
IMF Activities and Reform Efforts

IMF Managing Director Rodrigo de Rato stated on June 10, 2005, “The IMF’s mandate is directed squarely at the promotion and maintenance of macroeconomic and financial stability, both in individual countries and at the international level.”¹ Many other officials and observers use similar words to describe the Fund’s role. For example, Secretary of the Treasury John Snow, addressing the Fund’s IMFC in April 2005, stated, “The IMF’s mission is clear—to foster international monetary cooperation and balance of payments adjustment to support international financial stability and economic growth” (Snow 2005). Nevertheless, not everyone accepts this broad articulation of the Fund’s mission and therein lies a major challenge the IMF faces: a lack of understanding and support for the organization and its core objective of promoting global economic and financial stability.

Mandate

One reason why some challenge the view that the Fund’s mission is to promote economic and financial stability is that Article I of the Articles of Agreement of the International Monetary Fund does not contain a clear statement of the IMF’s purposes relevant to the international financial system of the 21st century. Article I speaks of

- promotion of international monetary cooperation,
- facilitation of the expansion and balanced growth of world trade,

1. Remarks delivered at the IESE Business School, University of Navarra, Madrid.

- maintenance of high levels of employment and real income,
- promotion of exchange stability,
- temporary provision of financial resources to correct balance of payments positions without resorting to measures destructive of national or international prosperity, and
- lessening the degree of disequilibrium in the international balance of payments of members.

Article I, thus, establishes macroeconomic stability and growth as central to the Fund's statutory purposes. However, the capital account crises that have been a major preoccupation of the IMF and much of its membership during the past decade have pointed in addition to the importance of maintaining financial stability in order to achieve macroeconomic stability and growth. IMF Article I does not explicitly mention financial stability as an objective. Article IV does state, "The essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, services, and capital among countries and that sustains sound economic growth, and that a principal objective is the continuing development of the orderly underlying conditions that are necessary for economic and financial stability." Article IV also lists obligations of members in their policies devoted toward these ends. On the other hand, Article VI enjoins members from using IMF resources "to meet a large or sustained outflow of capital" and endorses the use of controls to regulate capital movements. In today's world the Article VI prescriptions are anachronisms, but an attempt in the late 1990s to remove these contradictions and to update the IMF Articles of Agreement in this area to enshrine the liberalization of capital movements as one of the purposes of the Fund and to establish the IMF's authority over capital account issues foundered on the political and economic disagreements that surrounded the IMF's handling of the East Asian financial crises. At the same time, Article IV adopted in the 1970s clearly provides the Fund with surveillance responsibilities with respect to capital flows and financial systems and the scope to advise and admonish members on their policies in those areas.

There is an irony in much of this. On the one hand, many observers who want to scale back the IMF in dealing with international financial crises point to the exponential growth of private international financial markets to justify their position. They certainly have some of their facts right, but the expansion of access to these markets is relevant only to a small fraction of the nonindustrial countries that are members of the Fund, and the access of these countries to international financial markets is far from continuous. Thus, some observers see the evolution of international financial markets as a substitute for the Fund. Others see that evolution as causing increased international financial instability that the IMF should be better equipped to address.

In fact, most officials and observers do include domestic financial system stability among the core activities of the IMF along with monetary, fiscal, and exchange rate policies. They link those activities to the IMF's prevention and management of international financial crises. For example, Executive Director Kevin Lynch (2005), of Canada, testified before the Canadian parliament that "[t]he Fund's mission is to prevent international financial crises if possible and, if not, then remediate them quickly and efficiently." Even critics of the IMF who advocate a narrowing of the IMF's mandate stress the importance of its role with respect to financial systems and capital movements. For example, Allan Meltzer (2005) stated, "The IMF's responsibility should remain the maintenance of global *financial* stability."² Charles Calomiris (2005) stated, "The legitimate current purpose of the Fund is to help to smooth capital market and exchange rate adjustments involving investment by developed countries in emerging-market countries."

The IMF's membership at 184 is close to universal, smaller than the United Nations by only seven countries.³ Despite disagreements about the scope of its mission, the IMF is an institution of global governance. It is ultimately responsible to governments that contribute to its financing and give direction to its policies. Nongovernmental organizations (NGOs) and other national and international interest groups are not always pleased with or fully accepting of this reality because this fact deprives them of access and influence. At the same time, governmental institutions are controversial because of a lack of consensus about the appropriate role of government today.⁴ Institutions of global governance, or institutions of international collective decision making, generate even more controversy.⁵ Governments and their institutions are designed to provide public goods, for example in the international context to cope with cross-country externalities. Economists often appeal to market failures to make the case for government or international collective action. The problem is that economists do not agree about the nature of the market's failures or about whether proposed cures for those failures are likely to improve the functioning of the financial system. Moreover, political leaders do not always listen to their economic advisers.

The IMF has evolved during its 60 years. The Fund started life as the manager of the Bretton Woods international monetary system based on

2. Emphasis added.

3. The seven countries are Andorra, Cuba, North Korea, Liechtenstein, Monaco, Nauru, and Tuvalu.

4. Boughton (2005) examines the evolution of the IMF and the challenges associated with both its effective operation and its continued maturation.

5. See Bryant (2003) for an admirable and informative attempt to describe efforts to establish institutions of cross-border finance and international governance as well as to prescribe pragmatic ways to move forward.

fixed exchange rates designed to avoid the pitfalls and internationally antisocial policies of the 1930s. Following the collapse of the Bretton Woods system and revision of its Articles of Agreement in the mid-1970s, the Fund became known as a firefighter dealing with the international debt problems of the 1980s, the facilitator of the economic transformation of countries in Eastern Europe and the former Soviet Union at the end of the 1980s, a partner in the struggle against global poverty in the early 1990s, and an instrument in the prevention and management of capital account crises in the late 1990s.

