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The International Monetary Fund

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Summary

The International Monetary Fund (IMF), conceived at the Bretton Woods conference in July 1944, is the multilateral organization focused on the international monetary system. Created in 1946 with 46 members, it has grown to include 189 countries. The IMF has six purposes that are outlined in Article I of the IMF Articles of Agreement: promoting international monetary cooperation; expanding the balanced growth of international trade; facilitating exchange rate stability; eliminating restrictions on the international flow of capital; ensuring confidence by making the general resources of the Fund temporarily available to members; and adjusting balance-of-payments imbalances in an orderly manner.

Congressional interest in IMF activities has increased since the onset of the international financial crisis in 2008. IMF lending has surged in the past decade, particularly in light of large loans to Greece, Ireland, and Portugal. In 2009, major economies agreed to substantially increase the IMF's resources and to move forward on several major reforms at the institution. These include increasing the voting share of emerging economies; revamping the IMF's lending toolkit to introduce greater flexibility and create new facilities for low-income countries; and creating a road map for resolving the fast-growing economic imbalances in the global economy between surplus and deficit countries. In late 2010, IMF members agreed to a doubling of IMF quotas, which required congressional authorization and appropriations.

The United States was instrumental in creating the IMF and is its largest financial contributor. Since voting shares are based on financial contributions, the large U.S. voting share provides the United States veto power over major decisions at the IMF. Both the IMF and its sister organization, the World Bank, are headquartered in Washington, DC.

At the Bretton Woods conference, the IMF was tasked with coordinating the system of fixed exchange rates to help the international economy recover from two world wars and the instability in the interwar period caused by competitive devaluations and protectionist trade policies. From 1946 until 1973, the IMF managed the "par value adjustable peg" system. The U.S. dollar was fixed to gold at $35 per ounce, and all other member countries' currencies were fixed to the dollar at different rates. This system of fixed rates ended in 1973 when the United States removed itself from the gold standard.

The IMF has evolved significantly as an institution since it was created. Floating exchange rates and more open capital markets in the 1990s created a new role for the IMF—the resolution of frequent and volatile international financial crises. The Asian financial crisis of 1997-1998 and subsequent crises in Russia and Latin America revealed many weaknesses of the world monetary system, which have only become more apparent in the wake of the 2008-2009 global financial crisis and the more recent sovereign debt crises in Europe.

This report evaluates the purpose, membership, financing, and focus of the IMF's activities. It also discusses the role of Congress in shaping U.S. policy at the IMF.

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Introduction

This report provides background information for Congress concerning the International Monetary Fund (IMF, the Fund), the central multilateral organization for international monetary cooperation.[1] The United States is the largest financial contributor to the IMF and congressional interest in IMF activities has increased since the onset of the international financial crisis in 2008. IMF lending has surged during the past decade, including large loans to Greece, Ireland, and Portugal. Potential policy issues for Congress include the role of the IMF as a lender of last resort, the adequacy of IMF resources, and the effectiveness of IMF surveillance of financial and monetary conditions in its member countries and of the world economy.

Background

Origins

Prior to World War II, there was no negotiated international regime governing international monetary and trade relations. It was the shared view among the allied powers that many characteristics of the international financial system during the period between the first and second world wars, including competitive devaluations, unstable exchange rates, and protectionist trade policies, worsened the 1930s depression and accelerated the onset of the war.[2] To address these concerns, representatives of the 44 allied nations gathered in Bretton Woods, NH, in July 1944 for the United Nations Monetary and Financial Conference. Their goal was ambitious and largely successful—to create a cooperative and institutional framework for the global economy that would facilitate international trade and balanced global economic stability and growth.

At the Bretton Woods conference, Articles of Agreement for the IMF and the International Bank for Reconstruction and Development (IBRD), later known as the World Bank, were drafted and adopted. They entered into force, formally creating the institutions, on December 27, 1945, following the adoption of implementing or authorizing legislation within member countries.[3] The Articles of Agreement of both institutions constitute an international treaty, imposing obligations on member states, which have changed over time.

The third pillar of the postwar economic agenda, negotiation on multilateral rules to liberalize and govern international trade, was not completed until the 1947 General Agreement on Tariffs and Trade (GATT). In 1995, the GATT was succeeded by the World Trade Organization (WTO).[4]

In the eyes of its founders, the IMF's purpose and contribution to postwar macroeconomic stability were threefold: (1) facilitate trade by restricting certain foreign exchange controls; (2) create monetary stability by managing a fixed (but flexible) exchange rate system; and

[1] For a brief treatment, see CRS In Focus IF10676, *The International Monetary Fund*, by (name redacted) .

[2] Eichengreen, Barry, *Globalizing Capital: A History of the International Monetary System* (Princeton, NJ: Princeton University Press, 1996).

[3] Lastra, Rosa Maria, *International Financial and Monetary Law* (Oxford, England: Oxford University Press, 2015).

[4] CRS In Focus IF10002, *The World Trade Organization*, by (name redacted) and (name redacted). See also, Bagwell, Kyle, Bown, Chad P., and Staiger, Robert W., "Is the WTO Passe?" *Journal of Economic Literature*, vol. 54, no. 4 (2016), pp. 1125-1231.

(3) provide short-term financing to member countries to correct temporary balance-of-payments problems.[5]

The U.S. Senate agreed to the ratification (by the President) of the Fund and Bank Agreements in July 1945. U.S. participation in both organizations is authorized by the United States Bretton Woods Agreement Act, as amended (*Bretton Woods Act*).[6] Unique among the founding members, the United States, in the Bretton Woods Act, requires specific congressional authorization to change the U.S. quota or "shares" in the Fund or for the United States to vote to amend the Articles of Agreement of the IMF or the World Bank. The U.S. Congress, thus, has veto power over major decisions at both institutions.

The Bretton Woods Monetary System

From 1946 to 1971, the main purpose of the IMF was regulatory, ensuring IMF members' compliance with a par value exchange rate system. This was a two-tiered currency regime using gold and the U.S. dollar. Each IMF member government could choose to define the value of its currency in terms of gold or the U.S. dollar, which the U.S. government agreed to support at a fixed gold value of one ounce of gold being equal to $35. Unlike in the classic gold standard period (1880-1914), monetary policy was not strictly restricted by a country's holdings of gold. Member countries were allowed to intervene in the currency market but were obligated to keep their exchange rates within a 1% band around their declared par value.

When currencies (other than the U.S. dollar) came under pressure from short-term "balance of payments" imbalances that normally arose through international trade and finance exchanges, countries would receive short-term financial support from the IMF. In cases where the currency "peg" was considered fundamentally misaligned, a country could devalue (or revalue) its currency. By providing monetary independence limited by the peg, the Bretton Woods monetary system combined exchange rate stability, the key benefit of the 19th century gold standard, with some of the virtues of floating exchange rates, principally independence to pursue domestic economic policies geared toward full employment.[7]

Balance-of-Payments Basics

The balance of payments is an accounting of a country's international transactions with individuals, businesses, and government agencies in that country and those in the rest of the world. It represents the sum of purely financial transactions (capital account) and those arising from the export and import of goods and services (current account), and other unilateral transfers (such as gifts or remittances).

