

18. How can SDRs be spent?

SDRs have to be exchanged for foreign currency before these can be spent.

19. Who receives the SDR allocation?

The SDRs are recorded on both the asset and liability side of the central bank's balance sheet. However, because the liability is not of a short-term nature, the central bank's net international reserves (NIR) will increase by the equivalent US-dollar value.

20. What if no one wants to exchange real currencies for SDRs?

If there are not enough voluntary buyers, the IMF can designate members with strong balance of payments positions to exchange freely usable currency for SDRs. This ensures that members can always access the equivalent amount of currency to address issues related to its balance of payments or its reserve position.

21. With the new IMF posture, are the terms of loans less stringent than prior to the current global financial and economic crisis?

Under the previous approach, formal waivers were needed to access new loan tranches every time a country failed to comply with a loan conditionality, such as putting in place measures to improve fiscal transparency. This often sent negative signals about a country when deadlines were missed.

The new framework highlights the underlying objectives of the reform program, rather than specific actions which need to be adopted within a certain deadline. It seeks to ensure that conditions linked to disbursements are

sufficiently focused and adequately tailored to the varying strengths of members' economic policies and fundamentals.

22. What is the difference between a Staff-Monitored Programme and a Borrowing Programme?

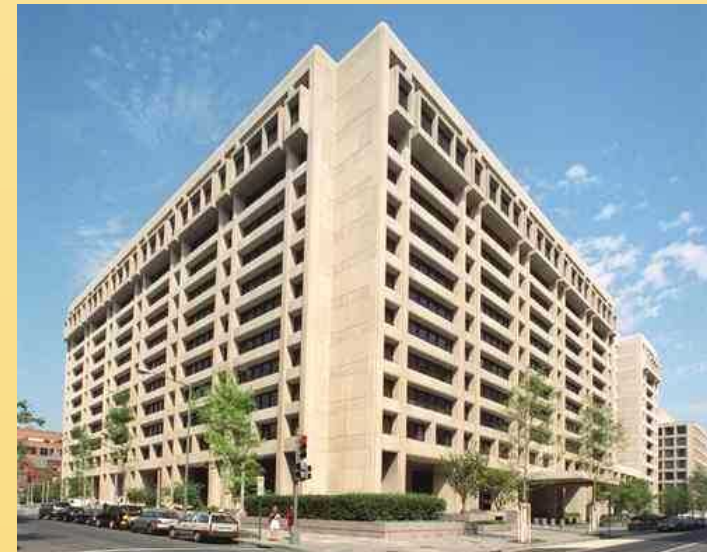
A Staff-Monitored Programme is an informal and flexible instrument for dialogue between the staff of the IMF and a member country on its economic policies. It is not supported by the use of the Fund's financial resources nor is it subject to the endorsement of the Executive Board of the IMF.

Bank of Jamaica
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INTERNATIONAL MONETARY FUND (IMF)

Questions & Answers



1. What does the IMF do?

The primary purpose of the Fund is to ensure the stability of the international monetary system.

2. How does the IMF ensure stability of the international monetary system?

It does so through: -

- **Surveillance** - monitoring economic and financial developments, and providing policy advice to member countries.
- **Financing** – providing temporary financial assistance to member countries experiencing balance of payments problems.
- **Technical Assistance and Training** – helping countries to build the expertise and institutions needed for economic stability and growth.

3. What is meant by 'a balance of payments problem'?

Balance of payments problems occur when a country's payments obligations to other countries exceed its foreign exchange earnings, thereby resulting in a shortage of foreign exchange.

4. Who can borrow from the IMF?

Any of the 184 member countries can borrow from the IMF for balance of payments support, if it cannot otherwise raise sufficient funds at affordable interest rates to meet its net international payments.

5. What is the objective of an IMF loan?

An IMF loan provides a cushion to ease the adjustment that a country must make to correct its balance of payments problem and restore economic growth.

6. How does the country benefit from the loan?

The loan represents a pool of foreign exchange that adds to the reserves of the **central bank**. These funds are therefore available for sale to the Government and to the public to settle foreign obligations. The assurance that arrangements are in place to honour debt and other payments creates a platform for other multilateral and investment flows.

7. Does the IMF lend for projects?

The IMF is neither an aid agency nor a development bank. It does not finance projects.

8. If Jamaica borrows from the IMF, to which account are the funds deposited?

The IMF would lodge the funds to the Bank of Jamaica's account at the Federal Reserve Bank.

9. Over what period are the funds disbursed?

The loan period is dependent on the facility under which the money is borrowed and can range from as short as 3 months to as long as 3 years.

10. Are the funds distributed all at once?

Generally the funds are disbursed in tranches - usually a fixed portion every quarter. However, the IMF can front-load disbursements (as has been the case since the global financial crisis), according to the specific needs of the borrowing country.

11. How long does a country have to repay?

The repayment period can vary from 1 year to 10 years, dependent on the facility.

12. Who is responsible for repaying the loan?

The **central bank** is responsible for the repayment of the loan.

13. In what form does the IMF lend?

The IMF lends in its own special instrument/currency called Special Drawing Rights (SDRs).

14. What is an SDR?

The SDR is an interest-bearing international reserve asset created by the IMF.

15. What is the value of an SDR?

The value of the SDR is based on a basket of international currencies comprising the U.S. dollar, Japanese yen, euro and pound sterling. At 27 July, SDR= US\$1.559

16. What is an SDR Allocation?

SDRs are allocated to member countries in proportion to their respective IMF quotas, which reflect each member's weight in the world economy.

From time to time, when there is a need to increase the quantum of liquidity in the global market, the IMF Board of Governors may decide to make a special allocation of SDRs to all members.

17. What happens to the SDRs once allocated?

After an allocation, members can hold their SDRs as part of their international reserves, or sell part or all of their SDRs. Members are able to exchange their SDRs for freely usable currencies from other member countries that are in a position to exchange the needed currency/currencies.