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### Questions and Answers: IMF Resources and the G-20 Summit

International Monetary Fund (IMF): Strategy, Policy, and Review Department

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## IMF Resources and the G-20 Summit

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At the [April 2009 G-20 Summit](#), world leaders [pledged to support growth](#) in emerging market and developing countries by boosting the IMF's lending resources to \$750 billion. They committed to:

- **increase the resources available to the IMF by \$250 billion** through immediate contributions from some IMF member countries. The G-20 agreed that these bilateral contributions will subsequently be incorporated into an existing credit line the IMF maintains with some of its members, known as the [New Arrangements to Borrow](#), or NAB. The G-20's intention is to increase the resources available through a more flexible NAB by up to \$500 billion.
- **use additional resources from agreed sales of IMF gold to provide \$6 billion in additional financing for poor countries**, in a manner consistent with the IMF's new income model, over the next 2 to 3 years.

In addition, the G-20 supported a **general allocation of the IMF's [Special Drawing Rights equivalent to \\$250 billion to boost global liquidity](#)**. The G-20 also urged urgent ratification of the Fourth Amendment to the IMF's Charter, first proposed in 1997, which seeks to make the allocation of SDRs more equitable.

Below follows a list of commonly asked questions about the proposed increase in the NAB, the new SDR allocation, and gold sales. While certain aspects of the implementation of the G-20 agreements have become clear, the IMF is still discussing other aspects, so some of the details are not yet available.

### Frequently Asked Questions

#### Proposal to Expand the IMF's New Arrangements to Borrow

- What are Borrowing Arrangements, and how do they work?
- What will it take to expand the IMF's lending resources by \$250 billion?

#### Proposed SDR allocation

- What is an SDR?
- What is the special SDR allocation under the proposed Fourth Amendment?
- When will the general SDR allocation become effective and how will it benefit member countries?
- How would low-income countries benefit from an SDR allocation?

#### New Resources for Concessional Lending

- How will the IMF finance the additional \$6 billion in concessional financing called for by the G-20?
- How much gold is the IMF planning to sell?

## [Q. What are Borrowing Arrangements, and how do they work?](#)

- Quota subscriptions from member countries are the IMF's main source of financing, but the IMF can supplement its resources through borrowing if it believes that its current resources might fall short of member countries' financing needs.
- Through two agreements—the [General Arrangements to Borrow \(GAB\)](#) and the [New Arrangements to Borrow \(NAB\)](#)—a number of member countries and institutions stand ready to lend additional funds to the IMF.

- The NAB currently comprises credit arrangements with 26 members and institutions for a total amount of SDR 34 billion (equivalent to \$51 billion). Commitments for an expanded and more flexible NAB are expected to be forthcoming in the near future.
- The IMF has in the past also temporarily supplemented its resources through bilateral borrowing agreements. A recent example is the IMF's new [loan agreement with Japan](#).

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## Q. What will it take to expand the IMF's lending resources by \$250 billion?

- As of end-July 2009, three bilateral borrowing agreements, designed to temporarily bolster the Fund's capacity to provide timely and effective balance of payments support to member countries during the current crisis, are effective: [Japan \(\\$100 billion\)](#), [Norway \(\\$4.5 billion\)](#), and [Canada \(\\$10 billion\)](#).
- In addition, European Union members have pledged loans worth €75 billion (\$100 billion). Switzerland has pledged about \$10 billion. China, Brazil and Russia have indicated their willingness to invest in notes issued by the IMF.
- In sum, substantial progress toward the G-20 goal of \$250 billion in immediate resource additions has already been made and the Fund is continuing to work with members to supplement its resources.

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## Q. What is an SDR?

