
Financial Resources

The IMF is an international financial institution. Like other financial institutions it is in the business of making loans consistent with its charter and policies, in other words, under appropriate circumstances and with appropriate conditions and protections. The determination of appropriate circumstances and appropriate conditions and protections is one place where selectivity enters the picture.¹ Appropriate conditions include the potential for private-sector involvement in financing a country in crisis.² A natural question is whether the IMF has enough financial resources to carry out its responsibilities now and for the immediate future.

If the answer to this first question is that it does not now have adequate resources to discharge its responsibilities or it is likely to run short over the next 5 to 10 years, then a follow-up question is how best should the IMF augment its resources? Should it look toward another increase in quotas? Should it rely more heavily on borrowing from members through standing arrangements such as the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB) or through ad hoc means? Alternatively, should it look to borrow in the market or should it seek to mobilize the latent profits on its holdings of gold?

Finally, where do SDR fit into the IMF's activities and its financial operations in the 21st century? Is it important to ratify the Fourth Amendment of the Articles of Agreement?³ Looking forward, should the SDR be put on

1. On circumstances and conditions, see also the discussion and information in chapter 2.

2. Selectivity also enters the picture with respect to crisis prevention, surveillance, and possible prequalification for IMF lending.

3. The Fourth Amendment provides a one-time allocation of SDR in order to put members of the IMF that joined after the first 1970–72 and/or second 1979–81 general allocations of SDR on a roughly equal footing with other members.

the shelf, should regular allocations be resumed, should existing allocations be cancelled, or should the mechanism be transformed so it can provide some type of global public good rather than just increasing global liquidity? This chapter examines (1) the IMF's need for additional resources, (2) how its resources should be augmented, and (3) the future role of the SDR.

The IMF's Need for More Resources

Does the IMF need more financial resources right away today or tomorrow? The answer is almost certainly no.

As of July 28, 2005, the IMF's one-year forward commitment capacity, the metric it now uses to measure its capacity to make new financial commitments, was about \$133 billion, easily the highest level in its history and essentially twice its lending capacity at the end of 2002.⁴ In addition, the IMF has another approximately \$50 billion available from its standing borrowing arrangements, the GAB and the NAB. An alternative traditional measure of IMF lending capacity, the IMF's liquidity ratio, is $2\frac{1}{4}$ times what it was at the end of 2002.⁵ This dramatic improvement reflects in part the repayments and early repayments to the Fund by Russia and Brazil and, in part, benign global economic and financial conditions that have meant that there have not been any large net new demands on the IMF.

Quotas are the traditional source of IMF resources to lend although borrowing from members from time to time has been used as a supplement, and the PRGF is financed by borrowing. The second memorandum item in table 2.4 provides the IMF's credit outstanding as a percentage of total quotas for seven dates during the past 30 years. The average is 26.6 percent, and the figure for May 31, 2005, was 26 percent. Table 6.1 provides a longer-term perspective on IMF quotas relative to a number of other indicators of the development of the global economy. I estimate that, as of the end of 2005, total IMF quotas relative to reserves will have fallen to the lowest level in the past 35 years; this reflects in large part the buildup in foreign exchange reserves by a large number of countries since the end of 2000. On the other hand, total IMF quotas relative to GDP at market prices are within the range of the past 30 years, and total quotas relative to international trade in goods and services are only slightly below their range over that period.⁶

4. The IMF defines its "one-year forward commitment capacity" as its usable resources (holding of currencies of members in strong enough external positions that their currencies can be lent to other countries plus the IMF's holdings of SDR) *minus* undrawn balances under lending commitments *plus* projected repayments to the Fund over the next year *minus* a generous prudential balance.

