PIIE PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

POLICY BRIEF

19-5 Survival of the International Monetary Fund and Global Economic Cooperation

Edwin M. Truman

April 2019

Edwin M. Truman, nonresident senior fellow since July 2013, joined the Peterson Institute for International Economics as senior fellow in 2001. He thanks C. Fred Bergsten, Olivier Blanchard, Patrick Honohan, Adnan Mazarei, Maury Obstfeld, Adam Posen, Nicolas Véron, Steve Weisman, and Jeromin Zettelmeyer for their constructive comments on and encouragement of this Policy Brief. He also thanks Madona Devasahayam for making sure he wrote what he meant to write.

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The International Monetary Fund (IMF) faces a test of its survival as the linchpin of the global financial safety net. The safety net's future is clouded because of US withdrawal from the Trans-Pacific Partnership and the Paris Agreement on climate change and the damage inflicted on the World Trade Organization (WTO) by the Trump administration's trade wars. These disruptions raise doubts over whether the United States and other members of the Fund can agree in the current review of IMF quotas to increase and redistribute those quotas.

Quotas are the principal source of financial resources for the IMF to lend to member countries. On joining the IMF, each member country contributes a certain sum of money, called a quota subscription, which is based broadly on its relative size in the world economy. A member country's quota determines its basic financial commitment to the IMF and its voting power and has a bearing on its access to IMF financing. These quotas are reviewed regularly (usually every five years) so they can be increased if necessary and in the process modified to reflect changes in the member countries' relative positions in the world economy.

The IMF currently has $1.4 trillion in total financial resources (table 1), but that total is scheduled to begin to shrink in 2020. Moreover, over the past 25 years, the United States has led the way for a gradual redistribution of IMF quota shares toward faster-growing emerging-market and developing countries. Any significant redistribution of quota shares requires an increase in total quotas. Because of its share of votes in the IMF, the United States must agree to any change in quotas. The Trump administration has signaled that it favors no such change, however. If there is an impasse and this issue remains unresolved, the United States and other IMF members will lose an opportunity to strengthen the IMF at a time of global financial uncertainty.

This Policy Brief argues that the United States should change its position. Failing that, other members should pursue a second-best solution. For example, they might offer a quid pro quo inducement, such as a commitment for the IMF to assist countries of actual or potential interest to the United States—perhaps Venezuela under a new government or North Korea and Iran, should they change their policies or regimes. The other members of the IMF might also agree to a more muscular role in surveillance of trade and exchange rate policies, which has long been advocated by the United States. Finally, they might also agree to an amendment to the IMF Articles of Agreement to ensure that in any new change in its quota share the United States would still be able to veto major IMF decisions.

As a third-best solution, the other members of the IMF should pursue alternative means temporarily to sustain, if not raise, the size of the Fund's financial resources. At the time of writing this Policy Brief, informed reports suggest that the United States and other IMF members may agree to a version of this third-best approach. It would maintain the total size and distribution of quotas, increase the size of the New Arrangements to Borrow (NAB)—the IMF's semipermanent multilateral borrowing arrangement—and continue some of the IMF's ad hoc bilateral borrowing agreements. This would be a third-best solution for two reasons: First, it would fail to address the need to realign quota shares to promote a further shift in IMF governance toward the dynamic emerging-market members of the Fund. Second, US participation would require an act of the

Table 1 IMF financial resources (total and major member economies), as of March 7, 2019 (billions of US dollars)

Source	Total	United States	Japan	China	European Union: Total	Of which: Germany	France	United Kingdom
Quotas	661.3	115.4	42.9	42.4	201.5	37.0	28.0	28.0
New Arrangements to Borrow	251.1	39.2	46.6	22.1	84.1	17.9	13.2	13.2
Bilateral borrowing[a]	443.3	0.0	60.0	43.0	206.3	46.8	35.4	12.8
Total	1,355.7	154.7	149.5	107.5	491.9	101.7	76.6	54.0

a. China's and Japan's bilateral commitments to lend to the IMF are denominated in US dollars. Most of the EU countries' commitments are in euros, except Sweden and the United Kingdom, whose commitments are denominated in Special Drawing Rights (SDR).

