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THE IMF'S RESOURCES IN THE FACE OF THE COVID-19 CRISIS

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ABSTRACT

In the year since the onset of the pandemic caused by COVID-19, the International Monetary Fund (IMF or the Fund) has granted loans and emergency financing to over 85 countries, an unprecedented number. In the past, a shock on this scale would have brought the issue of the sufficiency of its resources centre-stage. However, on this occasion, given the characteristics of the loans granted, the IMF's general resources have not been excessively squeezed. Pressure has been greater on the concessional resources granted to low-income countries. Against this background, the IMF's general and concessional resources have two different needs to contend with. In the case of the former, the IMF has the leeway to respond to any future increase in the demand for ordinary financing and, if necessary, it could activate its temporary resources. Conversely, in the case of the latter, it must ensure there are sufficient resources to avert stiffer concessional financing terms for the most vulnerable countries, in what is the most complicated economic juncture of recent decades. The IMF should obtain new borrowed resources as these countries progressively replace emergency assistance with conditional financing.

Keywords: IMF, resources, concessional financing, COVID-19.

JEL classification: F3, F33, F34.

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Introduction

In the year since the onset of the pandemic caused by COVID-19, the International Monetary Fund (IMF, or the Fund) has granted loans and emergency financing to over 85 countries, an unprecedented number in such a short space of time. In the past, a shock on this scale would have brought the issue of the sufficiency of its resources to safeguard global financial stability centre-stage. However, on this occasion, given the characteristics of countries that have gained access to its facilities and the types of loans granted, the IMF's general resources have not been subjected to excessive pressure. The pressure has been relatively higher on the resources earmarked for concessional financing to low-income countries, which are more vulnerable to this crisis.

This article firstly analyses the state of the IMF's resources to withstand the increase in the demand for financing derived from the pandemic. The third section reviews the loans and emergency financing approved since March 2020. The fourth section assesses prospectively whether the IMF's resources suffice to meet the potential demand for general and concessional financing. Finally, the fifth section draws the main conclusions.

The current status of the IMF's resources

The IMF channels assistance to its members through several independent accounts. These are, chiefly, the General Resources Account (GRA), two trust funds separate from the IMF's financial resources (the Poverty Reduction and Growth Trust – PRGT; and the Catastrophe Containment and Relief Trust – CCRT) and the SDR (Special Drawing Rights) Department[1]. This article focuses essentially on the GRA, through which the IMF provides financing to all its members, and on the PRGT, which channels concessional support for low-income countries[2]. The resources of the

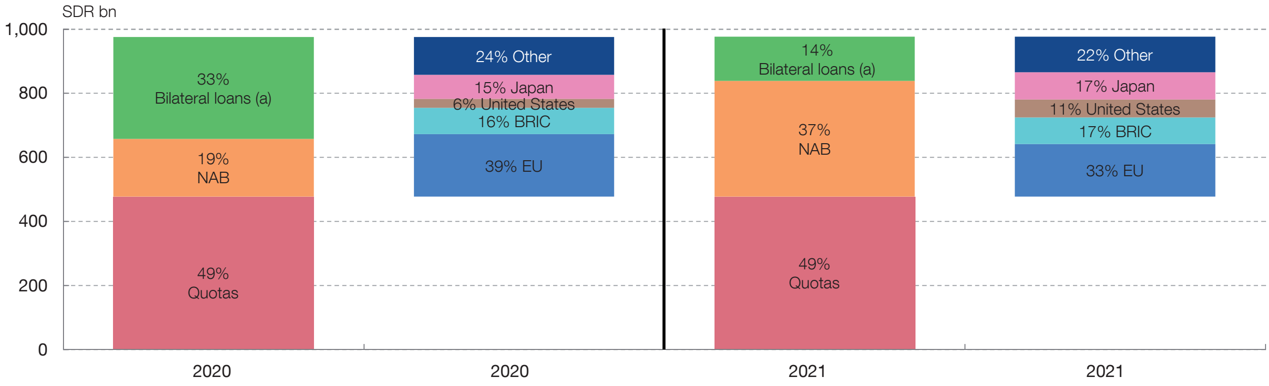
1 The SDR department was established in 1969 as an independent account through which all SDR transactions are made, including those made in this currency in the other three accounts. SDR are reserve assets that can be exchanged for the IMF's five main vehicle currencies.

