

Can the IMF Use Its Balance Sheet More Effectively to Address Global Challenges?

 David Andrews

Abstract

The IMF was not included in the recent review of multilateral development banks' capital adequacy frameworks that proposed reforms to allow them to expand their lending to developing countries. The paper considers whether this review contained lessons for the IMF despite its distinct role and financial structure. It begins with a detailed summary of the IMF's financial structure, including the trusts which provide support to low-income countries (the PRGT) and for climate finance (the RST). Although this financial structure is very different from an MDB's, the paper argues that the IMF's gold holdings play a role that is analogous to an MDB's callable capital. Drawing upon one of the related recommendations of the review, the paper's main conclusion is that explicit recognition of the high value of the IMF's gold holdings could pave the way for the more efficient use of reserves on its main balance sheet to support the severely depleted lending capacity of the PRGT.

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The author is grateful to Mark Plant who provided the initial impetus for the paper and together with Ratna Sahay and Karen Mathiasen provided very helpful comments. Any remaining errors are mine.

The Center for Global Development is grateful for contributions from the Rockefeller Foundation in support of this work.

David Andrews. 2024. "Can the IMF Use Its Balance Sheet More Effectively to Address Global Challenges?" CGD Working Paper 696. Washington, DC: Center for Global Development. <https://www.cgdev.org/publication/can-imf-use-its-balance-sheet-more-effectively-address-global-challenges>

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Center for Global Development. 2024.

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The G20 has called upon Multilateral Development Banks (MDBs) to rise to the challenge of meeting developing countries' greatly increased financing needs.¹ If this challenge is to be met, the corresponding expansion in MDBs' balance sheets to support adaptation to climate change and accelerate progress towards the SDGs will be facilitated in part by reforms to their capital adequacy frameworks.² More effective use of existing capital resources should allow MDBs to gear up their borrowing in private capital markets to finance higher lending to developing countries. And fresh capital injections should similarly enable greater increases in MDB lending than in the past.

The IMF was not included in this G20 reform agenda. The IMF's core mandate, focusing on macroeconomic and financial stability is distinct from that of the MDBs. The IMF's financial structure is also very different. But the sheer scale of the IMF's financial resources—a total lending capacity of about US\$1 trillion, compared with the total stock of development lending by all MDBs of under US\$ 1.4 trillion at end in 2020³—begs the question of whether the IMF's huge resources could be used more effectively to address pressing global challenges. Or, to put it differently, do the proposed reforms of MDBs' capital adequacy frameworks provide lessons for the IMF?

This note starts with an overview of the IMF's financial structure, drawing comparisons with MDBs. This covers the IMF's main balance sheet—the General Resources Account (GRA) which has a US\$ 1 trillion lending capacity—and the separate and much smaller operations of the Poverty Reduction and Growth Trust (PRGT) and the newly established Resilience and Sustainability Trust (RST). (Readers familiar with these financial structures may wish to skip this discussion, which takes up the first half of the note, or refer to it as needed).

The current structure of separate accounts for the GRA, the PRGT and the RST is the starting point for considering how IMF resources could be better used. The note recognizes that consolidating these operations could potentially yield efficiency gains, but this would require significant amendments to the IMF's Articles of Agreement that are unlikely to pass the high threshold needed for approval. The constraints that are hard-wired in the Articles are assumed to remain, thus largely precluding GRA lending from playing a major role in climate finance. In this context, the primary conclusions are as follows:

- Drawing on one of the recommendations of the review of MDBs' capital adequacy frameworks, explicit recognition of the high value of the IMF's gold holdings could pave the way for the more efficient use of IMF reserves on its main balance sheet. Some of the reserves that will accumulate in the next few years could be used more effectively to support the severely depleted lending capacity of the PRGT without endangering the robustness of financial buffers that are essential to protect the IMF's unique financing mechanism.

1 Strengthening the Multilateral Development Banks: The Triple Agenda. Report of the Independent Experts Group.

2 Boosting MDBs' Investing Capacity. An independent Review of MDB's Capital Adequacy Frameworks.

3 See Table 1.1 of Boosting MDBs' Investing Capacity. An independent Review of MDB's Capital Adequacy Frameworks.

- The GRA's own role could be enhanced by the introduction of a new broad-based Contingent Credit Line that could be triggered when a large-scale global economic shock affects a substantial proportion of IMF member countries. The Covid pandemic showed the value of rapid unconditional support and, by providing an assurance of such support to the bulk of middle- and low-income countries this would enhance the crisis response of the global financial safety net.
- If the IMF is to play more than a very minor role in climate finance, the RST will need many more resources. Demand may soon outstrip the RST's current capacity. But this could readily be increased. The financial structure of the RST makes it relatively easy for contributors by keeping budgetary costs low and preserving reserve asset characteristics of their loans. The pattern of contributions to date, which has been somewhat skewed towards the deposit and reserve accounts, also makes it easier to add loan resources.