Note: SDR amounts have been converted to US dollars at the dollar price of an SDR on March 7, 2019 (US$1.3908) and euro amounts at the dollar price of the euro on March 7, 2019 (US$1.1271).

Sources: Author's calculations using data from IMF (2018b, pages 20–24, 27, 28).

US Congress, but it has been told by the US administration that the IMF has adequate financial resources. It would be better to accept that, at a minimum, the IMF needs an increase in its more permanent resources and to endorse an increase in both IMF quotas and NAB commitments to replace entirely the current reliance on bilateral borrowing.

BACKGROUND

In 2015, IMF members committed to strengthening IMF financial resources in the 15th General Review of Quotas, which will end in December 2019. The IMF's International Monetary and Financial Committee (IMFC) restated that commitment at the annual meetings in Bali on October 13, 2018 (IMF 2018a), calling for "a new quota formula as a basis for a realignment of quota shares to result in increased shares for dynamic economies in line with their relative positions in the world economy and hence likely in the share of emerging market and developing countries as a whole, while protecting the voice and representation of the poorest members."

The Group of Twenty (G-20) Leaders' Declaration from their meeting in Buenos Aires, Argentina, on December 1, 2018, reaffirmed this commitment, calling for an agreement no later than the annual meetings in the fall of 2019 (G-20 2018). IMF members will no doubt reach some sort of agreement, but it may be an agreement to disagree because of the position of the United States.

US support is required for any change in IMF quotas or quota shares because the United States has 16.52 percent of the votes in the IMF, and an 85 percent majority is necessary to pass any resolution about quotas (Truman 2018).[1] In December 2018, US Treasury Under Secretary David Malpass (2018) stated that the United States opposes any change in quotas, arguing that "the IMF has ample resources to achieve its mission, countries have considerable alternative resources to draw upon in the event of a crisis, and the post-crisis financial reforms have helped strengthen the overall resiliency of the international monetary system." He added that the United States would nonetheless "ensure that the IMF is sufficiently and efficiently resourced to carry out its mission and role." Treasury Secretary Steven Mnuchin (2018b) presaged the US position in testimony before the full House Committee on Financial Services on July 12, 2018. He repeated it at the annual meetings in Bali on October 11, noting that countries "now have many more sources of liquidity and financial support, including bilateral swap lines and regional financing arrangements" (Mnuchin 2018a). Since these statements, President Trump nominated Malpass to be president of the World Bank, the IMF's sister Bretton Woods institution, with which the Fund has cooperated closely in the past. He was selected by the Bank's board on April 5 to become president as of April 9, 2019.

As the global financial crisis broke in 2008, the IMF rushed to augment its financial resources. Despite members agreeing earlier in the year that no increase in IMF quotas was necessary, the IMF management embarked in the fall on a campaign to get IMF members to commit to lending $250 billion to the Fund. These funds were for a temporary period of five years to supplement the IMF's quota resources. In early 2009, the United States proposed, and the IMF membership endorsed, a $500 billion increase in the NAB, incorporating the bilateral lending commitments. The United States also actively supported an increase and redistribution of IMF quotas in the 14th General Review of Quotas, which was completed in December 2010.[2]

Size of IMF Financial Resources

The IMF's total financial resources of $1.4 trillion are composed of IMF quota subscriptions, commitments to the NAB, and fixed-term bilateral borrowing agreements (table 1).[3] But the $1.4 trillion figure is subject to two important adjustments. First, only about 80 percent of those resources are usable for lending because some members are not financially strong enough to lend to other members.[4] Second,

the IMF normally assesses a prudential balance against its available usable resources to ensure that there is enough liquidity to meet potential claims of members that find they must draw on the IMF themselves.[5] Thus, the $1.4 trillion headline total translates into about $865 billion currently available for IMF lending.