5. The liquidity ratio is the ratio of net uncommitted resources to liquid liabilities.

6. As is almost always the case, different calculations by different authors can suggest somewhat different conclusions. For a longer period, Buiria (2005a) estimates that the size of the

Table 6.1 IMF quotas relative to reserves, GDP, and trade (percent)

Year	Foreign exchange		
	reserves	GDP	International trade ^a
1970	62.2	0.83	7.1
1975	21.3	0.54	3.2
1980	20.3	0.65	3.2
1985	25.6	0.76	4.2
1990	14.8	0.57	3.0
1995	15.6	0.74	3.5
2000	14.1	0.87	3.5
2004	8.9	0.81	3.0
2005(e) ^b	7.0	0.71	2.6
2015(p) ^c	2.9	0.57	1.6

(e) = estimate

(p) = projection

a. Average of world exports and imports of goods and services.

b. Data for 2005 are estimated using the compound growth rates for 2000–04.

c. Projections for 2015 use the average of the compound growth rates for the periods 1990–95, 1995–2000, and 2000–04: foreign exchange reserves (11.5 percent); GDP (4.5 percent); and trade (7.2 percent). IMF quotas are projected for 2005 at their end-2004 level adjusted to the dollar/SDR rate on July 25, 2005. The 2015 projection assumes a 25 percent increase in the dollar price of SDR by 2015.

Sources: IMF, *International Financial Statistics* and *World Economic Outlook* (various years).

The last line in the table provides a projection of what these three ratios would look like in 10 years if there were no increase in IMF quotas (except an assumed 25 percent boost to their dollar value in connection with depreciation of the US dollar against the SDR) and with the use of compound growth rates for the period 1990–2005. Quotas would continue to decline substantially relative to foreign exchange reserves and decline relative to international trade compared with the range during the past 30

Fund declined from 58 percent of trade in 1945, to 15 percent in 1965 before the great inflation and the collapse of the Bretton Woods system, to an estimated 4 percent “at present,” presumably 2003. (The last figure is higher than that shown in table 6.1, possibly because we included trade in both goods and services.) Kelkar, Chaudhry, and Vanduzer-Snow (2005) compare the size of the Fund (total IMF quotas) in 1978 at the time of the 7th quota review with the size in 1998 at the time of the 11th review. They find that the size of the Fund declined from 8.7 to 3.7 percent relative to current payments, from 1.4 to 0.9 percent relative to GDP, from 33 to 18.4 percent relative to international reserves, and from 9 to 6 percent in terms of imports. It is reasonable that quotas declined more relative to current payments than relative to imports because nontrade current account items have increased in importance over this period, but I cannot explain the large decline in the Kelkar estimates of the size of the Fund relative to imports or relative to GDP compared with the data in table 6.1.

years. For GDP, the ratio drops to the low recorded in 1990. With GDP on a PPP basis, the ratio falls 20 percent below its equivalent 1990 value.

Those who want the IMF to discharge its current responsibilities more effectively—for example, lending larger amounts in connection with capital account crises—tend to favor a substantial increase in IMF quotas in connection with the 13th quota review (Buirea 2005a; Kelkar, Chaudhry, and Vanduzer-Snow 2005; Ortiz 2005). Those who envision enlarged responsibilities for the IMF tend to think the IMF will require a substantial increase in IMF resources to discharge them (Ubide 2005; Rajan 2005b). The Japanese finance minister, Sadakazu Tanigaki (2005), has expressed support for a quota increase, and his Korean colleague, Minister of Finance Hun-Jai Lee (2004), did so in stronger terms.

On the other hand, US Secretary of the Treasury Snow has stated that the United States sees no need to increase IMF quotas at this time in part because it is desirable to limit the growth in the size of the Fund in order to discourage large-scale IMF lending. Former US treasury secretary Paul O'Neill (2002) told the IMFC in September 2002, as the 12th quota review was coming to conclusion: "Limiting official resources is a key tool for increasing discipline over lending decisions." (To date, O'Neill's successor has not distanced US policy from this position.) In fact, during the past five years, the amount of IMF credit outstanding to emerging-market members of the IMF has increased by more than 20 percent. Regardless of this record and the reasons for it, using an obscure budget constraint to enforce selectivity in IMF lending is questionable international public policy compared with a need-based approach in which selectivity is based on circumstances, policy conditions, and protections.

Augmenting the IMF's Resources

During the IMF's 60 years, increases in IMF quotas have occurred on average every 6.6 years—since 1959, the average rate has been every 5.6 years.⁷ However, the gap between the last two quota increases was 8 years and the previous gap was 7 years. Formal agreement on the last quota increase was reached in January 1998. Any way one looks at the historical data, they point to pressure for another increase in the next two or three years, at least by the end of the 13th quota review period in January 2008. However, don't bet on an agreement to increase IMF quotas unless policies of the major IMF members or economic and financial circumstances change dramatically from what they are today.

