Income, charges, remuneration, and burden sharing

IMF adds annual net income to its reserves

The IMF, like other financial institutions, earns income from charges and fees levied on its financing; it uses that income to meet funding costs and pay for administrative expenses. At the beginning of each financial year, the IMF Executive Board determines a net income target to ensure that the cost of conducting the affairs of the IMF is fully covered and to provide for a modest addition to reserves. To evaluate the adequacy of the IMF's precautionary balances—consisting of reserves and a special contingent account—the IMF takes into account all relevant factors. In doing so, it follows two guiding principles: such balances should fully cover credit outstanding to member countries in protracted arrears, and these balances should also include a margin for the risk related to credit outstanding to other IMF members in good standing. Then, based on projections for income and expenses for the year, the Board sets the basic rate of charge (which is linked to the SDR interest rate) on the use of IMF resources; the rate can be adjusted at midyear in light of actual year-to-date net income if income for the year as a whole is expected to deviate significantly from the projections. The IMF also receives income from debtor members in the form of service charges, commitment fees, and special charges on overdue payments. At year-end, any income in excess of the target is usually refunded to members that paid charges during the year; shortfalls are made up the following year.

In November 2000, the IMF introduced level-based surcharges to discourage excessively large use of credit in the credit tranches, including Stand-By Arrangements, and under the Extended Fund Facility, based on the total amount of credit outstanding. The IMF also imposes surcharges on shorter-term financing under the Supplemental Reserve Facility (SRF) and the Contingent Credit Lines, which vary according to the length of time credit is outstanding. Income derived from surcharges is added to the IMF's reserves and is not taken into account in determining the net income target for the year.

The IMF pays interest (remuneration) to creditor members on their IMF claims (reserve positions) based on the SDR interest rate. Currently, the basic rate is set at 100 percent of the SDR interest rate (the maximum allowed) but it can be as low as 80 percent. The rates of charge and remuneration are subject to a burden-sharing mechanism that distributes the cost of overdue financial obligations evenly between creditor and debtor members. Thus, the IMF recovers income forgone when charges go unpaid by raising the rate of charge and lowering the rate of remuneration; when member countries settle their overdue charges, it refunds the amounts collected.

The Executive Board set the basic rate of charge on the use of IMF resources for financial year 2001 at 115.9 percent of the SDR interest rate to achieve the agreed income target. The IMF's net income in financial year 2001 totaled SDR 175 million, which included SDR 119 million derived from earnings on net pension assets and SDR 9 million net income from the SRF. As agreed at the beginning of the financial year, SDR 42 million of net income in excess of the income target was refunded to members that paid charges during financial year 2001, effectively reducing the basic rate of charge to 113.7 percent of the SDR interest rate. Following that retroactive reduction in charges, SDR 175 million was added to the IMF's reserves—SDR 9 million of SRF net income to the General Reserve and the remainder to the Special Reserve. Total reserves rose to SDR 3.3 billion as of April 30, 2001, from SDR 3.1 billion a year earlier.

For fiscal year 2002, the basic rate of charge was set at 117.6 percent of the SDR interest rate. ■

Financial transactions plan

The financial transactions plan is relevant only for financial assistance from the General Resources Account (GRA). GRA resources are not lent; rather they are "purchased" by the member. The IMF provides financial assistance to members either by making available reserve assets from its holdings or by having financially strong countries exchange the IMF's holdings of their currencies for usable currencies. Financially strong members are selected by the Executive Board on the basis of an assessment of their economic situation, taking into account, among other things, recent and prospective developments in their balance of payments and reserves, trends in their exchange rates, and the size and maturities of their external debt obligations.

The amounts that these members transfer and receive are managed to ensure that the members' creditor positions in the IMF remain broadly the same in relation to their respective quotas. This is achieved in the framework of an indicative quarterly plan for financial transactions. As of April 30, 2001, 39 members were included in the financing plan. The IMF publishes on its website the outcome of the financial transactions plan for the quarterly period ending three months prior to publication.