6. Reflection of International Monetary Fund's Accounts in the Balance Sheet of the Central Bank of Armenia[30]

The Republic of Armenia joined the IMF on May 28, 1992. Armenia is represented by the Prime-minister and the Minister of Finance and Economy.

Each member-country appoints its fiscal agent to conduct financial transactions with the IMF, which can be the Treasury, the Central Bank or other government agency. The member-country designates its central bank as a depository for the IMF's holdings of the member's currency. The central bank is also responsible for accurate reflection of transactions with the IMF. In the international practice, normally member-countries' central banks carry out transactions with the IMF. This is also the case for Armenia where all transactions with the IMF are reflected in the balance sheet of the CBA.

The IMF's unit of account is the SDR (special drawing rights). The value of the SDR is based on a basket of currencies (comprising the U.S. dollar, Euro, Japanese yen, and the U.K. pound sterling, that are calculated in terms of market rate of USD) and is calculated daily. Reconsideration of the SDR basket and the shares of individual currencies in the basket occur once every five years.[31] Member-countries' assets and liabilities related to their participation with the IMF are accounted in terms of SDR.

The IMF's financial operations with its members are conducted through the:

1. General Department
2. SDR Department
3. Administrated Accounts.

1. The General Department includes:

- General Resources Account (GRA)
- Special Disbursement Account (SDA).

The GRA is the principal account of the IMF and handles the largest share of transactions between the IMF and its members. Quota subscriptions, purchase-repurchase of SDRs or other currency, and holding accounts of the IMF in member-countries' central banks are among these transactions.

The SDA is separated from the GRA and is aimed at supporting balances of payments of member-countries through concessional loans.

2. The SDR Department records all transactions and operations involving SDRs that are interest-bearing international reserve assets and are allocated among member-countries.

3. Administered Accounts of the IMF are established to render financial services within authority of the IMF. At present the principal administered account is PRGF[32] trust (ESAF until 1999) that provides

[30] The reflection of transactions with the IMF see also Chapter 6.7 of Manual on Transactions of the CBA and the CBA Chairman Decree no. 458 of July 18, 2000.
[31] Since January 1 1999, Deutsche Mark and French Franc have been replaced in the SDR basket with equivalent amounts of Euro.
[32] PRGF – Poverty Reduction and Growth Facility.

concessional loans to members-countries meeting certain criteria.

General Resources Account

For the purposes of recording of transactions that are made through the GRA, each member-country manages the following accounts:

- Subscription account
- IMF number 1 account
- IMF number 2 account
- IMF securities account
- Valuation adjustment for IMF No. 1, No. 2, and securities accounts.

Subscription account, reflecting primary and subsequent payments for quota, is an asset for member-countries denominated in SDR. The member pays 25% of the subscription in SDR or other reserve asset, and pays 75% in national currency.

IMF's holdings of the member's currency are maintained in the IMF No. 1, No. 2, and securities accounts, which are the country's liabilities.

The No. 1 account is used for IMF transactions, including subscription payments (the portion of quota paid in national currency), purchases and repurchases, repayment of loans, and sales of the country's national currency. Provided that a minimum is maintained in the No. 1 account, all these transactions can alternatively be carried out through the IMF securities account. A member may establish an IMF securities account in order to substitute parts of the holdings in the IMF No. 1 account with non-negotiable, non-interest-bearing notes, or similar instruments payable to the IMF on demand. If the balance of No. 1 drops below a quarter of 1% of the member's quota, it must be recovered during the next working day at the required minimum level from the securities account.

The No. 2 account is used for the IMF's administrative expenditures and receipts (e. g., from sales of IMF publications).

The valuation adjustment account is used to reflect any changes of the rate of the national currency against the SDR, so that the IMF's total holdings remain unchanged in terms of SDR.

Thus, the subscription account is an asset for the member, whereas No. 1, No. 2, and securities accounts are liabilities.

Purchase and Repurchase of Currency (Use of the IMF Credit)

The IMF provides resources to members from the GRA under certain programs. A part of these programs are lending mechanisms and different from others in terms of the underlying problems. The use of the IMF's resources from the GRA is purchase of foreign currency (or SDRs) with the member's currency. According to currency purchase agreement the member-country has an obligation to repurchase its currency, which must be the equivalent of purchased currency in terms of SDR plus interest. Thus, the purchase-repurchase mechanism is a loan obtained from the IMF.

When the IMF purchases the member's currency, the country's foreign currency reserves and the IMF No. 1 account (or securities account) are increased. Repurchase of currency causes reduction in the member's foreign currency reserves and the IMF No. 1 account (or securities account).

Valuation of the IMF’s holdings of members’ currencies

Each member-country is obligated to maintain the value of the balances of its currency held by the IMF in the GRA in terms of the SDR. The total value of the IMF’s holdings of currencies in the GRA is, therefore, kept constant in terms of the SDR. The IMF revalues its holdings of member’s currency on the basis of current exchange rate in the following occasions:

- once a year, at the end of the IMF’s financial year (April 30);
- when the member’s currency is purchased by another member;
- at the request of the member (e. g., monthly, quarterly);
- initiated by the IMF by adjusting currency holdings to current exchange rate.