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These resources are scheduled to decline over the next three years. The $443.3 billion in bilateral borrowing from members will expire by the end of 2019 or 2020 at the latest. In addition, unless requested by the administration and renewed by the US Congress, the US $39.2 billion commitment to the NAB will no longer be available after 2022.[6] Accordingly, applying the two adjustments in the previous paragraph, about $560 billion would be available for IMF lending. This calculation assumes that the other NAB participants renew their commitments. If they do not, applying the same two adjustments, only about $425 billion would be available to lend solely out of $661.3 in total IMF quota resources.

Alternatives, or additions, to drawing upon the IMF include two regional financial arrangements: the European Stability Mechanism (ESM) and the Chiang Mai Initiative Multilateralization (CMIM).[7] The former can support one or more of its 19 euro area members with $632 billion (at $1.13 per euro) in resources but with the strong presumption that the borrowing country will have IMF program and financial support at the same time. The CMIM is a $240 billion pool of mutual commitments among 14 Asian economies, which has never been activated. Countries without IMF programs can draw only a combined $72 billion (30 percent of the pool). For example, South Korea can borrow $11.5 billion from the CMIM without an IMF program and a maximum of $38.4 billion with a program. On the other hand, its IMF quota is $11.9 billion, and it can borrow $17.9 billion (150 percent of its quota) in a one-year IMF program and a maximum of $51.8 billion (435 percent of quota) in a three-year IMF program, under the current IMF policy on access to resources.[8] In 2008–09 South Korea also was temporarily eligible to borrow up to $30 billion from a swap line with the Federal Reserve.

As discussed above, both these alternative regional financial arrangements must also have the backing of a well-financed IMF. Moreover, they are available to only 33 of the 189 IMF member countries. Many countries, large and small, in Latin America, Africa, Central Europe, and the Middle East are not covered. Constraints on the countries affected by any crisis are likely to hamper the availability of financing from such mechanisms for regional crises. The regional arrangement will be less able to step in compared with the IMF with its broader universal membership. Finally, regional arrangements contribute to an unwelcome further segmentation of the global economy and financial system.

Major central banks also have established swap lines designed primarily to provide liquidity in their own currencies to partner central banks to assist private financial institutions in their countries. But availability of swap lines is limited. Today, the swap network involves the central banks of Canada, the euro area, Japan, Switzerland, the United Kingdom, and the United States.[9] The network could be expanded as it was during the global financial crisis but doing so is at the discretion of each central bank. The maximum number of countries covered would likely be fewer than 25 total. Moreover, the major central banks implicitly require a substantial financial and policy backstop from the IMF before agreeing to expand their swap networks. The reason is that swap lines provide only temporary financing, generally for less than one year. In addition, the swap lines are intended primarily to provide liquidity support for financial institutions, which can be crucial in some crises, and not for fiscal or balance-of-payments purposes.

The argument made by Malpass and others that many countries have ample international reserves to draw upon in the event of a financial crisis also is weak. Many IMF member countries facing external financial pressures do not want to draw down their reserves, fearing that doing so signals an impending crisis.

Demand for IMF Resources

For more than five decades, financial crises have prompted new policies and procedures to lessen the probability of future crises, which has led to complacency about the need to increase the IMF's resources until the next crisis hit.

To be sure, the policies of many emerging-market and developing economies are stronger than they were in the 1970s, and policies of advanced economies on balance are no worse. But the expansion and liberalization of the global financial system since that decade has created shocks and demands for IMF financial support that have exceeded IMF resources, requiring reliance on ad hoc mechanisms to meet the demand. There is no reason to think that the future will be different. On the eve of the global financial crisis in 2007, for example, IMF commitments were only $11.0 billion. They increased to $45.9 billion in March 2009, $150 billion by the end of 2009, and $239 billion in June 2011. The current commitment of IMF resources ($214 billion) is not much smaller (IMF Financial Activities, various issues).[10]

