

THE FINANCIAL TRANSACTIONS PLAN OF THE IMF

The Financial Transactions Plan (FTP) is the mechanism through which the Fund finances its lending and repayment operations in the General Resources Account.¹ This aide-mémoire outlines the guiding principles for the selection of members to participate in Fund financing through the FTP, and the method used to determine the contribution of each member. Some key operational aspects of Fund transactions are also discussed.

I. SELECTION OF MEMBERS FOR INCLUSION IN THE TRANSACTIONS PLAN

A member is selected for inclusion in the FTP based on a finding by the Executive Board that the member's balance of payments and reserve position is sufficiently strong. Specific indicators of external strength are used to maintain a reasonable degree of consistency among members, but the assessment of a member's combined balance of payments and reserve position is ultimately a matter of judgment. It has not therefore been considered desirable to rely on automatic indicators or to define rigidly the notion of a sufficiently strong external position; the circumstances of members, including their need to hold reserves, differ considerably.

All relevant factors and data are considered in the assessment of a member's balance of payments and reserve position, including developments in exchange markets and changes in net reserves, if this information is available. Particular emphasis is placed on recent and prospective current account balances, external competitiveness, and external debt indicators, especially those offering insights into the member's exposure to short-term liquidity strains. Thus, members may be included in the FTP even though there may be some elements of weakness in their overall balance of payments and reserve position.

Two broader considerations underlying the financial structure of the Fund have guided the staff and the Executive Board in coming to conclusions about a member's external strength for the purpose of participation in the FTP.

- First, the Fund draws on a wide range of members—large and small, advanced, developing, and transition—for its financial activities, reflecting first and foremost the cooperative nature of the Fund. Broad participation of members in the FTP also works to maximize the liquidity of the General Resources Account.
- Second, the use of a member's currency in the FTP generally entails a change in the composition of the member's international reserves. For most members, transactions conducted through the FTP would normally involve a reduction in their currency holdings, which is fully offset by an increase in their reserve tranche position in the Fund. This position is included as part of the member's international reserves as it is a liquid claim on the Fund, earning a market-related return, which can be drawn on demand in the event of balance of payments need.

¹ Prior to March 2000, the Financial Transactions Plan was called the Operational Budget.

For each FTP, the Fund staff proposes a list of members it considers sufficiently strong, and the Executive Board takes a decision based on this list. It is open to an Executive Director to request the exclusion or inclusion of any member, but the decision rests with the Executive Board as a whole. A member's consent to its inclusion is not required, although its views on its balance of payments and reserve position will be taken into account by the Executive Board before a decision is taken.²

II. METHOD FOR DETERMINING CONTRIBUTIONS THROUGH THE TRANSACTIONS PLAN

Both currencies and SDRs are used in the financial transactions plan for **transfers** (credits) from the Fund to 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 total amount for transfers in the transactions plan is based on the expected volume of credit to be extended to members and operational payments by the Fund during the plan period. Receipts in currencies are estimated on the basis of the schedule of forthcoming repayments and the preferences of members with respect to the media of payment (i.e., currencies versus SDRs), as well as the need to allow for the use of currencies to acquire SDRs from the Fund for payment of charges.

The amount of SDRs projected to be used in Fund credits depends on the Fund's current holdings of SDRs, the inflow and outflow of SDRs anticipated over the period ahead, and the longer-term target range for the Fund's SDR holdings as set by the Executive Board. Once this calculation is made, the total amount of currencies included in the transactions plan for transfers is calculated as a residual.

The allocation of transfers and receipts among members in the FTP is based on guidelines established by the Executive Board, most recently revised in November 1998. The steps involved in calculating amounts of currencies for transfers and receipts are outlined below and sample calculations are illustrated in Table 1.

A. TRANSFERS

The currencies of all members included in the FTP are allocated for transfers in proportion to their quotas. Total currency transfers in the transactions plan are calculated as a percentage of total quotas for those members. Applying this common ratio to the quota of each member included in the plan thus yields individual transfer amounts for each member (Table 1, column 3).

B. RECEIPTS

Receipts in currencies are allocated to members included in the FTP in proportion to the deviation of their individual positions in the Fund above the projected average of Fund positions in terms of quota at the end of the plan period.³ The calculation of receipts involves the following steps:

² In the event that a member included in the plan makes a purchase from the General Resources Account during the plan period that gives rise to credit outstanding to the Fund, such member will be automatically excluded from the list of members considered sufficiently strong and no transfers of its currency shall be made under the plan for the remainder of the period.

³ A member's position in the Fund comprises its reserve tranche position plus any outstanding loans under permanent borrowing arrangements such as the NAB.

