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How Crises Are Putting IMF Financial Support to the Test

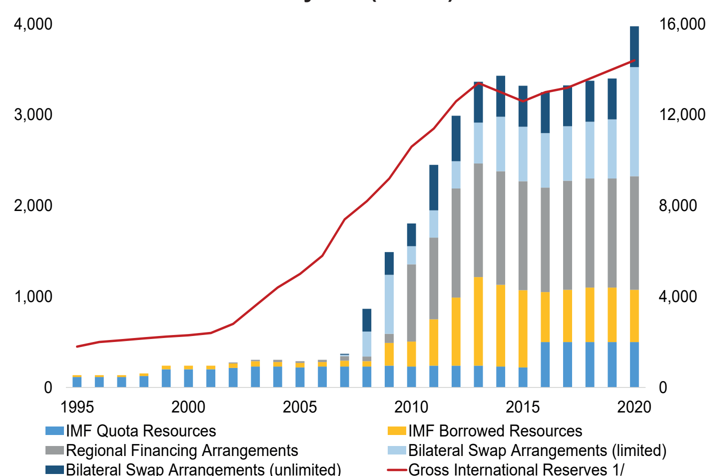
Léo Besson, Hugo Landot

- The COVID-19 crisis and Russia's war against Ukraine have heightened the vulnerability of emerging market and developing countries, adding to their existing burden of structural challenges. Such countries, constrained by more limited fiscal headroom and sources of liquidity, are more likely to resort to the International Monetary Fund (IMF) for financial support than their advanced economy counterparts. The Fund has regularly adapted its toolkit to ensure the stability of the international financial system. Although new sources of liquidity have emerged, the IMF continues to play, alongside the World Bank, a catalytic role at the centre of the international monetary system, as illustrated by its essential part in managing the pandemic-induced crisis since early 2020.

- Created at the outset to supplement the foreign exchange reserves of its member countries, the IMF's special drawing rights (SDRs) have played a major role in addressing both the 2008 financial crisis and the COVID-19 crisis, with a general allocation of SDRs equivalent to $650bn approved in August 2021. To magnify the allocation's impact on vulnerable countries, France and other major advanced economies have pledged to channel a portion of these new SDRs to them in order to fortify the IMF's concessional lending window, the Poverty Reduction and Growth Trust (PRGT), and allow the creation of the IMF's Resilience and Sustainability Trust (RST), which aims to support the resilience of economies to structural challenges such as climate change.

- The financial support provided by the IMF has been sparking debate since the institution's founding. In 2020, the IMF's unprecedented allocation of emergency financing prevented the financial collapse of many countries, but its role as lender of first resort came to a certain extent at the expense of its ability to address structural imbalances in countries receiving assistance. The IMF's determination to fulfil its mandate and tackle new structural challenges such as climate change has led it to provide long-term concessional financing instruments, raising the issue of the boundaries and terms of cooperation between the IMF and development institutions. Against this backdrop, by the end of 2023, IMF shareholders are set to reach an agreement on the adequacy of the size of Fund resources and on a possible realignment of quota shares to the benefit of emerging market economies.

Evolution of the Size and Composition of the Global Financial Safety Net (in $bn)



[1] End of period, right-hand scale

Source: IMF.

1. From its 1944 founding through to the 2008 financial crisis, the IMF has continuously adapted its approach in line with global economic shifts

1.1 After the scrapping of fixed exchange rates, the IMF has refocused its efforts to support vulnerable countries

The 44 signatory countries of the 1944 Bretton Woods Agreement approved the creation of two new global institutions: the International Bank for Reconstruction and Development (IBRD), today part of the World Bank Group, and the International Monetary Fund (IMF). The IMF's primary purpose, as a multilateral institution supporting the new international monetary system built on the dominance of the US dollar, was to bring stability to the monetary system after the interwar years through the introduction of a system of fixed exchange rates between currencies,[1] backed by the dollar's convertibility into gold. In ensuring monetary stability by such means, the idea was that it would in turn stimulate the revival of international trade (see Box 1).

Responsible for the stability of exchange rates and the international monetary system at large, the IMF serves as a mutual aid fund for members. It is funded by voluntary financial contributions from member countries, which at its founding solely took the form of quotas relative to each member's economic importance (see Box 4 below). The IMF can draw on these resources as it sees fit to fund its lending activities. Quota resources were gradually supplemented by borrowed resources, i.e. additional resources lent by member countries. In return for the payment of their subscriptions (in gold and national currency), the IMF guarantees members automatic access to foreign currencies – in a proportion of up to 25% of their quotas – to maintain the value of their national currencies and deter them from resorting to competitive devaluations. The IMF can also lend to economies experiencing structural imbalances, provided that they implement adjustment policies (principle of conditionality).

Box 1: The Purposes of the IMF According to the Articles of Agreement

i. To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

ii. To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income […].

iii. To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

iv. To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions […].

v. To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments […].

Source: IMF Articles of Agreement.