The projected slowdown in global growth, along with the economic and financial challenges facing many IMF members, should send some warning signals. For example, in Europe, where the economy is shaky, at least six non-euro-area members of the European Union might well call on the IMF again for financial support as two of them did in 2008.[11] The maximum combined programs under IMF access policy of 435 percent of their combined quotas would total $70.3 billion for these six non-EU countries.[12] Another group of countries with large IMF quotas are Brazil, Indonesia, and South Africa. Their maximum programs would amount to $53.1 billion total. Pakistan and Turkey might need and qualify for expanded access programs on the scale of Argentina's program today (12.8 times its IMF quota) for a total of $118.6 billion.[13] Finally, consider three countries of particular political interest to the United States: Venezuela, Iran, and North Korea.[14] If each were to have an IMF program on the scale of Argentina's, the commitment of IMF resources would be a total of $145.2 billion. Along with current IMF commitments ($214 billion), these four groups of countries pose potential additional demands on IMF financial resources totaling about $601 billion, about 70 percent of current effective IMF financial resources (about $865 billion) but exceeding the resources (about $560 billion) that would be available if the Fund were unable to renew its bilateral borrowing arrangements and the United States did not renew its participation in the NAB.

US opposition to improving representation of emerging-market and developing countries in IMF governance is undercutting the IMF's legitimacy by failing to recognize the evolution of the global economy.

In short, the contention that the IMF has adequate resources to serve as an effective global financial safety net for the next five to ten years is tenuous at best.

Governance

Quota shares are the principal determinant of voting shares and governance influence in the IMF.[15] Adjusting voting shares of members in light of their economic growth is the principal mechanism for enhancing, or at least maintaining, the legitimacy of the Fund from the perspective of emerging-market and developing-country members.

The G-20 agreement in Seoul in 2010 advanced the process of realigning quota shares. Further progress was promised in the 15th quota review (Truman 2013). If quotas are not increased in the 15th review, quota and voting shares will not be adjusted and the evolutionary progress on IMF governance will grind to a halt.

Table 2 provides background information relevant to IMF governance reform via adjustment in IMF quota shares.

Using the current quota formula, which is scheduled for revision, and data ending in 2016, the combined calculated quota share of the 35 IMF members with the largest IMF quotas—more than 80 percent of the total—has declined by 1.7 percentage points since the completion of the 14th review in 2010.[16] (See columns 2 to 4 in table 2.) The overall decline is small, but the combined calculated quota share of the 17 advanced countries has declined 7.9 percentage points, while the share of the 18 nonadvanced countries has risen 6.1 percentage points and that of the other 154 members of the Fund has risen 1.7 percentage points.

In addition, any agreement on a revised quota formula is likely to boost the weight of blended GDP in the formula from its current 50 percent and increase the relative weight of GDP measured at purchasing power parity (PPP) exchange rates. On the first criterion alone, the shift in the share toward the group of nonadvanced countries (+10.5 percentage points) and away from the group of advanced countries (–12.2 percentage points) is more pronounced than that for quotas based on the current formula alone. (See columns 5 to 7 in table 2.) Increasing the weight of GDP at PPP exchange rates relative to the weight on GDP at market exchange rates would enhance the shift. The nonadvanced country group's share of PPP GDP is 13 percentage points larger than its share of GDP in US dollars, and the advanced country group's share of GDP drops 18 percentage points on a PPP basis alone.

With respect to the United States, its current 17.4 percent quota share translates into a 16.5 percent voting share. This voting share maintains the US capacity to veto several important structural IMF decisions, because such decisions must be approved by an 85 percent majority of total voting power. Using the current formula and 2016 data, the US calculated quota implies a voting share of less than 14 percent, reflecting the influence of the GDP blend variable on the decline in the US share.[17] However, any adjustment of relative quotas and quota shares is not likely to go all the way to the latest calculated quota values or result in a large adjustment of the quota formula. One reason is that the current quota formula favors EU members as does the current distribution of IMF quota shares. As shown in table 2, using data through 2016, the combined quota share of the 11 major EU countries exceeds the US quota share by 7 percentage points, but on the blended-GDP metric the US share exceeds the EU share by 3 percentage points.[18] Thus, an adjustment in the quota formula in the direction favored by many nonadvanced countries, placing more weight on GDP, would also favor the United States.

