Glossary of Selected Terms[1]

A

Access Policy and Access Limits
Policies that govern the use of IMF resources by its members, including access limits set in terms of members' *quotas*. The access policy, including annual and cumulative limits, under the *credit tranches* and the *Extended Fund Facility* (EFF) are reviewed each year. Access under other facilities also is reviewed periodically. Access under the *Supplemental Reserve Facility* (SRF) and the *Contingent Credit Line* (CCL) are not subject to limits in relation to quotas.

Arrangement
A decision by the IMF that gives a member the assurance that the institution 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 economic program under which the member undertakes a set of policy actions to reduce economic imbalances and achieve sustainable growth. Resources used under an arrangement carry with them the obligation to repay the IMF in accordance with the applicable schedule, and to pay charges on outstanding *purchases* (drawings) and loans.

Article IV
Article IV consultations are the main vehicle through which the IMF exercises its bilateral *surveillance* mandate. In accordance with Article IV of its *Articles of Agreement*, the IMF holds consultations, normally every year, with each of its members. The purpose of these consultations is to assess whether a country's economic developments and policies are consistent with the achievement of sustainable growth and domestic and external stability. In this way, the IMF seeks to provide a preventive mechanism that is capable of signaling dangers on the economic horizon and anticipating the need for policy action.The outcome of these consultations is a staff report discussed by the IMF's *Executive Board*. Many countries choose to make these reports public after they have been discussed by the Board.

[1]This glossary is based on the "Glossary of Selected Financial Terms" and various factsheets prepared by the IMF's External Relations Department. The full glossary is available on the IMF's website at *http://www.imf.org/external/np/exr/glossary/index.asp*. The factsheets are available at *http://www.imf.org/cgi-shl/create_x.pl?fcteng*. Words in light italics are "see also" references.

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. The Articles have since been amended three times, in 1969, 1978, and 1992, as the IMF responded to changes in the world economic and financial structure.

B

Basic Rate of Charge
A single unified rate of charge that is applied to the outstanding use of 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* (drawings) during each of the IMF's financial quarters. A surcharge is added for use of resources under the *Supplemental Reserve Facility* and the *Contingent Credit Line*.

Benchmarks
In the context of IMF arrangements, a point of reference against which progress may be monitored. Benchmarks may be either quantitative or structural in content, and may be set on a quarterly or semiannual basis.

C

Compensatory Financing Facility (CFF)
A special IMF financing facility (window) that was established to provide resources to members to cover shortfalls in export earnings and services receipts, as well as excesses in cereal import costs, that are temporary and arise from events 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* (for example, monetary and budgetary targets) or *benchmarks*, and are intended to ensure that the use of IMF credit is temporary and consistent with the adjustment program designed to correct a member's external payments imbalance.

Contingent Credit Line (CCL)
The CCL is aimed at preventing the spread of a financial crisis, enabling countries that are basically sound and well managed to put in place precautionary financing in the event a crisis should occur. Short-term financing would be

provided under a *Stand-By* or an *Extended Arrangement* 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 member's control.

Credit Tranche Policies
Policies under which members may make use of IMF credit. 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 (upper credit tranche purchases) 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* or an *Extended Arrangement*, entailing phasing of *purchases*, *performance criteria*, and reviews.

E

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 current early repurchase policy has been in effect since June 1979 and establishes amounts expected to be repurchased taking into account the level of a member's reserves and their growth, as well as other parameters. A separate repurchase expectation applies to purchases made under the *Supplemental Reserve Facility* and the *Contingent Credit Line*. Such repurchases are expected one year before they become obligatory, except that at the request of the member the IMF may decide to extend the expectation period by up to one year, though not beyond the due date.

Enhanced Structural Adjustment Facility (ESAF)
Facility established in December 1987 to provide assistance on concessional terms to low-income member countries facing protracted balance of payments problems. (Changed to the *Poverty Reduction and Growth Facility* in 1999.)

Enhanced Surveillance Procedure
Policy introduced in 1985 to help members make progress in addressing their debt problems and improving relations with their creditors. During the enhanced surveillance period, economic developments in the member country are monitored by the IMF. The staff prepares an assessment of the member's economic program, which may be presented by the member to official and private creditors for consideration. The policy was broadened in 1993 to cover any situation in which a member would find this enhanced monitoring by the IMF helpful.

Executive Board
The Executive Board consists of 24 Executive Directors representing the IMF's 184 member countries. At present, eight Executive Directors represent individual countries: China, France, Germany, Japan, Russia, Saudi Arabia, the United Kingdom, and the United States. The 16 other Executive Directors each represent groupings of the remaining countries. The Executive Board rarely makes its decisions on the basis of formal voting, but relies instead on the formation of consensus among its members.

Extended Arrangement
A decision of the IMF under the *Extended Fund Facility* that gives a member the assurance of being able to purchase (draw) resources from the *General Resources* Account (GRA) during a specified period, and up to a particular amount.

Extended Fund Facility
A financing facility (window) under which the IMF supports economic programs that generally run for three years and are aimed at overcoming balance of payments difficulties resulting from macroeconomic and structural problems. Typically, the member's 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 at the time of program reviews.

F

Financing Assurances
An IMF policy developed in response to the external debt crisis of the late 1970s and early 1980s to help mobilize financial support from the international banking community for countries experiencing debt-servicing difficulties. Under the policy, the IMF would not make its resources available to a member undertaking an adjustment program until receiving assurances that the financing for the program would be forthcoming.

