The IMF's resources

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The IMF's resources come from quotas contributed by each of its 187 Member States (around £234bn in total) and from standing credit arrangements with certain industrialised and emerging economies (currently around £215bn). From these resources, the IMF lends money to countries in difficulty. The pressures of the global financial crisis in 2008 led to standing credit arrangements being significantly expanded, and motivated proposals for a doubling in quotas. The eurozone debt crisis has led to further calls for an expansion of the IMF's resources.

In the UK, increases to the quota and to standing credit arrangements must be made through secondary legislation, approved by affirmative resolution of the Commons. The UK can currently lend up to SDR39bn to the IMF without the need for further legislation.

Contents

1 Quotas

Quotas are financial contributions provided by each of the IMF's 187 member states to support the organisation's lending activity. The size of each country's quota is guided by a formula that takes into account economic size, openness and official reserves. Quotas also largely determine a country's voting power. Changes in 2008 to rebalance power in favour of developing and emerging economies have altered quotas such that for many of these countries, quotas are higher than would be the case under a strict application of the formula.[1]

Following a review, IMF quotas are set to double from SDR239bn to SDR477bn.[2] This is the first increase since 1998 and the largest in the organisation's history. The UK's quota will increase by less than this amount (88%), from SDR10.7bn to SDR20.1bn because of further reforms to transfer power to emerging and developing economies; these countries will see their quotas more than double. The changes will only come into effect once consent has been received from members representing at least 70% of the IMF's voting share. The IMF's objective is to complete this approval process by the 2012 Annual Meetings, which are likely to take place in October that year. More information can be found in Library Standard Note *IMF: quotas and proposed increases*.

2 Standing credit arrangements[3]

There are two standing credit arrangements available to the IMF: the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). Both of these enable the Fund to borrow on request specified amounts of currencies from participating countries: in the case of the GAB, 11 industrialised countries participate, whilst 39 industrialised and emerging economies participate in the NAB.

The GAB was established in 1962 and was expanded in 1983 from SDR6.3bn to SDR17bn.[4] Today, it is very much a secondary facility to the NAB, and can be activated only if a proposal for NAB activation is not accepted by its participants.

The NAB was established in 1997 and originally involved 25 countries providing credit facilities worth SDR 17bn, thereby doubling the standing credit on offer to the IMF at that time. Proposals to substantially expand the NAB by increasing the size of the credit lines and involving new participants were agreed at

Box: renewal and activation

Both the GAB and NAB are established by decisions of the IMF's Executive Board that must be periodically **renewed** in order for the arrangements to remain in place. The renewal period may be for any length of time: in the case of the GAB, the current renewal period expires in December 2013; in the case of the NAB, renewal is due on 16 November 2012 and the Executive Board is obliged to review the arrangements, having regard to the impact of the quota review, before making a decision.

While in place, the GAB and the NAB must also be **activated** in order to be used: they can only be activated on a proposal from the Managing Director of the IMF and in the case of the NAB with the subsequent agreement of participants representing 85% of the total credit arrangements. The activation period lasts for a maximum 6 months. The NAB in its present expanded form was first activated on 1 April 2011, and again on 1 October 2011.

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[1] For more, see IMF Press Release 11/64 *The IMF's 2008 Quota and Voice Reforms take Effect*

[2] SDRs (special drawing rights) are the IMF's unit of account. Their value in relation to other currencies is determined by the value of the euro, dollar, yen and pound. They can be exchanged for freely usable currencies at this rate. **Currently (10 Nov 2011), the value of the SDR is similar to that of sterling (£1 = 1.015SDR)**

[3] The power for governments to enter into agreements to extend credit to the IMF stems from Article VII (1) of its Articles of Agreement

[4] 1.5bn SDR is also available in an associated credit arrangement with Saudi Arabia

the London G20 summit in April 2009.[5] The expanded NAB became operational on 11 March 2011, consisting of standing credit arrangements from its participants worth SDR367bn in total,[6] and was activated in the amount of SDR211bn on 1 April 2011.

Four participants have not yet agreed to the expansion in the NAB: these are Greece, Philippines, Kuwait and Ireland. Poland was also on the original list of would-be participants published in November 2009,[7] but has since dropped out.