Table 2 Actual and estimated quota and GDP shares of IMF member countries and country groups (percent unless otherwise indicated)

		Calculated quota[a]			GDP 60/40 blend share[b]		
Country or group (number)	**Actual quota**	**14th review[c]**	**2016 data[d]**	**Change from 14th review** (percentage points)	**14th review[c]**	**2016 data[d]**	**Change from 14th review** (percentage points)
Countries with largest quotas (35)	83.4	84.6	82.8	–1.7	89.1	87.3	–1.8
of which							
Nonadvanced (18)	28.3	29.2	35.3	6.1	28.8	39.2	10.5
Advanced (17)	55.1	55.3	47.5	–7.9	60.4	48.1	–12.2
of which							
United States	17.4	17.0	14.7	–2.3	23.9	20.7	–3.2
European Union (11)	25.6	26.1	21.8	–4.3	23.9	17.5	–6.4
Other (5)	12.2	12.2	11.0	–1.2	12.6	10.0	–2.7
All other (154)	16.6	15.4	17.2	1.7	10.9	12.7	1.8

a. Calculated using the current quota formula, which includes four variables (GDP, openness, variability, and reserves), expressed in shares of global totals, with the variables assigned weights totaling to 1.0. The formula also includes a compression factor that reduces dispersion in calculated quota shares (CQS). The formula is CQS = (0.50 * GDP + 0.30 * Openness (the sum of current payments and receipts) + 0.15 * Variability (of current receipts minus net capital flows) + 0.05 * Reserves)^k. GDP is blended using 60 percent market and 40 percent purchasing power parity (PPP) exchange rates; k is a compression factor of 0.95 that reduces the influence of the variables that boost the largest quotas (i.e., reduces what otherwise would be the largest quotas and increases what otherwise would be the smallest quotas). The result is then rescaled so that quota shares equal 100 (Truman 2013, 3).
b. The GDP blend variable is 60 percent of GDP at market exchange rates and 40 percent of GDP at PPP exchange rates.
c. The 14th quota review was conducted using data through 2008.
d. Calculations based on data through 2016 compiled for the current quota review.

Note: Subgroups may not add to totals because of rounding.

Source: IMF (2018c) for columns 1, 2, 3, and 6; IMF (2010) for column 5.

One could also envisage, as does C. Fred Bergsten (forthcoming), a deal in which the United States, the European Union, and China (with its actual quota share of 6.4 percent and a calculated quota share of 12.9 percent) agreed to seek parity in their quota shares above the value that would give each a potential veto over important IMF structural decisions.[19] In the meantime, it is not surprising that the Europeans—who do not want to lose influence in the IMF—are happy that the United States is taking the lead in derailing the current IMF quota discussions. Any adjustments would almost certainly reduce the European Union's quota and voting shares.

The United States could refrain from blocking a general increase in quotas in the IMF and decline to accept an increase in its own quota. This would reduce US voting power below the 15 percent needed to block some IMF decisions, as discussed in Truman (2018). But in his testimony of December 12, 2018, Under Secretary Malpass reported that the United States had opposed such a policy in the case of increasing capital for the International Bank for Reconstruction and Development (IBRD), in which the United States plans to participate, and for the International Finance Corporation (IFC), in which the United States does not plan to participate. In the latter case, the United States obtained agreement to reduce the "veto threshold" from 20 to 15 percent. By extension the US administration would not favor a loss of the US veto in the IMF.

The crucial point is that US opposition to improving representation of emerging-market and developing countries in IMF governance is undercutting the IMF's legitimacy by failing to recognize the evolution of the global economy.

IMPLICATIONS FOR THE GLOBAL FINANCIAL SAFETY NET

Both Malpass and Mnuchin have belittled the central role of the IMF in the global financial safety net, but the importance of that role derives from two factors. First, the IMF's conditional lending programs provide a safety net not only for member countries in crisis, preventing those crises from worsening, but also for other member countries that might be subject to contagion from crises elsewhere. Second, when bilateral financial assistance is provided from a regional financial arrangement or from a single partner country, the IMF is the only institution empowered to provide a financial and economic policy backstop if that financial assistance proves inadequate. The market is the final arbiter of whether a country needs to adjust its policies, but the chances of successful adjustment depend on the IMF and its policy prescriptions and financial resources.

