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The International Monetary Fund: An Overview of Its Mission and Operations

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ABSTRACT

The International Monetary Fund (IMF) is an integral part of the mechanism for maintaining international financial stability, yet events over the past five years suggest that it has struggled to keep pace with this mission. The U.S. Congress appropriated additional funding for the IMF in October 1998 in the midst of the Asian financial turmoil, a decision that engendered considerable debate in light of the growing criticism of the IMF's track record. Congress attached to the funding a number of conditions, including a call for major reevaluation of the IMF. This report supports congressional interest in the IMF by providing a basic understanding of its mission and operations, and how they may have evolved over time. It will be updated as events warrant.

The International Monetary Fund: An Overview of Its Mission and Operations

Summary

The International Monetary Fund (IMF) is the institution designed to support global trade and economic growth by helping maintain stability in the international financial system. Originally created to finance short-term balance of payments deficits during the Bretton Woods era of gold/dollar fixed exchange rates (1944-1971), in the current world where flexible exchange rates dominate in the industrial economies, it has focused on developing countries where ever larger financial crises have erupted. As part of the periodic IMF quota review process, the U.S. Congress in October 1998 appropriated funds to increase the IMF quota at a time when many challenged the IMF's abilities to help resolve these financial crises. Congress attached a number of conditions, including a call for major reevaluation of the IMF. This report supports congressional interest in the IMF by providing a basic understanding of its mission and operations, and how they may have evolved.

The permanent assets of the IMF used for lending ($283 billion) are provided by the member countries, which join the Fund by making a capital subscription (quota) and agreeing to abide by rules of the charter. The quota also determines a country's voting power and borrowing capacity. The IMF also maintains two borrowing arrangements with selected member countries for times when the Fund may not be sufficiently liquid to meet all borrowing needs. The General Arrangements to Borrow (GAB) is a $23 billion credit line established with 11 industrialized countries in 1962. The New Arrangements to Borrow (NAB) was established following the 1994-95 Mexican peso crisis as a supplemental line of credit with 25 member countries, adding another $23 billion of borrowing authority.

The IMF provides hard currencies to member countries with balance of payments problems based on need, willingness to adjust economic policies, and ability to repay. Under the general resources account there are three types of financing facilities: 1) stand-by arrangements; 2) extended arrangements (these two constitute most IMF assistance); and 3) special facilities. Two programs created since December 1997, the Supplemental Reserve Facility (SRF) and the Contingent Credit Line (CCL), amount to special access policies and limits to stand-by and extended arrangements under extenuating circumstances. As part of the IMF's evolving sense of mission, it has developed lending facilities to address the needs of the poorest developing countries: the Poverty Reduction and Growth Facility (PRGF) – renamed in November 1999 from the Enhanced Structural Adjustment Facility (ESAF); and the Heavily Indebted Poor Countries (HIPC) initiative.

Many view events in the 1990s as evidence of the IMF's limitations to predict and ameliorate financial panics. The central question remains, what role should or can the IMF play in reducing instability in an increasingly liberalized and, at times, volatile international financial system. The debate has at least two key focal points: 1) rethinking what should be expected from national policies and institutions, particularly financial market regulation and oversight in developing countries, to help reduce the frequency and extremity of financial panics; and 2) rethinking how the IMF should operate in numerous functional areas.

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In December 1994, following prolonged capital flight, Mexico suddenly devalued its peso in what was to become the first in a series of national financial crises to challenge the international economic community. Just as Mexico was beginning to recover, the Asian financial turmoil hit in the summer of 1997, followed by Russia a year later and Brazil in 1999. The International Monetary Fund (hereafter IMF or the Fund) is an important part of international coping mechanism for reducing the length, depth, and magnitude of financial panics, yet events over the past five years suggest that it has struggled to keep up with this task. Critics from various viewpoints have taken on the IMF, arguing that it has overstepped its original mission in one way or another and some assert it may be exacerbating rather than resolving recurring episodes of financial problems.