A country's current account should be equal to the sum of the capital account and any unilateral transfers. 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 based on demand. No purchase or sale of official reserves by the government is necessary to operate a floating exchange regime. Under a pegged exchange rate system, however, countries cannot alter exchange rate values and so use their foreign exchange reserves to finance the balance-of-

[5] James, Harold, *International Monetary Cooperation since Bretton Woods* (Oxford, England: Oxford University Press, 1996).

[6] P.L. 79-171, 22 U.S.C. 286 et. seq. Lavelle, Kathryn C., *Legislating International Organizations: The U.S. Congress, the IMF, and the World Bank* (Oxford, England: Oxford University Press, 2011).

[7] James, Harold, *International Monetary Cooperation since Bretton Woods* (Oxford, England: Oxford University Press, 1996).

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 can petition the IMF for financial assistance.

The first major challenge to the postwar international monetary system came in the early 1960s. The postwar expansion in international trade and economic growth required an increase in international liquidity, that is, an increase in central bank holdings of the two major international reserve assets, gold and the U.S. dollar. With the economic recovery of Europe well advanced, the slow growth in gold supplies was hampering the growth of international reserve assets. As early as 1960, global foreign dollar holdings exceeded the value of U.S. gold holdings (at $35 an ounce). The system could continue to function as long as countries were willing to settle their balance of payments in U.S. dollars instead of gold.[8]

The international community's response was to create a new international reserve currency, the Special Drawing Right (SDR).[9] The SDR also serves as the IMF's unit of account. Initially defined as equivalent to 0.888671 grams of fine gold, the value of the SDR was switched to a basket of international currencies following the collapse of the Bretton Woods system of fixed parity exchange rates in 1973. The value of the SDR is determined by summing the values in U.S. dollars, based on market exchange rates, of a basket of major currencies (the U.S. dollar, Euro, Japanese yen, pound sterling and the Chinese renminbi). The SDR currency value is calculated daily and the valuation basket is reviewed and adjusted every five years. As of March 9, 2018, $1.00 was equivalent to 0.69 SDRs.[10]

By 1970, a large and prolonged U.S. balance-of-payments deficit was mirrored by its counterpart, large balance-of-payments surpluses in the other major industrial countries. As a result, much of the 1960s was characterized by substantial currency instability, as liberalized capital flows brought about repeated currency crises in the supposedly "fixed" exchange rate Bretton Woods system. Amid declining confidence in the U.S. dollar, foreign central banks increasingly became reluctant holders of U.S. dollars and began exchanging their dollar reserves for U.S. gold holdings. After several years of instability, the Bretton Woods system of fixed exchange rates finally collapsed in March 1973 when the United States severed the link between the dollar and gold, allowing the value of its currency to be determined by market forces.[11]

From 1973 to the Present

A major purpose of the IMF as originally conceived at Bretton Woods—to maintain fixed exchange rates—was, thus, at an end. Although the IMF had lost its motivating purpose, it adapted to the end of fixed exchange rates. In 1973, IMF members enacted a comprehensive rewrite of the IMF Articles. IMF members condoned the floating-rate exchange rate system that was already in place; officially ended the international monetary role of gold (although gold remains an international monetary asset); and, nominally, but unsuccessfully, made the SDR the

[8] Triffin, Robert, *Gold and the Dollar Crisis: the future of convertibility* (New Haven, CT: Yale University Press, 1960).

[9] Wilkie, Christopher, *Special Drawing Rights (SDRs): The First International Money* (Oxford, England: Oxford University Press, 2012).

[10] CRS In Focus IF10327, *The IMF's Special Drawing Right and China's Renminbi*, by (name redacted) .

[11] Bordo, Michael D., *The Operation and Demise of the Bretton Woods System; 1958 to 1971*, National Bureau of Economic Research, NBER Working Paper No. 23189, February 2017.

world's "principal reserve asset." Henceforth, member countries were allowed to freely determine their currency's exchange rate, and use private capital flows to finance trade imbalances.

The IMF was also given two new functions, which became the foundation of its role in the post-Bretton Woods international monetary system. The first was for the IMF to oversee the international monetary system to ensure its effective operation. The second was to oversee the compliance by member states with their new obligations to "collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates."[12] Consequently, the IMF transformed itself from being an international monetary institution focused almost exclusively on issues of foreign exchange convertibility and stability to being a much broader international financial institution, assuming a broader array of responsibilities and engaging on a wide range of issues including financial and capital markets, financial regulation and reform, and sovereign debt resolution.[13]

The IMF also increasingly relied on its lending powers, as floating exchange rates and the growth of international capital flows led to more frequent and increasingly severe financial crises. Over the past several decades, the IMF has been involved in the oil crisis of the 1970s; the Latin American debt crisis of the 1980s; the transition to market-oriented economies following the collapse of communism; currency crises in East Asia, South America, and Russia; and, most recently, the global response to the 2008-2009 global financial crisis and the multiyear European sovereign debt crisis that began in 2010.

Institutional Aspects

Organizational Structure

The IMF Articles provide 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 countries are represented on the Board of Governors, usually at the finance minister or central bank governor level. The United States is represented by the Secretary of the Treasury. IMF Governors usually meet annually at the fall IMF meetings. A committee of the Governors, the International Monetary and Financial Committee (IMFC), meets twice annually to consider major policy issues affecting the international monetary system and makes recommendations to the full Board of Governors.

The Development Committee, a joint committee of the Boards of Governors of the IMF and World Bank, also meets at the same time to consider development policy issues and other matters affecting developing countries. The two committees generally issue communiqués at the close of their meetings, summarizing their findings and recommendations. These often serve as policy guidance to the IMF and the World Bank and as a means for airing views and for coordinating or harmonizing country policies on issues of international concern.

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.

[12] International Monetary Fund, *The Funds Mandate—An Overview*, January 22, 2010; International Fund, The Fund's Mandate—The Legal Framework, February 22, 2010.

[13] Frank A. Southard Jr., "The Evolution of the International Monetary Fund," *North Carolina Journal of International Law and Commercial Regulation*, vol. 5, no. 3 (Summer 1980).

Until 2015, the five largest shareholders (United States, Japan, Germany, France, and the United Kingdom) were entitled to appoint their own Executive Director, while the remaining members were elected by groups of countries, generally on the basis of geographical or historical affinity. As part of a quota and governance reform package, agreed in 2010 and entered into force in 2015, the IMF has switched to an all-elected executive board. While the size of the board remains the same, there are now two fewer directors for advanced European economies.