Thus, the United States has an interest in reinforcing

the IMF, not least as a tool for US financial diplomacy, because IMF resources are already available. The US administration does not have to go to Congress or governments to assemble financial support in an emergency. IMF quota resources are also permanent. That is not the case for NAB resources, which require renewal every five years and an 85 percent vote to be activated, or for bilateral borrowing arrangements, which are intended to be temporary and are associated with strong conditions on their deployment.

Argentina . . . provides an important example of how the United States has used the IMF tool essentially as a force multiplier.

Argentina, which is facing another of its periodic crises, provides an important example of how the United States has used the IMF tool essentially as a force multiplier. By a simple IMF majority vote, the United States can mobilize not only its own commitment to lend to Argentina through the IMF but also the commitments of other countries.

The IMF also backstops US bilateral financial assistance to favored countries, in effect also supporting the international role of the US dollar.

On top of these roles, IMF programs on combating corruption and the financing of terrorism and surveillance of members' exchange rate policies, such as China's, also advance US interests. The smaller the relative contribution of the United States to IMF resources, the less the United States will be able to exploit the IMF as a forum to pursue US policies. Other potential lending countries have similar interests, and so do potential borrowing countries.

The IMF provides a backstop whether a country is a lender through the system or a borrower. Its role bolsters countries' confidence in the face of a crisis and reduces uncertainty about potential support. The Fund has always been criticized by those who worry that, by being there to rescue countries, it encourages complacency and bad behavior. But this fear about "moral hazard" is mostly theoretical. A more worrisome problem is that a smaller IMF will force more austerity, disruption, and debt restructuring on countries. A few of these countries may be able to rely on regional financial arrangements or bilateral support. But in such cases, the policy conditionality will be uneven and, more important, many countries will be left out.

If the United States prevails in blocking an increase in IMF quotas, the global financial safety net might evolve as follows.

First, if the United States stopped participating in the NAB and the countries now participating in both the NAB and bilateral borrowing arrangements renewed those commitments, the United States would drop to second place in terms of individual countries that provide financial support to the IMF (see table 1). The United States would lose influence in the institution it has led for 75 years.

Second, EU members, which provide almost 50 percent of the potential bilateral borrowing by the Fund, would most likely not be as forthcoming after 2020. The IMF might have enough financial resources to address a moderately serious crisis in one or more members, but its resources would again be skewed away from quotas and toward borrowing from the NAB, weakening the role of the United States and other non-NAB participants in the IMF.

Third, if other countries balked at renewing their bilateral commitments to lend to the Fund, it could come up short on financial resources to deal with a future crisis. The Fund's management would have to scramble to line up new resources on an ad hoc basis. Major emerging-market countries like China, not the advanced countries, would volunteer funds, further reducing the US role and undercutting the credibility and leadership of Washington.

Ultimately, countries in financial trouble would turn primarily to non-IMF sources of emergency financing or, if available, existing regional arrangements, which in turn might be expanded in size and membership. These steps would further diminish the role of the IMF, pushing it to the sidelines as looser and uneven standards of conditionality are imposed. This evolution would politicize lending and leave out many countries, all but demolishing the US vision of the IMF as the arbiter of global standards of prudent policy management.

A final step would be the effective abandonment of the IMF and its replacement with a new international monetary organization operating by different rules and impervious to US influence, toppling a pillar of the Bretton Woods system and threatening the stability of the other formal pillar, the World Bank.

RECOMMENDATIONS

Unless the United States reverses its stance, this evolution does not portend a happy ending for the Fund. But it is not too late to change the narrative. The United States could still change its position on the 15th review of IMF quotas, allowing an increase in IMF quota resources at least large enough to plug the hole in IMF resources associated with the expiration of the bilateral borrowing arrangements. Other countries should press the United States to change its position.

As a second best, an increase in quotas and a redistribution of quota shares might still be salvaged by offering incentives to the United States to change its position. For example, other countries might commit in advance to oversized IMF programs for countries of actual or potential interest to the United States, such as Venezuela under a new regime or North Korea and Iran under a change of regimes or policies.

