Should the G-20 Reconsider the Decision to Treble IMF Resources?

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At their last meeting on April 2, 2009, in London, the leaders of the G-20 nations agreed "to treble the resources available to the International Monetary Fund (IMF) to $750 billion." Their purpose was to enable the IMF to make loans to many more countries and by much larger amounts than in the past in order to combat the global financial crisis. The previous IMF resource limit of $250 billion was apparently viewed as inadequate. My purpose in this short essay is not to question that decision, but rather to suggest, in light of events since April, that it be reviewed in time for the next G-20 meeting on September 24, 2009, in Pittsburgh.

Why a Review Is In Order

First, the IMF has actually loaned far less than the $750 billion in resources agreed to in April. For the first half of 2009 (the latest data available), the IMF lent 11.9 billion Special Drawing Rights (SDRs), which, at $1.56 per SDR, is only $18.6 billion. As shown in Figure 1, total IMF loans outstanding as of June were 33.4 billion SDRs ($52.1 billion)—only 7 percent of the $750 billion the G-20 requested.

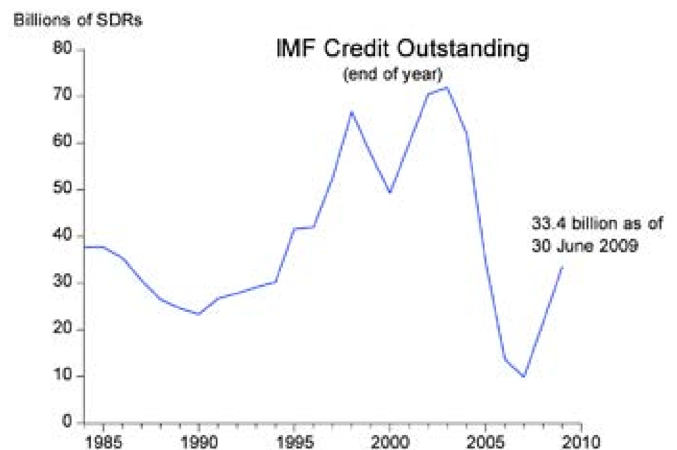

Figure 1. IMF Credit Outstanding.

Resource use is below the peak of the 1995-2003 emerging-market crisis period and far below the $750 billion called for by the G-20 on April 2, 2009. (Source: International Monetary Fund)

Moreover, as shown in Figure 1, the amount lent in this global financial crisis is even less than the peak loan amount (72 billion SDRs) in the severe emerging-market crisis of the 1995-2003 period. It is also less than the average amount loaned each year during that crisis period.

A second reason to reconsider the tripling of resources to $750 billion is that since April it has become clear that most economies are recovering from the worst of the financial crisis—especially from

the panic of the fall of 2008. Figure 2 illustrates this dramatic change. The world's economies as a whole reached bottom in December of 2008, well before the April G-20 meeting. Indeed, the data now show that most economies were well beyond their low points at the time of the meeting.

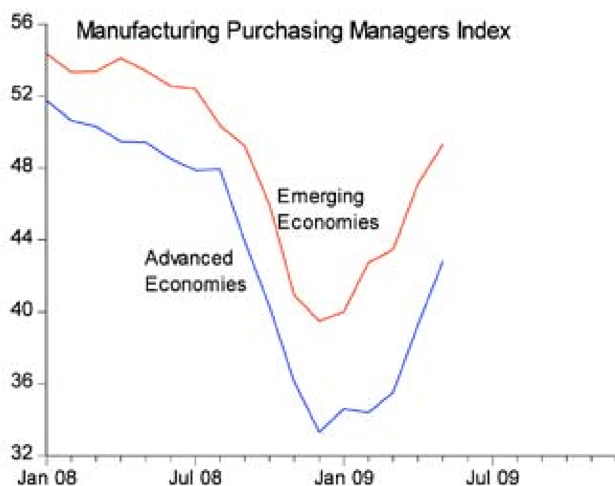

Figure 2. Manufacturing Purchasing Managers Index.

The index reached bottom in December for emerging economies and for advanced economies. (Source: *World Economic Outlook Update*, International Monetary Fund, July 2009, Figure 2)

In sum, with loans far below the requested amount of resources and with the estimated need for loans greatly diminished going forward, one has to question whether the IMF still needs to triple its resources. Indeed, it now appears that the request was disproportionate to the task at hand. Certainly doubling its resources would have been sufficient. Even leaving them unchanged would have been enough. At the least, a new estimate of required resources is needed.

Other Factors Should Also Be Considered

To be sure, there are other factors to review. First, the IMF created a new instrument called the Flexible Credit Line (FCL), which a country can open and then draw on if needed. Since the FCL was created in April, Mexico has agreed to a credit line for $47 billion, Poland for $21 billion, and Colombia for $10 billion. However, none of these countries actually took out a loan, so IMF credit outstanding did not increase. Even if all these countries had drawn on the total amount of the credit line and IMF credit had risen on this account, existing IMF resources would have been sufficient, as Figure 1 makes clear.

A second factor to consider is that a number of countries with existing IMF programs (stand-bys) have yet to draw fully on the multiyear contingent commitments. The key countries are Hungary with a $15.7 billion loan, Ukraine with $16.4 billion, Romania with $16.0 billion, and Iceland with $2.1 billion. But even when undrawn balances on existing loans are taken into account, the existing resources would be enough.

A third issue is that not all IMF resources are readily available, according to IMF staff technical calculations. For example, undrawn balances are subtracted out, although I considered those in the previous paragraph. Even after making these other adjustments, I find that existing resources or a modest increase are sufficient; nothing close to a tripling seems appropriate.

The Importance of an Overall Budget Constraint

Why should we care if the IMF has excess resources? Providing too many resources to any government institution can be harmful. Without any effective budget constraint, discipline is lost. Even with the best intentions of the management and shareholders of an international institution, resources tend to be wasted or misused without such constraints. The worst situation is where excess resources become a slush fund leading to mission creep into new areas. Policy can become unpredictable and even be a source of crises.

In 2001, the United States, the United Kingdom, and Canada undertook a special effort to keep IMF resources in check in order to provide such a budget constraint. As explained in my book *Global Financial Warriors*, focusing on an overall budget constraint was the initial stage of an IMF reform effort that eventually led to the Exceptional Access Framework providing guidelines to IMF interventions. The budget constraint was also useful for the creation of the new Policy Support Instrument, which can be used to advise and help developing countries stay on track without making loans.

Ideally, the amount of IMF resources should be based on a cost-benefit analysis. Resources should be large enough to deal with severe crises, but not too large to waste resources, lead to poor decisions, or even cause crises. The time is ripe for such an analysis.