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IMF MONEY

IMF loans and the adjustment programs which are attached to them are much talked about but the Fund's financial resources are seldom mentioned. The latter are provided by Member states which commit to permanently finance the IMF within the limits of a certain amount, the so-called "quota", and by loans which the richest of them agree to lend to the Fund, in particular in times of crisis. The exact measurement of these resources is however made difficult by the use of specific accounting concepts and the complexity of the Fund's financial publications. Nevertheless, the available data on the Fund's resources offer an insight on the current debate on the role of the emerging countries in the governance of the Fund, the optimal size of its balance sheet and the role which it plays or could play in the Eurozone crisis.

The International Monetary Fund (IMF) serves two ministries. The first one is the ministry of the word, the "surveillance" in its jargon, and the second one, the ministry of money, "financial assistance" in IMF parlance, on which we will focus. The latter consists "to give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity."[1] The objective of this financial assistance is to allow the beneficiaries to replenish their foreign exchange reserves, to stabilize their exchange rate, to continue to pay their imports and to restore the conditions of a strong economic growth.

The financial crisis, which began in 2007, was the first episode that profoundly threatened the financial stability of the western world since the inception of the IMF in 1944. It embodies a change of scale compared with the previous crises the IMF dealt with and makes up for the latter a real-life test.

The volume of the financing provided by the IMF has increased a lot since 2008 but it started from very low and, up to this day, it remains modest with regard to the amounts at stake in the crisis: less than 100 billion SDR, the specific unit of account which the IMF uses, that is approximately 150 billion dollars. This amount does not exhaust the Fund's resources. However, quantifying the latter is difficult, even though discussions have taken place for the past five years to increase them. This debate is indeed made difficult to understand by two considerations. Firs, IMF's financial reporting is very complex and the difference between the posted amounts and the amounts that are actually available is large. Second, there is still no agreement between the IMF's main member states on what its role in the world monetary and financial regulation should be.

The actual resources of the IMF are much lower than its nominal resources

Among the international financial organizations, the IMF has an original financial structure. On the one hand, contrary to the development banks (IBRD, EBRD, ADB) or to the European Investment Bank (EIB), it does not borrow the bulk of its resources on the markets. On the other hand, it was denied the power to create money when it was created, contrary to what Keynes wished. The IMF is thus financed only by its member states and some other limited resources of its own. In theory, the biggest share of the member states contribution comes in the form of the provision of equity-like investment resources, the "quotas". In practice, only part of the quotas is mobilized and the IMF also finances itself through money borrowed from its member states when the amount of its outstanding increases.

1. Articles of Agreement of the International Monetary Fund – Article 1.

The quotas, which are equivalent to an investment in the Fund by the member states, are the main resource of the IMF but only part of it is mobilized.

When a country becomes a member of the IMF, it commits to finance the latter up to a certain amount, its "quota". Quotas are calculated according to various parameters (the "quota formula") which have changed over time. The current formula was approved in 2008 and became effective in 2011. It combines the GDP calculated, partially, at market prices and, partially, at purchasing power parity, the average over five years of the current payments that the country receives, the volume of its foreign exchange reserves, a coefficient representing the variability of the current payments and the net capital inflows and a "factor of compression" intended to reduce the dispersal of the quotas. For each member, the quota represents the maximal amount which it could be bound to make available to the IMF[2]. The sum of the quotas of the entire IMF membership reaches 238 billion SDR. In practice, the IMF does not however mobilize the totality of the quotas (see Table 1). Quotas of the member states whose external position is not considered solid enough so that the IMF can mobilize them and quotas of the countries who themselves benefit from Fund's financing cannot be mobilized. At the end of October, 2012, the quotas of 137 of 188 member states, representing 37.3 billion SDR (approximately 16% of the total), were not mobilizable. The 198.3 billion SDR that are considered as mobilizable include some big contributors such as Spain and Italy (6% of the total for both of them) in spite of the degradation of their financial situation. Finally, the IMF does not mobilize the totality of the available quotas before resorting to other sources of funding. The Financial Transactions Plan (FTP), which the IMF makes public every three months, details country by country the level of the effectively mobilized quotas. In theory, the selection of whose quota to draw results from a decision made by the Board of directors on the basis of a series of criteria taking into account the outside financial position, the geographical diversity and the level of development.