The IMF Executive Board selects the Managing Director of the IMF, who serves as its chairman and chief executive officer. The Managing Director is elected for a five-year renewable term of office. The Executive Board also approves the selection of the Managing Director's principal assistants, the First Deputy Managing Director and four Deputy Managing Directors. The Managing Director manages the ongoing operations of the Fund (under the policy direction of the Executive Board); supervises some 2,800 staff members; and oversees the preparation of policy papers, loan proposals, and other documents that go before the Executive Board for its approval.

While any country can propose a candidate for IMF president, by tradition, the European candidate for IMF Managing Director is elected by the full IMF membership.[14] The United States has a similar prerogative at the World Bank. The First Deputy Managing Director of the IMF is typically a U.S. citizen, currently the position is held by David Lipton. Leadership selection has been a long-standing issue of concern. Emerging economic powers argue that any agreement that grants the leadership position based on nationality limits the pool of potential candidates. During the most recent transition from Dominique Strauss-Kahn to Christine Lagarde, however, non-European countries were unable to coalesce on a candidate, securing the position for a European.[15] In February 2016, the IMF Executive Board selected MD Lagarde for a second five-year term, serving to July 2021.[16]

Some analysts argue that calls for a non-European director from the emerging economies mask divides that make it difficult for emerging economies to unite behind one credible candidate. These calls, the argument goes, are part of the larger issue of the influence of emerging economies in the international financial institutions, and could ultimately lead to additional shifts toward emerging economies, despite Europe's hold on the top position. Evidence suggests that some shifts are underway. In July 2011, new Managing Director Lagarde elevated Zhu Min, a Chinese national serving as an advisor to the Managing Director, to Deputy Managing Director. In August 2016, Mr. Min was replaced with Tao Zhang, former Deputy Governor of China's Central Bank.[17]

In addition to the official representation of the Board of Governors and the Executive Board, several other cross-cutting groups of countries are actively involved with the IMF. These include forums such as the Group of Seven (G-7) meeting of the finance ministers,[18] the Group of 20 major economies (G-20),[19] which in 2009 was declared by its members as the premier forum for

[14] For more information, see CRS Report R41828, *International Monetary Fund: Selecting a Managing Director*, by (name redacted) .

[15] "What Makes Christine Lagarde the Front Runner?" *Institutional Investor*, June 9, 2011.

[16] International Monetary Fund, " IMF Executive Board Selects Christine Lagarde to Serve a Second Term as Managing Director," Press Release No. 16/63, February 19, 2016.

[17] International Monetary Fund, "IMF Managing Director Christine Lagarde Proposes Appointment of Mr. Tao Zhang as Deputy Managing Director," Press Release No. 16/324, July 8, 2016.

[18] The members of the G-7 are Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

[19] The members of the G-20 are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Korea, Turkey, the United Kingdom, the United States, and the European Union, which is represented at the leaders' level by the presidents of the European Union and the European

international economic cooperation,[20] and the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development (G-24),[21] which coordinates the position of developing countries on monetary and development issues.

IMF Finances

The IMF has three main financial sources (with the exception of special trust finds): subscriptions of members (quotas), multilateral borrowing arrangements (New Arrangements to Borrow (NAB) and General Arrangements to Borrow (GAB)), and bilateral borrowing arrangements, currently worth a combined total of SDR 963 billion (around $1.35 trillion) (**Table 1**).

Table 1. Total IMF Resources (End FY2017)

Source	Value in Billions of U.S. Dollars
Quotas	675
New Arrangements to Borrow	255
General Arrangements to Borrow	25
Bilateral Borrowing	435
Total	1,390

Source: International Monetary Fund, Financial Statements for the Quarters ended October 31, 2017, and 2016.

Note: As of October 31, 2017, one SDR was equal to U.S. $1.40469.

Excluding reserves, prudential lending requirements, and outstanding programs, the IMF's available money to lend (known as the forward commitment capacity) was SDR 220.9 billion ($320.3 billion) as of March 2, 2018.[22]

Quotas

Quotas are the primary national contribution to the IMF and are the foundation of country representation at the IMF. In December 2010, IMF members agreed to double IMF quotas to a combined SDR477 billion (about $677 billion) from about SDR 238 billion (about $339 billion).[23] Total quota resources are SDR 475 billion (about $675 billion). U.S. quota is SDR 83 billion (about $117 billion), 17.46% of the total.

The IMF reviews quotas every five years and the fifteenth review of IMF quotas was originally scheduled to conclude in 2015. However, given the extended period of time required to implement the most recent increase, IMF members agreed to delay the fifteenth review with the aim of completing it no later than the fall 2019 IMF annual meetings.[24]

Commission and at the finance level by the rotating presidency of the European Council and the European Central Bank.

[20] CRS Report R40977, *The G-20 and International Economic Cooperation: Background and Implications for Congress*, by (name redacted) .

[21] The members of the G-24 are Algeria, Argentina, Brazil, Colombia, Côte d'Ivoire, the Democratic Republic of Congo, Egypt, Ethiopia, Gabon, Ghana, Guatemala, India, Iran, Lebanon, Mexico, Nigeria, Pakistan, Peru, Philippines, South Africa, Sri Lanka, Syria, Trinidad and Tobago, and Venezuela.

[22] International Monetary Fund, Weekly Report on Key Financial Statistics, March 2, 2018.

[23] CRS In Focus IF10134, *IMF Quota and Governance Reforms*, by (name redacted) and (name redacted) .

[24] International Monetary Fund, *Fifteenth General Review of Quotas - Report of the Executive Board to the Board of Governors*, November 2, 2016.

Multilateral Borrowing

In addition to its regular quota resources, the IMF maintains two standing multilateral borrowing arrangements, the New Arrangements to Borrow (NAB) and the General Arrangements to Borrow (GAB) and several bilateral borrowing arrangements. These are backstop resources intended to temporarily supplement available quota resources and borrowing. If activated, participating creditor countries make loans to the IMF, and the IMF uses those funds to provide loans to eligible countries.

The NAB is a set of credit arrangements between the IMF and 38 member countries and institutions, including advanced economies and a number of emerging market countries. The NAB is the facility of first and principal recourse in circumstances in which the IMF needs to supplement its quota resources. As part of the agreement in December 2010 to double the IMF's quota resources, members agreed on a corresponding rollback of the NAB, resulting in a shift in the composition of the IMF's resources from NAB to quotas. Following the payments for quota increases in February 2016, the NAB has been rolled back from SDR 370 (about $536 billion) to SDR 182 billion (about $263 billion).[25] As of the end of FY2017, the IMF had commitments under the NAB of SDR 181 (about $254 billion, **Table 2**).