2 Loans currently bearing an interest rate of 0%, with grace periods of between four and five and a half years, and maturing at between eight and ten years according to the credit facility extended, aimed exclusively at 69 low-income countries, small States and micro-States. On occasion, the countries receive financing combining general and PRGT resources.

Chart 1

IMF GENERAL RESOURCES. VOLUME AND BREAKDOWN

The 2019 autumn agreement keeps the size of the Fund at around SDR 1 trillion ($1.3 trillion) as from 2021, doubling the NAB and adding a new round of bilateral loans. The share of the EU diminishes in the new breakdown of borrowed resources —NAB and bilateral loans— relative to the United States and to Japan.



SOURCE: IMF.

a Exchange rate as at 3 May 2021.

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GRA are much higher than those of the PRGT, but the latter have taken on particular significance during the COVID-19 crisis.

The IMF's general resources (Chart 1) comprise permanent resources (quotas) and temporary borrowed resources. The latter, in turn, are of two types: New Arrangements to Borrow (NAB) and bilateral loans.[3] Fund members' general financing is covered initially by quotas and, subsidiarily, by borrowed resources. The Fund's size is determined by the aggregate volume of these resources, which has held at around 1 trillion SDR ($1.3 trillion) since the reform agreed on during the global financial crisis.[4]

The adequacy of the IMF's general resources is assessed every five years under the General Review of Quotas. The latest of these reviews – the fifteenth – concluded in late 2019, when it was agreed not to increase quotas. Against this background, the successive maturity of bilateral loans in 2021, and the expiry of the NAB in 2022, might have prompted a "cliff effect" of the Fund's lending capacity, with the risk of negative signalling to the financial markets. To avoid this, Fund members agreed several months before the pandemic broke on a compromise to maintain the IMF's total size, through the doubling and extension of the NAB, and the launch of a new

3 The NAB are multilateral agreements by the Fund with 38 borrower countries at present, which have regularly been renewed since 1998. The bilateral loans are agreed between the Fund and each borrower for a term of two or three years and include, in each round, similar conditions for all of them

4 I. Garrido, P. Moreno and X. Serra (2016) describe the reform of IMF resources and governance, culminating in the historic doubling of quotas that came into force in 2016.

round of bilateral loans worth approximately half their volume at that time. Thus, the new NAB and most of the new bilateral loans came into force at the start of 2021, which has entailed a change from the previous situation regarding the breakdown of temporary resources and of their contributors, given that the share of the EU compared with that of Japan and the United States has diminished (Chart 1).

The agreement reached in autumn 2019 ensures a relatively prolonged horizon of stability for the IMF's total resources, given that the term for the Sixteenth General Review of Quotas[5] concludes in December 2023, before that for bilateral loans (in force until end-2024) and the NAB (end-2025).

The situation of the IMF's resources for concessional financing is very different. The PRGT draws on voluntary contributions by IMF members and on resources generated by the Fund itself, mainly through sales of a portion of its gold holdings. It is structured in three accounts: loan, subsidy and reserves.[6] At the onset of the COVID-19 crisis, the loan account of the PRGT comprised 11.5 billion SDR, while the demand for concessional financing estimated by the IMF to 2024 was around 24 billion SDR. This shortfall prompted the urgent launch in mid-April 2020 of a fresh round to raise bilateral resources for the loan account, for a minimum amount of 12.5 billion SDR. At the end of this campaign, 17.5 billion SDR had been raised from 16 member countries (Chart 2), enabling the cumulative lending capacity of the PRGT to rise from 38 billion SDR to 55.5 billion SDR.

The challenge now facing the IMF is to ensure the self-sustainability over the medium term of the interest rate subsidy system for PRGT loans. The aim is that the resources accumulated in the reserves account should suffice to so that, once those in the subsidy account are exhausted, they may cater for both credit risk and the interest rate subsidy, without further contributions to the subsidy account being necessary. The shortfall currently to be covered is estimated at around 3 billion SDR according to the baseline scenario.

