

## Academic Abstract

It is frequently argued by politicians and in the media that the IMF “spends taxpayers’ money” when it provides financial support to a country. But the IMF never makes grants, it makes loans and claims that its record is nearly impeccable since defaults have been extremely rare. So is there no substance in the popular claim? Even if the IMF gets fully repaid on its loans, it could be that the interest that it charges is below market level, so that the loans are subsidized and therefore represent an implicit transfer. The paper investigates this question. It reports that, indeed, up until the mid-1980s IMF rates were below market level. This has stopped and since 1997 the IMF actually imposes a surcharge for large-scale lending. But there is another, less benign aspect. Countries do not default on their IMF loans, but the loans are customarily rolled over. Thus many short-term loans end up long-term. Most of the countries with a currently on-going lending relationship with the Fund started to borrow more than 20 years ago. Where is the subsidy element? Nowhere yet, but it would emerge if these loans end up never repaid. To compute a crude upper bound of this potential subsidy, the paper makes the pessimistic assumption that an estimated fraction of countries with currently on-going loans will borrow up to the maximum (300% of quota) and then default in full. The cost to the global taxpayer is found to be trivial.