(1) Each IMF member country pledges to maintain its exchange rate within a defined band (i.e. the value of its currency does not deviate from predefined amounts and the member country buys or sells its currency, where necessary).

The new international monetary order established at the end of the Second World War began to weaken in the 1960s, at a time when gold reserves and discoveries could no longer keep pace with the growing demand for liquidity spurred by the expansion of international trade. In 1969, special drawing rights (SDRs) were created with the objective of making them the principal global reserve asset. In exchange for their SDRs, IMF member countries may be granted liquidity in the form of major currencies of the international monetary system (see Box 2). However, in 1971 stagflation and an excess of dollars in circulation relative to gold reserves led the United States to announce the suspension of the dollar's convertibility into gold. Once the 1976 Jamaica Accords reintroduced the floating exchange rate system, the goal of making the SDR the principal global reserve asset became less pressing.

The IMF was forced to quickly adapt to the new economic order. Focused on providing short-term liquidity support to advanced economies up until that point, at the end of the 1970s the IMF began to increase its lending to developing countries, which became the primary users of its resources in the 1980s.[2] Starting in the mid-1980s, the Fund strengthened its concessional financing instruments to tailor its support to the characteristics of this new type of borrower. The multiplicity of crises developing countries were facing – e.g. balance-of-payments, debt and banking crises – led the IMF to take more action through structural adjustment programmes. These long-term, more conditional commitments were meant to restore the economic stability and solvency of countries receiving IMF assistance. In its new role as stabiliser, the IMF stepped up its advisory and monitoring activities[3] in order to reduce the risk of contagion between countries, which has grown more acute due to globalisation and financialisation. The IMF also played an important part in debt rescheduling efforts by supporting the introduction of Brady bonds in 1989.[4] However, such debt restructuring failed to reduce the debt stock of low-income countries, which spurred the IMF in 1996 to team up with the World Bank and the principal official creditors of the era, e.g. the Paris Club, to launch the Heavily Indebted Poor Countries (HIPC) debt relief initiative. Participant countries saw their debt significantly slashed.

Box 2: The Special Drawing Right (SDR)

In response to a shortage of gold and US dollar reserves, in 1969 the IMF created the SDR to supplement global foreign exchange reserves with a new international reserve asset and means of payment.

1. The SDR is the IMF's official unit of account. Its value, at the outset defined in relation to gold, is today based on a basket of five currencies: the US dollar, the euro, the British pound sterling, the Japanese yen and, since 2016, the Chinese renminbi. On 5 October 2022, 1 SDR was equivalent to $1.29.
2. When a general allocation of SDRs becomes effective, member countries receive unconditional liquidity represented by an interest-bearing reserve asset (SDR holding) and a corresponding long-term liability. SDR holdings accrue interest, whereas interest is charged on the corresponding liability. Since interest is paid and charged at the same rate, an SDR allocation is cost-free for members as long as their SDR holdings, which can be transferred, remain equal to their SDR liabilities, which cannot be transferred.
3. SDRs can be: (i) kept as foreign exchange reserves; (ii) used by members to meet their financial obligations to the IMF, other member countries or one of the 15 organisations approved as prescribed holders of SDRs; (iii) exchanged for one of the five SDR basket currencies.
4. The SDR interest rate, serving as a reference point for the IMF yield curve, is based on a weighted average of representative interest rates on three-month debt in the money markets of the five SDR basket currencies. It is by design very low compared to market rates faced by most IMF member countries, although it has sharply risen since early 2022 (up 2.07% on 5 October 2022).

(2) For more on this subject, see C. M. Reinhart and C. Trebesch (2015), "The International Monetary Fund: 70 Years of Reinvention", *NBER Working Paper* No. 21805.

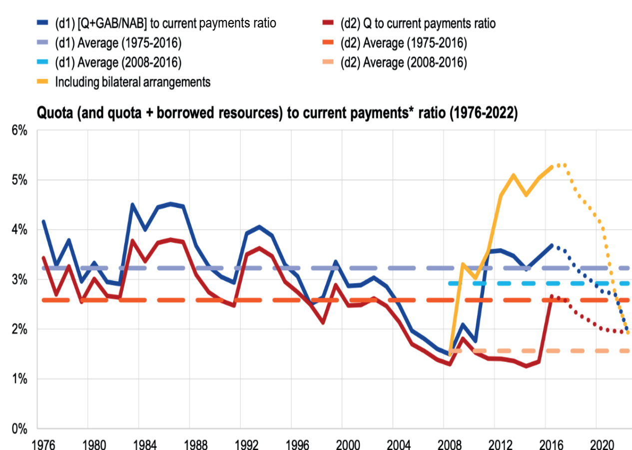
(3) This includes the monitoring of the international monetary system and each member country's economic policies, conducted at the bilateral (under Article IV of the IMF Articles of Agreement) and multilateral levels (regional and global).

(4) Financial instruments intended to encourage creditors of defaulting countries to reduce a significant portion of their existing debt by replacing it with dollar-denominated debt backed by long-term US Treasury bonds.