The IMF response to the crisis

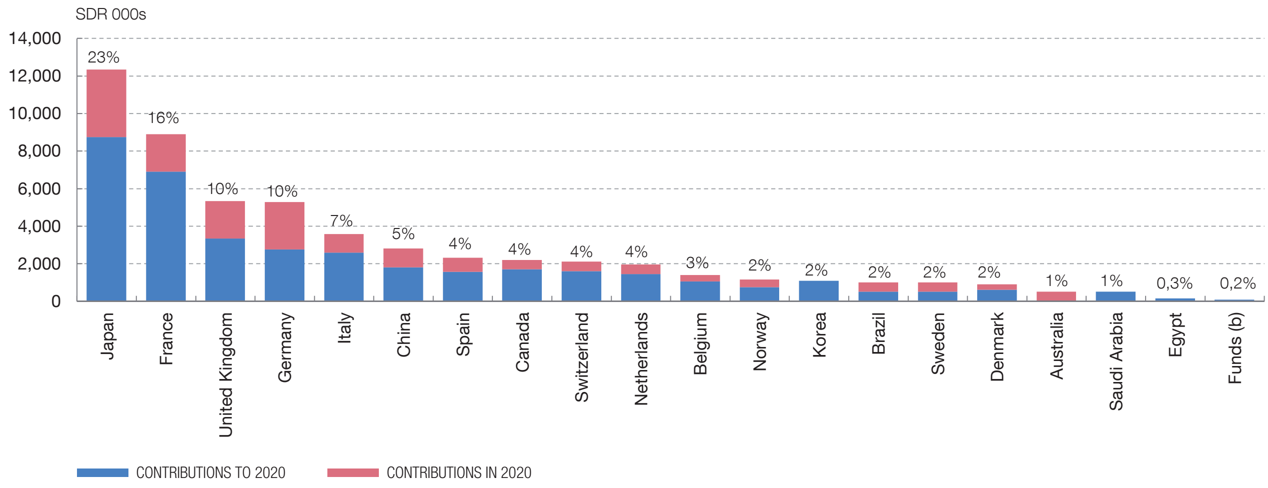
Shortly before the World Health Organization (WHO) officially declared the COVID-19 pandemic in March 2020, the IMF and the World Bank issued a joint statement in

5 The Sixteenth General Review of Quotas will assess the size of quotas and the formula for their calculation, and it takes up the objectives of the previous review: an increase in quotas preserving their central role in the Fund's resources; increases in the quota shares of dynamic economies in line with their relative positions in the world economy; and protection of the voice and representation of the poorest members.

6 The loan account channels bilateral contributions made in the form of capital. The subsidy accounts covers the difference between the interest rate at which bilateral contributions are remunerated and the rate applied to loans which, currently, are the SDR interest rate and 0%, respectively. The reserves account covers credit risk and, in the future, the IMF trusts that it will ensure in perpetuity the self-sustainability of the interest-rate subsidy system. See Serra Stecher (2018).

Chart 2
BILATERAL CONTRIBUTIONS TO THE PRGT LOAN ACCOUNT (a)

In 2020, commitments for contributions totalling SDR 17.5 billion were obtained. The G-7 participants concentrate 70% of total commitments, with the Japanese share very strong. Australia has joined the list of participants.



SOURCE: IMF.

a The figures above the bars denote the share of each country's contribution in the total.
b Saudi Fund for Development (SDR 50 million) and OPEC Fund for International Development (SDR 37 million).

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support of the most vulnerable countries and called for an international debt-relief contribution for these countries. As the pandemic broke,[7] the Fund temporarily extended the annual access limits[8] of its two emergency facilities (the Rapid Credit Facility (RCF), geared to low-income countries, and the Rapid Financing Instrument (RFI)), both of which are immediately drawable and involve limited conditionality. Subsequently, it provisionally increased the annual access limits on ordinary financing[9] and on concessional financing[10], bringing those on the latter into line with those on the former. It further created a new Short-term Liquidity Line (SLL) intended for emerging economies with sound fundamentals. There has been no demand for the SLL to date.