At the request of the Central Bank of Armenia, the IMF revaluates its holdings of the Armenian drams every month to record the respective accounts at market value. The requirement of maintaining value relates only to balances in the GRA. Whenever the exchange rate of the member’s currency against the SDR changes, the respective adjustments (positive or negative) are recorded in the valuation adjustment account for IMF No. 1, No. 2, and Securities accounts. The Valuation Adjustment accounts are subject to revaluation as well as they are included in the IMF’s holdings of the member’s currency. The member’s liabilities in terms of its national currency fall, when its currency appreciates against the SDR, and grow, when its currency depreciates.

Poverty reduction and growth facility – PRGF (former ESAF)

The IMF provides loans in the framework of PRGF (which replaced Enhanced Structural Adjustment Facility – ESAF, since November 22, 1999). PRGF Trust is separate from the GRA. PRGF loan is designed to settle member-countries’ balance of payments problems and support programs aimed at sustainable economic growth that should contribute to rising of living standards and poverty reduction. This loan is disbursed within three years in equal installments. The PRGF is a concessional loan with annual interest rate of 0.5%, principal repayments start $5^{1/2}$ years after disbursement of the loan and are made within $4^{1/2}$ years i.e., the total maturity of the loan is ten years.

Unlike purchase-repurchase of currency, PRGF loans are direct loans. There is a separate account (not related to the IMF No. 1 and Securities accounts) for PRGF in the balance sheet of the CBA. Member-countries can borrow funds from this facility both in the SDRs and in any other convertible currency, but the liability in both occasions is accounted in terms of the SDRs

SDR Department

The SDR is an interest-bearing reserve asset that is allocated to member-countries in proportion to their quotas in the IMF. Only members’ government authorities and a limited number of international financial organizations hold the SDR. Respectively, transactions with the SDR are conducted only within this group. The SDR is not the IMF’s liability and the members to whom the SDRs have been allocated do not have liabilities for repayment of the allocated SDRs.

The IMF cannot allocate SDRs to itself, but can acquire them through financial transactions with members. The SDR can be used for a wide range of transactions, including purchase of other members’ currency, adjustment of financial liabilities, making donations, providing loans, etc.

Transactions with SDRs are conducted through the SDR Department. SDRs are allocated to those members that are participants of the SDR Department and fulfill their obligations related to their participation. Although participation to the SDR Department is voluntary, all member-countries participate in the Department.

SDR holdings are a part of countries' international reserves. Reserve assets in SDR provide interest income at market rate, which is calculated weekly for all weekdays since August 1983.

IMF related accounts in the balance sheet of the CBA

Assets	*Liabilities and Capital*
1. SDR holdings in the IMF 2. Loans to the IMF 3. IMF quota	*Liabilities* 1. Accounts of the IMF in Dram - N1 account - N2 account - Securities account - Valuation adjustment for the IMF N1, N2, and securities accounts 2. Loans from the IMF (PRGF)
	Capital accounts 1. SDR allocation 2. Valuation adjustment for the IMF's accounts

Thus, the balance sheet of the central bank of member-country normally include the following items:

Assets

1. The member's SDR holdings that may be acquired through:
   - allocation of SDRs by the IMF;
   - transactions with other member or the IMF.
2. Claims on the IMF that are the result of:
   - payments of the IMF quota in reserve assets and national currency;
   - lending to the IMF.

Liabilities and capital

1. Accounts of the IMF in the Central Bank that include No. 1, and No. 2 accounts and Securities account. Balances of these accounts are the result of:
   - payment of the national currency portion of quota subscription;
   - purchase of the IMF's funds (in SDRs or convertible currency) in national currency through the GRA.

2. Direct loans from the IMF that are lent through the IMF Administered Accounts (e. g., PRGF).

3. SDR allocation which is provided to member-countries without requirement of repayment and is included in country's central bank's capital.

4. Valuation adjustment for IMF accounts, included in central banks'

liabilities as a part of revaluation reserve.

Classification methodology for financial transactions with the IMF, from the view of monetary statistics, is somewhat different from the accounting presentation. Statistical presentation of financial positions with the IMF is based on those accounts that are considered foreign assets and foreign liabilities. Statistical presentation of IMF related accounts is given below:

IMF related international reserves and liabilities

Assets	Liabilities
1. SDR holdings 2. Reserve position in the IMF	Loans from the IMF 1. Use of the IMF Credit 2. Direct loans from the IMF

IMF related international reserves

1. SDR holdings in the IMF are reflected in a separate account of the CBA.

2. Reserve position in the IMF is a part of international reserves. There is not a single account for this item in the balance sheet, but it can be calculated through several IMF accounts. The member’s reserve position is equal to quota less IMF’s holdings of national currency that are not related to use of Fund credit. Members have unconditional right to draw their funds from the reserve position at request. Drawing of these funds is not considered as use of IMF credit and thus the drawn funds are not subject to repayment and interest charge. Funds in a member’s reserve position are created by the payment the foreign exchange component of the quota subscription and may grow when the IMF makes use of the member’s currency in transactions with other members. The portion of the member’s quota in national currency (75% of the quota) is a foreign asset but is not considered a foreign reserve, since it is not liquid for foreign transactions.

Liabilities to the IMF

1. Purchases of the SDR or another foreign currency from the IMF General Resources Account with the national currency are considered use of the IMF credit.

2. Direct loans from the IMF include loans received through the PRGF Trust (including in Administrated Accounts). There is a separate account in the balance sheet of the CBA for the PRGF loan.

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