The U.S. Congress has been an active overseer of the IMF's activities, particularly during Asia's financial problem, when it was debating the merits of increasing its funding as part of the five-year quota review cycle mandated in the Fund's Articles of Agreement. Deciding to increase the IMF quota when many believed the Fund showed little ability to anticipate or manage currency crises was a controversial issue. In October 1998, however, Congress did appropriate additional funds in the Omnibus Consolidated and Emergency Supplemental Appropriations Act for FY1999 (H.R. 4328, P.L. 105-277), but with a number of conditions attached, including a call for major reevaluation of the IMF. This report supports congressional interest in the IMF by providing a basic understanding of its mission and operations, and how they may have evolved over time.

Rationale and Operations of the IMF

The International Monetary Fund is the institution designed to support global trade and economic growth by helping maintain stability in the international financial system. Specifically, it is chartered to facilitate the balanced growth of international trade, promote orderly exchange rates and a sound multilateral system of payments, provide liquidity (financial resources) to members with balance of payments problems, and serve as a forum for consultation and collaboration on international monetary problems, including surveillance and technical assistance through the Article IV consultation process.[1]

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[1] Article IV Consultations are annual meetings with leaders of member countries to review their policies affecting overall economic performance. These reviews are becoming increasingly extensive and now evaluate social, environmental, and labor policies in addition (continued...)

The IMF was conceived at the Bretton Woods Conference in 1944 as part of the planning for an orderly post-war international economy based on a gold/dollar standard of "pegged but adjustable exchange rates" and capital controls. Under the Bretton Woods system, countries pegged their exchange rate to the dollar, which in turn was fixed to gold at $35 per ounce. Stability in the international system would be maintained by supporting currency pegs, which could come under pressure to change from short-term imbalances that arise through normal trade and finance exchanges among countries. In cases where the "peg" was considered fundamentally misaligned, a country could devalue (or revalue) its currency.

A core principle of the Bretton Woods system was that sufficient international reserves be made available to help countries defend their pegged exchange rates (avoid devaluation) when running short-term deficits.[2] Specifically, if a country spends more abroad on goods and services than it receives, it incurs a *current account deficit*. The shortfall, or deficit, can be financed by selling assets or borrowing, which involves a private capital inflow into the deficit country (a *capital account surplus*). If, however, private sources do not cover the current account deficit, then it must be financed by the government through the sale of foreign exchange (official reserves), which is referred to as a *balance of payments deficit*.

With flexible exchange rates, the deficit (or surplus) is corrected by a market-driven adjustment to the exchange rate, that is it depreciates or appreciates. Under a pegged exchange rate system, however, countries are reluctant to alter exchange rate values and so use their foreign exchange reserves to finance the balance of payments deficit, leaving the currency value intact. When a country does not have adequate foreign exchange reserves to finance its balance of payments deficit, it petitions the IMF, which can lend hard currencies to countries, for a fee.

IMF funds provide "liquidity" to smooth short-term financing of deficits and to maintain or restore confidence in a country's financial position, ideally before a crisis occurs. This allows the borrowing country time to make necessary adjustments and avoid the pain of devaluation, inflation, and recession that can occur when countries are unable to defend their pegged currency against large capital outflows. If these adjustments can be made, then the additional cost of instability to the international financial system may also be avoided.

Initially, the IMF served primarily industrialized countries by supporting currency convertibility and providing them with short-term financing when needed to defend their pegged exchange rates. The Bretton Woods system became increasingly difficult to maintain in the post-war period of global economic growth, however, leading to its demise in March 1973 and the adoption of floating exchange rates by most

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[1] (...continued)
to standard macroeconomic, financial, and external account issues.