Table 2. IMF NAB Commitments (End FY2017)

Member, Central Bank	Commitment Amount (Millions of SDR)	Commitment Amount (In Millions of U.S. $)
Australia	2,220	3,118
Austria	1,818	2,554
Belgium	3,994	5,610
Brazil	4,441	6,238
Canada	3,874	5,442
Chile (Central Bank of Chile)	691	971
China	15,860	22,278
Cyprus	340	478
Denmark (Danmarks Nationalbank)	1,630	2,290
Germany (Deutsche Bundesbank)	12,890	18,106
Finland	1,134	1,593
France	9,479	13,315
Hong Kong Monetary Authority	340	478
India	4,441	6,238
Israel (Central Bank of Israel)	340	478
Italy	6,899	9,691
Japan	33,509	47,070
Kuwait	341	479
Luxembourg	493	693
Malaysia	340	478

25 International Monetary Fund, "IMF Standing Borrowing Arrangements," October 13, 2017

Member, Central Bank	Commitment Amount (Millions of SDR)	Commitment Amount (In Millions of U.S. $)
Mexico	2,538	3,565
Netherlands	4,595	6,455
New Zealand	340	478
Norway	1,967	2,763
The Philippines (Bangko Sentral ng Pilipinas)	340	478
Poland (Narodowy Bank Polski)	1,285	1,805
Portugal (Banco de Portugal)	784	1,101
Russia	4,441	6,238
Saudi Arabia	5,653	7,941
Singapore	649	912
South Africa	340	478
South Korea	3,345	4,699
Spain	3,405	4,783
Sweden (Sveriges Riksbank)	2,256	3,169
Switzerland (Swiss National Bank)	5,541	7,783
Thailand	340	478
United Kingdom	9,479	13,315
United States	28,202	39,615
Total	**180,574**	**253,654**

Source: International Monetary Fund, Financial Statements for the Quarters ended October 31, 2017, and 2016.

Note: As of October 31, 2017, one SDR was equal to U.S. $1.40469.

The NAB was renewed in November 2016 for a five-year period.[26] Further renewal requires congressional authorization. U.S. contributions to the NAB are due to sunset in 2022. The GAB, an earlier multilateral borrowing arrangement (established in 1962) of SDR 17 billion (around $25 billion) which has not been used in over 20 years, is set to be abolished at the end of 2018.[27]

Bilateral Borrowing

In 2012, the IMF entered into bilateral borrowing agreements with several members or their central banks. The 2012 agreements provided for an initial term of two years, with the option to extend the term for up to two additional years. These four-year terms began to expire in October 2016. In August 2016, the IMF Executive Board approved a new framework for bilateral borrowing.[28] Agreements signed under the 2016 framework expire at end of 2019 and are

[26] International Monetary Fund, "IMF Executive Board Approves Renewal of New Arrangements to Borrow," IMF Press Release No. 16/502, November 11, 2016.

[27] International Monetary Fund, "IMF General Arrangements to Borrow to Lapse on December 25, 2018," IMF Press Release No. 17/522, December 26, 2017.

[28] International Monetary Fund, Guidelines for Borrowing by the Fund As of August 29, 2016.

extendable for another year with creditors' consents. They can only be activated if and when NAB resources have been expired. The United States does not have a bilateral borrowing relationship with the IMF. As of March 2018, bilateral agreements worth $435 billion were signed and effective.[29]

Trust Funds

Another form of IMF borrowing is trust funds. These are voluntary contributions by member countries designated to be used for specific purposes. For example, the IMF's Catastrophe Containment and Relief (CCR) Trust allows the IMF to provide grants for debt relief for the poorest and most vulnerable countries hit by catastrophic natural disasters or public health disasters.

Voting and Influence at the IMF

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. A 70% majority is required to resolve financial and operational issues such as the interest rate on IMF loans or the interest rate on SDR holdings. An 85% majority is required for the most important decisions, such as the admission of new members, increases in quotas, allocations of SDRs, and amendments to the IMF's Articles of Agreement.

With a voting share of 16.52% (**Table 3**), the United States is the only country able to unilaterally veto major IMF decisions (i.e., those requiring an 85% majority). The United States also exercises a substantial amount of informal power at the IMF, given its large quota share and the location of the Fund in Washington, DC.[30] According to one analyst, "[t]here is no example that comes easily to mind of a position taken by the IMF on any systematic issue without the tacit, if not explicit, support of the United States and the other G-7 countries."

Table 3. IMF Members with Largest Quota and Voting Shares

(as of March 16, 2018)

Member	Quota share (percentage)	Voting share (percentage)
United States	17.46	16.52
Japan	6.48	6.15
China	6.41	6.09
Germany	5.60	5.32
France	4.24	4.03

[29] The IMF has bilateral agreements with the Central Bank of Algeria, Australia, Central Bank of Austria, Central Bank of Belgium, Central Bank of Brazil, Brunei Darussalam, Canada, Central Bank of Chile, Central Bank of China, Central Bank of Denmark, Central Bank of Finland, France, Central Bank of Germany, Central Bank of Italy, Japan, South Korea, Luxembourg, Central Bank of Malaysia, Central Bank of Malta, Central Bank of Mexico, Central Bank of the Netherlands, New Zealand, Central Bank of Norway, Central Bank of Peru, Central Bank of Poland, Central Bank of Russia, Saudi Arabia, Central Bank of Singapore, Slovak Republic, Central Bank of Slovenia, Central Bank of South Africa, Central Bank of Sweden, Central Bank of Thailand, Central Bank of Turkey, and the United Kingdom. IMF financial statements do not provide the value of individual bilateral agreements.

[30] Randall W. Stone, *Controlling Institutions: International Organizations and the Global Economy* (New York: Cambridge University Press, 2011).

Member	Quota share (percentage)	Voting share (percentage)
United Kingdom	4.24	4.03
Italy	3.17	3.02
Russia	2.71	2.59
Canada	2.32	2.22
Saudi Arabia	2.10	2.02

Source: International Monetary Fund.

Functions of the IMF

As set forth in its Articles of Agreement, the purposes of the IMF are (1) to promote international cooperation on international monetary problems, (2) to facilitate the expansion and balanced growth of international trade, promoting high levels of employment and real income and the development of productive resources in all member countries, (3) to promote exchange rate stability and to avoid competitive exchange rate depreciation, (4) to help establish a multilateral system of payments among countries for current transactions and to help eliminate foreign exchange restrictions which hamper world trade, (5) to make loans to member countries on a temporary basis with adequate safeguards for repayment, "thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity," and (6) to shorten with such loans the duration and to lessen the degree of disequilibrium in the international balances of payments of members.[31]

In practice, the IMF's mandate of promoting international monetary stability translates into three main functions: (1) surveillance of financial and monetary conditions in its member countries and in the world economy; (2) financial assistance to help countries overcome major balance-of-payments problems; and (3) technical assistance and advisory services to member countries.