Table 1 – Distribution of IMF quotas according to their degree of availability as of October 31st, 2012 (in billion SDR)

Quotas, total	238.1
Non mobilizable quotas	39.8
Of which quotas of member states which benefit from IMF financing or the external position of which is deemed weak	37.3
Mobilizable quotas (*Quotas of members that finance transactions)*	198,3
Mobilized quotas (as of June 30th, 2012)	62.0

Source: IMF.

In practice, the percentage of the quotas that is effectively mobilized for the financing of the Fund's loans is low: 31.3% of the total of the mobilizable quotas as of June 30th, 2012 (26.0% of the total). Furthermore, this ratio is rather stable over time and it varies little from one country to the other. The member states' quotas are drawn between 29% and 35% but for a few exceptions for which this ratio is lower (China, Japan, Brunei and South Africa). All in all, the IMF is far from exhausting its quota resources. It is just as if there were an implicit agreement so that the mobilization of the quotas does not exceed 35% and, but for some exceptions, varies little from one country to the other.

The indebting capacity of the IMF tends to increase in times of crisis but the amounts that are effectively mobilized remain limited.

The IMF does not exhaust its mobilizable quotas resources before turning to debts. The criteria which drive him to get into debt are not clearly formulated. In one – very rare– allusion to this debate, the communiqué of the G20 Ministers of Finance dated February 26th, 2012 mentioned the commitment of the Ministers that the IMF remains a quota-based institution "while recognizing" at the same time that the recourse to borrowings was a possible way to increase its resources in the short-term.

Historically, the recourse to borrowing took place at first within the framework of bilateral agreements between the Fund and the lending member states. But, as soon as 1962, a global policy framework for borrowing was approved: the General Arrangement to Borrow (GAB). An additional framework was set up at the end of the 1990s during the Asian crisis, the New Arrangement to Borrow (NAB). The latter was reactivated and greatly increased with the decisions to increase IMF resources following the 2008 crisis, after the IMF had, at first, increased its means through bilateral agreements. NAB is now the second resource of the IMF after the quotas. It consists of a set of loan agreements signed between the IMF, which is the borrower, and 38 of its members which are the lenders. The global envelope for these credit arrangements is 370 billion SDR. However, the actual recourse to this resource by the IMF is conditioned to an additional Board's authorization which so far has been granted for a rather short period of time (6 months) though constantly renewed.

In theory, the IMF can also mobilize the GAB which allows it to borrow an additional amount of 18.5 billion SDR from 11 industrialized countries and from Saudi Arabia but this source of funding has not been activated since 1998.

On November 30th, 2012, the total debt resources made available to the IMF amounted to 225 billion SDR (19.3 billion for the

2. The quota is divided into two tranches: the Reserve Tranche Position corresponds to the provision by the member state to the IMF of part of its foreign exchange reserves in exchange for a claim on the Fund, the second tranche is denominated in the country's currency. This second tranche amounts to a reciprocal claim of the member state on the IMF and of the IMF on the member state. When the Reserve Tranche Position of a member state is mobilized, the IMF lends part of the foreign exchange of this member state to another one. When the other tranche is mobilized, the IMF exchanges on the market, if need be, the domestic currency of the member state for international liquidities and lends these liquidities to the beneficiaries of its financing.

remainder of bilateral loans and 205.7 billion for the share of the NAB envelope that was actually mobilized). This amount is close to the total of the quotas. The sums that were effectively drawn on these credit lines were only 42.7 billion SDR (Table 2).

The IMF owns a stock of gold that it can sell only in exceptional circumstances.

The main IMF resource of its own is the money it can earn from its stock of gold. The latter results from an initial endowment of the member states and from purchases made before the end of 1970s. It is relatively important: 2 814 tons as of August 17th, 2012, that is 146 billion dollars at market value. The IMF Articles of Agreement impose that this stock be recorded in its book at its historical value which is very low (approximately 4,5 billion dollars), because the price of gold in dollars was fixed to 35 dollars per ounce between 1944 and 1971, the period in the course of which the main part of the stock was acquired.