[2] Pegged exchange rates may also be defended by using capital controls, changing interest rates that in turn affect capital flows, or altering macroeconomic policies.

industrial countries. At this point, developed countries had no need to borrow from the IMF, which some argue put an end to its primary mission.[3]

Many developing countries continued to use pegged exchange rates, however, so the overall mission of supporting international financial stability has evolved to its current state of dealing with the developing world's balance of payments problems, which combined with their often weak financial systems, relatively small economies, and the increasingly liberalized nature of capital markets has left them vulnerable to occasional, extreme outflows of capital. If not stopped, these large erratic capital movements can become the "currency crises" witnessed in the 1990s, often leading to longer-term economic problems.

Trends in IMF lending reflect the changing focus of its mission over time. For the first three decades of operation, total IMF credit outstanding at the close of each fiscal year remained under SDR 10 billion.[4] This figure jumped to SDR 38 billion by 1986 at the height of the Latin American debt crisis, and ballooned to SDR 67 billion by 1999 to cover increasingly concentrated lending to Asia, Russia, and Brazil.[5] As the IMF has accommodated these requests, critics pointed increasingly to the risk of "moral hazard," or the over commitment of particularly short-term financing by private investors and lenders to certain developing countries in part because of an expectation that the IMF would provide the foreign exchange to allow them to exit the country in time of crisis without bearing the full cost of the risk they had assumed.

In addition to the IMF supporting large developing country bailouts, its mission has been expanded to assist low-income developing countries with structural adjustment problems through concessional, longer-term lending arrangements. This began in 1976 and evolved into a formal program called the Structural Adjustment Facility (SAF) in 1981, which was revised and extended again as the Enhanced Structural Adjustment Facility (ESAF) in 1996. In 1999, it was renamed the Poverty Reduction and Growth Facility (PRGF) to reflect more precisely its concern with addressing poverty issues as part of a country's adjustment process. The current Heavily Indebted Poor Country (HIPC) debt reduction initiative is also supported by the IMF through the PRGF. The extension of the IMF's purview over what many consider development lending presents another problem of clearly delineating the mission of the IMF with development institutions such as the World Bank.

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[3] A good discussion of the history of the international monetary system can be found in most international economics textbooks, for example: Lindert, Peter H. and Thomas A. Pugel. *International Economics, Tenth Edition*. Chicago, Irwin, 1995. For a very accessible detailed history, see: Eichengreen, Barry. *Globalizing Capital: A History of the International Monetary System*. Princeton, Princeton University Press, 1996.

[4] The Special Drawing Right (SDR), created in 1970, is an international reserve asset and unit of account used to settle transactions at the IMF. Its value is calculated as a weighted average of five "hard" currencies, making it a more stable international asset than a single currency, such as the dollar, which used to be the key international reserve currency. The value of the SDR is determined in the currency markets, calculated here at $1.35 per SDR.

[5] International Monetary Fund. *Annual Report 1999.* Washington, D.C. p. 142.

Currently the IMF plays a central role in providing liquidity and regulatory-type oversight to assure that borrowing countries reform domestic economic policies to address their problems. There is much disagreement, however, over the effectiveness of, and necessity for, IMF programs, with some critics arguing that the IMF has already overstepped its original mission. Others suggest its basic mission is unchanged, but the evolving international economy has necessitated redirecting its efforts to meet current problems. Understanding how the IMF works provides the groundwork for informing the IMF debate.

Source of IMF Funds

All funds used by the IMF are provided by the member countries, which join the Fund by making a capital subscription (quota) and agreeing to abide by rules set up by its charter, known as the Articles of Agreement.[6] The 182 member countries may then borrow from the Fund to finance short-term balance of payment problems, but also to help manage or prevent longer-term financial imbalances. As a condition of using IMF resources, countries must adopt economic policies to ensure that problems causing the financial shortfall are being corrected (so-called conditionality). There are two basic sources of funds for the IMF, one permanent, the other temporary.[7]

The IMF Quota

The permanent assets of the IMF are currencies and securities, known as the quota, deposited by member countries. Each country's quota is calculated by a formula reflecting the relative size of its economy, using various measures of output and trade. Originally, a country paid its quota 25% in gold and 75% in its local currency. Now any "hard currency" may be used to cover the gold portion. Total IMF paid-in quotas, including the latest 45% increase that took effect in January 1999, equals SDR 210 billion ($283 billion). The IMF's "useable reserves" are much smaller, however, because members and the Fund must maintain working balances and many currencies are not in demand internationally.