Since its activation on 1 April 2011, the IMF has drawn down SDR29bn of credit from the NAB; from this, SDR6.8bn of IMF loans assistance has been provided.[8] The UK had lent SDR1.5bn to the IMF under the NAB as at end October 2011[9] and has committed to lend up to SDR18.6bn. All lending to the IMF, both through quotas and standing credit arrangements, is issued from the National Loans Fund. In accounting terms, lending to the IMF is treated as an asset (and undrawn commitments to lend a liability), and does not have any effect on public borrowing or debt statistics.

The expansion in the NAB agreed in 2009 was intended to be a stop-gap until a doubling in quotas is agreed (this is anticipated in late 2012):-

> When the quota increase comes into effect, it is agreed that the NAB will be correspondingly scaled back, with details to be determined during the review of the NAB to be completed by mid-November 2011.[10]

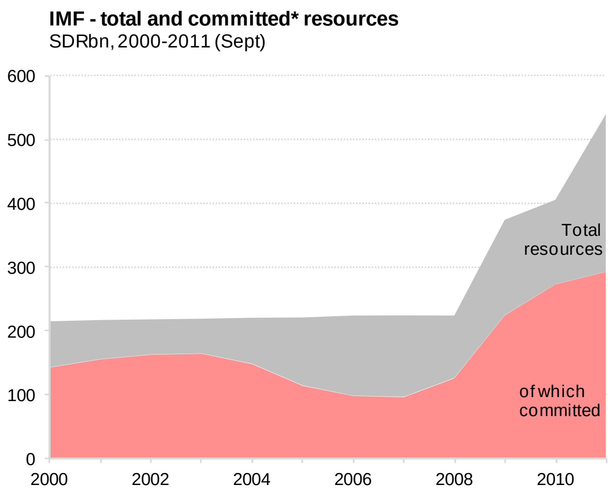
However, recent economic developments may mean that some countries maintain their NAB commitments beyond this point.

3 Proposals to further increase the IMF's resources

3.1 Why might an increase be necessary?

The eurozone debt crisis has led to calls from some quarters for the IMF's resources to be increased further. Christine Lagarde, the IMF's managing director, presented an estimate to the Fund's executive board during w/b 16 January 2012 that stated the Fund would require an additional $500bn in resources to deal with fiscal emergencies over the next two years. Lagarde's estimate was made public during a speech of 23 January, in which she said:-[11]

> I am convinced that we must step up the Fund's lending capacity. The



[5] The G20 agreed to expand the resources available to the IMF by $500bn, in effect tripling its capital.
[6] In the interim, several countries, including the UK, entered into bilateral loans arrangements with the IMF so that its lending capacity could be quickly boosted. The SDR367bn refers to the maximum credit available once all participants have adhered to the NAB.
[7] IMF Press Release 09/249
[8] IMF Financial Activities – update November 3, 2011
[9] IMF – United Kingdom: Financial position in the Fund as of October 31, 2011
[10] IMF Factsheet – Standing Credit Arrangements
[11] IMF Survey, *Lagarde calls for urgent action so that 2012 can be 'year of healing'*, 23 Jan 2012

> goal here is to supplement the resources Europe will be putting on the table, but also to meet the needs of "innocent bystanders" infected by contagion, anywhere in the world. A global world needs global firewalls.
>
> In the coming years, we estimate a global potential financing need of $1 trillion. To play its part, the IMF would aim to raise up to $500 billion in additional lending resources. Right now, we are exploring options and consulting the membership.

Loans made to Greece, Ireland and Portugal already represent almost two-fifths of the SDR86bn of outstanding credit to the IMF, and disbursements under these agreements have not yet been completed. Though the IMF's capacity has already been bolstered, the necessity for further commitments, so the argument goes, stems not only from the prospect of a much larger economies falling victim to the crisis, but also from the nature of the eurozone crisis itself, which demands particularly large loans to be made: Greece's *initial* arrangement with the IMF in May 2010 was the highest non-precautionary access ever both in relation to quota size (3200%) and overall amount (SDR26.4bn).[12] Any arrangement with Italy, for instance, would undoubtedly break the latter 'record', and represent on its own a significant proportion of the IMF's overall lending capacity as it stands.