The General Resources Account—the main balance sheet

The GRA's financing mechanism

The IMF does not borrow on private markets; it is akin to an international credit union, lending only to members and financing these loans only from other members. Non-concessional borrowing by IMF member countries from the GRA (under e.g., Standby Arrangements) is thus financed entirely by drawing on the resources of other members.⁴

Quota subscriptions are the primary source of funding. Each member country of the IMF has a quota which is in, general terms, related to the size of its economy.⁵ The quota determines the member's voting share and is the key metric for setting financial contributions to the IMF and the scale of financial support ('access') that a country could receive from the IMF. If quota resources are not large enough to meet the expected needs of countries facing financial crises, drawings can be made under what are in effect supplementary lines of credit from IMF members with stronger balance of payments positions. The first such line is a standing arrangement with 40 countries known as the New Arrangements to Borrow (NAB). If further resources are needed drawings can then be made under smaller Bilateral Borrowing Agreements (BBAs) with 42 countries. (The NAB and the BBAs are not currently activated but could be if quota resources were not sufficient to meet expected needs).

Not all quota and borrowed resources can be used. Quotas totaled SDR 477 billion (about US\$650 billion) at end 2023, but the corresponding lending capacity of these resources was about two-thirds of this amount (Table 1). This reflects two factors:

- 4 Loans from the GRA are formally exchanges of currency. The borrower 'purchases' SDRs or freely usable currencies of other members in exchange for an equivalent amount (in SDR terms) of its own currency. Loans are repaid by reversing this transaction; the borrower 'repurchases' its own currency from the IMF using either SDRs or a freely usable currency of another member.
- 5 The United States has the largest quota (almost SDR 83 billion) and voting share of 16.5 percent. In contrast, the 100 members with the smallest quotas account for just over 3 percent of total quotas.

- **Drawings to finance GRA lending are made only on countries whose balance of payments and international reserve positions are considered sufficiently strong.** Currently 51 of the IMF's 190 members countries—accounting for over 80 percent of total IMF quotas—fall into this category, providing 'usable' currencies.⁶ Similarly, not all the resources covered by the NAB or Bilateral Borrowing Agreements would be available to lend because a small number of the participating countries do not have sufficiently strong external positions.
- **A 'prudential balance' of 20 percent of usable resources is not drawn to cover loans from the GRA.** Instead, it is held back to cover possible requests by countries providing resources to the GRA to withdraw these resources if they face a balance of payments need.

When a member country—typically its central bank—provides resources to the GRA it exchanges international reserves for a claim on the IMF. Protections provided by IMF lending policies and its balance sheet are designed to ensure that these claims ('reserve tranche positions') retain their reserve asset characteristics. Thus, when a member country provides resources to the GRA that are on-lent, the composition of the country's international reserves changes—its reserve tranche increases, and its other international reserves fall—but its total international reserves do not change.

The 50 percent increase in quotas agreed in 2023 will not increase the GRA's current lending capacity of about US\$1 trillion.⁷ The agreement to increase quotas included a commitment to reduce other financing arrangements. When the quota increase comes into effect, the NAB will be rolled back by about 16 percent and bilateral borrowing agreements initially agreed in 2012 will be allowed to expire in 2025, offsetting the impact of the quota increase.

TABLE 1. IMF GRA resources and lending capacity (SDR billions)

	Total Resources End 2023	Lending Capacity 1/ End 2023	Lending Capacity After Quota Increase
Quotas	477	309	464
NAB	364	278	232
Bilateral agreements	141	109	–
Total SDR bn	982	696	696
Total US\$ bn	1318	934	934

Note: 1/ Lending capacity includes only the usable resources available from IMF members with strong enough external positions to be included in the financial transactions plan (FTP) and the GRA's SDR holdings. A prudential balance of 20 percent is also held back to safeguard the liquidity of countries' claims.

Source: Rollback of Credit Arrangements in the New Arrangements to Borrow (IMF, March 6, 2024).