Members' quotas account for 95.5% of the IMF's resources[8], but quotas are important beyond their financial value; they also determine a country's voting power and borrowing capacity. Control of the IMF, therefore, is heavily weighted toward the larger countries. It takes a majority vote to change policy, but many key policy

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[6] U.S. contributions to the IMF require congressional authorization and appropriation. There is no net effect on the U.S. fiscal balance, however, because transactions are considered an exchange of financial assets. As cash is transferred from the United States, it receives in turn an increase in its reserve position in the IMF. See: CRS Report 96-279 E, *U.S. Budgetary Treatment of the International Monetary Fund*, by (name redacted). March 20, 1996, p. 16.

[7] Details on the IMF's financial operations are drawn from: IMF. *Financial Organization and Operations of the IMF*. Pamphlet Series No. 45, Fifth edition, Washington, D.C. 1998. More information is available at the IMF web site: http://www.imf.org.

[8] The remaining assets are an allocation of SDRs (1.4%) and gold holdings (3.1%).

decisions such as increasing quota size, selling gold reserves, allocating SDRs, and amending the Articles of Agreement require an 85% special voting majority. Although the United States cannot make policy by itself, with a quota equal to 17.8% of the total, it has virtual veto authority over these "super majority" policy votes.

The GAB and NAB

In addition to permanent assets, the IMF has two borrowing arrangements with select member countries for times when the Fund may not be sufficiently liquid to meet all borrowing needs. The General Arrangements to Borrow (GAB) is an SDR 17 billion ($23 billion) credit line established with 11 industrialized countries in 1962 to provide a backup source of funds in case one of the GAB members needed to make a large purchase from the Fund, reducing its liquidity. There is an associated agreement with Saudi Arabia for an additional SDR 1.5 billion ($2.0 billion). Countries participate voluntarily and proposals to activate the GAB must be approved by the participating members before they are taken to the IMF Executive Board. If currencies are borrowed, lending countries are assured of early repayment should they encounter balance of payment problems of their own. The GAB was last activated in July 1998 when the Russian financial crisis hit on top of the Asian turmoil, severely reducing the IMF's liquidity. All borrowed funds were repaid in March 1999 after the most recent quota increase had been paid by member countries.

The New Arrangements to Borrow (NAB) was established following the 1994-95 Mexican peso crisis as a supplemental line of credit with 25 member countries. It too serves as a reserve lending source, targeted more broadly toward the potential financial problems of the middle-income developing countries. It added another $23 billion of currency borrowing authority, doubling the borrowing authority of the IMF to allow greater potential response to global financial crises. As with the GAB, activation requires approval of the participating countries and the IMF Executive Board. The NAB became effective on November 17, 1998 and was activated in December 1998 to provide a credit line of $12.7 billion for Brazil, from which Brazil drew $4.1 billion. All funds borrowed by the NAB were also repaid with the 1999 quota increase.

Use of Funds

The IMF provides hard currencies to member countries with balance of payments problems based on need, willingness to adjust policies, and ability to repay. Funds are disbursed through various programs referred to as *financing facilities*. IMF financial assistance is not a "loan" in the traditional sense, although it is often referred to as such. What transpires is an exchange of currencies, with the "borrowing" country "purchasing" a strong currency with its own relatively weak currency. The purchased currency then becomes part of the borrowing country's foreign exchange reserves, enhancing its international liquidity. The "borrowing" country is responsible for "repurchasing" or exchanging a hard currency for its own currency at some future date under terms of the agreement.