As a result, in the first year of the pandemic the IMF granted financing to over 85 countries, for an aggregate amount of 80 billion SDR (around $115 billion) (Table 1). Of this financing, 30% was earmarked to emergency financing, more than 50% to precautionary lines and the rest to programs involving conditionality. Moreover, the

7 See Box 3.1, Annual Report, "The IMF's financial response to the COVID 19 crisis", Banco de España (2019).
8 Their annual access limit increased from 50% to 100% of the quota, and the cumulative limit from 100% to 150% of the quota, applicable to end-2021 at least.
9 This limit increased from 145% to 245% of the quota, applicable to end-2021 at least.
10 The annual limit rose from 100% of the quota to 245%, with an intermediate increase to 150%, while the cumulative limit rose from 300% to 435%, as it did on ordinary financing. These limits shall be applicable until mid-2021 at least.

Table 1

REQUESTS FOR FINANCIAL ASSISTANCE TO THE IMF MET BETWEEN MARCH 2020 AND APRIL 2021

Since the start of the pandemic, almost half the Fund's members have requested some type of assistance from the institution. Requests are evenly distributed between concessional and ordinary financing. 90% of the volume approved has been for ordinary financing, half of which relating to precautionary lines for four countries. The emergency financing for 75 countries accounts for over 60% of the amount drawn down.

	Number of countries (a)	Amount approved		Amount drawn down	
		SDR (m)	$ (m) (c)	SDR (m)	$ (m) (c)
GRA. Of which:	50 (15)	72,363.6	103,750.5	26,769.8	38,380.9
Emergency financing	40 (13)	16,317.6	23,395.2	15,687.6	22,491.9
Precautionary lines	4	39,601.0	56,777.5	3,750.0	5,376.5
PRGT. Of which:	51 (15)	7,376.6	10,576.1	6,408.1	9,187.5
Emergency financing	48 (13)	5,959.4	8,544.2	5,959.4	8,544.2
TOTAL. Of which:	86	79,740.2	114,326.6	33,177.9	47,568.5
Emergency financing	75	22,277.0	31,939.4	21,647.0	31,036.1
Memorandum item:					
Debt relief (c)	29	519.6	745.0		

SOURCE: IMF.

a In brackets is the number of countries that have received combined GRA/PRGT financing.
b Exchange rate as at 3 May.
c For 18 months. Of these, four countries have not received any other type of IMF financing.

CCRT has been rolled out to provide relief for up to two years to 29 pandemic-afflicted countries for the debt they had incurred with the IMF.[11]

The granting of emergency financing was extraordinary in terms of volume and the number of countries. In April-May 2020 alone, financing for 60 of the 75 countries that received this type of financing was approved. Over 25% of the attendant amount ($32 billion) was concessional in nature, and largely earmarked for Africa (Chart 3). Notably, although concessional financing (of slightly over $10 billion, granted to 50-odd countries) accounts for only 10% of the total financing provided by the IMF, its amount was extraordinary, with a volume sevenfold its historical average (Chart 4.1).

90% of the financing approved during the pandemic was ordinary (Chart 4.2), and almost half related to precautionary financing lines for four Latin-American countries.[12] In contrast, the demand for conventional programs[13] (around a dozen) was more moderate than might initially have been expected.

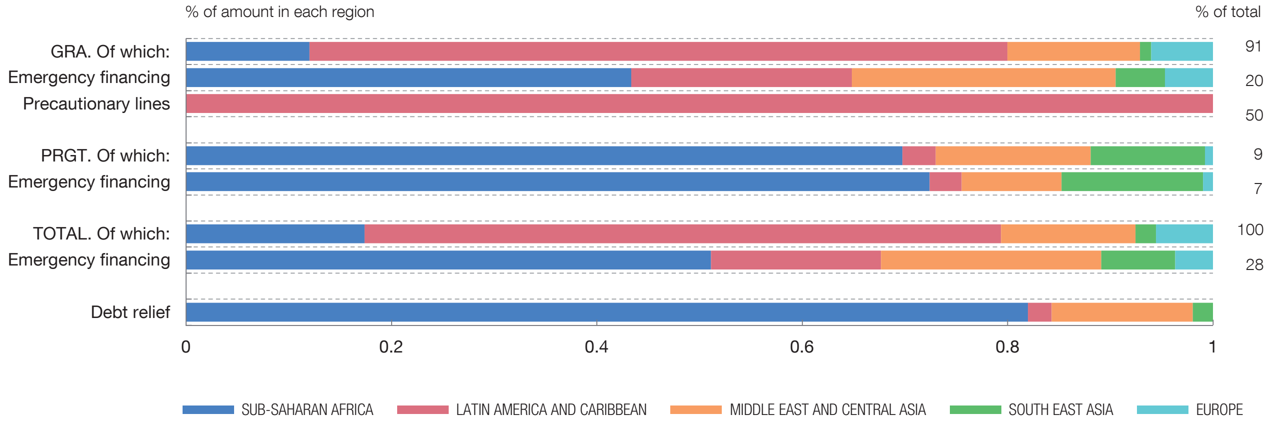
11 In the past, the CCRT was used as financing for the Haiti earthquake and the ebola crisis. For more information see IMF (2020).