This evolution itself has been controversial. A recent example of the Fund's evolution has been its increasing involvement in the area of abuse of the international financial system. In the late 1990s, for example, it was called upon to review the compliance of offshore financial centers with a number of internationally accepted standards. After September 11, 2001, the Fund acquired an enhanced role in the scrutiny of compliance with standards covering anti-money laundering and combating the financing of terrorism.

For some observers outside and inside the IMF, the expansion of the Fund's activities is the pragmatic response by an established and respected institution to the changing needs of its members and the changing character of the international financial system. According to this view, it is more efficient and effective to use an existing institution to meet new challenges than it is to create new institutions.

For others, the evolution of the IMF represents nefarious mission creep, a bureaucratic effort to expand the institution's scope and influence. Thus, Michael Bordo and Harold James (2000) describe a process of supply response to perceived, but questionable in their view, market failures and the demands of IMF members for help to cope with them. They advocate a narrowing of the scope of the IMF's activities to establishing data standards, dealing with short-term liquidity problems, and providing information to markets via surveillance.

At the other end of the ideological spectrum, Sarah Babb and Ariel Buiira (2005) bemoan what they see as an increase in the discretion exercised by the IMF management and staff, the absence of rules, and a tendency toward "mission push" by the United States and other members of the G-7. They advocate a more rules-based organization with increased transparency and accountability, increased financial assistance associated with fewer and narrower conditions, and a reworked governance and voting structure, including the elimination of the US capacity to block (veto) some decisions.

The IMF has evolved, but the role of the IMF as an institution of collective global governance has always been limited. Timothy Geithner, in June 10, 2004, remarks before the Bretton Woods Committee on the subject of the Bretton Woods institutions and the 21st century, aptly described its continuing dilemma:

The Fund, from its inception, was burdened by a mismatch between the aspirations of its architects and the authority and instruments they gave the institution to pursue those ambitions. Its authority over the policies of its members was limited. Its resources were small, and the facilities established to deploy those resources were modest relative to the problems they were designed to address.

Notwithstanding concerns within and outside the Fund about mission creep, there is broad agreement on the core activities of the Fund: fiscal policies, monetary policies, and exchange rate policies. As mentioned above, the financial sector joined this triumvirate about 10 years ago, and this has been an area of rapid expansion as well as considerable accomplishment, but not without its critics and controversies.

This extension of the Fund's core activities to the financial sector has been somewhat problematic. First, as noted, it is not well based in the Articles of Agreement. Second, the Fund shares jurisdiction in this area with the World Bank, which often has a longer-term perspective on financial-sector issues, a different relationship with its members, and naturally a different set of views about what should be done and when. Third, the Fund is not a financial supervisor. The Fund was the principal drafter of only three of the dozen internationally recognized standards and codes that have been endorsed by the IMF and the World Bank in connection with their Reports on Observance of Standards and Codes (ROSCs).⁶ The Fund's principal and important role has been in the area of compliance with existing standards and codes.

In practice, of course, the IMF is now heavily involved in financial-sector and related capital market issues in its analyses and its country programs. The broad membership of the Fund has grudgingly accepted this involvement as it argues about details. For example, how broad and intrusive should be the examinations of countries' compliance with international standards on anti-money laundering and combating the financing of terrorism? To what extent should the results of those examinations be factored into structural conditions in programs receiving IMF (or World Bank) financial support?

The United States and the rest of the G-7 continue to press the IMF in this area. Acting Under Secretary of the Treasury for International Affairs Randal Quarles (2005), of the United States, stated in testimony, "The IMF needs to integrate more fully capital market and financial-sector analysis into the daily life of the Fund." In partial response to similar views expressed in the context of commenting on the Fund's own medium-term

6. The IMF has been principally responsible for drafting the standards on data transparency, fiscal transparency, and monetary and financial policy transparency. Various international standards-setting bodies had principal responsibility for drafting eight of the other nine standards; for example, in the case of the banking supervision standard, the Basel Committee on Banking Supervision undertook this responsibility after much prodding from many quarters. The World Bank was the principal drafter of the standard on insolvency and creditor rights.

strategic review, Managing Director de Rato in June 2005 formed a working group under the direction of William McDonough to provide an independent perspective on how well the Fund has organized its financial-sector analysis.

Tools and Activities

To carry out its mission, the IMF uses three principal tools: surveillance, lending, and technical assistance.⁷ These activities contribute to the production of two basic products: policy advice and financing.

Surveillance operates at several levels. At the core are the essentially annual Article IV consultations with individual countries on their economic and financial policies and prospects, including “firm surveillance” over their exchange rate policies. These reviews cover the full range of macroeconomic policies and performance and include, as well, microeconomic and structural policies and issues such as trade policies, labor market policies, and pension systems. Of the members, 88 percent have agreed, at least once, to allow the resulting written assessments to be published. Also of the members, 97 percent have agreed, at least once, to the publication of a public information notice (PIN) that summarizes the staff’s and the Executive Board’s views of the country’s policies and performance after an Article IV consultation (IMF 2005g, table 1).⁸

Individual countries may also volunteer for reviews of their financial sectors and associated risks and vulnerabilities.⁹ In addition, members may volunteer for assessments of their compliance with the 12 principal international standards, codes, and principles.¹⁰ The 1999 initiative to involve the IMF and the World Bank in reviews of compliance with international standards was a major component of the effort to strengthen the international financial architecture. It is intended to aid countries in their reform efforts, to aid the Fund and Bank in their work with countries, and to in-

7. The IMF’s research activities are an omitted tool from this standard list. Since the institution’s founding, those activities have played a major role in establishing the Fund’s policy credibility. That tool should not be neglected.

8. Publication is a voluntary decision by the member country; a few countries have not permitted publication every year after first permitting publication.

9. The Financial Sector Assessment Program (FSAP) is conducted jointly with the World Bank. As of August 31, 2005, 50 percent of IMF members had completed FSAPs (IMF 2005g, table 1). Another 17 percent had FSAPs under way or their participation in the program had been confirmed. The FSAP also forms the basis for confidential Financial Sector Stability Assessments (FSSAs) that look at the vulnerability of the macroeconomy to financial shocks and the vulnerability of the financial system to macroeconomic shocks.