All exchanges are done at a specified interest rate, depending on the facility used, and countries whose currencies are lent receive financial remuneration (interest). Two accounts track IMF resources, the general resources account, from which most funds are drawn, and the concessional loan account, from which low-income countries borrow at lower interest rates and for longer periods of time to help achieve longer-term development goals.

General Resources Account Funds

Most IMF assistance is drawn from the General Resources Account (GRA). At the close of fiscal 1999, GRA funds accounted for 90% of outstanding credit (see details below). The IMF typically lends its resources to countries in a series of installments referred to as *tranches*. This means lending is phased in by stages rather than done in one large disbursement. The first, or reserve, tranche equals the country's reserve position in the IMF and usually represents a country's contribution of hard currency to the Fund. A country technically must make a case for a balance of payments need, but the IMF has no authority to challenge a country's request for its reserve tranche or attach any conditions to it. In effect, countries have relatively easy access to these funds and many use them regularly.

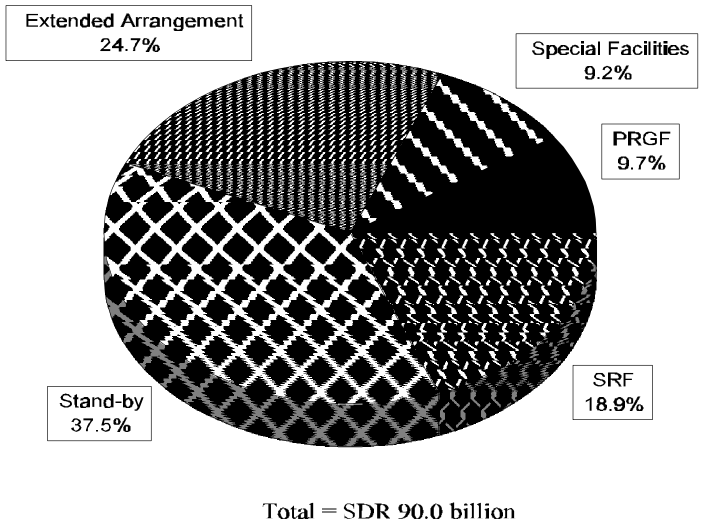
Beyond this first installment, additional draws are referred to as *credit tranches*. All draws beyond the first credit tranche are referred to as *upper-credit tranches*. Successive borrowing is usually done under increasingly stringent terms. IMF *conditionality* comes into play here; a country borrows with the understanding that it must follow a specific, detailed, plan of action, including adopting policies intended to help correct the balance of payments deficit. These policies are frequently painful to absorb and politically difficult to implement, so the IMF is often subject to criticism, particularly from constituencies within the borrowing country.

Under the general resources account there are three types of financing facilities from which most IMF credit is drawn: 1) stand-by arrangements; 2) extended arrangements; and 3) special facilities. Two programs created since December 1997, the Supplemental Reserve Facility (SRF) and the Contingent Credit Line (CCL), provide special access policies and limits to stand-by and extended arrangements under extenuating circumstances.

Stand-by and Extended Arrangements. These two arrangements constitute most IMF assistance. Both entail a formal request and then approval to draw a specified amount of hard currency under binding conditions. As seen in **figure 1**, these two arrangements together accounted for 62.2% of IMF outstanding credit as of the close of the IMF fiscal 1999 year (81.1% including SRF arrangements). A stand-by arrangement allows access to IMF resources for a 12-18 month period, although it can be extended. If drawn, resources are repaid in eight quarterly installments beginning 3 years and 3 months and ending 5 years after the draw.

The Extended Fund Facility (EFF) allows for larger and longer-term loans to countries needing more time to make adjustments. The extended arrangement is usually in effect for three years, but can be lengthened to four. Repayments are made over a 4.5-10 year period. Under both arrangements, early repayment is expected if the country's financial condition improves faster than anticipated. Additionally, the

Figure 1. IMF Outstanding Credit by Financing Facility, April 1999



Source: IMF, 1999 Annual Report, p. 147.

