



INTERNATIONAL MONETARY FUND

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August 8, 2014

Mr. Michael McGrath
Fianna Fáil Spokesperson on Finance
Dáil Éireann
Leinster House
Kildare Street, Dublin 2
Ireland

Dear Michael:

Thank you for your letter of July 31, 2014 regarding the interest rate on Ireland's IMF loans and possible early repayment of those loans. I note your reference to a statement by Ireland's Minister for Finance regarding the other lenders involved in Ireland's EU/IMF program—the following focuses on the IMF's framework.

Let me first mention that the IMF charges all borrowing countries according to the same interest schedule. The schedule includes incentives to avoid large and prolonged borrowing from the IMF and it is decided by the IMF Executive Board by a 70 percent majority of the total voting power. All loans outstanding are subject to the "adjusted basic rate of charge," which is currently 1.08 percent. On the amounts in excess of 300 percent of quota, all borrowers face a surcharge of 200 basis points in addition to the basic rate, where that surcharge rises to 300 basis points if credit outstanding remains above 300 percent of quota for a consecutive period of three years.

Against this background, I offer the following comments on the points you raised:

- As Ireland's quota stands at SDR 1,257.6 million (about €1.44 billion), the threshold for surcharges is SDR 3,772.8 million (about €4.32 billion). Reducing outstanding IMF loans to that amount would eliminate surcharges, entailing total repayments of SDR 15,693 million (about €17.96 billion). (Calculations of amounts in euro are made on the basis of the July 31 exchange rate of 1.14456 euro per SDR.)

- The IMF accepts early repayments of credit with no fee or charge nor any conditionality on the part of the IMF. Early repayments are not unusual, including examples in recent years of Latvia, Hungary, and Iceland among others.
- As noted, the structure of IMF surcharges is intended to provide incentives to avoid large and prolonged borrowing from the IMF. Ireland can decide to repay its outstanding IMF credit early, including based on considerations of interest rate differentials and their potential budgetary implications.

Please feel free to contact me with any additional questions.

Sincerely yours,

A handwritten signature in black ink, appearing to read "C. Beaumont". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Craig Beaumont
Mission Chief for Ireland
European Department

cc: Mr. Michael McGrath, IMF Alternate Executive Director