3.2 Commitments to date and political issues

Tentative proposals at the November 2011 G-20 summit to mobilise further funds[13] were followed by a commitment at the summit of euro-area leaders on 9 December 2011 to provide 'up to €200bn [$260bn]' of additional resources to the IMF in the form of bilateral loans from 'euro area and other Member States'.[14] 75% was to come from euro area states, with the remainder from non-euro EU members. As it turned out, the €200bn target was not reached: all euro-area states agreed to contribute (total €150bn), along with the Czech Republic, Poland, Sweden and Denmark, bringing the initial total to €170bn (these size of these countries commitments has since changed – see table below). The UK explicitly refused to contribute as part of a Europe-only agreement, however: George Osborne stated that 'the UK has always been willing to consider further resources for the IMF, but for its global role and as part of a global agreement.'[15]

The summit statement also called on 'parallel contributions from the international community', though enthusiasm from the non-EU G-20 countries was initially restrained. Some demanded that the eurozone contribute more to its own rescue funds before they considered increasing their contribution to the IMF. Canada and the US have been particularly cool: both have said that *any* additional IMF resources would have to come from Europe alone.

The eurozone fulfilled the demand to expand its own rescue fund arrangements, though not to everyone's satisfaction. It agreed on 30 March for the €200bn in lending commitments to Ireland, Portugal and Greece already made through the temporary rescue fund, the European Financial Stabilisation Facility (EFSF), to be set aside from the €500bn permanent rescue fund, the European Stability Mechanism (ESM) that enters force in July 2012. That gives total lending capacity (including existing arrangements) of €700bn and available lending capacity of €500bn (as opposed to €500bn total and €300bn available under the previous plans).[16]

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[12] IMF – Greece: Financial position in the fund
[13] G20 Leaders Summit 3-4 Nov 2011, *Final Communique*
[14] European Council, *Statement from euro area heads of state*, 9 Dec 2011
[15] BBC News, *Britain boycotts IMF eurozone rescue scheme*, 19 Dec 2011
[16] For more details see European Council *Statement of the eurogroup*, 30 Mar 2012

Some countries appear to have been satisfied by the move. Japan agreed on 17 April to provide $60bn, with the finance minister stating 'we asked the eurozone to do something... now we should respond'.[17] Sweden has pledged $10bn, and possibly up to $15bn, Poland $8bn and Denmark $7bn. Norway pledged $9.6bn at the time of the eurozone summit in December.[18] Brazil, on the other hand, has described the increase in the eurozone firewall as 'less than promised', while a (UK) Treasury official has been quoted as saying that the eurozone had 'clearly not delivered'.

Commitments to increase IMF resources as at 19 Apr 2012, $m

Eurozone	195
Czech Republic	2
Denmark	7
Poland	8
Sweden	10-15
Norway	9.3
Japan	60
Switzerland and other unnamed countries	26
UK	16*; additional commitments uncertain
South Korea	uncertain
China	uncertain
India	uncertain
Brazil	unlikely at April meeting
Canada	unlikely
US	unlikely
Total	**317.3 - 322.3**
Target	***400***

* Not included in total; *may* form part of the $26bn in row above

Sources: IMF Press releases; Reuters

For emerging economies, the issue over increasing resources is also tied up with a reform of IMF governance and voting arrangements originally agreed in 2010. This resulted in a commitment to double the IMF's overall quotas, adding $365bn to its resources, and to realign voting shares and reform executive board membership in favour of developing and emerging economies. However, the changes are not yet close to the thresholds of official consent among the IMF membership need to enact them;[19] in particular, the US Congress has not yet ratified either change and is seen as unlikely to do so before federal elections in November (the US represents 17% of the IMF's voting power), after the deadline set by the IMF of the Fund's annual meetings in October 2012. In a February joint statement, the BRICs said boosting IMF resources 'will only be successful if there is confidence that the entire membership of the institution is truly committed to implement the 2010 reform faithfully.'