IMF developed the Emergency Financing Mechanism (EFM) following the 1994-95 Mexican peso crisis to expedite IMF decisions for stand-by and extended arrangements under circumstances that threaten the international financial system with contagion or other potentially severe problems.

Supplemental Reserve Facility (SRF). In response to the high demand for financial assistance during the Asian financial crisis, the IMF created the SRF in December 1997 to provide financing to members through, but beyond the normal limits defined in, the stand-by and extended arrangements. The SRF was designed to help countries with severe balance of payments problems stemming from a sudden loss of market confidence. Use of the SRF is granted to countries where there is a "reasonable expectation" that structural adjustment policies are, or shortly will be, in place and that SRF assistance will help correct the balance of payments problem. The SRF is more likely to be activated when the IMF considers a country's capital outflows to be large enough to "potentially threaten the international monetary system." Financing is provided for one year, with repayments expected within 1.5 years of the draw, but may be extended by another year. The cost of borrowing is 3-5 percentage points higher than normal arrangements, depending on length of the draw. The SRF was activated for Korea, Russia, and Brazil.

Contingent Credit Line (CCL). Created in April 1999, the CCL is a "precautionary" line of credit granted to member countries with "fundamentally sound and well-managed economies" who want a line of credit in place as a reserve against potential future financial shortfalls. It is intended to complement the SRF by providing a preventative option for financial assistance. Access is available for funds beyond those normally provided under stand-by and extended arrangements, once activation of the CCL is approved in a special review process. Funds are provided under guidelines similar to the SRF. The CCL was approved for a trial two-year period, terminating May 4, 2001.

Special Facilities. There are three additional facilities operated with IMF general resources that are designed to help countries with special balance of payments problems. The Compensatory and Contingency Financing Facility (CCFF), begun in 1963, assists countries with short-term export earning shortfalls "beyond their control." It was designed to support developing countries that export commodities, which can be subject to volatile market pricing. The Buffer Stock Financing Facility also helps agricultural exporting countries, but has not been drawn since 1983. Finally, the Systematic Transformation Facility was a temporary lending facility that assisted primarily countries of the former Soviet Union in the transition to a market economy. It operated from April 1993 through 1995.

Concessional Financing: The PRGF and HIPC

As part of the IMF's evolving sense of mission, it has developed lending facilities to address the needs of the poorest developing countries: the Poverty Reduction and Growth Facility (PRGF) – renamed in November 1999 from the Enhanced Structural Adjustment Facility (ESAF) – and the Heavily Indebted Poor Countries (HIPC) initiative. Unlike most IMF resources, which are managed from the General Resources Account, funds for these facilities are accounted for through separate trust funds to distinguish clearly their concessional purpose.

The PRGF Program. The PRGF is the IMF's response to helping the poorest countries address both balance of payments problems and structural adjustment goals. Since 1999, it has taken on the explicit mission of assisting countries with poverty reduction. An added feature is the requirement that a borrowing country develop a formal Poverty Reduction Strategy Paper as part of its structural adjustment process to ensure that macroeconomic reform be done with a clear mandate to address concerns for the poorest segments of society. The lending arrangements work in the same way as the old ESAF program. The IMF lends on concessional terms, with annual interest rates as low as 0.5% and loan maturities ranging from 5.5 to 10 years. The low interest rate and longer maturity give borrowing countries leeway to make longer-term adjustments and meet poverty reduction goals without pressing budgets immediately for IMF repayment.

IMF members support the facility in two ways. First by lending the program money, which the IMF in turn lends to eligible poor countries, and second, through grants that are used to pay the interest subsidy. PRGF loans are made under strict conditions, including a required 3-year plan demonstrating how adjustment policies will be implemented. Unlike draws from the standard IMF programs, PRGF assistance is similar to a traditionally defined loan in that there is no exchange of currencies involved in receiving the funds. Use of the PRGF program has grown steadily in recent years, but remains relatively small, averaging approximately 10% of total annual IMF credit extended over the past five years (see **Figure 1** for most recent fiscal year-end data).