6 Their currencies are deemed 'usable' in the IMF's terminology and are therefore included in the quarterly Financial Transactions Plan which sets out the expected use of quota resources to finance borrowing from the IMF.

7 Quota reviews take place at 5-year intervals. They are typically contentious in that any resulting quota increase usually results in some reallocation of voting power. The quota increase agreed in 2023 was unusual in that all members received an increase of 50 percent, so that voting shares did not change. The total lending capacity was unchanged since other financing—which is seen as less secure than quota-based resources—will be rolled back.

Member countries lending to the GRA earn the SDR interest rate (4.1 percent at end-May 2024) on their claims. Countries borrowing from the GRA pay the SDR interest rate plus a margin. This 'basic rate of charge' was 5.1 percent (4.1 percent plus a margin of 1 percent) at end May 2024. When a country's borrowing from the GRA is more than 187.5 percent of its quota, it pays a surcharge of 2 percent initially and then 3 percent when total has been above this threshold for three years or more. The basic margin covers the staff costs of these lending operations and, together with surcharges, allow the IMF to generate reserves.

The role of the GRA's reserves

Quota subscriptions, the primary source of the institution's financial base, are sometimes (incorrectly) referred to as the IMF's 'capital'.⁸ But quotas do not mimic the role played by capital in MDBs which serves as a financial buffer against credit risks, helping to safeguard MDB's triple-A credit ratings and thus their access to lower cost private financing.

Instead, the IMF's reserves perform a similar role to capital in an MDB. These reserves, or 'precautionary balances',⁹ which accumulate when the GRA's net income is positive, provide an additional line of defense against financial risks. For the IMF, the aim is to safeguard the resources provided by member governments, or typically their central banks, when these are on-lent to countries borrowing on non-concessional terms from the IMF. Together with the prudential balance noted above, which ensures the liquidity of lenders' claims on the GRA, precautionary balances are intended to safeguard the reserve asset characteristics of these claims.¹⁰

The IMF regularly reviews the adequacy of its precautionary balances (PBs).¹¹ Under the framework that has been used since 2010 to guide these reviews, 'the Board sets a medium-term target for precautionary balances based on a comprehensive assessment of risks facing the Fund and an indicative range of 20–30 percent for the ratio of precautionary balances to a forward-looking credit measure.... the framework also envisages a role for judgment in setting the target.' This framework reflects several distinctive features of GRA lending:

8 For example, the IMF's *Glossary of Financial Terms* refers to quotas as capital subscriptions. But the IMF's *Financial Statements* do not use this term and the GRA balance sheet does not include a 'capital' item.

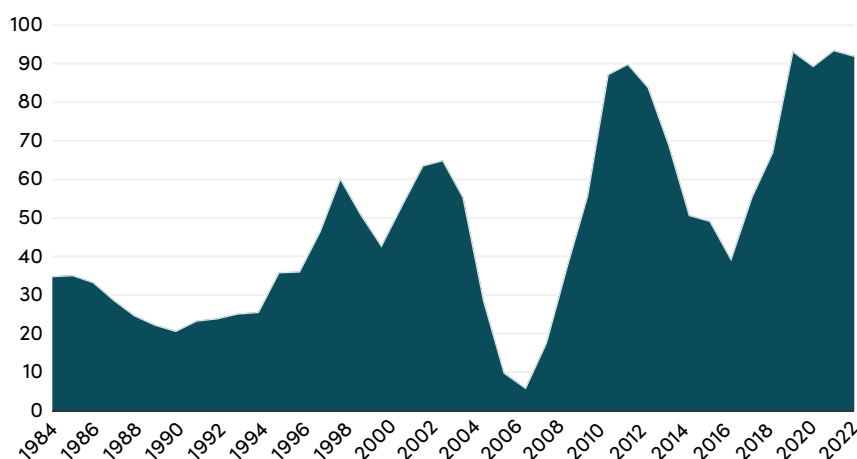
9 The GRA's total reserves of SDR 28.2 billion at the end of the IMF's last fiscal year (April 30, 2023) were higher than its precautionary balances of SDR 22.6 billion. Precautionary balances exclude: (i) SDR 4.4 billion of reserves financed by profits from gold sales to fund an endowment to support the IMF's administrative budget and (ii) pension-related gains and losses included in accounting income.