1.2 The 2008 financial crisis repositioned the IMF as a central player in the global financial safety net

After once again fulfilling its role of lender of last resort[5] during the 1997 Asian financial crisis and the 1998 Russian financial crisis, major cuts to the IMF's administrative budget were made in the early 2000s due to a sharp decline in IMF lending, which fell from $110bn to less than $18bn outstanding between 2003 and 2007. This decline primarily stemmed from a significant increase in official reserves in emerging market countries – especially those in Asia, specifically China – which served as an insurance mechanism for countries, thereby allowing them to request less IMF assistance. IMF resources, which largely went unused in a period known as the Great Moderation, remained unchanged between 1998 and 2008, with the global financial crisis hitting at a time when IMF resources had reached a historic low relative to global GDP, and particularly to trade and financial flows[6] (see Chart 1).

Chart 1: Fund Resources to Current Payments



Source: European Central Bank (2018), "A quantitative analysis of the size of IMF resources", ECB.
Note: Q = quota resources; NAB = New Arrangements to Borrow.[7]

The 2008 financial crisis brought the IMF's essential catalytic role to the fore again. The G20 and the IMF agreed to significantly raise the Fund's lending capacity, which increased from $250bn to $1tn between 2008 and 2012, allowing the IMF to provide support of around $400bn over the period. At the same time, higher access limits to resources and frontloaded disbursements helped increase the average assistance provided by the IMF to countries with respect to their principal economic indicators.[8]

The IMF's toolkit was thoroughly revamped in 2009. New precautionary instruments were created, including Flexible Credit Lines (FCLs) and Precautionary and Liquidity Lines (PLLs), which make available to beneficiaries credit lines that countries may draw on, without ex-ante conditionality,[9] provided that they display sound macroeconomic fundamentals (signalling effect). The IMF also bolstered its emergency facilities, which can be activated in a shorter time-frame and come with less stringent conditions than traditional instruments. Providing an additional cushion, these new instruments should help the IMF prevent crises: emergency instruments may help strengthen countries' capacity to anticipate and cope with temporary shocks, while FCLs may provide member countries with insurance schemes similar to swap lines,[10] whose coverage was limited prior to 2009 (some 25 bilateral swap lines were active in 2010, compared with 91 in 2020).[11] Lastly, the 2008 financial crisis increased the availability of concessional financing instruments for the poorest countries. The sale of a portion of the IMF's gold reserves and the channelling of SDRs made it possible to structure and deploy the Poverty Reduction and Growth Trust (PRGT), whose conditionality and access conditions are tailored to the features of the most vulnerable economies (e.g. zero-interest loans with ten-year maturities).

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(5) The notion of lender of last resort is controversial given that the IMF does not have an unlimited capacity to create money.
(6) For a critical review of the IMF's response to the 2008 financial crisis, see "IMF Response to the Financial and Economic Crisis", Independent Evaluation Office of the International Monetary Fund (IEO), 2014.
(7) New Arrangements to Borrow (NAB) is a set of credit arrangements between the IMF and some 40 member countries that provides resources of around $480bn as of 2021. It can be activated with the agreement of participants eligible to vote and representing 85% of total credit arrangements.
(8) See Takagi et al. (2014), "A Review of Crisis Management Programs Supported by IMF Stand-by Arrangements, 2008-11". Average access for the 25 programmes reviewed by the authors was on average four percentage points of GDP higher than that of programmes approved during the Asian financial crisis, often criticised as insufficient.
(9) Although PLLs have less stringent ex-ante criteria, drawdowns are subject to ex-post conditionality.
(10) A financial instrument enabling central banks to exchange currencies with one another. For further information, see B. Campagne et al. (2018), "Le réseau mondial des lignes de swap entre banques centrales", *Trésor-Éco* no. 231 (only in French).
(11) See Perks et al. (2021), "Evolution of Bilateral Swap Lines", *IMF Working Paper*.

