has an exchange market where a representative spot rate for the U.S. dollar (against the member's currency) can be readily ascertained, then that representative rate will be used. If such a market rate cannot be readily ascertained for the U.S. dollar but can be ascertained for another currency for which a representative market rate against the U.S. dollar exists, then that cross rate can be used. Otherwise, the IMF determines a rate for the currency that is appropriate.

Reserve Tranche Position. The member's *quota* less the IMF's holdings of a member's currency in the General Resources Account (excluding holdings that reflect the member's use of IMF credit and holdings in the IMF No. 2 Account that do not exceed $\frac{1}{10}$ of 1 percent of the member's quota). The reserve tranche position in the IMF is a part of the member's external reserves.

Rights Accumulation Program. An economic program agreed between the IMF and an eligible member in protracted arrears to the IMF that provides a framework for the member to establish a satisfactory track record of policy and payments performance, and permits the member to accumulate rights to future drawings of IMF resources following its clearance of arrears to the IMF up to the level of arrears outstanding at the beginning of the program.

Rights Approach. A special approach to address the situation of members that were in protracted arrears to the IMF at end-1989, on the basis of a *rights accumulation program*.

S

Safeguards. The IMF's Articles of Agreement stipulate that the IMF make its general resources temporarily available to members "under adequate safeguards." The principal safeguards used by the IMF are limits on access to appropriate amounts of financing, with incentives to contain excessively long or heavy use; conditionality and program design; safeguards assessments of central banks; and measures to deal with misreporting, supplemented by post-program monitoring and various voluntary activities, including the transparency (international standards and codes of good practice) and good governance initiatives.

Safeguards Assessment. An evaluation of a member country central bank's control, accounting, reporting and auditing systems to ensure that resources, including those provided by the IMF, are adequately monitored and controlled. The first stage determines whether there are clear vulnerabilities in these systems, based on information provided by central banks. If weaknesses in internal procedures are suspected, a second stage comprises on-site evaluations and recommendations for improvements. Safeguards assessments for all new users of IMF resources began after mid-year 2000 and will continue on an experimental basis until the policy is reviewed by the Executive Board in 2002. (See also *ELRIC*, *Stage One*, *Stage Two*, and *Transitional Procedures*.)

Service Charge. A fixed charge of ½ of 1 percent levied on each *purchase* of IMF resources in the General Resources Account other than *reserve tranche* purchases, which carry no charges. The service charge is payable at the time of the transaction.

Special Charges (Additional Charges). Charges in addition to the *basic rate of charge* levied on a member's overdue repurchases and charges.

Special Contingent Account. An account established to hold *precautionary balances* in order to strengthen the IMF's financial position in connection with members' overdue financial obligations.

Special Drawing Right (SDR). International reserve asset created by the IMF in 1969 as a supplement to existing reserve assets.

- ***SDR Allocation.*** Distribution of SDRs to members by decision of the IMF. A "general" allocation requires a finding by the IMF that there is a global need for additional liquidity.

- ***SDR Assessment.*** An assessment levied by the IMF, at the same rate for all participants in the *SDR Department*, on a participant's cumulative SDR allocations, to cover the expenses of conducting the business of the *SDR Department*.

- ***SDR Department.*** This department, an accounting entity rather than an organizational unit of the IMF, administers and records all transactions and operations involving SDRs.

- ***SDR Interest and Charges.*** Interest is paid to each holder of SDRs. Charges are levied, at the same rate, on each participant's cumulative SDR allocation. The SDR interest rate is determined weekly by reference to a combined market interest rate. Interest on SDR holdings is paid and charges on cumulative allocations are collected on a quarterly basis, and are settled on the first day of the subsequent quarter.

- ***SDR Use.*** Participants in the *SDR Department* (currently all members of the IMF) and *prescribed holders* may use SDRs in a variety of voluntary transfers, including transactions by agreement, swap arrangements, and forward operations. Participants may also use SDRs in transactions involving the General Resources Account of the IMF, such as the payment of charges (interest) and repurchases (repayments) of currencies. In addition, the IMF ensures that a participant with a need because of its balance of payments or reserve position is able to use its SDRs to acquire foreign exchange in a "transaction with designation" (see *Designation Plan*).