10 'Reserve assets are external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes' (IMF BPM6). In practice, the requirements of 'availability' and 'control' imply that reserve assets must be liquid and subject to low credit risk.

11 The last review was held on March 20, 2024.

- **The indicative target range for precautionary balances does not explicitly take account of the GRA's total lending capacity.** Although the GRA's full lending capacity would be available in the event of a very severe global crisis, its large size is geared more towards crisis prevention by providing an assurance that the IMF has sufficient 'firepower' to contain contagion risks in financial crises. In this vein, the IMF's lending capacity was first increased to about one trillion dollars—by entering into Bilateral Borrowing Agreements and then enlarging the New Arrangements to Borrow—in the wake of the global financial crisis when risks in the euro area were elevated.
- **Total GRA credit outstanding has fluctuated widely**, rising sharply during periods of economic turbulence, and falling back in the good years. Almost all credit was repaid by 2007 before the global financial crisis saw it rise to a new peak in 2012. Credit was again falling back sharply before COVID intervened bringing another peak in total credit outstanding. A three-year average of credit outstanding overing the of last 12-months and projections for two years is used to derive the medium-term indicative target range for precautionary balances.

GRA credit outstanding in billions of SDRs



- **GRA lending is inherently risky** given the IMF's role in supporting countries in crisis. These risks are accentuated by the typically highly concentrated nature of GRA lending; at end-December 2023, five countries (Argentina, Ecuador, Egypt, Pakistan and Ukraine) accounted for over two-thirds of GRA credit outstanding. Although countries seldom fall into arrears to the IMF, and loans have not been written off or precautionary balances drawn upon to cover losses, this partly reflects the degree to which these adverse outcomes have been avoided by what could be considered defensive lending. In this vein, many countries have been long term users of GRA lending—since 2000 Argentina and Pakistan have both had five arrangements with the IMF. While MDBs typically establish country exposure limits to reduce these concentration risks, this option is not open to the IMF which must stand ready to provide support as needed, even if this entails highly concentrated lending.

Reflecting these factors the indicative target range of 20–30 percent of credit used for setting the PB target is higher than the comparable ratios typically seen in MDBs. For example, the IBRD's current strategic capital adequacy framework sets a minimum equity-to-loans ratio of 19 percent.¹²

- **Given the idiosyncratic nature of the risks to the GRA**, the framework allows for judgment in setting the target for precautionary balances. This considers, for example, the perceived risks of current exposures including movements in sovereign bond spreads, bunching in repayments falling due to the IMF, and the likelihood of further large-scale borrowing. The latter includes the possibility that countries draw on large 'precautionary' arrangements that have become an increasingly important part of the IMF's crisis prevention toolkit since the first arrangements under the Flexible Credit Line (FCL) were approved in 2009.
- **Precautionary balances can only be accumulated when the IMF is generating surplus income.** Typically, large surpluses only arise when lending, and thus interest income from lending, is high. And this means that any desired increase in precautionary balances can only be attained when these risks are also elevated. The framework therefore includes a floor for precautionary balances which is to be maintained even if lending falls to very low levels, so that an adequate financial buffer is retained to mitigate risks when lending again increases. This floor was raised to SDR 20 billion in March 2024.

The GRA balance sheet also includes large gold holdings. Accumulated in the early years of the IMF when part of a member's quota had to be paid in gold, gold appears as only a minor item, accounting for less than 1 percent of total GRA assets. But this belies both its actual value and its importance for the IMF. Its current market value of about SDR 160 billion far exceeds its balance sheet valuation at historic cost of just over SDR 3 billion. And for the IMF, gold is seen as providing fundamental strength to the balance sheet, providing an ultimate backstop to the IMF's unique financing mechanism, helping to ensure that central banks providing resources to the GRA for on-lending can carry these claims at full face-value on their balance sheets.

The GRA has significant unused lending capacity and seemingly adequate reserves. At end-May 2024 GRA credit outstanding was close to record high levels. But the total of SDR 90 billion was still less than 13 percent of total lending capacity and total lending commitments (i.e. including undisbursed amounts) were about 24 percent of total lending capacity. Interest income from this relatively high level of lending has also driven increases in reserves—the current target for precautionary balances of SDR 25 billion was attained in April 2024, the end of the IMF's financial year.

