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The International Monetary Fund

The International Monetary Fund (IMF, the Fund), founded in 1945, is an international organization that works to ensure the stability of the international monetary system. The United States is a founding member of the IMF and the largest financial contributor. Congress helps shape the U.S. participation in the IMF through oversight, appropriations, and other legislation. Key issues for Congress include IMF support for Ukraine, possible IMF sanctions on Russia, China's role at the IMF, and COVID-19 response efforts.

The IMF: Key Facts

Membership: 190 Countries.

Headquarters: Washington, DC.

Executive Board: 24 Directors; the United States, China, Japan, Germany, France, and the United Kingdom each have their own representatives; others are formed into constituencies.

Total Resources: \$687 billion in quota; \$708 billion of additional pledged or committed resources.

U.S. Financial Commitment: about \$117 billion in IMF quota and \$44 billion in supplemental funds.

Largest Borrowers: Argentina, Egypt, Ukraine, Pakistan, Ecuador.

The IMF has reinvented itself several times since its creation. From 1946 to 1971, during the so-called Bretton Woods era, the IMF oversaw a system of fixed exchange rates pegged to the U.S. dollar, which was itself convertible into gold. When non-U.S. currencies suffered payments imbalances arising from their normal trading and financial relationships, the IMF provided short-term financing to cover temporary hard currency shortfalls. After the collapse of the Bretton Woods system of fixed exchange rates in 1971, IMF members enacted a comprehensive reform of the organization and its operations in 1975. The IMF transformed itself from being an organization focused exclusively on issues of foreign exchange convertibility and global monetary stability to one having a broader mandate: lending for a range of financial crises, including debt, currency, and banking crises, and engaging on a wide range of issues including capital flows, financial regulation, and surveillance of the global economy.

Key Functions

Since the 1970s, the IMF's mandate of promoting international monetary stability includes three main functions:

Surveillance. The IMF regularly monitors the economic and financial policies of its member countries. Through surveillance at the global level and in individual countries, the IMF highlights possible risks to domestic and external stability and advises member governments on needed policy adjustments. The implementation of IMF

recommendations is enforced through pressure exercised by other IMF members and the global financial sector, which have access to most IMF analysis of global economic risks.

Loans. The IMF makes loans to countries experiencing balance-of-payments difficulties, which generally means they are facing problems paying for necessary imports or servicing their debt payments. The temporary financial assistance enables countries to stabilize their economies, while implementing economic reforms. The IMF disburses its loans in phases ("tranches") after verifying that specified economic conditions and reforms have been met ("conditionality").

Capacity Development. The IMF provides technical assistance and training to help member countries strengthen their capacity to design and implement effective policies. The IMF provides technical assistance in monetary and financial policies; fiscal policy and management; statistical data complication; and economic and financial legislation.

Organization and Structure

The IMF's governing document, the Articles of Agreement, provides for a three-tiered governance structure with a board of governors, an executive board, and a managing director. The board of governors is the highest policymaking authority of the IMF. All member countries are represented on the board of governors, usually at the finance minister or central bank governor level. Day-to-day authority over operational policy, lending, and other matters is vested in the board of executive directors, a 24-member body that meets three or more times a week to oversee and supervise the activities of the IMF.

As the largest shareholder, the United States has its own seat on the executive board. The executive board or board of governors of the IMF can approve loans, policy decisions, and many other matters by a simple majority vote; however, a supermajority vote is required to approve major IMF decisions. The supermajority may require a 70% or 85% vote, depending on the issue. At 17.43% of total voting power, the United States has veto over major policy decisions. The primary source of IMF lending resources is the financial contributions or quota subscriptions of its member nations. A country's proportion of quota, or quota share, broadly reflects its weight in the global economy; larger economies have larger quotas. A member's quota also impacts the country's voting power at the IMF. Countries with larger quotas, and thus larger financial commitments to the institution, have a greater say in how the IMF is run. The United States contributes \$117 billion to the IMF quota (17.46%). In addition, the United States has contributed \$44 billion to funds at the IMF that supplement quota resources.

As of February 11, 2022, the IMF had total lending commitments around \$239.2 billion. Argentina has the highest level of outstanding IMF financing (\$40.18 billion), 902% of its quota. Other large borrowers include: Egypt (\$19.6 billion), Ukraine (\$9.8 billion), Pakistan (\$7.84 billion) and Ecuador (\$6.86 billion).