- The [SDR](#) is an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries. An SDR is not a liability of the IMF, and an allocation of SDRs does not increase the Fund's resources available for lending. Rather, it directly increases members' own international reserves.
- SDRs are included in member countries' international reserves and members can also voluntarily exchange SDRs for currencies among themselves. In addition, IMF members with a balance of payments need have the right to exchange their SDRs for freely usable currencies (U.S. dollars, euro, Japanese yen, pound sterling) provided by other IMF members that are in a position of external strength.
- SDRs are allocated to member countries in proportion to their IMF [quotas](#). The SDR also serves as the unit of account of the IMF and some other international organizations. Its value is based on a basket of key international currencies.

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## Q. What is the special SDR allocation under the proposed Fourth Amendment?

- A proposal for a special one-time allocation of SDRs was approved by the IMF's Board of Governors in September 1997 through the proposed Fourth Amendment of the Fund's Articles of Agreement.
- The intent of this allocation is to enable all members of the IMF to participate in the SDR system on an equitable basis and correct for the fact that countries that joined the Fund after 1981—more than one fifth of the current IMF membership—have never received an SDR allocation. It would also double the total allocation of SDRs to SDR 42.8 billion (equivalent to about \$64 billion).
- The Fourth Amendment became effective for all members on August 10, 2009 when the Fund certified that at least three-fifths of the IMF membership (112 members) with 85 percent of the total voting power accepted it. The special allocation will be implemented on September 9, 2009, thirty days after the effective date.

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## Q. When will the general SDR allocation become effective and how will it benefit member countries?

- The general SDR allocation of US\$250 billion will become effective on August 28, 2009.
- A general SDR allocation is made to participants in the SDR Department (currently all IMF members are participants in the SDR department) based on their respective IMF quota shares.

- Of the SDR allocation equivalent to \$250 billion proposed by the G-20, emerging markets and developing countries as a group would account for almost \$100 billion, of which low-income countries would account for close to \$18 billion.
- An SDR allocation is a low cost way of adding to members' international reserves. For member countries that choose to hold their allocation, the net carrying cost is effectively zero. In effect, an SDR allocation would allow members to reduce their reliance on more expensive domestic or external debt for building reserves.

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### **Q. How would low-income countries benefit from an SDR allocation?**

- An SDR allocation would increase the international reserves of low-income countries, providing a liquidity cushion in case of shocks, which is particularly important as low-income countries have become increasingly exposed to global volatility and have been hit hard by the current global economic crisis.

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### **Q. How will the IMF finance the additional \$6 billion in concessional financing called for by the G-20?**

- In late July, the IMF's Executive Board approved measures that will boost the Fund's concessional lending capacity by up to \$17 billion through 2014, including up to \$8 billion in the first two years. This exceeds the G-20 call for \$6 billion in new lending over two to three years. The increase in the Fund's concessional lending capacity will require additional subsidy resources of SDR \$1.5 billion to bridge the gap between market interest rates and lower concessional rates charged to LIC borrowers. New loan resources will also be needed.
- Some of the money to boost IMF lending to low-income countries will come from the **envisaged sales of IMF gold** as part of the Fund's **new income model**. Resources linked to the gold sales will be used to help fund concessional lending to low-income countries in the following ways. First, windfall profits when the gold sales take place can be used for the subsidy resources. Windfall profits would derive from gold sales at an average price in excess of \$850 per ounce—that is the price assumed in the new income model as necessary to fund the model. Second, to the extent that the realized windfall profits fall short of the required contribution, the remaining amount will be generated through investment income from the endowment funded by the gold sales.

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### **Q. How much gold is the IMF planning to sell?**

- 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 reduced. However, it is still an important asset in the reserve holdings of a number of countries, and the IMF remains the third largest official holder of gold in the world, with total holdings of 3,217 tons.
- In May 2008, the IMF's Board of Governors **endorsed** a new package of measures to end the IMF's over-reliance on lending income. As part of the new income model, the IMF's membership endorsed limited gold sales, amounting to 403.3 tons, conducted under safeguards to avoid disruption of the gold market. There is no change in this **proposed sale**.