3.3 How will the increase in resources by provided?

This is not yet fully clear. By maintaining their existing commitments to the NAB, which were otherwise due to be scaled back following the quota increase, most countries will be able to provide additional resources without seeking legislative approval. $50bn of Japan's $60bn is being provided in this way. Additional contributions over and above this (the remaining $10bn in the case of Japan) could be achieved either through bilateral credit lines with individual countries, or through increases in NAB commitments.[20]

3.4 The UK's position

At the time of writing, the UK has not committed to increase its resources to the IMF beyond what it has already authorised under the quota (around £20bn, recently enlarged from £10bn) and the New Arrangements to Borrow (£20bn). Though the original intention among

[17] See, for instance, FT *Japan offers $60bn to boost IMF firepower*, 17 Apr 2012.
[18] See, for instance, IMF Press Release 12/141, 18 Apr 2012
[19] The quota reforms, which also realign voting shares, need approval of members representing at least 70% of the IMF's voting share before they can be enacted; as of 18 April 2012, consent had been granted by 93 members representing 54% of voting power. Changes to reform the IMF's Executive Board require approval of three-fifths of members representing at least 85% of the IMF's voting share; as of 12 March 2012, consent had been granted by 70 members representing 46% of voting power. At the time of writing, the UK has consented to both; the US has consented to neither.
[20] A list of all NAB participants' current commitments can be found on the IMF website here.

all NAB contributors was to commensurately scale back NAB commitments when quota changes had been finalised, the UK Government has already hinted that it will not do this:[21] this would bring its total commitment to the IMF to SDR39bn (around £40bn), if and when the 70% voting share quorum required among IMF Member States to be enact the quota increase is achieved. ***Doing this would effectively increase the UK's contribution to the IMF by £10bn, and could occur without further parliamentary approval.***

In the upcoming Spring Meetings (20-22 April 2012), it is likely that the UK will come under pressure to make additional contributions to the IMF, in light of commitments made by other non-eurozone EU Member States to provide resources above their expanded quota and NAB obligations. Were the UK to make a contribution proportional in GDP to that offered by Poland, Denmark, Sweden, or Norway, £26-30bn in additional commitments might be expected (or £16-20bn, taking into account the additional £10bn that can be provided as described above, by maintaining NAB and expanded quota commitments). For the portion above £10bn, this would require secondary legislation as described in Section 4, below.

4 Approving quota increases and limits on lending in the UK

The International Monetary Fund Act 1979 requires that statutory instruments are approved through affirmative procedure in the Commons for the UK to increase its quota subscription (Section 1 (2)) and lending limits (Section 2 (3)). Typically, these are debated in the Delegated Legislation Committee before being voted on. Links to selected debates on these statutory instruments, together with the text of the Instruments, are provided below.

Debate on increase to quota subscription, 5 July 2011, International Monetary Fund (Increase in Subscription) Order 2011

Debate on increase to lending limit, 19 July 2010, International Monetary Fund (Limit on Lending) Order 2010

Debate on increase to lending limit, 2 July 2009, International Monetary Fund (Limit on Lending) Order 2009

Debate on increase to quota subscription, 23 July 1998, International Monetary Fund (Increase in Subscription) Order 1998

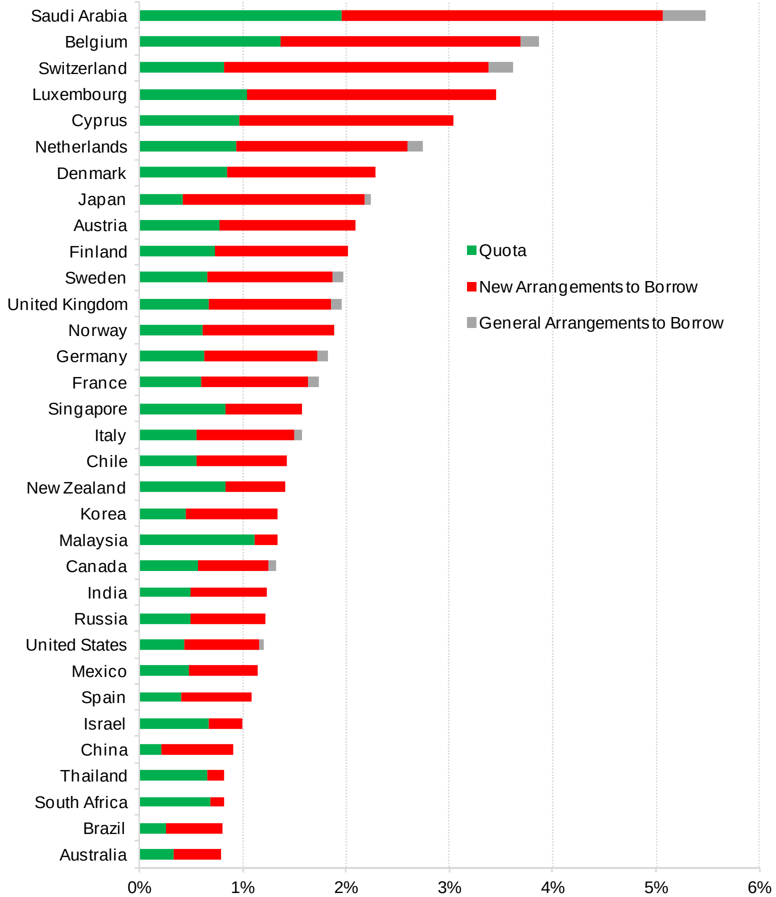
The UK can lend up to SDR39bn to the IMF without the need for further secondary legislation.