12 Chile, Colombia, Panama and Peru. Of these, only Colombia has drawn down 30% of its Flexible Credit Line (FCL), committing itself to keeping the rest of the amount on a precautionary basis. Since March 2020, Honduras and Morocco have also drawn down precautionary lines that had been approved before the pandemic.

13 These are, chiefly, Stand-by Arrangements (SBA) – loans with conditionality aimed at catering for balance-of-payments problems and with a duration of 12-24 months – and the Extended Fund Facility (EFF) – financing earmarked for resolving structural shortcomings and which have a duration of 3-4 years.

Chart 3
REGIONAL DISTRIBUTION OF AMOUNTS APPROVED

More than half of the amount approved in emergency financing and loans since the start of the pandemic has been for Latin America and the Caribbean, though 80% of the funds received by the region have been precautionary in nature. Half of the amount of emergency financing has been allocated to sub-Saharan Africa, the main recipient region of concessional and debt-relief funds.



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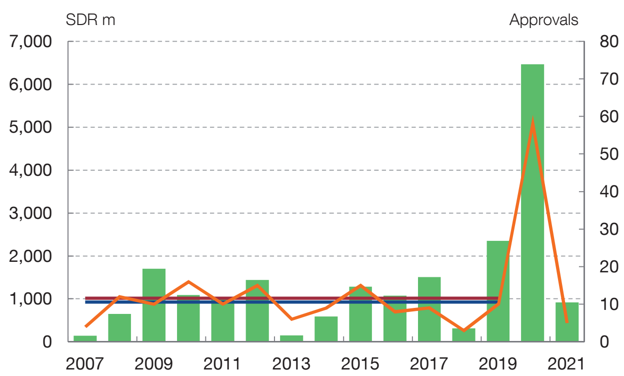
SOURCE: IMF.

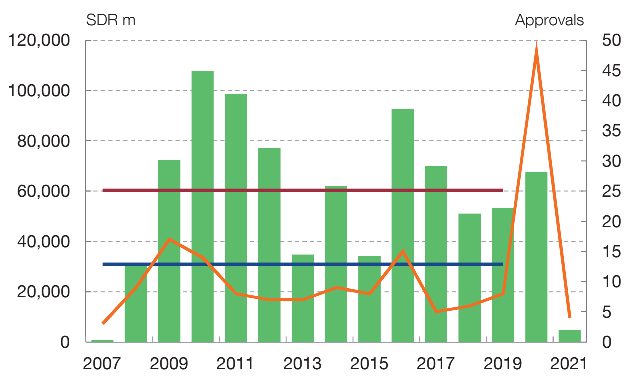
Chart 4
IMF LENDING ACTIVITY
Amount and number of loans approved

The pandemic has had an extraordinary impact on the number of applications for emergency financing and loans approved, ordinary and concessional alike. The amount of concessional financing has also been extraordinary from a historical perspective. The amount of general financing, tenfold that of the PRGT, stands below the historical highs of previous crises.

1 PRGT: AMOUNT APPROVED AND NUMBER OF APPROVALS



2 GRA: AMOUNT APPROVED AND NUMBER OF APPROVALS



AMOUNT APPROVED (a) AVERAGE 1988-2019 AVERAGE 2007-2019 NUMBER OF APPROVALS (r-h scale)

SOURCE: IMF.

