INTERNATIONAL MONETARY FUND
FACTSHEET

The IMF's Response to the Global Economic Crisis

The IMF responded to the global economic crisis by mobilizing resources on many fronts to support its member countries. The IMF increased and deployed its lending firepower, used its cross-country experience to offer policy solutions, and introduced reforms that better equipped it to respond to countries' needs.

Creating a crisis firewall. To meet ever increasing financing needs of countries hit by the global financial crisis and to help strengthen global economic and financial stability, the Fund greatly bolstered its lending capacity after the onset of the global crisis in 2008. This was done by increasing quota subscriptions of member countries—the IMF's main source of financing—and securing large borrowing agreements.

Stepping up crisis lending. The IMF overhauled its lending framework to make it better suited to country needs, giving greater emphasis to crisis prevention, and streamlined program conditionality. Since the start of the crisis, the IMF committed well over $700 billion in financing to its member countries.

Helping the world's poorest. The IMF undertook an unprecedented reform of its policies toward low-income countries and quadrupled resources devoted to concessional lending.

Sharpening IMF analysis and policy advice. The IMF provided risk analysis and policy advice to help member countries overcome the challenges and spillovers from the global economic crisis. It also implemented several major initiatives to strengthen and adapt surveillance to a more globalized and interconnected world, taking into account lessons learned from the crisis.

Reforming the IMF's governance. To strengthen its legitimacy, in April 2008 and November 2010, the IMF agreed on wide-ranging governance reforms to reflect the increasing importance of emerging market countries. The reforms also ensured that smaller developing countries would retain their influence in the IMF.

Creating a crisis firewall

Increasing the financial resources available for IMF support to member countries was a key part of the efforts to overcome the global financial crisis. In 2009 and 2010, members provided additional financial resources to the Fund through bilateral borrowing agreements for about SDR 170 billion (about US$250 billion at current exchange rates). These resources were subsequently incorporated into expanded New Arrangements to Borrow (NAB), increasing their size from SDR 34 billion to SDR 370 billion (about $510 billion). In 2012, to respond to worsening global financial conditions, a number of members pledged to further enhance IMF resources through a new round of bilateral borrowing. By the end of 2015, 35 agreements for a total of about SDR 280 billion ($390 billion) were finalized.

The 14th General Review of Quotas, approved in December 2010, doubled the IMF's permanent resources to SDR 477 billion (about $663 billion). The conditions for implementing the increases were met in January 2016. Subsequently, the NAB credit arrangements were rolled back from SDR 370 billion to SDR 182 billion in conjunction with

the payments for the 14th Review quota increases, while remaining an important backstop to quota resources.

Currently, the Fund's total lending capacity (comprising quotas, the NAB, and the 2012 Borrowing Agreements after prudential balances) stands at about SDR 690 billion (about $950 billion).

In addition to increasing the Fund's own lending capacity, in 2009, the membership agreed to make a general allocation of SDRs equivalent at the time to $250 billion, resulting in a near ten-fold increase in SDRs. This represented a significant increase in reserves for many countries, in particular low-income countries.

Reforming the IMF's lending framework

To better support countries during the global economic crisis, the IMF beefed up its lending capacity and approved a major overhaul of how it lends money by offering higher and more frontloaded amounts and tailoring loan terms to countries' varying strengths and circumstances.

Credit line for strong performers. The Flexible Credit Line (FCL), introduced in April 2009 and further enhanced in August 2010, is a lending tool for countries with very strong fundamentals that provides large and upfront access to IMF resources, mainly as a form of insurance for crisis prevention. There are no policy conditions to be met once a country has been approved for the credit line. Colombia, Mexico, and Poland have been provided combined access up to about $100 billion under the FCL (no drawings have been made under these arrangements). FCL approval has been found to lead to lower borrowing costs and increased room for policy maneuver.

Access to liquidity on flexible terms. Heightened regional or global stress can affect countries that under normal circumstances would not likely be at risk of crisis. Providing rapid and adequate short-term liquidity to such crisis bystanders during periods of stress could bolster market confidence, limit contagion, and reduce the overall cost of crises. The Precautionary and Liquidity Line (PLL), which was established in 2011, is designed to meet the liquidity needs of member countries with sound economic fundamentals but with some remaining vulnerabilities—Macedonia and Morocco used the PLL.

Reformed terms for IMF lending. Structural performance criteria were discontinued for all IMF loans, including for programs with low-income countries. Structural reforms continue to be part of IMF-supported programs, but have become more focused on areas critical to a country's recovery.

Emphasis on social protection. The IMF helped governments protect and even increase social spending, including social assistance. In particular, the IMF promoted measures to increase spending on, and improve the targeting of social safety net programs that can mitigate the impact of the crisis on the most vulnerable in society.

