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The International Monetary Fund

Overview

The International Monetary Fund (IMF, the Fund), which was founded in 1945, is an international organization that works to ensure the stability of the international monetary system. The United States is a founding member of the IMF and the largest financial contributor. This In Focus provides an overview of the IMF and its operations.

The IMF: Key Facts and Figures

Membership: 190 Countries.

Headquarters: Washington, DC.

Executive Board: 24 Directors; the United States, China, Japan, Germany, France, and the United Kingdom each have their own representatives; others are formed into constituencies.

Total Resources: \$661 billion in quota; \$693 billion of additional pledged or committed resources.

U.S. Financial Commitment: about \$115 billion to IMF quota and \$39 billion to supplemental funds.

Largest Borrowers: Argentina, Ukraine, Greece, and Egypt.

The IMF has reinvented itself several times since its creation. From 1946 to 1971, during the so-called Bretton Woods era, the IMF oversaw a system of fixed exchange rates pegged to the U.S. dollar, which was itself convertible into gold. When non-U.S. currencies suffered payments imbalances arising from their normal trading and financial relationships, the IMF provided short-term financing to cover temporary hard currency shortfalls.

After the collapse of the Bretton Woods system of fixed exchange rates in 1971, IMF members enacted a comprehensive reform of the organization and its operations in 1975. The IMF transformed itself from being an organization focused exclusively on issues of foreign exchange convertibility and stability to one having a broader mandate: lending for a range of financial crises, including debt, currency, and banking crises, and engaging on a wide range of issues including capital flows, financial regulation, and surveillance of the global economy.

Key Functions

Since the 1970s, the IMF's mandate of promoting international monetary stability has translated into three main functions:

- **Surveillance.** The IMF regularly monitors the economic and financial policies of its member countries. Through surveillance at the global level and in individual countries, the IMF highlights possible risks to domestic and external stability and advises on needed policy adjustments. The implementation of IMF recommendations is enforced through pressure exercised by other IMF members and the global financial sector,

which has access to most IMF analysis of global economic risks.

- **Loans.** The IMF makes loans to countries experiencing balance-of-payments difficulties, which generally means they are facing problems paying for necessary imports or servicing their debt payments. The temporary financial assistance enables countries to stabilize their economies while implementing economic reforms. The IMF disburses its loans in phases ("tranches") after verifying that specified economic conditions and reforms have been met ("conditionality").
- **Capacity Development.** The IMF provides technical assistance and training to help member countries strengthen their capacity to design and implement effective policies. The IMF provides technical assistance in monetary and financial policies; fiscal policy and management; statistical data compilation; and economic and financial legislation.

Organization and Structure

The IMF's governing document, the Articles of Agreement, provides for a three-tiered governance structure with a board of governors, an executive board, and a managing director. The board of governors is the highest policymaking authority of the IMF. All member countries are represented on the board of governors, usually at the finance minister or central bank governor level. Day-to-day authority over operational policy, lending, and other matters is vested in the board of executive directors, a 24-member body that meets three or more times a week to oversee and supervise the activities of the IMF.

As the largest shareholder, the United States has its own seat on the executive board. The executive board or board of governors of the IMF can approve loans, policy decisions, and many other matters by a simple majority vote; however, a supermajority vote is required to approve major IMF decisions. The supermajority may require a 70% or 85% vote, depending on the issue. At 16.52% of total voting power, the United States has unique veto power over major policy decisions.

The primary source of IMF lending resources is the financial contributions or quota subscriptions of its member nations. A country's proportion of quota, or quota share, broadly reflects its weight in the global economy; larger economies have larger quotas. A member's quota also impacts the country's voting power at the IMF. Countries with larger quotas, and thus larger financial commitments to the institution, have a greater say in how the IMF is run. The United States contributes \$117 billion to the IMF quota (17.46%). In addition, the United States has contributed \$44 billion to funds at the IMF that supplement quota resources.

Issues for Congress

IMF's Response to the COVID-19 Pandemic

COVID-19 has spread to virtually all countries around the world and combatting the pandemic has required shutting down large portions of the economy. The pandemic has roiled stock markets, created mass unemployment, resulted in shortages of food and medical supplies, and threatened the solvency of businesses and governments around the world. In April 2020, the International Monetary Fund (IMF) cautioned that COVID-19 will likely be the worst recession since the Great Depression, and far worse than the recession following the global financial crisis of 2008-2009. Over 100 countries have sought financial support from the Fund.

