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IFI Funding and Congress – How Much and How Fast?

- A major boost in funding for international financial institutions (IFIs) – especially the International Monetary Fund's capacity for emergency balance-of-payments lending – is shaping up to be a key element in restoring global investor confidence.
- April 2 is a key date – the Group of Twenty (G-20) leading countries is meeting in London and may make a decision.
- But an increase in funding is likely to require U.S. congressional approval, which could involve a time-consuming debate over hot-button international trade and financial issues.

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The Group of Twenty (G-20) leading countries have included IFI funding and reform on their agenda since last fall, and investors will be looking for specific decisions at the group's April 2 summit in London. Executives of the International Monetary Fund (IMF) are seeking a \$250 billion increase in resources and are considering several options for raising the money; Japan already has agreed to provide a bilateral line of credit worth \$100 billion.

Private sector analysts reckon much more will be needed, and last week U.S. Treasury Secretary Tim Geithner proposed a \$500 billion boost to IMF coffers via expansion of a plurilateral credit line called the New Arrangements to Borrow (NAB) that currently is provided by 26 countries and is worth about \$50 billion.

Countries that have sought IMF help since Sept. 2008	Remaining IMF resources (as of 3/12/09)	Potential Need	Proposed Increase
Armenia Belarus El Salvador Georgia Hungary Iceland Latvia Pakistan Serbia Seychelles Ukraine <hr/> Total = \$48.8 billion	Approx. \$292 billion: <ul style="list-style-type: none"> • \$140 billion in forward commitment capacity from member quotas • \$50 billion from NAB • \$2 billion credit arrangement with Saudi Arabia • \$100 billion borrowing arrangement with Japan 	\$96 billion-\$237 billion (IMF late January staff estimate with substantial risk that more would be required)	\$250 billion (IMF) \$500 billion (U.S. Treasury Sec. Tim Geithner)

Source: IMF; U.S. Treasury; WRG. Figures are based on SDR exchange rate of \$1.48

Quick SDR allocation? Some experts, including former Treasury and Fed official Ted Truman, who has temporarily joined Geithner’s staff to help with G-20 work, have suggested that the quickest way to shore up IMF resources would be for the membership to authorize a one-time allocation of Special Drawing Rights (SDRs). SDRs are units of account that are provided to members in proportion to their quota shares in the Fund. Holders can swap SDRs with other members for hard cash at an exchange rate based on a basket of key currencies, and a floating interest rate (currently .45%). Right now, an SDR is worth about \$1.48 and there are SDR 21.4 billion outstanding (about \$31.7 billion).

Truman wrote in a March 5 Op-Ed piece in the *Financial Times* that the U.S. Treasury Secretary can vote for a \$250 billion SDR allocation if he consults with key members of Congress at least 90 days in advance. If the consultation started now, the allocation could be in place by mid-summer.

Critics would likely blast this approach as a stealthy increase in U.S. foreign aid (since many troubled SDR holders would seek to exchange them for dollars). A more typical criticism of proposed SDR allocations is that they are inflationary, but that’s not as big a worry in the current environment.

In any case, a IMF policy paper and preliminary deliberation by the IMF executive board last month indicated a preference for borrowing extra resources, either through bilateral agreements like Japan’s; expansion of the NAB; or issuing notes to member central banks.

Passing the hat to Congress: The United States accounts for close to 20% of the NAB pool; maintaining the ratio would imply a new U.S. contribution of nearly \$100 billion if Geithner’s proposal is endorsed. Geithner has suggested, however, that more countries should participate this time so the U.S. share would be smaller.

Even so, the amount would dwarf the \$18.5 billion U.S. contribution to the last big funding boost amid the 1997-98 Asian financial crisis.

Moreover, there is a pending request for about \$2.6 billion over two years for the World Bank’s International Development Agency (IDA), and an as-yet unspecified amount for participation in

the Bank's new Clean Technology Fund. In addition, World Bank President Robert Zoellick has called on developed countries to dedicate 0.7 percent of their economic stimulus packages to a "Vulnerability Fund" for developing countries affected by the global downturn. For the U.S., that would be about \$5.5 billion.

There also are pending proposals for a doubling of the current SDR allocation (from an IMF membership decision made in 1997 but not yet implemented for lack of U.S. approval); and a modest IMF quota reform (involving an increased U.S. contribution of about \$7.4 billion) and permission to sell 12.97 million ounces, or 12.5%, of the IMF's gold. These latter two stem from decisions approved by the IMF management last spring, but they require approval by member governments to be implemented.

The Bush administration notified Congress of the IMF package last November, but it wasn't acted on. Geithner has said that the Obama administration will soon resubmit the request.

By law, Congress has to approve any increase in U.S. funding commitments or changes in the IMF's Articles of Agreement. Such funding increases in the form of expanded credit lines would require authorization and appropriation, but wouldn't be counted as immediate net budget expenditures, which would remove at least one big element of potential controversy.

Yet any request for a large increase in U.S. IFI participation would involve congressional oversight and debate about how the funds are used and how the institutions operate. In the 1998 exercise, which took about 10 months, the GOP-led Congress was concerned about moral hazard associated with IMF "bailouts"; the need for more transparency with regard to IFI operations; and promotion of market-oriented policies in debtor countries. The bias of the 111th Congress is likely to be quite different.

We would look for a focus on whether the IFIs may be advocating too large a role for the private markets; whether the IMF is doing an adequate job of pushing China to revalue its currency; the need for developing countries to have more clout in IFI governance; and whether there should be more outright forgiveness of debt owed by poor countries, among other issues.

The debate is likely to begin after the April 2 G-20 summit, where presumably there will be decisions on the amount and mechanics of an increase in IFI resources and the promise of a medium-term further realignment of influence at the IMF and World Bank towards big emerging market countries like Brazil and China.

We would expect the Obama administration to include specific requests for congressional approval in its detailed budget proposal, which is anticipated sometime next month.

Potential Request to Congress

- Up to \$100 billion in increased IMF borrowing capacity
- \$7.4 billion for pending U.S. IMF quota increase (at current SDR exchange rate of about \$1.48)
- Permission for IMF to allocate additional 21.4 billion SDR
- Permission for IMF to sell 12.97 million oz. of gold and establish an investible endowment fund
- \$2.6 billion over two years for World Bank International Development Agency replenishment
- \$5.5 billion for World Bank "Vulnerability Fund"
- Unspecified contribution to World Bank Clean Tech Fund
- Unspecified amount for trade financing initiatives

Source: IMF, U.S. Treasury, Congressional Research Service, WRG

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