[21] BBC *UK could give £40bn to IMF, Danny Alexander*, 6 Nov 2011

5 Appendix charts

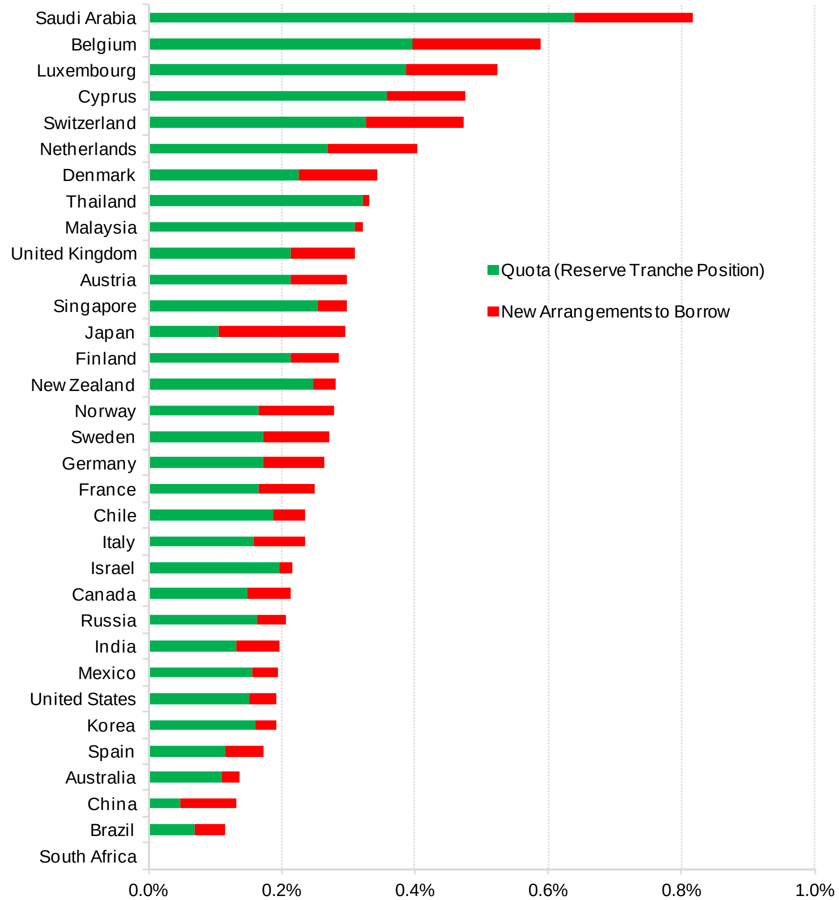
For those countries participating in the New Arrangements to Borrow, the left-hand charts show quotas and commitments to lend through standing credit facilities as a percentage of participants' GDP; the right-hand chart shows actual drawdown of these arrangements by the IMF (note difference horizontal axis scale).