G

General Resources
Assets, whether ordinary (owned) or borrowed, maintained within the IMF's General Resources Account (GRA), that constitute the bulk of resources available to the IMF to provide financial support to its members.

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. It is a comprehensive approach to debt relief that involves multilateral, Paris Club, and other official and bilateral creditors. Assistance under the HIPC Initiative is limited to PRGF- and IDA-eligible countries that have established a strong track record of performance under PRGF- and IDA-supported programs. A strong track record of policy implementation is intended to ensure that debt relief is put to effective use. Recent enhancements to the HIPC Initiative aim to provide deeper, broader, and quicker debt relief. It is expected that as many as 36 IMF members could qualify for assistance under the enhanced Initiative.

I

International Monetary and Financial Committee (IMFC)
The IMFC consists of 24 Governors representing constituencies or groups of countries, corresponding to those of the Executive Board. It meets twice a year, on the occasion of the IMF–World Bank Annual and Spring Meetings, to advise the IMF on the functioning of the international monetary system. In April 2002, the members of the IMFC were the Governors of the IMF for Algeria, Argentina, Australia, Belgium, Botswana, Brazil, Canada, China, Finland, France, Gabon, Germany, India, Italy, Japan, Mexico, Netherlands, Russia, Saudi Arabia, Switzerland, Thailand, United Arab Emirates, United Kingdom and United States.

L

Letter of Intent
A document emanating from country authorities that presents to the *Executive Board* the economic programs that they formulated in consultation with the IMF, in support of their request for IMF lending.

Liquidity Ratio
A measure used to gauge the IMF's capacity to provide financial assistance to members and meet members' claims on the IMF. It is the ratio of the IMF's net uncommitted usable resources to its liquid liabilities.

M

Management
IMF management consists of the Managing Director and three Deputy Managing Directors. The Managing Director is Head of IMF staff and Chairman of the *Executive Board.* He is appointed by the Executive Board.

P

Paris Club
The Paris Club is an informal group of official creditors, industrial countries in most cases, that seek solutions for debtor countries facing payments difficulties. Although the Paris Club has no legal basis, its members agree to a set of rules and principles designed to reach a coordinated agreement on debt rescheduling quickly and efficiently. The Paris Club and the IMF have extensive contacts, since the Paris Club normally requires countries to have an active IMF-supported program in order to qualify for a rescheduling agreement.

Performance Criteria
Macroeconomic or structural indicators that must be met, typically on a quarterly or semiannual basis, for the member to qualify for purchases under the phasing schedule for *Stand-By Arrangements*, *Extended Fund Facility* (EFF) Arrangements, and *Poverty Reduction and Growth Facility* Arrangements. Some performance criteria are those necessary to implement specific provisions of the Articles of Agreement.

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.

Poverty Reduction and Growth Facility (PRGF)
Established as the *Enhanced Structural Adjustment Facility* (ESAF) 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 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. Eighty 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.

Precautionary Arrangement
A *Stand-By* or an *Extended Arrangement* under which the member agrees to meet specific conditions for use of IMF resources although it has indicated to the *Executive Board* its intention not to make *purchases* (drawings).

Program Monitoring
Monitoring by the IMF to determine whether the *performance criteria* specified and policy commitments made in the context of a *Stand-By* or an *Extended Arrangement* are being observed by the member receiving resources (see *Conditionality*).

Purchases and Repurchases
When a member draws on the IMF's *general resources*, it does so by purchasing *SDRs* or other members' currencies in exchange for its own (domestic) currency. The IMF's general resources are, by nature, revolving: purchases (or drawings) have to be reversed by repurchases (or repayments) in installments within the period specified for a particular policy or facility.

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 that the IMF in turn can use to obtain reserve assets from the member. Quotas determine the maximum amount of resources a member is called upon to provide to the IMF, serve as the basis for voting power on IMF decisions, determine the distribution of SDR allocations, and serve as the basis for access to IMF resources. Quotas are normally reviewed every five years.

S

Special Drawing Right (SDR)
International reserve asset created by the IMF in 1969 to supplement existing reserve assets. 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 four major currencies—the euro, Japanese yen, pound sterling, and the U.S. dollar. The SDR valuation basket is normally reviewed every five years. Members of the IMF may use SDRs in a variety of voluntary transfers, including in operations and transactions involving the *General Resources* Account (GRA), such as the payment of charges and repurchases (repayments). The SDR is also the unit of account of the IMF's financial activities.

Stand-By Arrangement
A decision of the IMF by which a member is assured that it will be able to make *purchases* (drawings) from the *General Resources* Account (GRA) up to a specified amount and during a specified period of time, usually one to two years, provided that the member observes the terms set out in the supporting arrangement.

Supplemental Reserve Facility (SRF)
A facility (window) 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.

Surveillance
The IMF has a mandate under its *Articles of Agreement* to exercise firm surveillance over the exchange rate policies of members in order to oversee the international monetary system and ensure its effective operation. To this end, the IMF assesses whether a country's economic developments and policies are consistent with the achievement of sustainable growth and domestic and external stability (bilateral surveillance). The IMF also assesses the global implications of members' policies and reviews key developments and prospects in the international monetary system (multilateral surveillance). In this way, the IMF seeks to provide a preventive mechanism that is capable of signaling dangers on the economic horizon and anticipating the need for policy action. (See also *Article IV.*)

U

Use of IMF Resources (or IMF Credit)
The extension of credit to members through the use of IMF resources under the *General Resources* Account, loans made to members of resources in the Special Disbursement Account, or resources borrowed by the IMF as Trustee for the PRGF Trust.