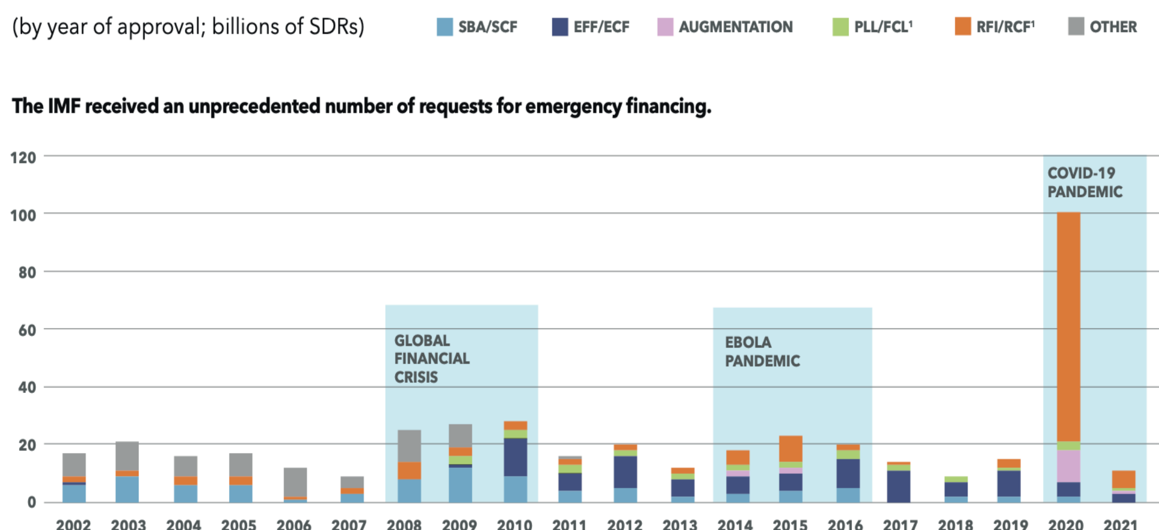
2. The COVID-19 crisis has revealed the strengths and limitations of IMF financial support

2.1 When the pandemic hit, the IMF was swift in providing emergency facilities

In its response to the COVID-19 crisis, the IMF took advantage of the new possibilities of its toolkit by playing the unprecedented role of "lender of first resort" in March 2020, particularly through its wide and intensive use of emergency instruments.[12] The doubling of access limits to these emergency facilities enabled the IMF to provide more than $31bn to 81 countries, with 80% of the total disbursed within three months of the onset of the crisis (see Chart 2). The swift and comprehensive provision of these funds helped to prevent a global economic collapse and to reduce the risk of crisis-related hysteresis effects.

This support was directed to vulnerable economies in record numbers, with PRGT lending – for which the IMF's 69 poorest economies are eligible – increasing fivefold since March 2020. In addition, the IMF provided technical assistance (such as health expenditure monitoring) for the implementation of the Debt Service Suspension Initiative (DSSI) by official bilateral creditors. Between May 2020 and the end of December 2021, the initiative suspended $12.9bn in debt-service payments for 48 out of 73 eligible countries. Lastly, in late 2020 the IMF worked on the launch of the G20 and Paris Club Common Framework for Debt Treatments Beyond DSSI. For the first time, China actively coordinated with Paris Club official creditors, participating in debt relief efforts through the implementation of an IMF programme, while drawing on the debt sustainability analyses of the IMF and the World Bank.

Chart 2: IMF Financial Support



Sources: IMF, Monitoring of Fund Arrangements database; IMF Finance Department; and IMF Strategy, Policy and Review Department.
Note: Data for 2021 is for January–April only and does not cover a full calendar year. ECF = Extended Credit Facility;
EFF = Extended Fund Facility; FCL = Flexible Credit Line;
PLL = Precautionary and Liquidity Line; RCF = Rapid Credit Facility;
RFI = Rapid Financing Instrument; SBA = Stand-By Arrangement; SCF = Standby Credit Facility.
[1] PLL/FCL and RFI/RCF figures include predecessor instruments.

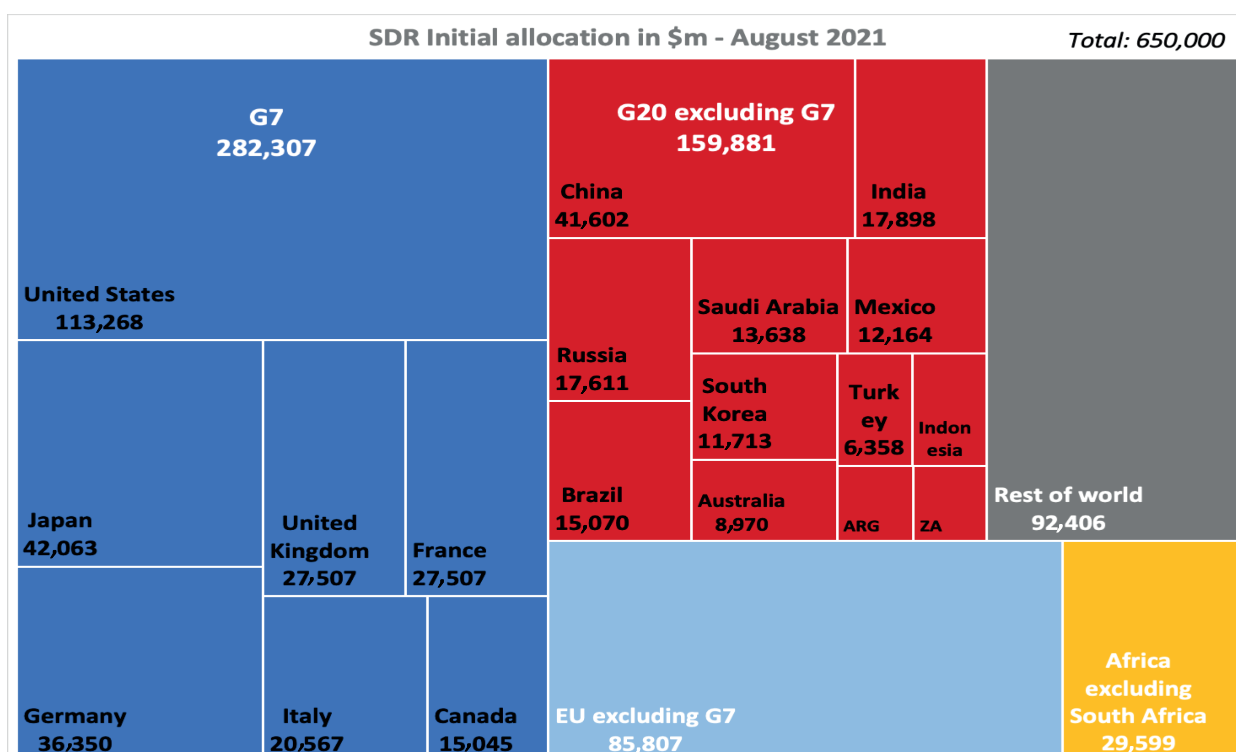
(12) For countries eligible for the PRGT, these were the Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF).