Surveillance

IMF members agree, as a condition of membership (Article IV), that they will "collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates." In particular, they agree to pursue economic and financial policies that will produce orderly economic growth with reasonable price stability, to avoid erratic disruptions in the international monetary system, not to manipulate their exchange rates in order to attain unfair competitive advantage or shift economic burdens to other countries, and to follow exchange rate policies compatible with these commitments.

The main duties are comprised in Article VIII (convertibility) and Article IV (exchange arrangements). If a country breaches these obligations, there are three escalating levels of punishment available: (1) ineligibility to borrow loans from the IMF, (2) temporary suspension of voting rights, and (3) expulsion from the Fund. For example, in July 2011, Argentina was found in breach of its obligations under Article VIII, Section 5 due to its inaccurate provision of economic data to the IMF and was censured for several years.[32] Only one country,

[31] International Monetary Fund, *Articles of Agreement of the International Monetary Fund—2016 Edition*, April 2016.

[32] International Monetary Fund, "IMF Executive Board Removes Declaration of Censure on Argentina," Press Release No. 16/497, November 9, 2016.

Czechoslovakia, was forced to withdraw from the IMF, in 1954 for its failure to provide the information required for an evaluation of exchange rate policy.[33]

Countries are required to provide the IMF with information and to consult with the IMF upon its request. The IMF staff generally meets annually with each member country regarding the country's current fiscal and monetary policies, the state of its economy, its exchange rate situation, and other relevant concerns. The IMF's reports on its Article IV consultations with each country are presented to the IMF Executive Board, along with the staff's observations and recommendations about possible improvements in the country's economic policies and practices.

In pursuit of its multilateral surveillance function, the IMF publishes numerous reports each year on economic conditions and trends in the world economy. These include semiannual publications such as (1) the *World Economic Outlook*, which provides analysis of the state of the global economy; (2) the *Global Financial Stability Report*, which assesses global financial markets; and (3) the *Fiscal Monitor*, which surveys and analyzes the state of public finances in member countries. The IMF also prepares regional economic outlooks and a wide-range of analytical outputs across all IMF departments.

The Fund is also required (Article VIII, Section 7) to publish an annual report on its operations, transactions, and resources and it is authorized (Article XII, Section 7) to publish "such other reports as it deems desirable for carrying out its purposes." These are available through its publications page, also available at the IMF website.

The IMF's authority does not extend, however, to the publication of information about the internal conditions in member countries. Countries are required (Article VIII, Section 5) to provide the IMF with information about their economic and monetary conditions and international economic and financial relationships. However, this information is generally deemed to be the property of the country which provided it and their consent is required for its release. The Fund may not publish reports involving changes in the fundamental structure of the economic organization of members (Article XII, Section 8) without their consent. It may communicate its views informally to any member country about any relevant issue. A 70% vote of the executive board is required, however, before any report can be published on economic, monetary or balance of payments conditions in a country if the country in question does not want it released. It does not appear that the IMF executive board has ever exercised this authority.

Financial Assistance

When its member countries experience balance of payments difficulties, either through capital account or current account crises, the IMF can make loans designed to help them stabilize their international payments situation and adopt policy changes sufficient to reverse their situation and overcome their problems. In some cases, the IMF makes short-term loans to help prevent countries' economies from spiraling into financial crisis and to facilitate renewed inflows of private sector capital. Many financial crises in developing countries in recent years were the result of a lack of confidence by the international financial markets and the "sudden stop" or reversal of capital inflows to developing countries which often occurs at the outset of a crisis. In other cases, the IMF makes loans to help countries deal with crises but the loan repayment period is longer and the conditionality includes problems which are more deeply rooted and require more time than is usually possible in the IMF's usual timeline.

[33] John Horsefield and Margaret Garritsen De Vries, *The International Monetary Fund, 1945-1965 :Twenty Years of International Monetary Cooperation* (Washington, D.C.: International Monetary Fund, 1969).

The IMF's financial structure can best be characterized as that of a credit union (see box). IMF member countries deposit hard currency and some of their own currency, from which they can draw the currencies of other countries if they face significant problems in managing their balance of payments. As noted above, supplemental resources are available from the NAB or GAB if quota resources are insufficient.

Mechanics of IMF Financing

The IMF's financing mechanism is rooted in the credit facilities that existed between central banks prior to the IMF's creation. Central banks would borrow from each other with the borrower purchasing the currency of the lender, and paying for it by crediting the lender's account with the borrower in the borrower's currency. Thus, when borrowing from the IMF, a member purchases from the IMF the hard currency of another member in exchange for its own currency. Repayment is effected through a reversal of the original transaction. The member repays the loan by paying the IMF hard currency and repurchasing its own currency that the IMF had acquired.

For the IMF to be able to lend, it has available, through members' quota subscriptions and NAB commitments, a pool of hard currency and SDRs. A quarter of a member's quota payment is normally paid in usable assets (SDRs or currencies of other members acceptable to the IMF), and the balance is paid in the member's own currency. When members borrow from the IMF, the pool contains more of debtor members' currencies and less of SDRs or currencies of creditor members. The reverse takes place as members repay their borrowings from the IMF.

Operationally, the IMF decides quarterly, based on the expected pipeline of member borrowings and repayments, which currencies are to be used (and up to what amounts) to finance and repay its lending. The amounts transferred and received by these members are managed to ensure that their creditor positions in the IMF remain broadly even in relation to their quota, which are reported by the IMF on a quarterly basis. The most recent report, covering transactions between August 1, 2017, and October 31, 2017, reported that the U.S. creditor position was 10% of total quota available to finance transactions.[34]

The IMF is required by its Articles to ensure that countries' use of its resources will be temporary and that loans will be repaid. Failure of a borrowing country to repay the IMF reduces the availability of financing for all other IMF members. In order to ensure that it gets repaid, the IMF imposes conditionality on its loans. Conditionality is also intended to correct the borrower's current account deficit by bringing about macroeconomic stabilization and economic adjustment. In the past, there have been debates about whether the austerity conditions that are often the core of IMF conditionality are productive in increasing economic growth. In 2000, one heavily cited paper found that participating in IMF programs lowers growth rates during the program, as would be expected. In addition, however, the study found that once countries leave the program, they grow faster than if they had remained, but not faster than they would have without participating in the IMF program in the first place.[35] Recent research upholds these findings. A 2017 study, looking at IMF lending to low-income countries, found that IMF programs had a generally positive effect on economic growth for up to two years after the agreements were signed.[36]

After heavy criticism of the conditions attached to IMF loans to East Asia in the late 1990s, the IMF revamped its conditionality guidelines in 2002.[37] Additional reforms, including new IMF

[34] International Monetary Fund, *Financing IMF Transactions Quarterly Report: August 1, 2017 - October 31, 2017*, February 1, 2018.