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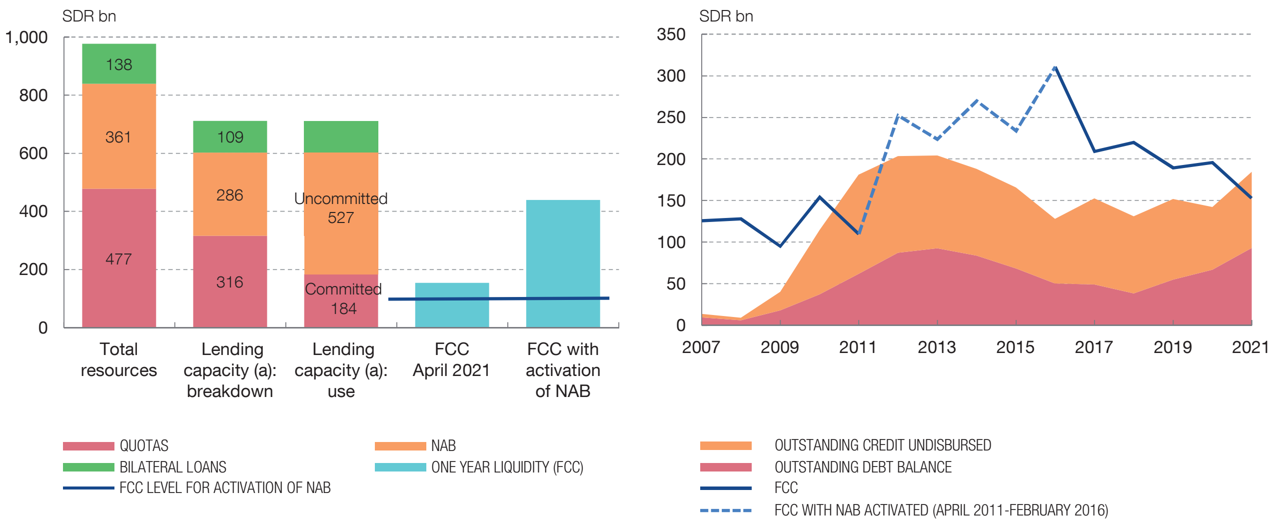
a The amounts for 2020 and 2021 include extensions of previous loans.

Chart 5
SITUATION OF THE IMF'S GENERAL RESOURCES RELATIVE TO THE DEMAND FOR FINANCING

The IMF's general resources have met the demand for financing arising from the pandemic with quotas. In recent months, the decline in liquidity has been more marked, although the FCC still stands above the NAB activation level. Committed credit is drawing close to the levels of the financial crisis.

1 IMF RESOURCES AND LIQUIDITY

2 COMMITTED LENDING CAPACITY AND ONE-YEAR LIQUIDITY (b)



SOURCE: IMF.

a Theoretical lending capacity. Includes quotas, NAB credit and bilateral loans of members with a sound financial position, discounting in all cases 20% of prudential balance.
b Data as at January each year.

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Are the IMF's resources sufficient to overcome the COVID-19 crisis?

The pressure on the IMF's general resources during the first year of the pandemic proved manageable, since the resources committed account for one-quarter of its lending capacity. There are several indicators for assessing the sufficiency of the Fund's resources both in the short term and, with greater uncertainty, in the medium and long term. Among the former, the IMF's lending capacity – which is calculated by discounting a prudential balance from the resources of members with sounder financial positions – amounts to $1 trillion (around 710 billion) (Chart 5.1). This combines resources drawn from quotas (immediately drawable) and resources contributed through NAB and bilateral loans (which, in order to be used, require prior agreement by their contributors and the Executive Board). To date, committed lending (around 184 billion SDR) has stood at levels similar to those of the global financial crisis and it has been possible to cover it via quotas. However, were there to be a significant increase in the demand for financial assistance, e.g. as a result of a prolonged pandemic effect, that could be met by activating temporary resources.