2.2 SDRs have regained an important role in recent crises

After falling out of favour when the fixed exchange rate system came to an end, thereby alleviating the need to supplement official foreign exchange reserves, SDRs were used again during the 2008 financial crisis that set off a global liquidity crunch: in September 2009, in an effort to remedy the situation, the IMF approved a general allocation of SDRs equivalent to $250bn.[13] SDRs are highly appealing to vulnerable economies facing difficulties in accessing global liquidity: these economies can exchange their SDRs for currency on an unconditional basis. They are merely required to pay interest on the difference between their SDR holdings (allocated SDRs less SDRs exchanged for currency) and their SDR liabilities (which do not change). For emerging market and developing countries, the cost of interest is far lower than that for borrowed currency. Moreover, countries are not required to build their net SDR positions back up.

Encouraged by the positive results of the 2009 allocation, IMF shareholders approved a general allocation of SDRs of $650bn (456 billion SDRs) on 23 August 2021. It provided vulnerable economies – including $34bn for African economies – with low-interest loans, thereby helping them to build up their foreign exchange reserves, strengthen their fiscal capacity to be able to ride out the crisis[14] and fund priority spending.[15] Against a backdrop of high macroeconomic uncertainty, this increase in gross reserves has played a part in restoring confidence and enabled some countries to maintain their access to markets.

Chart 3: Breakdown of SDR Allocation, August 2021



Source: IMF, DG Trésor calculations.

(13) This was in addition to a special one-time allocation equivalent to $33bn, proposed in 1997 to enable new member countries to be able to receive SDRs, but it was not approved until 2009.

(14) Member countries seeking to exchange their SDRs for currency are required to provide a reason for this need to the IMF. In the case of the Bank of Central African States (BEAC) and the Central Bank of West African States (BCEAO), which are responsible for managing SDRs on behalf of their members, countries benefited from the on-lending by central banks of SDR allocations in the form of local currency borrowings.

(15) "Low-income countries are using up to 40% of their SDRs on COVID-related priorities, like vaccines and other essential spending." – Address given by Kristalina Georgieva, IMF Managing Director, 14 April 2022.

In accordance with the IMF Articles of Agreement, a general allocation of SDRs is made in proportion to each member country's quota share (see Chart 3 and Box 4). But major economies, which receive the largest allocations, do not need this additional liquidity. In November 2021 the G7 and the G20, mirroring France's political impetus during the Summit on Financing African Economies held on 18 May 2021, set "a total global ambition of $100bn of voluntary contributions for countries most in need" by channelling SDRs or equivalent contributions. According to the latest G20 Chair's Summary, pledges of SDRs worth $73bn had been made as of 29 July 2022.

However, channelling SDRs is made difficult by the unique nature of this asset which, as a component of official foreign exchange reserves, is reported on central bank balance sheets in a majority of developed countries. To safeguard these central banks' independence and avoid impacting their balance sheet, SDR transactions must retain the character of reserve assets, which results in a certain amount of rigidity: SDRs can be loaned out but not gratuitously transferred, and only at the SDR variable interest rate so as to not impact central bank balance sheets. Such loans may only be held by IMF member countries and the 15 international organisations approved as prescribed holders of SDRs, and must be regarded as liquid and sufficiently secure. Where the European Union (EU) is concerned, the European Central Bank (ECB) considers the use of SDRs outside the IMF – even to the benefit of organisations approved as prescribed holders – as incompatible with current EU law given the prohibition of monetary financing.[16]

In light of these restrictive conditions, the G20 has identified three options for channelling SDRs. The first involves funding the scale-up of the PRGT in order to allow the IMF to increase its support in the coming months to the most vulnerable countries. The second entails creating a new IMF trust fund, the RST (see 3.2). Lastly, the third involves channelling SDRs to multilateral development banks and is currently under review by certain institutions. However, it is not operational at this stage, owing to the lack of a mutually agreed upon solution to the technical barriers discussed above.