[35] Adam Przeworski and James Vreeland, "The effect of IMF programs on economic growth," *Journal of Development Economics*, vol. 62 (2000).

[36] Graham Bird and Dane Rowlands, "The Effect of IMF Programmes on Economic Growth in Low Income Countries: An Empirical Analysis," *Journal of Development Studies*, vol. 53, no. 12 (2017).

[37] International Monetary Fund, *Revised Operational Guidance to IMF Staff on the 2002 Conditionality Guidelines*, August 2014.

lending instruments based on economic prequalification (ex-ante conditionality) rather than traditional structural adjustment (ex-post conditionality).[38]

IMF Loan Programs

The IMF has several loan programs. **Table IV** shows the financial terms of the major lending facilities. The Stand-By Arrangement (SBA), which provides the bulk of IMF assistance to middle-income countries, addresses short-term balance-of-payments problems and typically lasts one to two years. The Extended Fund Facility (EFF) addresses longer-term balance-of-payments problems requiring fundamental economic reforms and generally runs for three years or longer. The IMF provides loans to its poorest member countries on concessional repayment terms. These aim to help countries overcome balance-of-payments problems, but their conditionality puts less emphasis on cutting spending and more on economic growth-enhancing reforms. Concessional lending to low-income countries is resourced through contributions from member countries and the IMF itself, rather than through quota subscriptions. The IMF currently provides low-interest loans under the Poverty Reduction and Growth Trust (PRGT) (zero interest rate until 2018). Debt relief is provided under the Heavily Indebted Poor Countries (HIPC) Initiative and the Catastrophe Containment and Relief (CCR) Trust Fund. Finally, the Policy Support Instrument (PSI) supports low-income countries that do not want, or need, IMF lending, but seek IMF macroeconomic advice, and a "seal of approval" of their economic policies as a signal to international donors and financial markets.[39] In 2017, IMF members approved the creation of another non-financing instrument, the Policy Coordination Instrument (PCI). The PCI is similar to the PSI but is eligible to the full IMF membership, has a more flexible review schedule.[40]

In 2009, following the financial crisis, the IMF created the Flexible Credit Line (FCL). The FCL provides a credit line to countries that have strong economic fundamentals and policies, and that the credit line can be drawn on without new conditionalities being imposed. Unlike the SBA and the EFF, the FCL relies on ex-ante conditionality.

As of March 2018, Colombia, Mexico, and Poland have used the FCL, although none of the three countries has drawn on the credit lines.[41] In 2010, the IMF introduced the Precautionary Credit Line, now known as the Precautionary and Liquidity Line (PLL), for countries whose financial situations would make them ineligible for the FCL. A country can request a PLL for six months with a limit of five times its quota. To date, two countries, Macedonia and Morocco, have used the PLL.[42] A 2017 study found that these precautionary programs are among the least costly and most advantageous lending programs the IMF offers its members and recommended that more countries should seek precautionary lending from the Fund.[43]

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[38] International Monetary Fund, "IMF Executive Board Discusses Proposals for Toolkit Reform, Concludes Review of the Flexible Credit Line and Precautionary and Liquidity Line," Press Release No. 17/507, December 19, 2017.

[39] International Monetary Fund, "Policy Support Instrument (PSI)," Fact Sheet, March 8, 2018.

[40] International Monetary Fund, "IMF Executive Board Approves Proposal for a New Policy Coordination Instrument," Press Release No. 17/229, July 2017.

[41] International Monetary Fund, "IMF Flexible Credit Line (FCL)," Factsheet, March 6, 2018.

[42] International Monetary Fund, "IMF Precautionary and Liquidity Line (PLL)," Factsheet, March 6, 2018.

[43] Nancy Birdsall, Liliana Rojas-Suarez, and Anna Diofasi, *Expanding Global Liquidity Insurance: Myths and Realities of the IMF's Precautionary Credit Lines*, Center for Global Development, Working Paper 449, Washington, D.C., February 2017.

Table 4. IMF Lending Programs

Credit Facility (Year Adopted)	Purpose	Access Limits	Repayment Schedule	Programs as of March 15, 2018
Stand—By Arrangements (SBA) (1952)	Short- to medium-term assistance for countries with short-term balance-of payments difficulties	Annual: 145% of quota; Cumulative: 435% of quota	3.25 - 5 Years	Iraq, Jamaica, and Kenya
Extended-Fund Facility (EFF) (1974)	Longer-term assistance to support members' structural reforms to address long-term balance-of-payments difficulties	Annual: 145% of quota; Cumulative: 435% of quota	4.5 - 10 Years	Bosnia and Herzegovina, Cote d'Ivoire, Egypt, Gabon, and Georgia, Jordan, Moldova, Mongolia, Sri Lanka, Tunisia, and Ukraine
Flexible Credit Line (FCL)	Flexible instrument in the credit tranches to address all balance-of-payments needs, potential or actual	No preset limit	3.25 - 5 Years	Colombia and Mexico,
Precautionary and Liquidity Line (PLL) (2011)	Instrument for countries with sound economic fundamentals and policies	125% of quota for 6 months; 250% of quota available upon approval of 1- to 2-year arrangements; total of 500% of quota after 12 months of satisfactory progress	3.25–5 Years	Morocco
Rapid Financing Instrument (RFI) (2011)	Rapid financial assistance to all member countries facing an urgent balance of payments need	Annual: 37.5% of quota; Cumulative: 75% of quota	3.25–5 Years	
Extended Credit Facility	Medium to long-term assistance to support low-income members' structural reforms to address long-term balance-of-payments difficulties	Annual: 75%; Cumulative: 225%	5.5–10 Years	Afghanistan, Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Cote d'Ivoire, Ghana, Guinea, Guinea-Bissau, Kyrgyz Republic, Madagascar, Mali, Mauritania, Moldova, Niger, Sao Tome-Principe, Sierra Leone, Togo

Credit Facility (Year Adopted)	Purpose	Access Limits	Repayment Schedule	Programs as of March 15, 2018
Standby Credit Facility	Short-term and precautionary assistance to support low-income member's structural reforms to address long-term balance-of-payments difficulties	Annual: 75%; Cumulative: 225%	4–8 Years	
Rapid Credit Facility	Rapid and concessional financial assistance to low-income countries facing an urgent balance of payments need (such as a natural disaster), without ex post conditionality.	Annual: 18.75%; Cumulative: 75%	5.5–10 Years	

Source: Weekly Report on Key Financial Statistics, *International Monetary Fund*, March 15, 2018

Trends in IMF Lending

Advanced economies accounted for over 75% of the IMF credit in 1970, during the waning days of the fixed exchange rate regime. By 1990, their share of IMF credit had dropped to zero, before increasing in the late 1990s (loans to Korea and Russia), and then after the recent financial crisis. In 2010, due to several large European programs, IMF lending to advanced economies accounted for 17% of total lending. Loans to Latin America began rising in the 1970s, but did not increase sharply until the 1980s debt crises, peaking in 1990. Loans increased after 2000 because of three large programs (Argentina, Brazil, and Uruguay) and declined until the end of the decade and onset of the global financial crisis in 2008 followed by the ongoing economic turmoil within the Eurozone countries.[44]

In recent years, Greece has been the most persistent challenge facing the IMF.[45] The Greek crisis was rooted in concerns about its public debt and finances, although the crisis exposed broader issues with Greece's banking sector, structural policies, and membership in the Eurozone. The IMF approved two financial assistance programs for Greece, co-financed with European creditors, in 2010 and 2012. For the IMF as an institution, the stakes were high: the programs were among the largest in IMF history, Greece was the first advanced economy to borrow from the IMF in several decades, and failing to contain the crisis could have undermined recovery from the global financial crisis.