The IMF has several emergency financing mechanism options for deploying resources in response to the COVID-19 pandemic. The Fund has temporarily doubled access to its emergency facilities—the Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI). These facilities allow the Fund to provide emergency assistance without the need to have a full-fledged program in place, which is a time-consuming process.

The IMF has also extended debt service relief to 29 of its poorest and most vulnerable member countries on their IMF obligations, covering these countries' eligible debt falling due to the IMF for the period between April 2020 and April 2021, through its Catastrophe Containment and Relief Trust (CCRT). The IMF is seeking to increase their debt relief resources by \$1.4 billion to provide additional debt service relief. The IMF is also looking to triple the size of its Poverty Reduction and Growth Trust Fund (PRGT) to \$17 billion. The Fund currently has \$11.7 billion in commitments from Japan, France, the UK, Canada, and Australia.

Lastly, the IMF Executive Board approved in April 2020 the creation of a new Short-term Liquidity Line (SLL). This SLL is a revolving and renewable backstop to support a country's liquidity buffers and is available for members with certain favored policies in need of short-term and moderate financial support. To date, no countries have borrowed from the SLL.

Size of the IMF

IMF members agreed in December 2010 to a wide-ranging set of reforms that also doubled the IMF's quota (meaning its member contributions). In addition to increasing the size of IMF resources available to fight financial crises, the reforms also increased the financial contributions (and voting power) of emerging economies relative to advanced economies. China, for example, increased its quota share at the IMF by 2.4%. Congress passed legislation authorizing U.S. participation in the reform package in December 2015 (P.L. 114-113) and the reform package took effect in January 2016.

In addition to its quota resources, the IMF can draw on an additional \$692 billion, comprised of bilateral borrowing arrangements and two supplemental funds, the New Arrangements to Borrow and the General Arrangements to Borrow. The future availability of these supplemental funds

is uncertain. The NAB was renewed in November 2016 for a five-year period. U.S. contributions to the NAB were set to sunset in 2021 but authorization to maintain U.S. participation was included in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act, P.L. 116-136).

The IMF reviews quotas every five years. The most recent review took place in February 2020. At the time, IMF members decided not to seek an increase in IMF quotas but moved forward the time-table for the next review to December 15, 2023.

IMF Lending

The most controversial of the IMF's activities is its lending program, and its role in financial crises. In the past decade, the IMF made several large loans to European countries. In the years immediately following the 2008-2009 global financial crisis, the IMF lent to many Central and Eastern European countries. More recently, the IMF has lent to Western European countries, including Greece and Portugal. Europe's borrowing from the IMF has declined in recent years, yet continues to make up a large share of outstanding IMF loans.

In addition to representing a majority of the IMF's outstanding loans, the IMF made exceptionally large loans to some European countries. According to IMF rules, the amount a country is able to borrow from the IMF is related to the country's quota. In most instances, countries may borrow several multiples of their quota. The current limit is 145% in a 12-month period and 435% over the lifetime of a program. The conditionality and performance standards attached to a loan become more rigorous and demanding as its size (relative to the borrower's quota) increases.

While provisions for exceptional access have existed since the early 1980s, the relative amount of lending skyrocketed with the recent European programs. In an effort to address this issue, Congress insisted on restrictions on exceptional access when it approved the quota and governance reforms. Legislation introduced but not passed in the 115th Congress, The IMF Reform and Integrity Act (H.R. 1573), would have further limited the U.S. ability to vote for large IMF programs, especially where the Fund is cofinancing with larger creditors.

Moral Hazard

Some Members of Congress, among other observers, have also considered concerns that IMF lending may generate moral hazard. Some have argued that crisis countries may more be willing to engage in risky financial behavior since they can anticipate financial assistance from the IMF if they run into economic trouble. Other analysts argue that while the IMF may generate moral hazard, international financial markets are inherently unstable. A variety of factors in a particular crisis, such as coordination problems between creditors and the country in crisis, can spark a financial crisis that can quickly spread to neighboring countries or beyond, they say, and the IMF is needed to respond to crises.

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