Crisis Program Review. The IMF conducted several reviews to learn from Fund-supported programs that began after the 2008 global crisis. The reviews found that Fund-supported programs helped chart a path through the global financial crisis that avoided the counterfactual scenario many initially feared, involving a cataclysmic meltdown of the global economic system. Given the radical differences between the 2008 crisis and its predecessors, decisions were made amid significant uncertainty about shocks, transmission

channels, and policy responses. Program outcomes helped inform the design of later programs, and contributed to broadening the array of feasible policies over time by strengthening frameworks and reducing the risk of contagion.

Helping the world's poorest

In response to the global financial crisis, the IMF undertook an unprecedented reform of its policies toward low-income countries. As a result, IMF programs are now more flexible and tailored to the individual needs of low-income countries—with streamlined conditionality, higher concessionality, and more emphasis on safeguarding social spending.

Increased access to resources. Concessional resources available to low-income countries through the Poverty Reduction and Growth Trust (PRGT) were substantially increased in 2009, consistent with a call from G20 leaders, while average access limits under the IMF's concessional loan facilities were doubled to enhance the financial safety net for low-income countries.

Sharpening IMF analysis and policy advice

The IMF undertook major initiatives to strengthen surveillance to respond to a more globalized and interconnected world. These initiatives included revamping the legal framework for surveillance to cover spillovers (when economic policies in one country can affect others), deepening analysis of risks and financial systems, stepping up assessments of members' external positions, and responding more promptly to concerns of the membership.

As part of these efforts, in July 2012 the Executive Board adopted a new Integrated Surveillance Decision to strengthen the underlying legal framework for surveillance. In September 2012, the Executive Board endorsed a new Financial Surveillance Strategy that included concrete and prioritized steps to further strengthen financial surveillance. In response to the growing importance of capital flows in the international monetary system, the Board also endorsed an institutional view on the liberalization and management of capital flows to guide Fund surveillance and policy advice to member countries.

External Sector Reports that present a broad and multilaterally consistent analysis of the external sector for the world's largest economies were introduced for annual discussion by the Executive Board. Moreover, risk analysis was enhanced, including by taking a cross-country perspective, including through an early-warning exercise carried out jointly with the Financial Stability Board. Analyses on linkages between the real economy, the financial sector, and external stability were also strengthened. Other work included mapping and understanding the implications of rising financial and trade interconnectedness for surveillance (including through spillover reports) and for lending to strengthen the global financial safety net.

The 2014 Triennial Surveillance Review (TSR), completed in September 2014, focused on building on these reforms and ensuring that IMF surveillance continues to best support sustainable growth in a deeply interconnected post-crisis world. It identified five operational priorities going forward: integrating and deepening risk and spillover analysis; mainstreaming macro-financial surveillance; paying more attention to structural policies, including labor market issues; delivering cohesive and expert policy advice; and having a client-focused approach to surveillance, supported by clear and candid communication. The Managing Director's Action Plan for Strengthening Surveillance published subsequently outlines concrete measures to take forward work in these priority areas, with initial steps already in

the process of implementation. A review of the Financial Sector Assessment Program was also completed in September 2014.

With more than 200 million people unemployed across the world, and income inequality on the rise in many countries, the Fund set up an internal “Working Group on Jobs and Growth,” which recommended steps and provided guidance to enhance the Fund’s effectiveness in helping member countries achieve their growth, employment creation, and income distribution goals.

Reforming IMF governance to better reflect the global economy

A top priority for the IMF’s legitimacy and effectiveness has been the completion of governance reform.

On December 15, 2010, the Board of Governors approved far-reaching governance reforms under the 14th General Review of Quotas. The package included a doubling of quotas, with a more than a 6 percentage point shift in quota share to dynamic emerging market and developing countries while protecting the voting shares of the poorest member countries. The reform also included a move to a more representative, fully elected Executive Board and advanced European countries committed to reduce their combined Executive Board representation by two chairs.

The reforms became effective on January 26, 2016, with the entry into force of the amendment to the IMF’s Articles of Agreement that created an all-elected Executive Board, after it had been accepted by three-fifths (or 113) of the 189 member countries having 85 percent of the total voting power.

The 2010 reforms built on quota and voice reforms agreed in April 2008 and became effective on March 3, 2011. Under these reforms, 54 members received an increase in their quotas—with China, Korea, India, Brazil, and Mexico as the largest beneficiaries. Another 135 members, including low-income countries, saw an increase in their voting power as a result of the increase in basic votes, which will remain a fixed percentage of total votes. Combined with the 14th Review, the shift in quota share to dynamic emerging market and developing countries is 9 percentage points.