2.3 IMF precautionary instruments continue to play a limited role

IMF precautionary instruments have struggled to get off the ground, despite the creation in April 2020 of a new loan facility – the Short-term Liquidity Line (SLL) – which helps countries with sound fundamentals overcome external shocks. While precautionary lines account for just under half of the additional $118bn of financing pledged (but not disbursed) by the IMF since 2020, ultimately they benefited a mere five countries, all in Latin America.[17] Moreover, these lines put a strain on a significant portion of the IMF's forward commitment capacity, as the Fund recognises them at par value, even though they are not intended to be fully used, unlike the IMF's traditional financing facilities.

The limited success of these instruments does not appear to be linked to the stringency of the qualification criteria, the cost of borrowing[18] or the existence of other layers of the global financial safety net (GFSN).[19] While their intended purpose is to send a positive signal about the quality of recipient countries' economic fundamentals, it seems that the political cost associated with the use of IMF resources and fears of stigma on financial markets – even though negative impacts are not borne out by the use of such instruments – deter many countries and partly explain their under-utilisation.[20]

(16) According to the ECB, although Council Regulation (EC) No. 3603/93 of 13 December 1993 provides for an exemption under which "the financing […] of obligations falling upon the public sector vis-à-vis the IMF" authorises national central banks to lend SDRs to IMF trust funds, there is no legal basis for authorising the lending of SDRs outside the IMF.
(17) Colombia, Peru, Chile, Panama and Mexico.
(18) See Birdsall et al. (2017), "Expanding Global Liquidity Insurance: Myths and Realities of the IMF's Precautionary Credit Lines".
(19) For example, Mexico has both an FCL in the amount of $50bn and a $60bn swap line with the US Federal Reserve.
(20) For more on the subject of IMF stigma, see Andone and Scheubel (2019), "Once Bitten: New Evidence on the Link between IMF Conditionality and IMF Stigma", *ECB Working Paper,* No. 2262.

3. The IMF's role will continue to evolve going forward

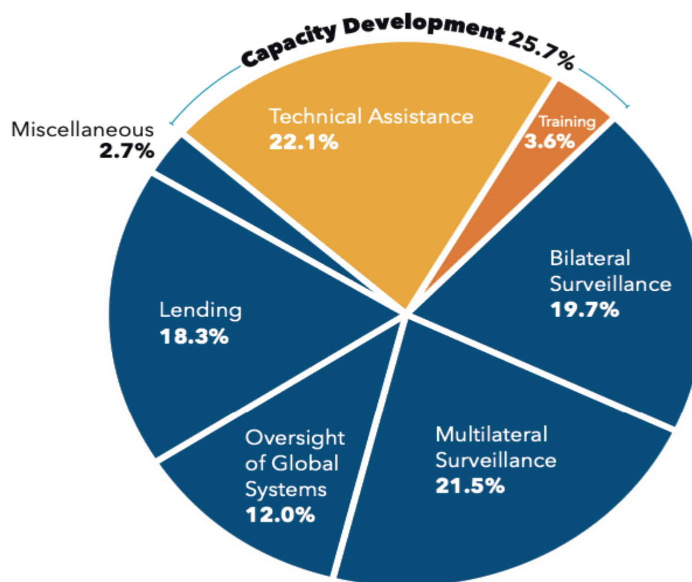
3.1 Conditionality for assistance could evolve to maximise the use of various instruments

The controversial track record of structural adjustment policies implemented by the IMF in Latin America in the 1980s, and in former Soviet countries and in Asia in the 1990s, have led the institution to adapt its terms of lending, moving away from a textbook imposition of Washington Consensus policy recommendations, which was deemed overly rigid.[21]

Starting in the 2000s, the IMF began emphasising the local ownership of reforms[22] by increasing its budget for capacity development in countries receiving assistance. This objective is exemplified by the IMF's Middle East Regional Technical Assistance Center (METAC) and Central Africa Regional Technical Assistance Center (AFRITAC), established in 2004 and 2007 respectively. Capacity development programmes, which educate local institutions on key economic issues, now make up a non-negligible portion of the IMF's budget (see Chart 4). The conditionality attached to its programmes has also undergone change by beginning to integrate issues such as social expenditure levels, education and gender issues.[23]

Since 2020, the IMF's financial support has been dominated by instruments with limited conditionality, as embodied by the unconditional nature of SDR allocations. Although this approach reduces the under-utilisation of IMF assistance by countries in need of it, it increases the proportion of financing for which the IMF cannot properly monitor policies in recipient countries, entailing a greater risk of moral hazard.

Chart 4: Capacity Development Spending as a Share of Major IMF Activities* – FY 2021



Source: IMF.

* Lending = management costs.