Commitments to lend to IMF, selected members
Commitments by type in dollars* as a percentage of 2011dollar GDP



* converted from SDR at exchange rate on 10 Nov 2011

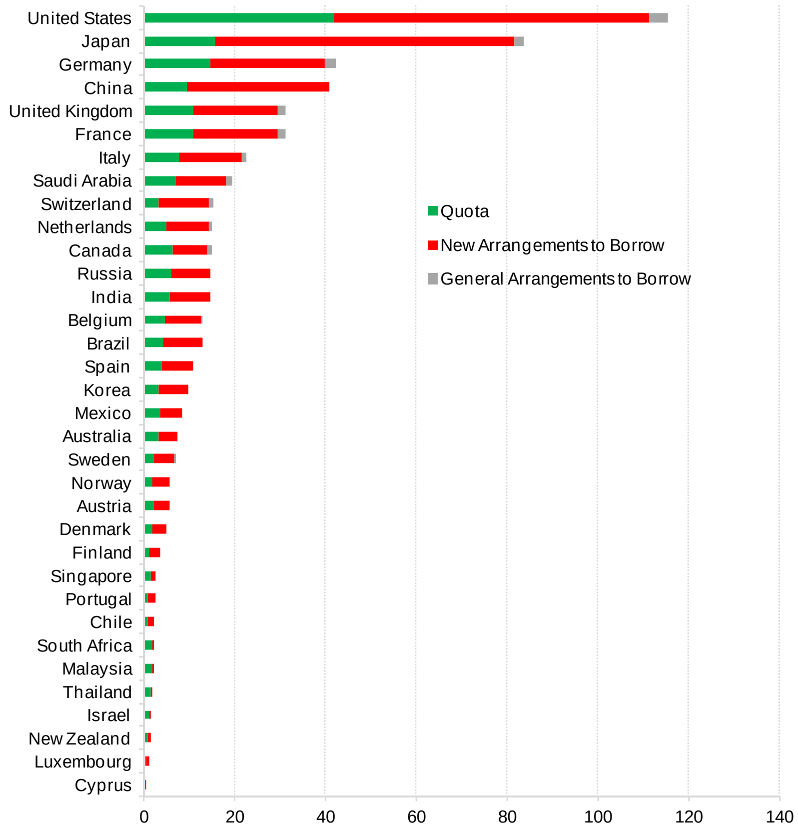
Drawdown by IMF of lending commitments, selected members
By lending arrangment, in dollars* as a percentage of 2011dollar GDP



* converted from SDR at exchange rate on 10 Nov 2011

These charts show the same information but in Special Drawing Rights, rather than as a percentage of GDP.

IMF quotas and standing arrangements to borrow, selected members
SDR billions



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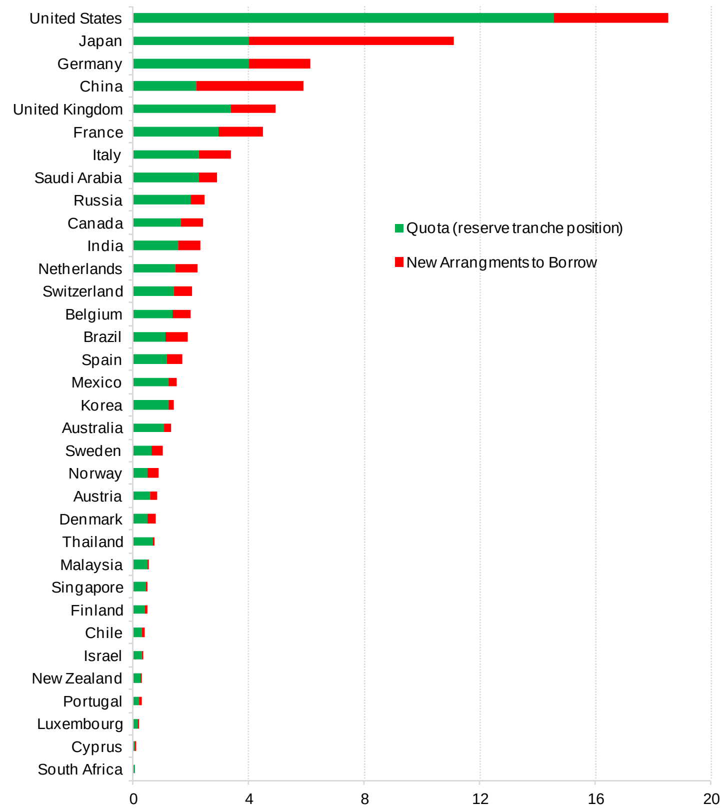
Drawdown by IMF of lending commitments, selected members
SDR billions



* converted from SDR at exchange rate on 10 Nov 2011