10. The resulting documents are ROSCs. The reports consist of various modules, and a country may voluntarily agree to publish the reports. As of August 31, 2005, the reports on 74 percent of the completed modules had been published.

form market participants. At a recent review of the initiative (IMF 2005d), executive directors were “broadly satisfied with the initiative’s effectiveness”—faint praise indeed—but expressed disappointment that market participants’ use of the ROSCs remains low. However, Rachel Glennerster and Yongseok Shin (2003) find statistical evidence that the market rewards transparent countries, including those countries that comply with international standards and codes, with lower spreads. Charis Christofides, Christian Mulder, and Andrew Tiffin (2003) in a careful study reach a similar conclusion with respect to both spreads and ratings. However, the size of the effects provides limited leverage over compliance with codes. Moreover, empirical work in this area is in its infancy (Goldstein 2005a).

The Fund also conducts regional surveillance, for example of the euro area. It conducts global surveillance in the form of its semiannual reviews of the global economic outlook and of the global financial system.¹¹ In addition, the IMF staff prepares special reviews for meetings of various international groups such as the G-7 finance ministers and central bank governors for their meetings three times a year, for meetings of the deputies and the finance ministers of the Asia-Pacific Economic Cooperation (APEC) forum, and for meetings of the G-20 finance ministers and central bank governors.¹²

IMF lending takes place through a number of arrangements and facilities. The bread-and-butter Stand-By Arrangement (SBA) is designed to provide financing for members to help them deal with short-term balance of payments financing problems. The Extended Fund Facility (EFF) is intended to provide financing for members with longer-term balance of payments and structural problems. The Supplemental Reserve Facility (SRF) is used to supplement the regular balance of payments financing by providing larger amounts for shorter maturities and at higher interest rates in connection with “capital account crises.”¹³ The Compensatory Financing Facility (CFF) covers shortfalls in goods and services export earnings or increases in the cost of cereal imports that are temporary and caused by events beyond a member’s control. Under the same heading is emergency assistance associated with natural disasters and postconflict situations. Finally, the Fund has a Poverty Reduction and Growth Facility (PRGF) that makes longer-term low-interest loans to low-income countries with structural balance of payments problems.¹⁴ Countries eligible to

11. The associated published reports are the highly regarded *World Economic Outlook* and *Global Financial Stability Report*.

12. These documents are not published and probably should be.

13. In capital account crises, macroeconomic policies are reasonably sound and current account deficits are small, but a country faces a sudden reduction or reversal in capital inflows.

14. The PRGF was established in 1999; it replaced the Enhanced Structural Adjustment Facility (ESAF) that had been created in 1987.

borrow under the PRGF are those that are also eligible to borrow from the World Bank Group under its International Development Association (IDA) window. The Poverty Reduction Strategy Papers (PRSPs) in principle are prepared by the borrowing country as the basis for PRGF lending and are reviewed by the Executive Boards of both the Fund and the Bank.

The IMF also provides technical assistance to its members, normally free of charge. The technical assistance is intended to strengthen a country's institutional capacities in the areas of the IMF's expertise, such as central banking. This major activity absorbs a substantial portion of the IMF's financial and human resources. The activity is generally only loosely linked to IMF lending programs, actual or potential. Most of the technical assistance is financed out of the IMF's own resources, but about one-third is financed by contributions from its members. In fiscal year 2004, the IMF's share of the cost of its technical assistance absorbed 23 percent of the gross administrative budget, or \$190 million, and about 700 person-years (IMF-IEO 2005b). Approximately 70 percent of the technical assistance goes to low-income countries with per capita incomes of less than \$1,000 per year.¹⁵

In addition to these three core tools, some observers include poverty reduction as a fourth, although one might more reasonably consider it a potential goal.¹⁶ The reduction of poverty in low-income countries is certainly an activity to which the IMF devotes a large amount of staff resources.¹⁷ Under the PRGF, 78 countries are potentially eligible to borrow from the IMF. As of May 31, 2005, 62 countries (four-fifths of those eligible) had PRGF credit outstanding from the IMF.¹⁸ The PRGF credit outstanding accounted for 73 percent of all IMF credit outstanding as of that date. Thus, poverty reduction is a major objective of IMF activity today. For example, 8 of the 33 pages in Managing Director de Rato's report to the April 2005 IMFC on the IMF's policy agenda dealt with IMF support for low-income members (IMF 2005f).

15. An evaluation of the revenue and expenses of the IMF's expanding operations is beyond the scope of this study and the expertise of its author, although I touch on it in chapter 6 on financial resources. Nevertheless, this is a major issue and is linked to other issues such as the amount of IMF lending and how the IMF finances its routine activities.

16. For example, Lynch (2005) stated that the IMF's tool kit has "four core components: surveillance, lending, capacity building, and poverty reduction."

17. The resources for PRGF lending are borrowed from countries and institutions generally at market-related interest rates. The terms of the lending to the PRGF borrowers (0.5 percent per year with repayments semiannually starting 5½ years and ending 10 years after disbursement) are in turn subsidized through donations and the IMF's own resources.

18. Table 2.5 shows 81 percent of PRGF-eligible countries were borrowers because I have classified India, technically PRGF eligible, as an emerging-market country in that table and other tables in this chapter.

Facts about the IMF and Its Lending

It is useful to look at some data on the IMF's evolution as an international monetary institution. Shortly after the IMF was founded in 1945 it had 40 members.¹⁹ Thirty years later its membership had tripled to 127 members. An additional 57 members joined during the following 30 years to make up the current membership of 184.²⁰ The membership consists of 24 industrial countries, 77 countries that are now eligible to borrow from the PRGF, 22 countries that we have classified somewhat arbitrarily as emerging-market countries, and 61 other developing countries; see table 2.1.²¹

Table 2.2 provides a summary of the composition of the IMF's membership in 2005 and in 1975 by category of country and region of the world. By category of country, the largest increases were in what are now PRGF-eligible countries (28) and other developing countries (23). By region of the world, the largest increases were in Europe (27), principally in Eastern Europe and the former Soviet Union, Asia (12), and Africa (12).