The rules imposed for the sale of IMF gold, which were defined back in 1978, are very restrictive. Since 1980, only two sales have taken place. The first one, at the end of 1999, was intended to finance the participation of the IMF to the program of debt reduction in favor of the poorest countries (heavily indebted poor countries or HIPC). The second one was decided in December, 2009. In the year which followed, the eighth of the stock (403.3 metric tons) was sold. The product of this sale (9.5 billion SDR) was placed in the Investment Account of the IMF. The income from this investment is used to cover certain operational expenses of the Fund, as a replacement of the interests paid by the borrowers of IMF loans, and to reduce the interests on the loans granted to the poorest countries at concessional rates.

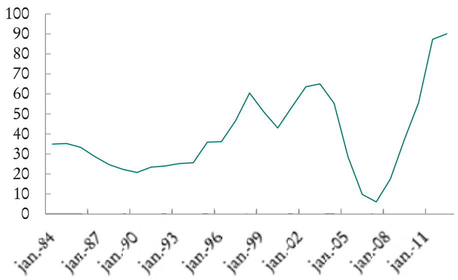
The debate on the increase of the IMF resources reveals the absence of a consensus on its governance and its place in the international monetary and financial regulation

As any international organization, the IMF enters into conflict with the sovereignty of its member states. It is, therefore, confronted with a problem of legitimacy. This difficulty is particularly important for the IMF for two reasons. First, money is perceived as an essential attribute of sovereignty. Second, the original IMF's raison d'être, the international monetary system stemming from the Bretton Woods agreements of 1944, which relied on fixed but adjustable exchange rates and on the convertibility of the dollar into gold, has been shaken up.

The IMF thus had to repeatedly reinvent itself during its almost 70 years of existence. One must admit that it has shown a real aptitude to do so. After a decade of existential questioning, in the 1970s, it positioned itself in the 1980s as an essential part of the machinery that managed the developing countries' debt crisis. The policies which it then advocated were harshly debated but the existence of the institution was not fundamentally challenged. The main part of this crisis having been absorbed, the Fund was involved in the management at the end of 1990s and at the beginning of the 2000s of the crises in Asia, in Latin America, in Russia and in Turkey the common denominator of which was the unsustainability of the fixed exchange rate policies implemented by the local authorities.

These crises having been overcome in the middle of the 2000s, the amount of the financing granted to its member states collapsed. From 2003 till 2007, the outstanding of the loans to member states on the General Resources Account of the IMF dropped from 72 billion SDR to 10 billion SDR[3] and the Fund experienced a new period of existential doubt, which, in particular, led it to cut its staff. From 2008 onward, the financial crisis radically changed the prospect. The IMF loans outstanding was multiplied by 9 between the end of 2007 and the middle of 2012 (graph 1) at first, mainly because of loans to countries at the periphery of the European Union and, from 2010, to countries at the periphery of the Eurozone (Greece, Ireland and Portugal) in joint financing programs with the European Financial Stability Facility (EFSF) created to this end by the Europeans and – in a confined way – with the ECB.

Graph 1 – IMF General Ressources Account loans outstanding (in billion SDR)



Source: IMF.

This lending dynamics pulled another one on the side of the Fund's resources. In fall 2010 in Seoul, the G20 countries agreed, to double the amount of quotas, from 238 to 477 billion SDR. This decision was made possible only because the industrialized countries accepted an increase of the quotas share of the main emerging countries, which entails an increase in their voting rights and, as a consequence, in their representation at the Board of directors. It was furthermore decided to proceed to a new reform of the formula that is used to calculate the quotas so that they better reflect the real size of the economies. (The previous reform, which already went this way, took place in 2008).[4]

3. On August 31 August 2012, 1 DTS was worth 1.522 US dollar
4. On January 30, 2013, the IMF Executive Board released a report in which it stressed progress on the reform of the quota formula but acknowledged that no agreement had been reached.