Another key trend is the increasing size of IMF loans compared to a country's quota. Officially, the amount a country is able to borrow from the IMF is related to the country's quota, its ownership and contribution share in the IMF. In most instances, countries may borrow several multiples of their quota in response to particular circumstances. The conditionality and

[44] CRS Report R42377, *The Eurozone Crisis: Overview and Issues for Congress*, coordinated by (name redacted) .

[45] CRS Report R41167, *Greece's Debt Crisis: Overview, Policy Responses, and Implications*, coordinated by (name re dacted) .

performance standards attached to a loan become more rigorous and demanding as its size (relative to the borrower's quota) increases. In many cases, deemed exceptional by the IMF executive board at the time, countries have received much larger loans from the IMF than are allowed under normal guidelines. The 2010 loan to Greece, for example, was 3,212% of Greece's quota at the IMF. The 2011 loan to Ireland was 2,322% of its quota.

Technical Assistance

Access to technical assistance is one benefit of IMF membership, accounting for about 20% of the IMF's annual operating budget. The IMF provides technical assistance in its core areas of expertise: macroeconomic policy; tax and revenue policies; expenditure management; exchange rates; financial sector sustainability; and economic statistics. IMF technical assistance supports the development of the productive resources of member countries by helping them to effectively manage their economic policy and financial affairs. The IMF helps these countries to strengthen their capacity in both human and institutional resources, and to design appropriate macroeconomic, financial, and structural policies.

U.S. Engagement with the IMF

U.S. Policymaking Process

As the largest single shareholder of IMF quota (approximately $67.35 billion), and contributor to the NAB ($100 billion), the United States has a leading role in shaping the IMF's lending, surveillance, and advisory operations. While the statutory framework for U.S. participation in the IMF provides the President the authority to appoint the U.S. Governor, Alternate Governor, Executive Director, and Alternate Executive Director, the Department of the Treasury has been delegated responsibility to direct U.S. representatives at the IMF and to take a range of actions with respect to the IMF, including making contributions to capital increases and implementing congressional mandates. Congress is responsible for authorizing and appropriating all U.S. financial commitments to the IMF. The Senate has advise and consent authority over all persons nominated to represent the United States at the IMF.

U.S. participation in the IMF is authorized by the Bretton Woods Agreements Act of 1945.[46] U.S. representatives at the Board of Governors and the Board of Executive Directors are appointed by the President, by and with the advice and consent of the Senate, to terms of five years and two years, respectively. They have the right to remain in office until a successor has been appointed.[47] The Secretary of the Treasury, as a matter of practice, is nominated to serve as the U.S. Governor at the IMF. The Chairman of the Federal Reserve customarily is nominated to serve as the U.S. Alternate Governor. As discussed above, the Board of Governors has delegated substantial authority to the IMF's Executive Board, which carries out the IMF's day-to-day operations. The U.S. Executive Director and Alternate U.S. Executive Director serve as representatives of the United States to the IMF and present the U.S. government's positions. Executive Directors at the IMF, including those of those of the United States, are employees of the IMF.[48]

[46] 22 U.S.C. 286 et seq.

[47] 22 U.S.C. 286a (a), (b).

[48] Federal law limits the salaries that IMF may pay the U.S. representatives, capping them at the rate of level IV of the Executive Schedule for the U.S. Executive Director and level V for the Alternate U.S. Executive Director.

When the United States joined the IMF, Congress made an interagency group of executive branch agencies, the National Advisory Council on International Monetary and Financial Problems (NAC), responsible for instructing the U.S. IMF representative, under the general direction of the President. Unless the President overrode their recommendations, policy was determined by a majority vote of agencies involved. The initial interagency procedure did not work well, and in 1965, Congress approved a reorganization act that abolished the NAC as a statutory committee and transferred all of its responsibilities and authority to the President, including the responsibility for instructing U.S. representatives at the IMF. In 1966, President Lyndon Johnson delegated the responsibility to direct U.S. representatives at the IMF to the Treasury Department, where it continues to reside today.[49] The President reconstituted the NAC by executive order, but it became solely a forum where other agencies could advise the Treasury Department about policy concerns regarding U.S. participation in the international financial institutions.[50]

Unlike in a U.S. government department or agency, changes in the IMF's operations cannot be brought about simply by changing U.S. law. As a result, congressional proposals for policy changes in the IMF are formulated as directives to the Secretary of the Treasury to instruct the representative of the U.S. government in the IMF, the U.S. Executive Director, to promote the desired change. These have often been formulated as an instruction to use the "voice and vote" of the United States to achieve the desired goal. Consequently, the term "voice and vote" has become something of a generic or descriptive term for those amendments to U.S. law that seek to bring about specific changes within the IMF. Over the years, "voice and vote" amendments have increased. In the context of the current debate over IMF funding for advanced European economies, questions have arisen over the extent to which congressional policy, as embodied in the "voice and vote" amendments, has been carried out.

Voice and vote amendments can be organized in three broad categories: "policy," "directed vote," and "reporting." Policy mandates seek to foster or advocate certain policies at the IMF by directing the Treasury Department to instruct the U.S. Executive Director to use his or her "voice" and/or "vote" on behalf of the United States at the IMF Executive Board. For example, the U.S. Executive Director is directed to (1) encourage the IMF to adopt internationally recognized worker rights for borrowing countries; (2) encourage and promote the integration of women into the national economies of IMF member countries and into professional positions within the IMF organization; and (3) urge the IMF to encourage member countries to pursue macroeconomic stability while promoting environmental protection.

The second category, directed voting mandates, require that the U.S. Executive Director oppose an IMF loan when a country meets or does not meet certain criteria. In practice, U.S. opposition can take the form of abstaining from voting on, or voting against, the IMF loan under consideration. Examples include when a country has been determined by the President to violate

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[49] Executive Order 11269 of February 14, 1966, as amended, specifically delegates to the Secretary of the Treasury the President's authority to instruct representatives of the United States to the international financial organizations and to provide the U.S. government's consent with respect to IMF decisions. In addition, 22 U.S.C. 6593 specifically provides the Department of the Treasury with the primary responsibility to continue to coordinate "activities relating to United States participation in international financial institutions and relating to organization of multilateral efforts aimed at currency stabilization, currency convertibility, debt reduction, and comprehensive economic reform programs."