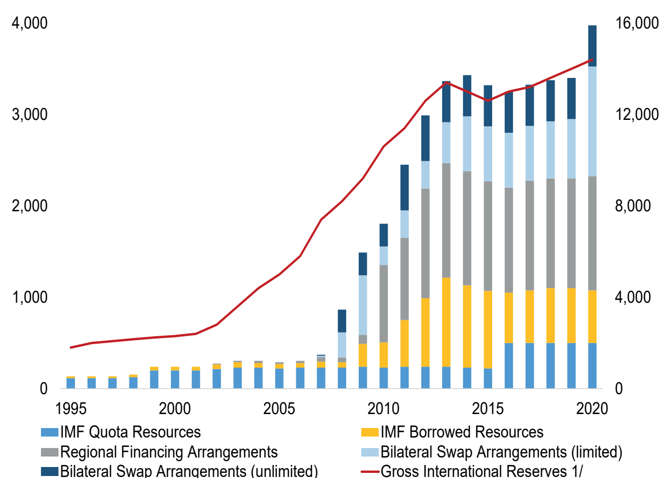
(21) A term coined by economist John Williamson (1989) which refers to ten economic policy prescriptions considered to constitute the "standard" reform package for developing countries, particularly those supported by the IMF in Latin America.

(22) For a comparative analysis of such programmes since the 2000s, see Konstantinidis and Reinsberg (2019), "IMF Conditionality and the Local Ownership of Reforms".

(23) The IMF assesses every five years the conditionality associated with its programmes. See the 2018 Review of Program Design and Conditionality.

This reduced conditionality could also be a reflection of the political economy of the GFSN, which has been transformed by becoming more multi-layered.[24] Since the 2008 financial crisis, the GFSN has expanded significantly, both in terms of the size of resources and the instruments available (see Chart 5): there has been increased hoarding of foreign exchange reserves, a growing number of swap lines, the emergence of new bilateral and multilateral lenders – especially Chinese – and the establishment of new regional financing arrangements, such as the European Stability Mechanism (ESM). These initiatives, which hint at the distrust certain emerging market countries feel towards the IMF and their desire for independence from it, have somewhat threatened the Fund's longstanding monopoly on the role of lender of last resort. However, the existence of facility shopping between the IMF and other layers of the GFSN is not currently supported by the evidence.[25] Although regional financing arrangements like the ESM and the Chiang Mai Initiative (CMI) seek to fill in the gaps left by the IMF, they can neither match its level of experience in the areas of surveillance and crisis management nor its institutional capacity, which limits the risk of a race to the bottom between lenders when it comes to the level of conditionality of assistance. In a more general sense, the unprecedented degree of economic uncertainty during the COVID-19 crisis in 2020 and 2021 made a strong case for largely unconditional aid given the lack of a sufficient level of confidence regarding recovery scenarios. Lastly, the use of emergency financing reduced the need to implement programmes of a more structural nature.

Chart 5: Evolution of the Size and Composition of the Global Financial Safety Net ($bn)



[1] End of period, right-hand scale

Source: IMF.

3.2 The RST's creation illustrates the need for a new balance between the IMF and development institutions

Changes made to IMF financial support have raised some debate, as made further apparent by the creation of the RST. A number of economists think that the IMF's currently expanded scope of activities make it too similar to a development institution.[26] IMF originalists take the view that "the need to supplement international reserves", which is a criterion for an SDR allocation, was not proven in 2021[27] and that the allocation was motivated by activities more typically under the remit of development banks, such as anti-poverty efforts and the financing of health expenditures. However, other observers[28] who praised the IMF for its proactive role since early 2020 hold that the IMF should continue to increase its support, even though countries have not explicitly requested this.

(24) Numerous academic studies have sought to identify factors behind the IMF's lending policy. For example, Barro and Lee (2005) concluded that economic and political ties with the United States play a significant predictive role in the probability and size of an IMF loan. Dreher and Jensen (2007) found a similar relationship to conditionality.

(25) Perks et al. (2021) did not find a statistically significant correlation between the existence of a bilateral swap line and initiation of an IMF financial arrangement. In "Bargain Down or Shop Around? Outside Options and IMF Conditionality", Clark R. (2022) established an association between regional financing arrangements (RFAs) and reduced conditionality.

(26) See K. Rogoff (2022), "Le FMI n'est pas une organisation humanitaire".

(27) In their view, the need for additional reserves concerned a limited number of countries and called for a targeted response.

(28) See Masood Ahmed and Vera Songwe (2022), "An Economic Tsunami Is About to Hit the Poorest Countries: Inaction by the G20 Will Make It Worse".