Another compromise might revolve around the United States agreeing to increase IMF quotas in return for changes in IMF policies—for example, with respect to its surveillance over "macroeconomic, foreign exchange, and trade policies that contribute to unfair competitive advantages," as called for by Secretary Mnuchin (2018a) in Bali. The IMF also might respond concretely to his demand that "IMF lending should reinforce the need for transparency, debt sustainability, and responsible burden-sharing in debt resolution, which in turn will help reduce opportunities for corruption."

Other members of the IMF could agree to an amendment to the IMF Articles of Agreement to raise the threshold for certain IMF decisions from 85 to 90 percent, guaranteeing that in any new change in its quota share the United States would still have an effective veto. For those who think the threshold should be reduced, this would be a bitter pill, but it might be considered.

Should an impasse over increases in IMF quotas persist, other countries should not abandon the IMF. Instead they should increase the size of and number of participants in the NAB, in effect absorbing as much potential funding as possible from the IMF's bilateral borrowing arrangements into its multilateral structure. As noted earlier, according to informed reports, the United States and other members of the IMF may agree to a version of this third-best approach, boosting the size of the NAB, including the US share, and continuing bilateral borrowing at a reduced level.

Some progress beats no progress, but this approach would weaken the IMF as a quota-based institution and fail to address the need to make further progress in realigning IMF governance. Moreover, assuming that the NAB portion of the package could not go into effect without the agreement of the US Congress because of a US desire to preserve its "veto" over the use of NAB resources, this approach might require years to implement. Global economic cooperation in the IMF, and the institution itself, would be on life support.

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NOTES

1. In Truman (2018), I wrote that the United States should favor an increase in IMF quotas and redistribution of quota shares. I also argued that the United States should risk its "veto" over important structural decisions in the IMF by not tying an increase in total quotas to congressional approval of an increase in its own quota. If the United States did not choose that approach it should abandon its veto and opt not to have its quota increased. The least attractive option, in my view, was to tie an increase in the US quota to approval by the US Congress, which took five years (2010 to 2015) when the previous increase in quotas was agreed.

2. In the 14th review of IMF quotas, a substantial portion of NAB resources was shifted to quota resources. The shift did not change the total US potential financial commitment to the IMF and increased total IMF resources by less than 10 percent. Because the United States failed to ratify this agreement until December 2015, the completion date for the current 15th review of quotas was pushed back to 2019.

3. In practice, countries that participate in the NAB renew their commitments to participate every five years. The NAB has been renewed for either five or, in one case, four years since its establishment in 1998. Its predecessor, the General Arrangements to Borrow, was established in 1962 and renewed initially every ten and later five years. In 2016, the IMF established bilateral borrowing arrangements as a third line of defense, after IMF quotas and the NAB, as the successor to agreements entered into in 2012 "as economic and financial conditions worsened in the Euro area and raised concerns over potential spillovers." The 2016 agreements were established "in light of the ongoing uncertainty and structural shifts in the global economy" (see IMF Fact Sheet, "IMF Bilateral Borrowing," www.imf.org/~/media/Files/Factsheets/English/BilatBorrow.ashx). The NAB has 38 country participants with Greece and Ireland potential participants. Six of those countries do not participate in the 2016 bilateral borrowing arrangements. Forty countries participate in bilateral borrowing arrangements, eight of which do not participate in the NAB.

4. Technically, most IMF members lend their own currencies through the IMF to other members but are committed to exchanging that currency for one of the major currencies designated by the Fund either out of their foreign exchange reserves or in the market.

5. Prudential balance is the amount set aside to safeguard the liquidity of members' claims and take account of the potential erosion of the IMF's resource base. It is set at 20 percent of the quotas of members participating in the financing of IMF transactions (Financial Transactions Plan) and any amounts made available under active bilateral borrowing and note purchase agreements with non-NAB participants, which were terminated on April 1, 2013. The prudential balance currently does not cover the encashment needs of NAB participants' outstanding claims under bilateral borrowing agreements that are folded into the NAB. Nor does it extend to the claims of participants in the expanded NAB; as such resources are to be provided by setting aside a portion of the total credit arrangements under the NAB. The prudential ratio of 20 percent as decided by the IMF's Executive Board reflects historical experience and judgments on the indicative level of uncommitted usable resources that the IMF would normally not use to make financial commitments. The prudential balance does not represent a rigid minimum and IMF resources could, on a strictly temporary basis, fall below this level. See "Key IMF Financial Statistics" at www.imf.org/external/np/tre/activity/glossary/Key%20IMF%20Statistics%20Glossary.pdf.