More relevant than the evolution of the characteristics of the members of the IMF are the trends in patterns in the number of members that borrowed from the Fund over this 30-year period. Table 2.3 shows the distribution of the *number* of members with credit outstanding at the end of five-year periods from 1975 to 2005.²² In 1975 and 1980, industrial countries

19. At the Bretton Woods conference in 1944, it was anticipated the IMF would have 45 founding members. However, the Union of Soviet Socialist Republics never joined, and Australia, Haiti, Liberia, and New Zealand delayed in joining. Three of the remaining founding members later withdrew: Czechoslovakia, Cuba, and Poland.

20. Twenty-five of the new members were from Eastern Europe and the former Soviet Union. Most of the remaining new members were small island nations, some having just received their independence. There were also a few African countries such as Mozambique, Namibia, and Zimbabwe, reflecting the final chapters of colonialism.

21. The area classification in table 2.1 and subsequent tables follows that found in the IMF's *International Financial Statistics*, hence the placement of some countries often classified as "Asian" in "Europe" and some normally North "African" countries in the "Middle East." The PRGF category of borrowers did not exist in 1975, much less in 1945. Although India is technically PRGF eligible, we classify it with the emerging-market countries.

22. Data on IMF credit outstanding, which reflect current programs as well as recently completed and in some cases suspended programs, provide a more informative picture of the pattern of the Fund's financial operations than the number or size of programs at particular dates. The data I have assembled, as best I can determine, capture all member countries that borrowed from the IMF during the 1975–2005 period, as well as prior to 1975, with the exception of Czechoslovakia/Czech Republic. Czechoslovakia rejoined the IMF in September 1990. Soon thereafter in March 1991 it received financial support from the IMF in the form of a 14-month program. Following the Velvet Revolution in 1993 that led to the creation of two countries—the Czech Republic and the Slovak Republic—the Czech Republic took on its share of the IMF credit outstanding to it, had a new program starting in March 1993, but

Table 2.1 IMF members, 2005

32

Region	Industrial countries (24)	Emerging-market countries (22)	Other developing countries (61)	Countries eligible to borrow from the PRGF (77)
Africa (53)	—	South Africa (1)	Algeria, Bahrain, Botswana, Equatorial Guinea, Gabon, Mauritius, Morocco, Namibia, Seychelles, Swaziland, Tunisia (11)	Angola, Benin, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Eritrea, Ethiopia, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Kiribati, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Nigeria, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, Somalia, Sudan, Tanzania, Togo, Uganda, Zambia, Zimbabwe (41)
Asia (34)	Australia, Japan, New Zealand (3)	China, India, Indonesia, South Korea, Malaysia, Philippines, Singapore, Thailand (8)	Brunei Darussalam, Fiji, Marshall Islands, Micronesia, Palau (5)	Afghanistan, Bangladesh, Bhutan, Cambodia, Laos, Maldives, Mongolia, Myanmar, Nepal, Pakistan, Papua New Guinea, Samoa, Solomon Islands, Sri Lanka, Timor-Leste, Tonga, Vanuatu, Vietnam (18)
Europe (49)	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, San Marino, Spain, Sweden, Switzerland, United Kingdom (19)	Turkey, Russia, Hungary, Czech Republic, Poland (5)	Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Estonia, Kazakhstan, Latvia, Lithuania, Macedonia, Malta, Romania, Serbia and Montenegro, Slovak Republic, Slovenia, Turkmenistan, Ukraine (17)	Albania, Azerbaijan, Armenia, Georgia, Kyrgyz Republic, Moldova, Tajikistan, Uzbekistan (8)
Middle East (14)	—	Egypt (1)	Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates (12)	Yemen (1)
Western Hemisphere (34)	Canada, United States (2)	Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Venezuela (7)	Antigua and Barbuda, Bahamas, Barbados, Belize, Costa Rica, Dominican Republic, El Salvador, Guatemala, Jamaica, Panama, Paraguay, Peru, St. Kitts and Nevis, Suriname, Trinidad and Tobago, Uruguay (16)	Bolivia, Dominica, Grenada, Guyana, Haiti, Honduras, Nicaragua, St. Lucia, St. Vincent and the Grenadines (9)

PRGF = Poverty Reduction and Growth Facility

Source: IMF Members' Quotas and Voting Power, and IMF Board of Governors, November 7, 2005, available at www.imf.org.

Table 2.2 Composition of IMF membership, 2005 and 1975

Classification of countries	Africa	Asia	Europe	Middle East	Western Hemisphere	Total
2005						
Industrial countries	0	3	19	0	2	24
Emerging-market countries ^a	1	8	5	1	7	22
Other developing countries	11	5	17	12	16	61
PRGF-eligible countries ^b	41	18	8	1	9	77
Total	53	34	49	14	34	184
1975						
Industrial countries	0	3	17	0	2	22
Emerging-market countries ^a	1	8	1	1	7	18
Other developing countries	9	1	4	12	12	38
PRGF-eligible countries ^b	31	10	0	2	6	49
Total	41	22	22	15	27	127

PRGF = Poverty Reduction and Growth Facility

a. Even though India is PRGF eligible, we classify it as an emerging-market economy because it is often treated as such by market participants.

b. Based on IMF categorization as of March 2005.

