This chapter discusses the actions taken by the IMF to contribute to strengthening the global financial safety net in response to the crisis. First, it examines the IMF’s resource mobilization efforts, then the reforms of lending instruments, and finally the design and implementation of IMF-supported programs.

The chapter concludes that the IMF’s efforts in this area were largely successful. Although the IMF was not well positioned in advance to respond to a crisis of this magnitude, it responded quickly. It quadrupled its resources and lent almost $400 billion to 38 countries to help them deal with the crisis; it also raised additional concessional resources, facilitating an almost doubling of lending to LICs. It modified its lending instruments to make them better suited to the circumstances—speeding up negotiations, loosening access limits, increasing front-loading, and streamlining conditionality. It launched precautionary instruments, although their design still needs fine-tuning to address limited demand and concerns on exit. The current credit capacity at $1 trillion seems appropriate, but with an agreed increase in IMF quotas still pending, the size and modalities of the IMF’s financial resources remain an issue going forward.

A. Resource Mobilization: Strategy and Results

In September 2008, IMF credit capacity stood at about $250 billion, of which $210 billion were in quotas and the rest in two standing arrangements, the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB), through which the IMF could borrow from certain member countries in case of extraordinary needs.

The IMF and its members had twice assessed the adequacy of IMF quotas since they were last increased in 1998, but those discussions took place at the time of the “Great Moderation,” when country authorities and to a significant degree IMF Management and staff deemed it unlikely that substantial IMF lending would be needed. Further, in the years leading up to the crisis, IMF liquidity was high, because few members had sought financial support. As a result, there was no strong push from IMF Management or consensus within the membership for a general increase in quotas at either the 2003 or 2008 reviews.

With the crisis escalating, policymakers turned their attention to increasing the IMF’s resources, as concern grew about their adequacy. In April 2009, the IMFC endorsed a multi-pronged strategy that had been articulated earlier that month by the G20 Leaders. This strategy consisted of borrowing from member countries (partly as a bridge to a quota increase), and accelerating the 14th General Review of Quotas for completion by January 2011. To boost global reserves the IMFC agreed on an issuance of new SDRs. The IMF also sought to double the concessional resources available for LICs.

Credit capacity measures the maximum total lending commitments the IMF could undertake from quota and borrowed resources, minus a prudential balance. The IMF’s capacity to make new lending commitments is calculated by subtracting existing commitments from this total credit capacity.

For instance, Mervyn King, Governor of the Bank of England, argued in a 2006 speech on IMF reform that “from time to time, there may well be financial crises when it would be appropriate for the international community to provide temporary financial assistance. . . . But [it] has not been the role for the IMF vis-à-vis any developed economy for many years. Moreover, nor is it likely to be true of many important emerging market economies in the future” (King, 2006).

An ad hoc increase in quotas took place, along with related governance reforms, in 2006. Another ad hoc increase had been agreed in 2008 but remained pending.

For example, a Financial Times headline in late October 2008 stated that “IMF firepower could soon fall short” and another one in early 2009 conveyed escalating concerns that “IMF resources are far from sufficient.” Moreover, it was clear that the IMF could not serve as liquidity insurance for EMEs that were asked to undertake fiscal expansion. For instance, in February 2009, Martin Wolf (in the Financial Times) argued that “the resources available to the IMF, even with their hoped-for doubling, are too small to give most emerging economies the confidence they need to risk keeping their spending up.”
The IMF thus dramatically increased its financial firepower to more than $1 trillion by end-2012. The resource mobilization effort allowed the IMF to respond to member country requests for financial support, and authorities interviewed for this evaluation were satisfied overall with the results of this effort.

However, the resource increase has, thus far, come solely from three waves of borrowing. First, a series of bilateral borrowing agreements with individual member countries almost doubled the IMF’s credit capacity to $460 billion by March 2010. Second, in March 2011, an expanded $580 billion NAB took effect, raising credit capacity to more than $725 billion. Finally, in late 2013, a round of bilateral borrowing agreements with individual member countries almost doubled the IMF’s credit capacity to more than $1 trillion by end-2012. The prolonged reliance on borrowing undermines the IMF’s functioning as a universal cooperative that is governed by all members through a system of weighted voting. The quota increase, although it would bring only a small additional increase in credit capacity, would have important implications for IMF governance. In addition to restoring the primary reliance on quotas, the 2010 quota reform would bring a shift in shares and chairs from advanced economies to faster growing emerging markets. Although the shift would still leave EMEs under-represented relative to their shares in the global economy, the 2010 reform has been seen as an important step to enhancing the legitimacy of IMF governance.

In addition to dramatically increasing resources for its general lending, the IMF nearly doubled its concessional lending capacity by raising additional loan and subsidy resources. Also, in 2012, the IMF put in place a strategy for a self-sustaining framework for concessional lending with an annual capacity of about SDR 1.25 billion going forward.

Another important contribution to global liquidity was the increase in global SDR holdings by the equivalent of $250 billion in August 2009. The new allocation expanded global SDR holdings tenfold, with nearly $100 billion going to EMEs and developing countries. This represented a significant increase in their reserves; and more broadly, it boosted global liquidity and arguably contributed to market confidence.

B. Updating the Lending Toolkit

When the crisis struck, the IMF was already in the midst of reconsidering its lending facilities. With virtually no demand for nonconcessional lending, many felt that the existing IMF lending instruments did not match member needs. The potential for an IMF crisis-prevention instrument had been much discussed, but no consensus had been reached about design and terms. Further, countries considered that approaching the IMF for support entailed stigma and were accumulating large precautionary reserves as self-insurance or were pursuing alternatives such as reserve pooling arrangements.

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35 The expanded NAB (which includes new participants such as Brazil, China, India, Mexico, and Russia) is more flexible in that it is easier to add new participants and increase contributions. Also, it is activated for six-month periods, rather than for specific programs. On the other hand, activation now requires a higher super-majority of 85 percent, but this has been achieved every six months since April 1, 2011. Also, commitments to the NAB still need to be renewed every five years.

36 A number of member countries would roll back a substantial part of their increased NAB contributions, once the quota increase becomes effective.

37 At the same time, the IMF also completed a long-pending special SDR allocation equivalent to $33.5 billion for 41 members that had joined the Fund since the last allocation in 1979.