A more reasonable bet is that strong pressures will build for a further increase in IMF quotas by 10 years from now. One reason for action sooner rather than later is that it is difficult to imagine the IMF success-

7. The total of IMF quotas may increase slowly over time with the admission of new members and ad hoc adjustments in quotas, which have been rare. The text refers to increases in IMF quotas associated with general reviews of the size of the Fund.

fully addressing the issue of the distribution of IMF quotas in any context except an overall increase in quotas because each country has an individual veto over any reduction in the absolute size of its quota. In this context, the US position favoring a redistribution of quota shares but not favoring an increase in the total of IMF quotas at this time, and implicitly at any future time, is at best naive and at worst cynical. Nevertheless, as noted in chapter 4, it may be a strategic calculation.

Augmentation of standing borrowing arrangements has been even more difficult to negotiate than quota increases. Only two such augmentations have occurred since 1962 when the GAB was first established—the augmentation of the GAB in 1983 and the grafting onto the GAB of the NAB in 1998. If the IMF wants to increase its resources, it could explore two other options: borrowing from the market and gold sales.

The advantage of IMF market borrowing is that doing so requires only a simple (weighted) majority of the IMF Executive Board, not an 85 percent majority in connection with a generalized increase in quotas following a quota review. An increase in IMF quotas, in turn, must be approved by governments, starting with the US Congress. Adam Lerrick (1999) estimated that the IMF might be able to borrow in the market as much as \$100 billion over time. The total that could be borrowed would be constrained by the liquid resources of the IMF and the value of its gold stock.

Bird (2003) sees IMF borrowing in the private market as a temporary countercyclical source of additional financing for the IMF. When markets are holding back in lending to developing countries, the IMF could borrow and use the resources to increase lending to those countries. He also sees such an activity as having the benefit of making the IMF more market sensitive. For Bird it is an advantage that a program of market borrowing would loosen political influences over the scale of IMF lending. Kelkar, Chaudhry, and Vanduzer-Snow (2005) make many of the same arguments. From another perspective, one disadvantage of this mechanism for augmenting IMF financial resources, other than the fact that it cannot be expanded without limit, is that it would for a substantial period remove a political constraint on IMF lending activities. Both perspectives fail to recognize that the IMF is inherently a political institution because governments own and direct it.

The approach of using the proceeds of IMF gold sales to augment IMF resources looks more attractive to some observers. IMF gold holdings are worth about \$45 billion at the August 2005 market price. The IMF carries its existing gold holdings of 103.4 million ounces at about \$9 billion.⁸

8. Before 1999, the entire IMF gold stock was valued at SDR 35 per ounce, or about \$5.2 billion at the end-July 2005 dollar price of the SDR. In 1999 and 2000, the IMF increased the average value of its gold stock via transactions with Brazil and Mexico that had the effect of raising the valuation of a portion of the stock to the prevailing market price. The interest earnings on the realized capital gains from the gold transactions are being used to finance the first round of HIPC debt relief in the IMF. The capital gains will be used to support the second round.

Therefore, if the IMF could sell its gold stock at approximately the market price in August 2005 of \$430 per ounce, it would realize approximately \$36 billion in extra resources.⁹

In addition to providing financial resources to the IMF, sales of IMF gold holdings would help to further phase gold out of the international monetary system. Sales would provide the IMF with a significant amount of assets that could earn returns and help to finance the nonlending activities of the IMF.¹⁰ For this reason, representatives of developing countries, for example the G-24 (2005) and Indonesian Central Bank governor, Burhanuddin Abdullah (2005), have expressed some interest in the idea along with the creation of an IMF investment account that would also generate financial returns to help support the IMF's activities.¹¹ However, the amount of additional resources that the IMF could raise through gold sales is not large. Moreover, some argue that IMF gold sales would weaken the IMF financially, especially if the proceeds were used to expand IMF lending. Of more practical relevance, the United States has a double veto

9. Some argue that the IMF sale of as much as 100 million ounces of gold on the market would severely depress the market price and cause economic damage to gold holders and producers. Dale Henderson et al. (2005) provide a theoretical argument and empirical estimates that demonstrate that this need not be the case. Their analysis is based on the assumption and revealed evidence that there is a service use of gold (for example, jewelry) as well as depletion uses (tooth fillings). They also argue that the net welfare gain associated with government gold sales now compared with delaying those sales indefinitely is substantial, about \$340 billion. The net loss if the sales were delayed 20 years is estimated at \$105 billion. Philipp Hildebrand (2005) offers practical evidence about how an announced program of gold sales by the Swiss National Bank over a multiyear period appears to have had little effect on the market price of gold.