Source: IMF, *International Financial Statistics*, 2005 and 1975.

represented about 10 percent of the countries with credit outstanding from the IMF, in contrast with zero from 1990 until today. Over the entire period, emerging-market countries with credit outstanding fluctuated from 13 percent of the total number of borrowers in 1975 and 9 percent in 1980 to a high of 18 percent five years later and only 7 percent today. Current PRGF-eligible countries with IMF credit outstanding rose steadily from 58 percent of all borrowers in 1975 to 73 percent today. Finally, the share of other developing countries among all countries with IMF credit outstanding has fluctuated between 20 and 30 percent since 1980.

entirely repaid the IMF in 1994. Consequently it is not recorded as having had credit outstanding from the IMF in either 1990 or 1995. These data also do not cover countries that had only a precautionary SBA or EFF and did not draw upon those arrangements: Colombia, Nigeria, and Paraguay. Colombia and Paraguay had such programs in May 2005.

Table 2.3 Distribution of members with IMF credit outstanding, 1975–2005 (percent)

Category of country	1975	1980	1985	1990	1995	2000	2005 ^a
Industrial countries	11	10	2	0	0	0	0
Emerging-market countries ^b	13	9	18	16	11	11	7
Western Hemisphere	4	1	6	7	5	4	4
Asia	6	5	8	6	2	4	2
Other	4	3	4	3	4	2	1
Other developing countries	17	20	20	22	30	22	20
PRGF-eligible countries ^c	58	61	60	62	59	67	73
Africa	34	39	37	41	37	40	44
Other	25	23	23	21	22	28	29
Total	100	100	100	100	100	100	100
<i>Memorandum:</i>							
Total number of countries with credit outstanding	53	80	87	86	98	91	85
Countries with credit outstanding as a percent of total members	42	57	58	56	55	50	46

PRGF = Poverty Reduction and Growth Facility

a. Data as of May 31, 2005.

b. Even though India is PRGF eligible, we classify it as an emerging-market economy because it is often treated as such by market participants.

c. Based on IMF categorization as of March 2005.

Note: Data capture all member countries that borrowed from the IMF during the 1975–2005 period, with the exception of Czechoslovakia/Czech Republic. This country was briefly indebted to the IMF between 1991 and 1994. Consequently, it was not picked up as having had credit outstanding to the IMF in either 1990 or 1995. See footnote 22 in the text for details.

Sources: IMF, *International Financial Statistics* (various years); IMF Annual Reports (various years).

Equally important to understanding the IMF's evolution as a lender is the distribution of the *amount* of IMF credit outstanding to different categories of members at five-year intervals during the 1975–2005 period. Table 2.4 provides some relevant data. With respect to categories of countries (top panel), in 1975 almost half of IMF credit outstanding was to industrial countries, but that rapidly diminished to zero by the late 1980s. In contrast, IMF credit to the group identified as emerging-market countries rose steadily from 27 percent in 1975 to 76 percent today.²³ As indi-

23. Contrary to the impression left by some official rhetoric in recent years about more limited lending to large borrowers, total IMF credit outstanding to emerging-market countries (the principal large borrowers) as of May 31, 2005, was SDR 42.2 billion compared with SDR 34.3 billion at the end of 2000.

Table 2.4 Distribution of IMF credit outstanding, 1975–2005 (percent)

Category of country/region	1975	1980	1985	1990	1995	2000	2005 ^a
Industrial countries	48	12	2	0	0	0	0
Emerging-market countries ^b	27	35	60	60	63	70	76
Other developing countries	7	16	13	11	15	9	10
PRGF-eligible countries ^c	19	37	24	29	22	21	14
Total	100	100	100	100	100	100	100
Africa	8	26	22	25	17	13	9
Asia	28	38	30	15	12	38	15
Europe	49	20	10	4	27	34	28
Middle East	4	5	1	1	1	1	1
Western Hemisphere	11	11	37	55	43	14	47
Total	100	100	100	100	100	100	100
<i>Memorandum:</i>							
Total credit outstanding (in billions of SDR)	7.4	11.1	37.7	23.3	41.6	49.3	55.6
Percent of total quotas	25.1	17.6	40.0	25.6	28.6	23.4	26.0

PRGF = Poverty Reduction and Growth Facility

SDR = special drawing rights

a. Data as of May 31, 2005.

b. Even though India is PRGF eligible, we classify it as an emerging-market economy because it is often treated as such by market participants.

c. Based on IMF categorization as of March 2005.

Note: Data capture all member countries that borrowed from the IMF during the 1975–2005 period, with the exception of Czechoslovakia/Czech Republic. This country was briefly indebted to the IMF between 1991 and 1994. Consequently, it was not picked up as having had credit outstanding to the IMF in either 1990 or 1995. See footnote 22 in the text for more details.

Source: IMF, *International Financial Statistics* (various years).

cated in the second memorandum item in table 2.4, IMF credit outstanding as a percentage of total IMF quotas appears to have been remarkably stable at about 25 percent, with 1980 an outlier on the low side and 1985 on the high side. However, these ratios are affected somewhat by the timing of quota increases.

Interestingly, credit outstanding to PRGF-eligible countries reached its peak in 1980 at 37 percent of the total and is now only 14 percent. The decline during the past five years in part reflects the Heavily Indebted Poor Countries (HIPC) program of write-offs of debt to the IMF and other international financial institutions; but it is notable that by 1995, well before this phase of the HIPC program began, those countries accounted for only 22 percent of the total.

With respect to regions of the world (lower panel), the share of IMF credit outstanding to countries in the Western Hemisphere rose to a peak

Table 2.5 Proportion of countries within groups with credit outstanding, 1975–2005 (percent)

Category of country/region	1975	1980	1985	1990	1995	2000	2005 ^a
Industrial countries	27	36	9	0	0	0	0
Emerging-market countries ^b	39	39	84	67	50	45	27
Other developing countries	24	40	40	42	51	33	28
PRGF-eligible countries ^c	63	82	80	80	76	80	81
Total (all IMF members)	42	57	58	56	55	50	46
Africa	44	77	74	79	77	75	74
Asia	55	64	70	57	35	39	32
Europe	36	41	22	12	50	44	35
Middle East	20	13	13	21	21	14	21
Western Hemisphere	44	55	71	68	58	44	44
Total (all IMF members)	42	57	58	56	55	50	46

PRGF = Poverty Reduction and Growth Facility

a. Data as of May 31, 2005.

b. Even though India is PRGF eligible, we classify it as an emerging-market economy because it is often treated as such by market participants.

c. Based on IMF categorization as of March 2005.