- Projected transfers are added to Fund positions at the beginning of the plan period to arrive at a projection for end-period positions that does not take receipts into account (Table 1, column 4).⁴
- These projected end-period positions are measured against the benchmark for balanced positions in the Fund. This benchmark is calculated as the projected end-period average of all FTP members' Fund positions including total receipts as a percent of quota. This percentage (Table 1, footnote 1) is used to derive the individual Fund positions that would be consistent with the benchmark for balanced positions (Table 1, column 5), and these are compared with the projected end-period positions for each member without receipts (Table 1, column 4). Positive differences are the deviations by member from the end-period average Fund position (Table 1, column 6).
- The percentage share of each member in the total deviation from the end-period average Fund position is calculated (Table, column 7) and used to allocate receipts to members by applying these percentage shares to the total amount of receipts for the period (Table 1, column 8).
- If the currencies of some members are used relatively less in transfers and/or more in receipts during the plan period than initially planned, these members will have lower reserve positions relative to the average that had been envisaged under the plan. Fewer receipts will therefore be allocated to those members in subsequent periods, so as to maintain, over time, balanced reserve positions in the Fund.

Table 1. Sample Calculation of Transfers and Receipts in Currencies in a Given FTP Period
(In millions of SDRs)

Member	Present Quota (1)	Beginning Period Fund Positions (2)	Transfers (3)	End-Period Fund Positions Without Receipts (2)+(3) (4)	Fund Positions Consistent with End-Period Average 1/ (5)	Deviation From End-Period Average (4)-(5) (6)	Shares in Deviations Above Average (7)	Receipts 2/ (8)	Projected End-Period Fund Positions (9)
A	20,000	4,000	420	4,420	4,320	100	7.3	73	4,347
B	25,000	4,500	525	5,025	5,400	-	-	-	5,025
C	15,000	3,000	315	3,315	3,240	75	5.5	55	3,260
D	30,000	6,500	630	7,130	6,480	650	47.3	473	6,657
E	10,000	2,500	210	2,710	2,160	550	40.0	400	2,310
Total	100,000	20,500	2,100	22,600	21,600	1,375	100	1,000	21,600

1/ Fund positions equivalent to the end-period average of 21.60 percent of quotas of FTP members.

2/ Calculated in proportion to positive deviations or, equivalently, based on shares in deviations above average (Column 7).

III. OPERATIONAL ASPECTS

At the beginning of each FTP period, the Finance Department prepares for its internal use a tentative allocation of currencies in individual transactions over the plan period. The aim is to use all currencies in broad proportion to the amounts planned. The execution of the transactions plan is a balancing act however, and the currency allocation is constantly reviewed and fine-tuned throughout the plan period.

⁴ Any changes in Fund borrowing under the NAB are also taken into account.

Transactions on the **receipt** side consist mainly of repayments (repurchases) for which predetermined schedules exist, and they are thus relatively easy to project. However, a member may make advance repayments ahead of schedule or may decide to switch from payment in currency to SDRs, or vice versa (which it has a right to do). These unanticipated shifts in transactions can cause the outcome to alter significantly from the forecast.

Transactions on the **transfer** side consist mainly of Fund credits (purchases). These are more difficult to forecast. For credits under new Fund arrangements/commitments, the amounts and timing are only known shortly before the discussion of the arrangements/commitments by the Executive Board. Under existing arrangements, performance criteria must be met and/or are subject to Board review, and the timing, and occasionally the amounts, disbursed can change with little notice.

In determining the currency allocation for any given transaction, the staff attempts to allocate amounts among creditor members so that the member borrowing from or repaying the Fund deals with as few counterparties as possible, depending on the size of the transaction. Also, to the extent possible, the staff seeks not to call on a single creditor member to provide an unduly large amount in any one transaction.

When a member's currency is used in a credit transaction (transfer), the Fund determines the amount of the member's currency based on the exchange rate against the SDR two business days of the Fund before the value date of the transaction. Holidays in member countries are also taken into account. An authenticated SWIFT message is sent to the member on the day of the exchange rate determination (the "advice" date) and the member is instructed to debit the Fund's No. 1 account. In addition, if the currency being used is not freely usable, the member will be instructed to transfer an equivalent amount of the freely usable currency the member has selected to use in transactions between the Fund and other members.⁵ The amount of freely usable currency is based on the official SDR/freely usable currency exchange rate on the advice date. Immediately following a transaction under the FTP, the member is expected to confirm execution of the transaction to the Fund by authenticated communication.

For members who find it helpful in managing their exchange operations, the Fund can normally pre-advise several days in advance the SDR equivalent of the member's currency expected to be used in a transaction. However, the pre-advice does not guarantee that the transaction will actually take place, and it is not recommended that members make irrevocable exchange arrangements until receipt of instructions from the Fund.

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⁵ The freely usable currencies are the Chinese renminbi, the euro, the Japanese yen, the pound sterling, and the U.S. dollar. The formal arrangements for exchange of currencies are decided in consultation with the member in accordance with Rule O-4 of the Fund's Rules and Regulations.