10. The administrative cost of running the IMF in 2005 is more than \$800 million. Some worry that if the amount of IMF lending declines permanently, the IMF will either have to cut back on its activities or increase the interest rates on its loans further.

11. Some argue that IMF borrowing countries pay a disproportionate share of IMF administrative expenses. Woods and Lombardi (2005) use a figure of 98 percent, estimated on the basis of the difference between the interest earnings of the IMF and the return that IMF creditors receive relative to the SDR interest rate on their lending to the IMF. The G-24 (2005) complains, moreover, that two-thirds of the IMF's budget is not directly related to lending activities. See in chapter 2 the brief discussion of the IMF's technical assistance activities that absorb about one-quarter of the Fund's internal resources. A relevant consideration as well is the fact that the IMF has been operating with a freeze on positions for several years. The Woods and Lombardi estimates are clearly too high because they ignore the underlying cost to creditor countries of lending to and through the IMF. Adam Lerrick (2003) places that figure at about \$600 million for the United States alone, about seven times the figure of about \$80 million Woods and Lombardi estimate for all creditor countries. Many would argue that Lerrick's figure is too high because he uses long-term interest rates to estimate the costs of US borrowing and US "loans" to the IMF are liquid claims that should be compared with short-term government borrowing rates, but the Woods and Lombardi figure is too low. Lerrick also triples his estimate to account for his assessment of the risk associated with IMF loans despite the fact that actual defaults on IMF loans have been minimal and losses can be covered by accumulated reserves.

over IMF gold sales; sales of gold require an 85 percent majority vote, and before the US treasury secretary can authorize a positive vote he must obtain the consent of the US Congress.¹²

A final proposal for financing the IMF would involve the creation of an International Financial Stability Facility (IFSF)¹³ that would be financed by annual fees on stocks of cross-border investments and could be tapped by the IMF under certain circumstances to finance in whole or in part large programs of IMF financial support to systemically important countries. The IFSF is certainly not the most attractive alternative financing mechanism for the IMF, but it has the advantage of prepositioning financing from the private sector that can be disbursed, in part, for the benefit of the private sector—prepaid private-sector involvement, in other words.

The Future of SDR

Where do SDR fit into the future financing of the IMF? The IMF issues SDR to members in proportion to their quotas. SDR holdings are an alternative to foreign exchange holdings. Governments can use SDR to deal with temporary payments imbalances, just as they use foreign exchange reserves. If countries have large foreign exchange or SDR holdings, they are less likely to need to borrow from the International Monetary Fund.

The IMF issued a total of SDR 21.4 billion (about \$30 billion at the dollar price of SDR at the end of July 2005) in 1970–72 and 1979–81. Under the Fourth Amendment of the IMF Articles of Agreement, an additional SDR 21.9 billion would be issued principally to those countries that joined the IMF after one or both of the issues of SDR. The IMF's Board of Governors approved the amendment in 1997. Enough members have ratified the amendment to cause it to go into force as soon as the US Congress does so. IMFC communiqués (2005) routinely call for completing the ratification of the amendment.¹⁴

Bird (2003, chapter 14) argues that the SDR as an alternative reserve asset in the international monetary system are destined to return to obscurity. His is an argument based on politics as well as economics. He makes this argument in a paper that was first published in 1998 following a debacle at the IMF annual meeting in Madrid on the SDR issue. At that

12. Neither veto is relevant to the potential “use” of gold to help “finance” the G-8 proposal for 100 percent debt relief for certain HIPC borrowers. However, the IMF self-financing of that proposal has raised a number of other issues for the IMF.

13. I made this suggestion in a speech entitled “Perspectives on International Financial Crises,” to the Money Marketeers of New York University, on December 10, 2001.