For activating NAB, the IMF uses the level of liquidity at one year (Forward Commitment Capacity or FCC) as an indicator. This represents the resources available to finance new commitments within that term.[14] The gradual decline in FCC since 2016 (Chart 5.2) has stepped up over the past year as a result, above all, of the granting of emergency financing and precautionary lines. Currently, FCC exceeds, by around 50 billion SDR, the level required to activate the NAB. This activation would add 286 billion SDR to current FCC, a considerable volume with which to withstand a range of adverse scenarios.

To assess the sufficiency and adequacy of general resources in the medium and long term, the IMF performs various exercises taking, as a reference, aggregate macroeconomic variables such as global GDP, financing requirements and capital flows, along with various models of differing complexity. The latest exercises indicate that the Fund's current resources would cover most of the baselines scenarios considered, though they would be insufficient under extreme scenarios.[15]

The IMF is also currently revising the sufficiency of PRGT resources over the medium term and the different options via which greater financial resources requirements to subsidise the interest rate on these loans could be financed.[16] Any future increase in access levels to PRGT lines and other possible changes in concessional financing, given a sizeable rise in the low-income countries' financing needs because of the pandemic[17], would mean additional bilateral resources for lending would have to be raised.[18] Against this background, the general allocation of SDR agreed upon at the latest IMF Spring meetings[19], for a total of $650 billion, will notably increase Fund members' international currency reserves. While only around 3% of this figure will be for the low-income countries, the amount will exceed the emergency financing and debt relief provided by the IMF to these countries since the start of the pandemic. This measure, therefore, may ease short-term liquidity needs for the most vulnerable economies, taking pressure off the IMF's concessional resources, especially if the advanced and emerging countries also channel a portion of their SDR services to PRGT financing.[20]

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14 This figure represents the resources available (currently, only quotas) for the next 12 months: it includes uncommitted usable resources minus the disbursements foreseen for that period plus expected reimbursements in the same period, discounting 20% of the prudential balance.

15 See IMF (2021a) and Gallego, L´Hotellerie-Fallois and López Vicente (2018).

16 Mainly through donations, investments and voluntary bilateral deposits, the temporary suspension of the reimbursement of prepaid expenses by the GRA, loans with an implicit subsidy, limited sales of IMF gold holdings and the partial distribution of its reserves.

17 Estimated increase of around $450-550 billion in the 2021-2025 period, about one-third of which could be covered with new debt from various sources. See IMF (2021b).

18 Resources which, along with those from the GRA, might stand at 25-50% of the new debt estimated by the IMF (2021b) for these countries in the 2021-2025 period.

19 See IMFC (2021) and G20 (2021).

20 Different international fora are currently proposing the creation of new, Fund-administered trust funds for the financing of other economies, such as the middle-income countries, Small Developing States (SDS) , fragile countries and those affected by armed conflict.

Conclusions

Since the start of the pandemic the IMF has granted financing to almost half its members, a number of countries that largely exceeds past highs, for an aggregate amount of $115 billion. Most applications have been for emergency financing entailing moderate amounts, and intended for low-income countries. The bulk of the financing, however, has been concentrated in precautionary lines granted to a very small number of countries. While concessional demand has risen, putting pressure on PRGT resources, those earmarked for general financing have, to date, sufficed to meet demand that has been at a similar level to that of the global financial crisis.

As a result of the pandemic, the IMF's general and concessional resources must cater for two different needs. In the case of the former, ahead of any future increase in the demand for short-term financing and under most of the medium and long-term baselines scenarios, the Fund could respond using its permanent resources, resorting if necessary to the activation of temporary resources. In the medium term, the Sixteenth General Review of Quotas will evaluate what the appropriate level of resources is for the IMF to fulfil its function as a guarantor of global financial stability and the extent to which this could be covered by quotas. As regards concessional financing, there are two short and medium-term challenges. First, to ensure the replenishment of resources for the PRGT subsidy account, which is crucial to avoid any rise in the cost of financing conditions for the most vulnerable countries. Second, to obtain additional resources for lending as these countries progressively replace emergency assistance with conditional financing. In this respect, the forthcoming general allocation of SDR, the biggest in the Fund's history, will contribute to easing the liquidity problems of the low-income countries, in a particularly complicated economic situation.

23.7.21

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