Note: Data capture all member countries that borrowed from the IMF during the 1975–2005 period, with the exception of Czechoslovakia/Czech Republic. This country was briefly indebted to the IMF between 1991 and 1994. Consequently, it was not picked up as having had credit outstanding to the IMF in either 1990 or 1995. See footnote 22 in the text for details.

Sources: IMF, *International Financial Statistics* (various years); IMF Annual Reports (various years).

in 1990, had declined sharply by 2000, but today amounts to almost half of the total because of large programs with Argentina, Brazil, and Uruguay. The share of credit outstanding to members in Asia has had two peaks of 38 percent in 1980 and 2000, but it has since declined back to 15 percent, where it was in 1990. The share of credit to European countries declined after 1975, rose again during the 1990s with special lending programs for new members from Eastern Europe and the former Soviet Union, and has recently declined. Finally, the share of credit to African countries moved steadily downward after 1980.

Table 2.5 provides a final summary of the pattern of IMF lending activity during the past 30 years. The data show for each year the number of countries in each category (top panel) or in each regional group (bottom panel) with credit outstanding from the Fund as a percentage of the (changing) total number of countries in each category or in each regional group. What is most striking is the remarkable stability (and slight decline since 1985) in the share of the total number of countries with IMF credit outstanding; that share rose by 16 percentage points between 1975 and 1985 and subsequently has declined by 12 percentage points. During the entire period, in-

dustrial countries have declined from 27 percent with credit outstanding in 1975 to zero since the late 1980s. The proportion of PRGF-eligible countries with credit outstanding rose after 1975 and has remained near 80 percent ever since. Emerging-market countries reached a peak in these terms in 1985, and their percentage has been on a downtrend subsequently. The peak for other developing countries was in 1995, reflecting borrowing by new members in Eastern Europe and the former Soviet Union.

Given these data on IMF credit outstanding by categories of countries, it is not surprising that a high proportion of African members of the IMF have had credit outstanding from the IMF since 1980. The proportions of Western Hemisphere countries and Asian countries with credit outstanding from the Fund have been declining since 1985. The European pattern reflects the IMF's high level of involvement with its new European members. Finally, a remarkable feature revealed by the data in the table is the consistent, low level of initial involvement by Middle Eastern countries with the IMF in terms of IMF credit outstanding to them.²⁴

An interesting question is how will or should the data presented in tables 2.1 through 2.5 evolve going forward. The answer will depend on the extent of (1) volatility in global economic and financial conditions, (2) vulnerability of different categories or groups of countries to those fluctuations as well as the strength of their own policy regimes, and (3) willingness of the IMF to lend.

One can be hopeful for continued favorable global economic and financial conditions. However, neither the national nor the global business cycle has been outlawed, and global economic and financial conditions are unlikely to remain as benign as they have been during the past few years.

On vulnerability, a strong case can be made that several emerging-market and other developing countries have successfully implemented macroeconomic and microeconomic structural improvements that have reduced their vulnerability to external or internal shocks. Moreover, these two groups have substantially increased their holdings of international reserves. From 1994 to 2004, the 22 emerging-market countries listed in table 2.1 increased their combined holdings of foreign exchange reserves by more than 300 percent. The average increase was 384 percent.²⁵ These

24. Evidence on the lack of close involvement of members from the Middle East with the IMF is that as of August 31, 2005, (1) only 57 percent of those members have ever agreed to the publication of their Article IV consultation reports (compared with 88 percent for the IMF's membership as a whole) and (2) only 34 percent of those members have allowed publication of ROSC modules completed for these countries (compared with 74 percent for the total membership) although the average number of modules completed per Middle Eastern country (3.1) is close to the IMF average (3.6) (IMF 2005g, table 1).

25. Excluding China and Russia, which had the largest increases, the average increase was 234 percent. The average increase in foreign exchange reserves for the eight emerging-market economies in Asia was 450 percent, with the most dramatic increases in China (1,000 percent), South Korea (640 percent), and India (500 percent).

countries as a group increased their foreign exchange reserves from eight times their combined IMF quotas in 1994 to 24 times them in 2004. The other developing countries increased their reserves by more than 275 percent. The average was 308 percent.²⁶ These countries as a group increased their reserves from three times to nine times their quotas.

Thus, as reviewed extensively in chapter 3 of the BIS Annual Report (2005), many of these countries have put themselves in positions in which they have taken out a considerable amount of self-insurance against future global economic and financial disruption and the possible need to borrow from the IMF, although uncovered risks definitely remain.

The jury is still out on the third factor—the willingness of the IMF to lend. Certainly, many observers and a number of key members of the IMF believe that the IMF should substantially curtail the scale of its lending to emerging-market and other developing countries with normal, if not continuous, access to international capital markets. If these countries qualify for IMF loans, the size of those loans should be sharply restricted relative to their quotas. This view, if it prevails, could well lead to a further increase in self-insurance with respect to improved policies and further increases in international reserves.²⁷ The result might be a significant further reduction in IMF credit outstanding to countries other than the PRGF-eligible countries.

With respect to the PRGF-eligible countries, a substantial number of observers and a few members of the IMF have the view that IMF lending should be sharply curtailed or should be shifted to the World Bank while IMF programs of technical assistance and policy advice in the form of nonborrowing programs should continue.

In addition to these trends and attitudes, a number of East European countries are now under the political, economic, and one would presume financial umbrella of the European Union. If they are in need of financial assistance during the next decade, they will not turn first to the IMF. Many Asian countries are strongly averse to borrowing from the IMF given their experience in the late 1990s and are actively involved in transforming the

26. These data are for only 48 of the 61 “other developing countries” listed in table 2.1 because data are not available on the foreign exchange reserves of the other 13 countries in 1994 and/or 2004.