14. Managing Director de Rato (IMF 2005f) reported in April 2005 that 131 members of the Fund (71 percent) with 77 percent of the votes had ratified the amendment. US ratification would raise the second figure to 94 percent.

meeting, there was a strong initial presumption promoted by Managing Director Camdessus that a positive decision would be taken to resume allocations of SDR, but the proposal was killed by the G-7 countries, which had failed to communicate clearly to Camdessus and to the rest of the IMF membership their position; alternatively, one could say Camdessus and the non-G-7 members of the Executive Board failed to understand the G-7 position before they broke for the meeting in Madrid.

The basic argument against a resumption of regular allocations of SDR is that the international monetary and financial systems have undergone profound changes since the mechanism was established in 1969, as indeed they have. The argument made is that with floating exchange rates countries do not need international reserves, or if they need reserves they can borrow them on international capital markets. The problem is that the facts do not fit the argument. Most countries do not borrow their foreign exchange reserves; they accumulate them by running current account surpluses that distort global current account positions as they force poor countries to lend to rich countries. Between 1994 and 2004 the foreign exchange reserves of emerging-market and other developing countries more than quadrupled from SDR 293 million to SDR 1,247 million.¹⁵ Recall that the data presented in table 6.1 demonstrate a secular decline in the ratio of IMF quotas to foreign exchange reserves.

At the analytical level, Michael Mussa (1996) made the case for the allocation of SDR under the current IMF Articles of Agreement, which require a finding of “long-term global need, as and when it arises, to supplement existing reserve assets in such a manner as to promote the attainment of its [the Fund’s] purposes and will avoid economic stagnation and deflation as well as excess demand and inflation in the world” (Article XVIII, 1(a)). The counterargument is that, in today’s international monetary system, one can never find such a “long-term global need.”

Peter Clark and Jacques Polak (2004) provided a fresh examination of this issue. They argued that a resumption of regular allocations of SDR would benefit the functioning of the international monetary system by lowering the interest cost of holding reserves and enhancing the strength of the system as a whole through greater reliance on owned versus borrowed reserves. Boyer and Truman (2005) reach a similar conclusion and stress, as well, the contribution of a resumption of SDR allocations to global cooperation and the resolution of global imbalances by lowering incentives for some countries to have essentially fixed, undervalued exchange rates. At the policy level, the Zedillo Report (UN 2002b) called for

15. These figures exclude the reserves of industrial countries and PRGF-eligible countries. The categories of countries are the same as those underlying tables 2.1 to 2.5. The increase for other developing countries as a group, 284 percent, was almost as large as the increase for emerging-market countries as a group, 334 percent.

the resumption of regular SDR allocations. Ariel Buiara (2005a) and Stephany Griffith-Jones and Jose Antonio Ocampo (2004) do as well.

It is noteworthy that despite the opposition to the resumption of allocations of SDR, which is based on the specious argument that doing so would damage the international financial system, for example, by weakening balance of payments discipline (what discipline?) or contributing to inflation, no one to my knowledge has called for cancellation of the existing outstanding stock of SDR. Nevertheless, betting people are unlikely to place much money on the resumption of SDR allocations in connection with the original purpose of augmenting countries' holdings of international reserves.

On the other hand, a number of people advocate the modification of the purpose of SDR allocations. For example, a proposal broadly consistent with the original purpose has been made by a Council on Foreign Relations task force (1999) that advocated special allocations of SDR to fund on a one-time basis a "contingency facility" in the IMF. Richard Cooper (2002) goes further and would allow the IMF to make temporary issues of SDR to deal with financial crises and forestall creditor panics. Camdessus (Camdessus, de Larosière, and Köhler 2004) also favors selective emergency, self-liquidating SDR allocations, as do Kelkar, Chaudhry, and Vanduzer-Snow (2005) and Kelkar et al. (2005).

Departing further from the original purposes of the SDR, the G-24 (2004) continues to advocate the creation of SDR and the voluntary redistribution of them to developing countries to increase aid flows. George Soros (2002) argues for the creation of SDR to fund grants for specific global public goods and poverty reduction programs.

The best guess is that nothing will happen with respect to the SDR in the next decade or so. The Fourth Amendment will not be ratified, which is untidy; SDR will not be allocated or cancelled; and none of the proposals for stretching or transforming the role of the SDR will come to fruition. The issue of SDR is not as central to the reform of the IMF as some of the other issues that I have reviewed.