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The International Monetary Fund

Overview

The International Monetary Fund (IMF, the Fund), 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 report provides a brief overview of the IMF and its operations.

The IMF: Key Facts and Figures

Membership: 189 Countries.

Headquarters: Washington D.C.

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: \$692 billion in quota; \$723 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: Greece, Ukraine, Pakistan, and Egypt.

The IMF has reinvented itself several times since it was created. From 1946 to 1971, during the so-called Bretton Woods monetary system, the IMF oversaw a network of pegged exchange rates centered on the value of the U.S. dollar. When currencies (other than the U.S. dollar, which was then fixed to the price of gold) suffered balance of 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, IMF members enacted a comprehensive reform of the organization and its operations beginning 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 effectiveness of IMF surveillance is dependent on the peer pressure exercised by other IMF

member countries, and increasingly the global financial sector, as most IMF analysis of global economic risks is publicly available.

- **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 policy-making authority of the IMF. All 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

Size of the IMF

To support its recent additional lending, 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 are set to sunset in 2021. Further renewal requires congressional authorization. It is also uncertain whether countries providing bilateral credit lines to the IMF will be willing to extend them further when they expire in 2019 (extendable for a further year through end-2020). These issues will likely shape debate on the next IMF quota review in 2019. The Trump Administration does not appear to support a boost in Fund resources. At a December 2018 hearing before the House Financial Services Committee, Treasury Undersecretary David Malpass told Members that “[the Administration is] opposed to changes in quotas given that the IMF has ample resources to achieve its mission.”

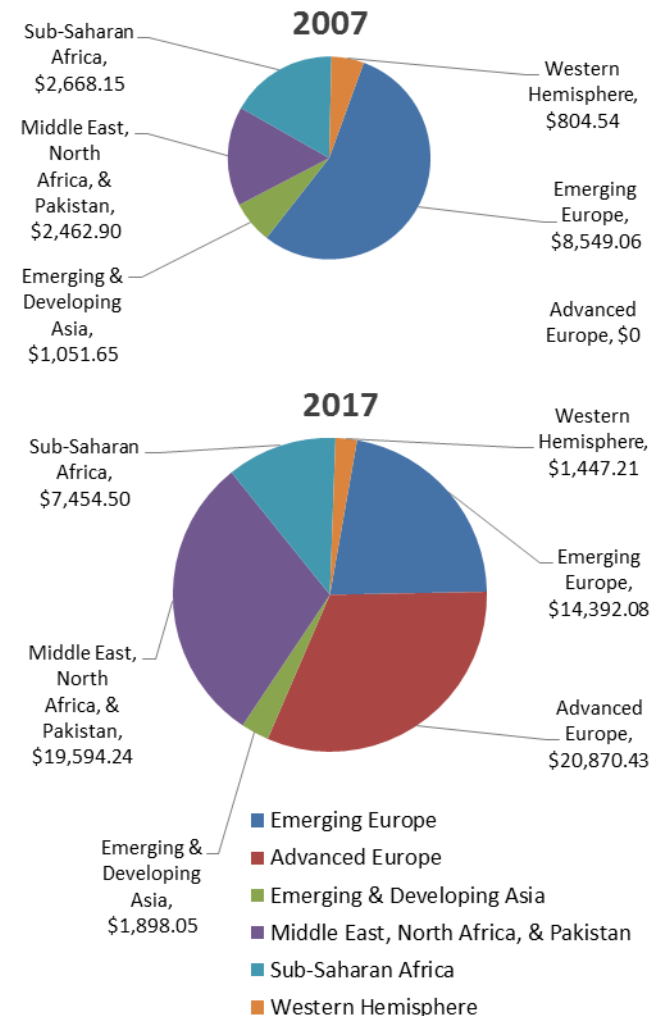
IMF Lending

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 (Figure 1).

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; 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 ability of the U.S. to vote for large IMF programs, especially, where the Fund is co-financing with larger creditors.

Figure 1. Total IMF Lending, 2007 and 2017
Millions of U.S. Dollars



Source: International Monetary Fund.

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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