- ***SDR Valuation.*** The currency value of the SDR is determined daily by the IMF by summing the values in U.S. dollars, based on market exchange rates, of a basket of major currencies (the U.S. dollar, euro, Japanese yen, and pound sterling). The SDR valuation basket is normally reviewed and adjusted every five years.

Stage One. Under the IMF's *Safeguards Assessments*, this stage refers to a preliminary assessment of the adequacy of the central bank's *ELRIC* based on a review of documentation provided by the authorities and, if necessary, discussions with the external auditors.

Stage Two. Under the IMF's *Safeguards Assessments*, this stage refers to an on-site assessment mission that may be undertaken to confirm or modify the preliminary conclusions drawn by the *Stage One* assessment and propose specific remedial measures to alleviate confirmed vulnerabilities in a central bank's *ELRIC*.

Stand-By Arrangement. A decision of the IMF by which a member is assured that it will be able to make *purchases* from the General Resources Account up to a specified amount and during a specified period of time, usually one to two years, so long as the member observes the terms specified. Drawings under a Stand-By Arrangement are normally subject to *credit tranche policies*.

Supplemental Reserve Facility. A special facility established in December 1997 to provide financial assistance to members experiencing exceptional balance of payments difficulties due to short-term financing needs resulting from a sudden and disruptive loss of market confidence reflected in pressure on the capital account and the members' reserves.

Surcharge to the Basic Rate of Charge. A surcharge of 100 basis points is added to the *basic rate of charge* on outstanding IMF credit in excess of 200 percent of quota, and the surcharge rises to 200 basis points on credit above 300 percent of quota. The surcharge does not apply to purchases under the *Compensatory Financing Facility* and the special policy on *emergency assistance*. Different surcharges apply to credits under the *Contingent Credit Lines* and the *Supplemental Reserve Facility.*

Surveillance. An essential aspect of the IMF's responsibilities associated with overseeing the policies of its members, as specified in the *Articles of Agreement*, in order to ensure the effective operation of the international monetary system.

T

Transactions by Agreement. Transactions in which participants in the *SDR Department* (currently all IMF members) and/or *prescribed holders* voluntarily exchange SDRs for currency at the official rate as determined by the IMF.

Transitional Procedures. Under the IMF's *Safeguards Assessments*, these procedures are applicable to member countries with IMF arrangements in effect prior to June 30, 2000 and are similar to a *Stage One* assessment, except that the central bank is subject to assessment in only one area of the safeguards framework, namely the external audit mechanism.

U

Upper Credit Tranche. See *Credit Tranche Policies.*

Usable Currency. The currency of a member that the IMF considers is in a sufficiently strong external position that its currency can be used to finance IMF transactions with other members through the *financial transactions plan*. Not to be confused with *freely usable currency.*

Use of IMF Resources (or IMF Credit). Includes use of IMF resources under the General Resources Account, and loans made to members from the Special Disbursement Account or resources borrowed by the IMF as Trustee for the PRGF Trust. The use of IMF resources (or IMF credit) in the General Resources Account consists of transactions in which a member in need of balance of payments assistance uses its own currency to acquire from the IMF SDRs or the currency of a member in a strong balance of payments and reserve position. As a result of these transactions, the value in terms of SDRs of the IMF's aggregate holdings of SDRs and currencies do not change, but the composition of those holdings changes. The "strong" member whose currency is used to provide assistance sees a decrease in the IMF's holdings of its currency, while gaining an increased "reserve tranche position," on which it will receive *remuneration* or interest (unless the IMF's holdings of its currency remain within the unremunerated portion of the member's reserve tranche), and the IMF's holdings of the purchasing (borrowing) member's currency increases.

V

Valuation Adjustment. Each member has the obligation of maintaining the value in terms of the SDR of the balances of its currency held by the IMF. Whenever the holdings of a member's currency are revalued (for a "strong" member, typically when its currency is used in a transaction; for all members, at the end of the IMF's financial year), a receivable (for the IMF) or a payable (by the IMF) is established for the amount of currency payable by or to the member as a result of changes in the value of the currency against the SDR.

Value Date. The date on which the IMF establishes, in SDR terms, the value of a transaction. The IMF normally operates on a three-day value basis; that is, the value of the transaction is established on the basis of the exchange rate prevailing three business days before the transfer of funds actually takes place. However, if circumstances require it, the IMF can operate on a shorter value date.