However, the United States has not ratified the 2010 agreement and it is far from certain that the required two-third majority emerges in the Senate to do so. With no quota increase, debt is the only available resource to improve the IMF's financial room for maneuver. Besides, for the industrialized countries, increasing debt has the advantage to have no incidence on the governance of the Fund.

Table 2 – Total IMF resources as of October 10th 2012
(in billion SDR)

	Quotas	Debt	Total
Theoretical total amount	238	688	926
Mobilizable amount	198	225	423
Montant effectivement mobilisé	62*	43	105
Outstanding		90.6	

* June 30th 2012.
Source: IMF, author's calculation.

In fall 2011, the idea of a dramatic increase of the IMF's resources financed by emerging countries circulated. This increase would have in particular allowed a surge in the financial support provided by the Fund to the Eurozone countries in crisis. The debate led to an agreement in April, 2012 between G20 Ministers of Finance. It was decided to increase the IMF bilateral debt. According to an IMF financial report dated October 31st, 2012, the total of commitments made following the creation of this new resource amounted to 300 billion SDR, which raises the theoretical amount of the IMF resources to 926 billion SDR (Table 2).

This resource is however presented as a "second line of defense", a bridge before the next increase of the quotas (the previous one still not being ratified) and not as an offensive tool to intervene in the Eurozone crisis. The communiqué of the Los Cabos G20 Summit (June 19th, 2012) explicitly states that these resources must not be earmarked to the advantage of a specific region.

Two arguments go against a massive IMF intervention in Europe. First, the concentration of risks borne by the IMF on the Eurozone is already very high (three quarter of its loan outstanding at the end of 2012). Second, the Europeans may mobilize other financial resources to face the crisis: the solidarity between the Eurozone members, the financial markets - through the EFSF and its successor, the European Stability Mechanism (ESM) which, contrary to the IMF can borrow on capital markets.

Third, the ECB is endowed with a capacity of creating Euros. The events that took place at the end of 2011 and in 2012 (the increase in the fire power of the EFSF-ESM, the massive intervention of the ECB in favor of the Eurozone banks and its decision in September 2012 to possibly intervene on the market of government debts) plead in favor of the proponents of this thesis.

Conclusion

The financial structure of the IMF is that of a cooperative financial intermediary, a mutual investment fund that is leveraged, but the creditors of which can only be its investors, the member states. Its governance makes it possible to intervene in a rather flexible manner: it can mobilize the financial commitments of its members when it needs them and, if necessary, increase its resources by getting into debt. Since the beginning of the crisis, however, the debt plays a growing role in the financing of the Fund. The financial structure of the latter is still strong since the quotas, amounting to more or less stockholders' equity, contribute to more than half of its financing. In addition, it continues to benefit from a status of privileged creditor. Had the Fund been brought into a debt financed massive intervention to support the Eurozone, things would have probably been different, all the more that its effective capacity to draw on its quotas seems restricted by a "glass ceiling" of 35% of the total of the quotas that are effectively made available to it.

Besides, the debt financing of the Fund is always presented as temporary. It allows increasing the financial room for maneuver of the Fund without raising the issue of the increase of its permanent resources and, thus, of its governance. Therefore, using debt to finance the intervention of the Fund in favor of the Eurozone can be felt by certain emerging countries as a means to get their resources to the advantage of those same who decide on their allocations and benefit from it directly or indirectly.

Christophe Destais
christophe.destais@cepii.fr

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© CEPII, PARIS, 2013
EDITORIAL OFFICES
Centre d'études prospectives
et d'informations internationales
113, rue de Grenelle
75700 Paris SP 07
Tél. : 33 (0)1 53 68 55 14
Fax : 33 (0)1 53 68 55 03

PUBLISHER:
Sébastien Jean
Director of CEPII

CHIEF EDITOR:
Gunther Capelle-Blancard

DTP:
Laure Boivin

DIFFUSION:
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Please send your oders to:
Direction de l'information légale et administrative (DILA)
23, rue d'Estrées - 75345 Paris cedex 07
commande@ladocumentationfrancaise.fr
Tél. : 33 (0) 01 40 15 70 01

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