6. At the December 12, 2018, hearing Under Secretary Malpass said that the US administration did not have a position on renewing the US commitment to the NAB. A new administration might take a different position, but it would be some time before Congress approves renewed US participation in the NAB.

7. Regional financial arrangements also include the Fondo Latinoamericano de Reservas (FLAR), in which eight Latin American central banks participate with a subscribed capital of $3.9 billion, and the Arab Monetary Fund, in which 22 countries participate with subscribed capital of $3.8 billion. Neither, however, is large enough to be an alternative or a significant supplement to the IMF.

8. Programs with larger "exceptional" access to IMF resources are subject to more stringent qualification criteria. See "Selected Decisions and Selected Documents of the IMF, Thirty-Ninth Issue," www.imf.org/external/SelectedDecisions/Description.aspx?decision=14064-(08/18).

9. The swap lines established by the People's Bank of China, aside from China's participation in the CMIM, are not relevant because they are designed primarily to help clear bilateral trade.

10. Including the recently approved program with Ecuador.

11. The two countries that had IMF programs in 2008 were Hungary and Romania. Latvia had one as well but has since joined the euro area. The other four countries are Bulgaria, Croatia, the Czech Republic, and Poland.

12. See footnote 8.

13. A program for Pakistan of this size, or any size, would raise the issue of its obligations to Chinese lenders in connection with China's Belt and Road Initiative. Current IMF procedures allow the Fund to force other official lenders to participate in any debt rescheduling if one were necessary, and Paris Club procedures also do so.

14. North Korea is not a member of the Fund, but membership is a potential bargaining chip in dealing with its nuclear arsenal. One estimate of North Korea's GDP in 2017 is $30.7 billion (see "North Korea's economy grew 3.7% in 2017, Pyongyang professor estimates," *Japan Times*, October 13, 2018, www.japantimes.co.jp/news/2018/10/13/asia-pacific/north-koreas-economy-grew-3-7-2017-pyongyang-professor-estimates/#.XJOOcyhKiUk). This GDP figure would put it on a par with Latvia. In the text, I have, instead, used Bulgaria as a reference point with its 2017 GDP of $56.9 billion to estimate the size of North Korea's quota.

15. Each member country has the same number of basic votes, expressed as a fixed percentage of total votes, and additional votes based on the size of its quota. For countries with small quotas, basic votes make up a larger proportion of their total votes and the reverse for countries with large quotas like the United States. About 30 other members of the IMF have quota shares that are larger than their voting shares.

16. These calculations are based on data through 2016. The 14th review used data through 2008. Later in 2019, the IMF will release data through 2017, which will extend recent trends. The current quota formula is a weighted average of GDP (weight of 50 percent), openness (30 percent), economic variability (15 percent), and international reserves (5 percent). For this purpose, GDP is measured through a blend of GDP—based on market exchange rates (weight of 60 percent) and on purchasing power parity (PPP) exchange rates (40 percent). The formula also includes a compression factor that reduces dispersion in calculated quota shares (CQS). See Truman (2013, 3).

17. If the quota formula consisted of only the 2016 GDP blend variable, it would imply, relative to calculated quotas using the 2016 data and the current formula, a small increase in the

combined share of the 17 advanced countries and a large increase for the United States. However, for the 18 nonadvanced countries as a group, the increase is larger.

18. For the EU-28 the actual total combined quota share is 30.2 percent; essentially 4 percentage points are spread around 17 small EU countries. In the context of Brexit, the UK actual quota share is 4.2 percent and its current calculated quota share is 3.6 percent.

19. The current combined quota share of these countries is about 54 percent. Their combined share under the current quota formula and of the 60/40 GDP blend is about the same.

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