27. Eduardo Borensztein (2004) presents a number of indicators of potential demands for IMF resources over the next 20 to 50 years. He argues that the heavy borrowers from the Fund today, in terms of total amounts borrowed, are the middle-income countries. He further argues that the share of those countries in the total membership of the IMF should rise over this period, in particular during the next 20 years. Finally, he calculates that if China and India qualified for a package of IMF financial assistance as large as that received by Mexico in 1995 (6.3 percent of GDP) at the point where their estimated levels of income were similar (in 2018 and 2032 respectively), the financial demands on the IMF would dwarf the Fund’s likely resources.

Chiang Mai Initiative into an Asian Monetary Fund—a more kindly and understanding version of the Washington institution (Henning 2002).²⁸

Thus, it is possible to imagine an IMF in the future that only occasionally embarks on new lending programs. Those programs may be limited to a few emerging-market and developing economies in Latin America that have not built up large reserve cushions. At most, the Fund will become a development institution doing very little lending. At worst, it might wither away or be closed down as some observers have recommended.²⁹

On the other hand, it is too easy to say that the IMF will continue to exist but that it will become an institution that lends to an increasingly limited group of countries, with the membership of the institution sharply differentiated between lenders and borrowers. Industrial countries have not borrowed from the IMF for decades, and it is difficult to imagine that they will ever again, but Boughton (2005) reminds us that the revolving character of the IMF continues to be relevant to understanding its role. He reports that from 1980 to 2004, 44 countries have moved from a situation of being net lenders to the Fund to finance IMF lending operations to becoming net borrowers from the Fund and back again to becoming net lenders. He also reports that as of 2004, 58 of the 129 countries that he classifies as developing countries—excluding industrial countries and market borrowers—had positive net financial positions in the IMF.³⁰ Of these, 15 were net creditors to the Fund.³¹

IMF Reform Efforts

Whither the IMF? How should it be reformed? There has been no dearth of ideas. Ten years ago, the Bretton Woods Commission (1994) emphasized in

28. Evidence of the disaffection of Asian developing countries from the IMF is that as of August 31, 2005, (1) only 76 percent of them have ever allowed their Article IV reports to be published (compared with the IMF average of 88 percent), (2) only 5 of the 29 countries—17 percent—have had FSAPs (compared with the IMF average of 50 percent), and (3) only 45 percent have had ROSC modules completed (compared with 66 percent for the IMF as a whole). The average number of ROSC modules is 1.8 per Asian country (IMF average 3.6), and only 51 percent of completed modules for Asian countries have been published (IMF average 74 percent) (IMF 2005g, table 1).

29. Among those who have advocated closing down the IMF are Allan Meltzer (“Why It Is Time to Close Down the IMF,” *Financial Times*, June 16, 1995) because of the moral hazard he believes is associated with IMF lending; George Shultz, William Simon, and Walter Wriston (“Who Needs the IMF?” *Wall Street Journal*, February 3, 1998) on the grounds that the IMF is no longer needed; and Milton Friedman (2004), arguing that the Fund (and the Bank) have done substantially more harm than good.

30. Their reserve tranche positions, consisting of reserve assets they have paid into the IMF, were positive.

31. Their reserve tranche positions were larger than the reserve assets they have paid into the IMF because they have lent their currencies through the IMF to other countries.

its conclusions that the IMF should play a larger role in the international monetary system, seeking greater exchange rate stability and better coordination of economic policies. The Commission also advocated concentration on sound macroeconomic policies in IMF lending programs and its reduced duplication of the functions of the World Bank. Finally, it called for improved governance, including adjustment of quota shares in line with “the changed realities of relative economic importance in world trade, capital flows, and GNP,” increased openness, and explaining its mission better.

In the late 1990s, in the wake of, first, the Mexican crisis and, later, the East Asian financial crises, the Russian default, and the Brazilian crises, public and private groups issued a flurry of reports and proposals for IMF reform. Barry Eichengreen (1999) provides a nice summary of the debate on reform of the international financial architecture as of the late 1990s along with some proposals of his own. Robert Rubin and Jacob Weisberg (2003) provide an insider’s view of the initial evolution of the debate on the international financial architecture.³²

A report of a study group sponsored by the Council on Foreign Relations (1999) included seven priority items for IMF reform:

- The IMF should lend on more favorable terms to countries that take effective steps to reduce their crisis vulnerability.
- Emerging-market countries with fragile financial systems should discourage short-term capital inflows.
- The private sector should promote fair burden sharing in workout situations, including the adoption of collective action clauses; and IMF lending to countries in arrears to the private sector should be subject to tight conditions on “good faith” negotiations with those creditors.
- Emerging-market countries should not adopt exchange rate regimes with pegged rates.
- The IMF should abandon large rescue packages and adhere to its normal lending limits.
- Both the IMF and World Bank should focus on their core responsibilities and limit operations in the other institution’s domain.
- A global conference should meet and agree to priorities and timetables to strengthen national financial systems.

Note that six of these seven prescriptions, and implicitly a seventh (the sixth bullet item), relate almost exclusively to the IMF’s role vis-à-vis emerging-market economies.

32. “International financial architecture” was the lofty phrase that Secretary of the Treasury Rubin first used in a 1995 speech that sought to set out US thinking on the subject of reform of the IMF and the international financial system.