[50] Since 1999, Congress has required that Treasury, as Chairman of the NAC, annually report to Congress on several topics related to U.S. participation in the international financial institutions, including an assessment of the effectiveness of the major policies and operations of the international financial institutions; the major issues affecting United States participation; progress made and steps taken to achieve U.S. policy goals (including major policy goals embodied in current law).

religious freedom, provide support for acts of international terrorism, or engage in the proliferation of nuclear weapons.

Reporting requirements, the third category, require Treasury to report to Congress on various issues related to U.S. participation in the IMF. Congress enacted legislation in 2010, for example, that requires the Treasury Department to report regularly to Congress about economic conditions in heavily indebted advanced economies receiving IMF assistance.[51] These reports are to discuss the debt status of the borrower country, economic conditions affecting its vulnerability and its ability to repay, and its debt management status.

Outlook: The IMF and the Global Financial Safety Net

Increased attention to the IMF since the financial crisis has revived long-standing debates about the institution's role in the global economy and the future of U.S. support for the institution. Some analysts argue that with the end of the pegged-exchange rate system, the IMF is no longer needed and it should be abolished.[52] Others say the IMF is still vital, but needs to be restructured and refocused.[53] Still others suggest that new functions should be added to the IMF and its role in the international monetary system should be expanded.[54]

Events since 2008 have shown that substantial risks remain in the global economy. Global imbalances, exchange rate misalignment, volatile capital flows and exchange rate movements, and the accumulation of large stockpiles of foreign exchange reserves have led many analysts to question the functioning of the international monetary system, and by extension, the future of the IMF.

While many emerging and some advanced economies drew on IMF resources during the recent financial crisis, the majority resorted to an ad hoc network of central bank swap arrangements. At the height of the crisis, in the face of a massive global shortage of dollars, the U.S. Federal Reserve deployed over $600 billion in global liquidity to many other advanced and emerging economies, double the available resources of the IMF. The European Central Bank (ECB) set up €250 ($360) billion in swap lines, of which about €200 ($288) billion was with the U.S. Fed. In October 2008, the Fed also authorized swap lines of $30 billion each to four emerging economies with large exposure to U.S. financial institutions, Brazil, South Korea, Mexico, and Singapore. Thus, the Fed, and not the IMF, was the de facto lender of last resort for major economies. At the same time, several other countries, primarily in Asia, relied on their accumulation of foreign exchange reserves built up during the 2000s to prevent their economies from collapsing due to the liquidity crisis.

While central bank swap lines and self-insurance through reserve accumulation were effective in mitigating the effects of the crisis, and restoring liquidity in the global economy, the costs

[51] For more information, see CRS Report R41239, *Frequently Asked Questions about IMF Involvement in the Eurozone Debt Crisis*, coordinated by (name redacted) .

[52] Amar Bhide and Edmund Phelps, "More Harm Than Good: How the IMF's Business Model Sabotages Properly Functioning Capitalism," *Newsweek*, July 11, 2011.

[53] Edwin Truman, *On What Terms is the IMF Worth Funding?*, Peterson Institute for International Economics, WP 08-11, Washington, DC, December 2008.

[54] Barry Eichengreen, *Out-of-the-Box Thoughts on the International Financial System*, International Monetary Fund, Working Paper no. 09-116, Washington, DC, May 2009.

associated with these mechanisms are substantial, both for individual countries and for the system as a whole.[55] By their very nature, the Fed and ECB swap lines were selective, and subject to domestic monetary policy, as well as political pressure. It is uncertain whether the United States will be willing to play this role again in the future. Large accumulation of foreign exchange reserves is expensive, since they typically earn little interest and are susceptible to exchange rate risk. They also contribute to systemic instability, by creating excessive demand for reserve currencies, thus putting downward pressure on interest rates in the economies of reserve currencies, such as the U.S. dollar. Large swings in official portfolios of foreign exchange reserves can also have significant impact on exchange rates and the price of sovereign bonds.

Some analysts have proposed improving the Fund's lender of last resort function. For example, one recent study proposed three main elements of what such reform could look like: (1) an automatic trigger to access the facility; (2) unilateral country prequalification to the facility during Article IV consultations; and (3) liquidity funded by the world's "issuers of last resort."[56]

When considering expanding the role of the IMF, however, the concept of moral hazard has often been considered. As IMF lending increased after the financial crisis, especially after the large loans to Greece, Ireland, and Portugal, many observers, including some Members of Congress, raised concerns that financing by the IMF, particularly emergency financing provided during financial crises, encouraged the very behavior that it sought to prevent. Simply put, IMF lending may send the wrong signals to government officials. According to this view, in the best-case scenario, countries are spared the worst consequences of their poor economic decisions. In other cases, the IMF program may not stabilize the crisis, further indebting the crisis-afflicted country.

Other analysts argue that, as the 1994-1995 Mexican crisis, the 1997-1999 Asian crisis, and the more recent 2008 crisis have demonstrated, residents of IMF-recipient countries suffer painful consequences of a forced economic adjustment. The policy question is whether economic pain is mitigated by external financial support tied to a conditional economic adjustment program. A different type of "moral hazard" also arises with regard to investors. Does the existence of an emergency financial mechanism encourage private investors to take on risks that they might otherwise shun in an attempt to reap greater financial returns? In this context, some are troubled that, as a by-product of a "bailout," professional investors, who took on higher risks and were probably rewarded with higher returns, are made whole.

IMF conditionality and pre-qualification of IMF loans might reduce concerns about moral hazard. Edwin Truman at the Peterson Institute for International Economics argues that the IMF's role can be improved, addressing moral hazard at the same time, through a "comprehensive prequalification" process where the Fund presents "policy terms for lending" to every member country potentially eligible to borrow from the IMF, based on the IMF's bilateral and multilateral economic surveillance.[57]

[55] Maurice Obstfeld, Jay C. Shambaugh, and Alan M. Taylor, *Financial Instability, Reserves, and Central Bank Swap Lines in the Panic of 2008*, National Bureau of Economic Research, NBER Working Paper No. 14826, March 2009.

[56] Eduardo Fernandez-Arias and Eduardo Levy Yeyati, *Global Financial Safety Nets: Where Do We Go from Here?*, Inter-American Development Bank, IDB Working Paper 231, November 2010.

[57] Edwin Truman, *The IMF as International Lender of Last Resort*, Peterson Institute for International Economics, Real Time Economic Issues Watch, October 12, 2010.

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