The HIPC Initiative. In September 1996, the Board of Governors of the IMF and the World Bank endorsed the HIPC debt relief initiative. It is designed to reduce the unsustainably high debt levels of qualified developing countries to help alleviate poverty and stimulate development. The IMF finances its portion of HIPC debt relief through the PRGF. Grant donations from member countries cover the cost of both the PRGF interest subsidy and HIPC debt relief. The U.S. Congress has appropriated funds for the PRGF, but has not made a bilateral donation to fund reduction of multilateral debt under the HIPC initiative, although it is being considered in the 106th Congress.[9]

What Role for the IMF?

The financial crises that erupted in the 1990s were costly to international lenders and borrowers alike, eliminating large portions of wealth literally overnight. The deeper economic pain, however, was far more widespread, producing serious social hardships, particularly for low-income groups. This is a compelling reason for developing countries to attempt to avoid financial crises. In response to this turmoil, the IMF has evolved from a manager of moderate balance of payments problems, to a financier of large national "bailouts."

IMF lending patterns reflect the growing severity of financial crises over time. Since the 1980s Latin American debt crisis, developing countries with severe external finance problems have required increasingly larger draws with extended maturities from the IMF, unlike anything experienced during the Bretton Woods period. The IMF's growing loan portfolio combined with the severe consequences of recent financial crises and their possible continuation over the long run has made the Fund a ripe target for oversight and reevaluation. Experience of the 1990s points to clear limitations in what can be expected from the IMF's ability to predict and ameliorate crises, although there is considerable disagreement over its overall efficacy.

The central question remains, what role should or can the IMF play in reducing instability in an increasingly liberalized and potentially volatile international financial system. Some argue that the IMF is as much of the problem as it is the solution to instability by encouraging "moral hazard," or providing an implicit guarantee to lenders that they will be "bailed out" if they commit too many resources to a particular country. Opponents of this view argue that the IMF has helped make even the worst crises less painful than otherwise would have been the case if left to be resolved by the capital markets without IMF assistance. Others point out that historically, instability has been a part of financial markets long before the IMF was created and will not be eliminated regardless of how the IMF operates.

The continuing debate has at least two key focal points: 1) rethinking what should be expected from national policies and institutions, particularly financial market regulation and oversight in developing countries, to help reduce the frequency and extremity of financial panics; and 2) rethinking how the IMF should operate in numerous functional areas including its overall mission (lender of last resort versus development assistance), conditionality, transparency, and accountability, among other issues. Observers disagree over whether it might be preferable to let the market

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[9] For details on the HIPC initiative and debt in developing countries see: Nowels, Larry. *Debt Reduction: Initiatives for the Most Heavily Indebted Poor Countries*. CRS Report RL30214. Updated periodically, and Hornbeck, J. F. *Debt and Development in Poor Countries: Rethinking Policy Responses*. CRS Report RL30449. March 1, 2000.

punish countries when they fail to implement sound policies and programs, or use external leverage from the IMF and others to encourage such change. In addition, a current discussion is focusing on whether the IMF should require changes in financial systems and other areas prior to allowing country eligibility for assistance, or use the need for such assistance as the leverage for change during or after financial problems arise.

All of these and their related issues have been the subject of congressional investigation and oversight. A consensus has not emerged on the IMF with the possible exception that it may not be up to the task it currently faces and may best serve its diverse constituencies by clearly redefining its mission relative to the reality of today's enormous, fluid capital markets. In an ideal world, it would be able to balance the need for international liquidity assistance without encouraging widespread moral hazard. Although this seems unlikely in the near term, such a goal would be consistent with achieving long-term stability of the international financial system, which was a guiding principle of the Bretton Woods conference that created the IMF in the first place over fifty years ago.