One of the most prominent and influential reports with regard to Washington opinion was that of the congressionally chartered International Financial Institutions Advisory Commission (IFIAC 2000), also known as the Meltzer Commission. The central set of its recommendations focused on IMF lending in crisis situations, which the IFIAC agreed should continue. However, the majority view was that after a transition period such lending should be limited only to countries that had prequalified for such lending on the basis of a short list of criteria. Moreover, that lending should be short-term lending at a penalty interest rate. The IFIAC also recommended closing the PRGF, but that recommendation was understood to encompass its possible transfer to the World Bank.³³

In response to some of the reports and recommendations that were appearing at the time, and in part to anticipate the recommendations of the IFIAC, Secretary of the Treasury Lawrence Summers on December 14, 1999, delivered a speech entitled “The Right Kind of IMF for a Stable Global Financial System” at the London School of Business. He made six basic points and proposals for the IMF:

- promote the flow of better information to markets;
- focus on financial vulnerabilities as well as macroeconomic vulnerabilities;
- be selective in providing its financial support, *inter alia*, because “[t]he IMF cannot expect its financial capacity to grow in parallel with the growth of private-sector financial flows;”
- improve engagement with the private sector on capital market issues by setting up a capital markets advisory group and rationalizing its approach to private-sector involvement in the management of financial crises;
- refocus support of growth and poverty reduction in the low-income countries; and
- reform institutionally in terms of transparency and openness and also in its governance structure.

On the final point, Summers said the IMF “should move over time toward a governing structure that is more representative and a relative allocation of quotas that reflects changes under way in the world economy—so that each country’s standing and voice is more consistent with their relative economic and financial strength.”

33. John Williamson (2001) summarizes the major reports issued after the first round of debates along with some ideas of his own. See also the review of reform proposals in Goldstein (2003).

Substantial movement, many observers would say progress, has been made on most of the areas highlighted by Summers. Where there has not been movement, for example, in the area of IMF governance, the issues are still very much alive.

US Acting Under Secretary Quarles (2005) summarized the progress that has been made in recent years on IMF reform, understandably emphasizing a break with the past more than the record supports. He said that limits and criteria for IMF lending have been clarified. He noted that the IMF is now focused more directly on its core macroeconomic areas of expertise, including financial sectors. He said that more attention is being given to short-term financing. He highlighted the increase in IMF transparency and work on codes and standards for the financial system. He noted the progress on crisis management with many countries embracing the use of collective action clauses (CACs) in their international borrowing instruments.³⁴

Looking forward, Quarles identified the importance of the IMF's strengthening surveillance and crisis prevention, promoting strong policies without lending (nonborrowing programs), and effectively supporting low-income countries. He also noted that Secretary Snow beginning in October 2004 had "emphasized that change is needed to address the growing disparity between the IMF's governance structure and the realities of the world economy."

Some observers have other lists of priorities. James Boughton (2004) highlights four key reforms:

- strengthening surveillance and early warning systems;
- designing lending programs to restore market access and growth;
- providing appropriate direction of policy advice and financial support for low-income countries; and
- improving the equity and effectiveness of IMF governance.

Timothy Lane (2005) identifies five key open issues for the IMF:

- consensus on the IMF's role in the prevention and management of crises in emerging-market economies;
- the scope of IMF conditionality;
- the seriousness of the phenomenon of prolonged use of IMF resources (borrowings outstanding) and what to do about it;

34. Immediately following the 1995 Mexican crisis, collective action clauses were proposed by informed observers (Eichengreen and Portes 1995), endorsed by the official sector (G-10 1996), but resisted by the private financial sector. This reform took almost 10 years and a great deal of dedicated analysis and persuasion to bring to fruition.

- the IMF's involvement with low-income countries; and
- governance issues.

Goldstein (2005a) puts forward a list with a somewhat different focus and orientation:

- stronger injunctions against exchange rate manipulation;
- better identification and control of currency mismatches in emerging-market countries;
- even greater emphasis on debt sustainability in IMF surveillance;
- improving the quality of compliance evaluations with international standards and codes;
- giving greater weight to early warnings of currency, banking, and debt crises; and
- limiting lending in "exceptional access" cases to cases that are truly exceptional.

Boughton, Lane, and Goldstein recommend rather disparate approaches to IMF reform. As indicated earlier, some observers favor narrowing the IMF's focus, for example, to lending to the developing countries other than those with normal market access, perhaps on a precommitted basis, or to concentrating only on financial-sector issues in those countries. Alternatively, the IMF's focus might be narrowed principally to emerging-market countries and the sustainability of their debts and their vulnerability to disruption.

Meanwhile, the IMF itself embarked in 2005 on a medium-term strategic review (MTSR) with the aim of developing a medium-term strategy.³⁵ The review is internal, but it is under the guidance of the Executive Board and ultimately the IMFC. On the basis of published reports (Managing Director de Rato's address at the joint IMF/Bundesbank symposium on June 8, 2005; IMF 2005j; IMF 2005f), the review was expected to cover five broad topics:

- the effectiveness and impact of surveillance;
- the IMF's analysis of financial sectors and international capital markets;
- the IMF's lending activities;
- the Fund's role in low-income countries; and

35. This exercise was originally a G-7 initiative.

- various aspects of IMF governance, including internal management issues and voice and participation in the institution by a broader range of countries.

The IMF issued Managing Director de Rato's Report on the Fund's Medium-Term Strategy on September 15, 2005; see chapter 1.

One topic that has been missing from most recent agendas for IMF reform, with the exception of the report of the Bretton Woods Commission more than a decade ago, is the IMF's role in the management of the international monetary and financial system, in particular with regard to exchange rate misalignments and global economic imbalances.³⁶ At the April 2005 IMFC, representatives of the G-7 countries and the European Union (finance ministers Breton, Brown, Eichel, Goodale, Junker, Siniscalco, Snow, and Tanigaki) paid lip service to the objective of achieving greater macroeconomic and financial stability insofar as their own macroeconomic policies were concerned. However, in their comments on the IMF's strategic direction, none articulated a role for the IMF in this area. Instead, they implicitly presented a view that the IMF's primary role should be restricted to nonindustrial countries, preferably the non-emerging-market countries. The logical inference is that the IMF should become just another development institution. The next chapter critically examines the role of the IMF in the international monetary system.

36. Most observers use the terms "international monetary system" and "international financial system" interchangeably. My preference is to reserve the first term for the conventions, rules, and structures associated with official actions and policies and to reserve the second term for the broader set of conventions, rules, and structures that involve private-sector participants as well, with the second encompassing the first. However, in this policy analysis I, too, use the terms interchangeably.