Box 3: The Creation of the Resilience and Sustainability Trust (RST)

1. To implement the SDR channelling backed by the G20, the IMF launched the RST on 1 May 2022. Its purpose is to bolster eligible economies' resilience to longer-term structural challenges. The first round of the RST will focus on challenges related to climate change and pandemic preparedness.
2. This funding facility could have around $45bn in total resources. RST lending will be capped to roughly $1.3bn or 150% of a country's quota, which gives the poorest countries an advantage, as they will be able to access more resources.
3. 143 countries – including all African economies – will be eligible for the RST, compared with 69 countries for the PRGT. Requesting countries will be required to have an existing IMF programme or to submit a request for one, after which they will be offered highly favourable financing terms, with loans having a 20-year maturity and a 10-year grace period. The interest rate will be more advantageous to the poorest eligible countries.
4. In the area of climate change, RST lending will (i) help countries increase their understanding of climate risks, (ii) enable the implementation of carbon pricing policies, (iii) provide support on eliminating fossil fuel subsidies, and (iv) encourage inclusion of climate criteria in public procurement and public policy.

The creation of the RST, which aims to reduce the likelihood of a balance-of-payments crisis induced by longer-term structural challenges such as climate change and pandemic preparedness, has further blurred the boundaries between institutions.[29] The thematic approach and long-term focus that the RST intends to embrace can seem far removed from the original mandate of the IMF, which itself views the RST, in contrast to all other lending activities, as external to the GFSN.[30]

This new funding facility received the firm backing of all G20 members and France in particular, which has long pushed for the IMF to acknowledge the macro-critical nature of climate change so that it would address environmental issues. The sheer scale of financing needs related to the climate crisis warrants that the IMF play its catalytic role for other public and private lenders. Lastly, the extension of loan maturities, provided under the RST and necessary to ensure the long-term benefits of these reforms, helps to combat "the tragedy of the horizon" entailed by the IMF's Articles of Agreement.[31] In the context of the RST's operational implementation, World Bank analyses will also have a decisive role to play in defining the policies to pursue with IMF financing.

3.3 Governance issues are decisive for the future of IMF financial support

Gradually, the IMF has managed to build up a nearly universal shareholder base – 190 members in all in 2022 – without jeopardising its operational capacity and crisis decision-making capabilities. Decisions tend to be taken rapidly thanks to the simple majority voting rule based on quotas, which stands for most decisions of the Executive Board. A special 85% majority of the voting power is required by the IMF Articles of Agreement in only a limited number of decisions, such as those involving quotas and SDR allocations.

The 16th General Review of Quotas, which is set to be completed by the end of 2023, will provide an opportunity to decide on whether or not to increase IMF resources, and on a possible realignment of quota shares: major emerging market economies – especially China, which is currently the IMF's third-largest shareholder only – have quota shares today that are lower than their theoretical quota share as calculated by the IMF quota formula (see Box 4). These emerging market countries could argue that their under-representation calls into question the IMF's legitimacy as a central player in the GFSN, and support an increase of IMF resources which, in addition to expanding the Fund's lending capacity, would help realign quota shares, as a portion of the new quota resources could be allocated in priority to emerging market economies.

(29) The IMF's decision to institute the RST is primarily due to the technical constraints of SDR reallocations.
(30) According to the IMF, the RST "does not aim to help members mitigate the risks of financial shocks" but instead to "help improve [their] economic resilience".
(31) See Box 1: IMF resources are made available "temporarily".

Conversely, a majority of developed economies, which have quota shares higher than those calculated by the formula, could stress that IMF resources have proven adequate to respond to a crisis of unprecedented proportions: the IMF's long-term commitment capacity, i.e. quota resources before the activation of borrowed resources, today stands at $205bn, just under the pre-crisis total. Borrowed resources, which represent an additional source of around $500bn (52% of IMF resources), have not had to be activated to date. Developed economies could argue that the voluntary financial contributions of emerging market countries to the IMF are too low, as these countries have historically shared less of the burden as regards the implementation of IMF trust funds or cancellations by member countries of debt service owed to the IMF.

Box 4: The IMF's 16th General Review of Quotas: Governance Issues

1. Equivalent to shares, quotas determine each member country's resource contributions and access to IMF financing, their voting power within the Executive Board and their share in a general allocation of SDRs.
2. A general quota review is conducted every five years to assess the adequacy of IMF resources, their composition (quota and borrowed resources)[a] and, where a quota increase is decided, their distribution. Although a country's existing quota share does not usually change with a periodic review, rules governing the allocation of quota increases allow for a relatively significant realignment. The quota formula, which is based on parameters including GDP, openness, variability and reserves, establishes a theoretical distribution of quota shares and serves to guide the discussion.
3. The United States (the largest IMF shareholder with 16.5% of voting power) may veto a proposed quota increase, as the IMF's most important decisions are taken based on a special 85% majority. In 2019, under the Trump administration, the 15th General Review of Quotas did not result in an agreement, widening the structural gap between quota shares and the theoretical weight of countries as determined by the quota formula.

a. Borrowed resources (e.g. NAB and Bilateral Borrowing Agreements, or BBAs), which today account for 52% of the IMF's potential resources, do not grant voting power. Quota resources are immediately available to the IMF, whereas borrowed resources must be activated when the IMF's lending capacity is insufficient.

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Agnès Bénassy-Quéré

Editor in chief:
Jean-Luc Schneider
(01 44 87 18 51)
tresor-eco@dgtresor.gouv.fr

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