China and other Emerging Powers

Over the past several decades, the balance of global economic power has been shifting from the United States and Europe to China and a number of other fast-developing countries. These economies account for rising shares of global GDP, manufacturing, and trade, and these shifts are driven by growing economic integration and interdependence among economies, particularly through global production and supply chains that incorporate inputs from many different countries. Related to these shifts are a significant expansion of trade and global value chains among developing countries (South-South trade). Commensurate with its larger global economic presence, China is playing a larger role at the IMF – Chinese staff now have a larger presence within the IMF, and in 2016, the IMF included the *renminbi*, China’s currency, in the basket of currencies that make up the SDR.

Some U.S. officials are concerned that in addition to playing a larger role at the IMF, China may be establishing international economic institutions and pursuing financing arrangements that may be designed, in the long run, to supplant existing U.S.-led institutions. As part of a broader international economic strategy, as well as to meet a range of domestic industrial policy goals, China is investing in a range of institutions and initiatives, including the Asian Infrastructure Investment Bank (AIIB) and other international development funding mechanisms, such as the Silk Road Fund and the New Development Bank (also known as the BRICS Bank)—a collective arrangement with Brazil, Russia, India, and South Africa. China has also positioned itself as a major bilateral development lender via for infrastructure projects in developing countries.

Russia’s Invasion of Ukraine

Following Russia’s invasion of Ukraine in February 2022, the IMF and the World Bank issued a joint statement, noting that both institutions are working to support Ukraine directly, as well as to “assess the economic and financial impact of the conflict and refugees on other countries in the region and the world” and “provide enhanced policy, technical, and financial support to neighboring countries as needed.” The IMF currently has a \$5 billion loan in place for Ukraine, which was extended through 2022. Under this program, \$2.2 billion is available between now and the end of June. The World Bank is preparing a \$3 billion package of support, starting with a fast-disbursing budget support operation for at least \$350 million. At the same time, the Ukrainian Central Bank has asked the IMF and the G-7 major economies to limit the participation of Russian (and Belorussian) representatives in their activities.

On March 3, 2022, Representative French Hill introduced H.R. 6899, *The Russia and Belarus SDR Exchange Prohibition Act*, which would deprive Russia and Belarus of emergency liquidity through the exchange of IMF special

drawing rights (SDRs) and prohibit the issuance of new SDRs for the Putin and Lukashenko dictatorships.

IMF’s Response to the COVID-19 Pandemic

The IMF has several emergency financing mechanism options for deploying resources in response to the Coronavirus Disease 2019 (COVID-19) pandemic. The Fund has temporarily doubled access to its emergency facilities—the Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI). These facilities allow the Fund to provide emergency assistance without the need to have a full-fledged program in place, which is a time-consuming process. According to the U.S. Treasury, in 2020, the IMF approved 36 emergency financing arrangements through the RFI, totaling \$22.1 billion, and 49 concessional emergency financing arrangements to low-income countries through the RCF, totaling \$9 billion. The IMF also extended debt service relief to 29 of its poorest and most vulnerable member countries on their IMF obligations. The IMF is seeking to increase its debt relief resources by \$1.4 billion to provide additional debt service relief.

The IMF is also seeking to triple the size of its Poverty Reduction and Growth Trust Fund (PRGT) to \$17 billion. The Fund currently has \$11.7 billion in commitments from Japan, France, the UK, Canada, and Australia. Lastly, at the behest of the G-20, the IMF agreed in August 2021 to a \$650 billion increase in Special Drawing Rights (SDRs)—international reserve assets created by the IMF—and to supplement member countries’ official foreign exchange reserves. Of this amount, \$275 billion went to emerging market and developing countries, including \$21 billion to low-income countries. Advanced economies sought to channel at least \$100 billion of the new SDRs allocated to them toward low-income countries. However, as of February 2022, countries have pledged only \$60 billion of the SDRs to channel to low-income countries.

Select Policy Issues for Congress

Congress has a number of options for directly influencing policies including hearings to gather additional information about specific issues, directing the U.S. representatives to advocate and vote for specific policies, and/or tie U.S. financial contributions to specific institutional reforms. Possible questions for congressional consideration include

- How can the United States work within the IMF to assist Ukraine and limit Russia’s engagement with the global economy?
- Has the IMF response to the COVID-19 pandemic been sufficient? Are developing countries turning to China and other borrowers instead of the IMF to finance their COVID-19 response efforts? If so, why?
- How should the United States seek to influence the IMF’s engagement with China as China’s role in the global economy continues to increase?

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