12 IBRD Financial Statements, December 2023 (page 17).

The Poverty Reduction and Growth Trust

The PRGT provides subsidized loans to low-income countries (LICs). While the loan resources of the GRA are in principle available to all members of the IMF—as was recently underscored by large-scale borrowing during the Euro area crisis—only 69 of the IMF’s 190 members countries are eligible to borrow from the PRGT. Reflecting their small economic size—eligibility is based on the IDA per capita income cutoff with some modifications—they collectively account for only 3.3 percent of IMF quotas (SDR 15.6 billion). The targeting of these subsidized resources to support the poorest members is also enhanced by an expectation that 18 PRGT eligible countries—with somewhat higher per capita incomes and moderate risk of debt distress or substantial past access to capital markets—use a blend of GRA and PRGT resources when they borrow from the PRGT.

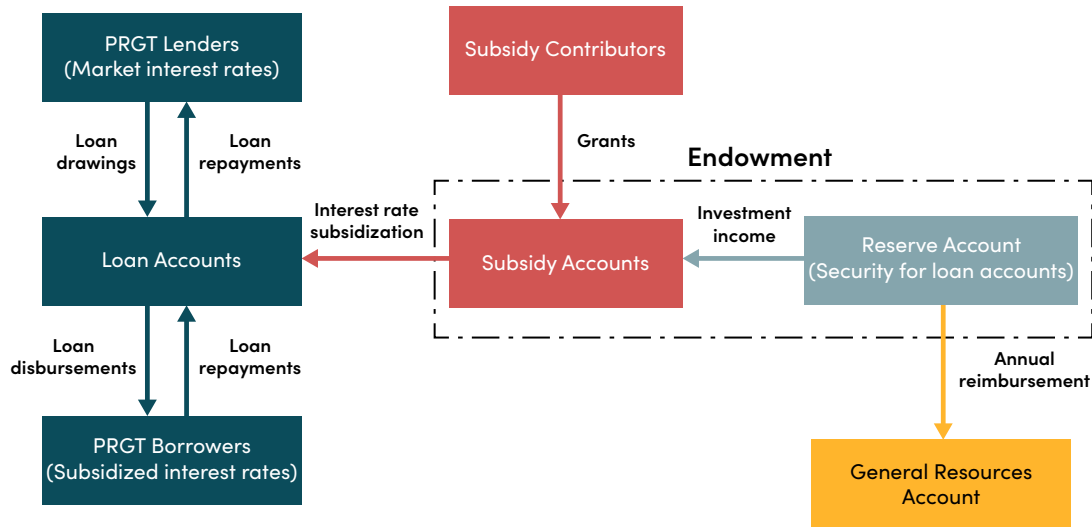
The PRGT’s lending to LICs replicates many aspects of the much larger lending operations of the GRA. For example, all PRGT loans are financed by drawing on other member countries and, like the GRA, have a maximum maturity of 10 years. All transactions are denominated in SDRs and access to GRA and PRGT resources is defined in terms of member countries’ quotas. PRGT disbursements are also typically phased with corresponding policy conditionalities and associated Executive Board reviews of performance, much like lending from the GRA.

But the PRGT is a separate financial entity, distinct from the GRA. PRGT loans to LICs do not draw on quota resources, the GRA does not bear the credit risk of these loans, and the IMF’s Articles of Agreement significantly constrain the scope for GRA resources to be used to support the PRGT and other trusts.

The PRGT’s financial architecture consists of loan accounts, subsidy accounts, and the reserve account. Loan resources borrowed from a limited pool of richer member countries (currently 20 countries) at the SDR interest rate are on-lent via the loan accounts to PRGT borrowers at subsidized rates. Subsidy costs are financed from balances in the subsidy accounts. The reserve account—which was largely funded by past sales of gold—provides security to lenders as its resources can be used to repay loans if a PRGT borrower falls into arrears. Investment income generated by the Reserve Account also meets subsidy needs and usually covers the administrative costs of running the PRGT through an annual ‘reimbursement’ to the GRA.

Mirroring the financial structure of the GRA, the financial architecture of the PRGT is designed to preserve the reserve asset characteristics of resources lent to the PRGT. The reserve account, like precautionary balances in the GRA, lowers credit risks for lenders. The liquidity of lenders’ claims on the PRGT is also supported by an ‘encashment’ regime, which mirrors the architecture of the ‘prudential balances’ used to underpin the liquidity of countries’ claims in the GRA. In the PRGT, 20 percent of loan amounts committed are not drawn to finance lending but held back as a pool that can be drawn upon if other lenders need to encash their claims on the PRGT.

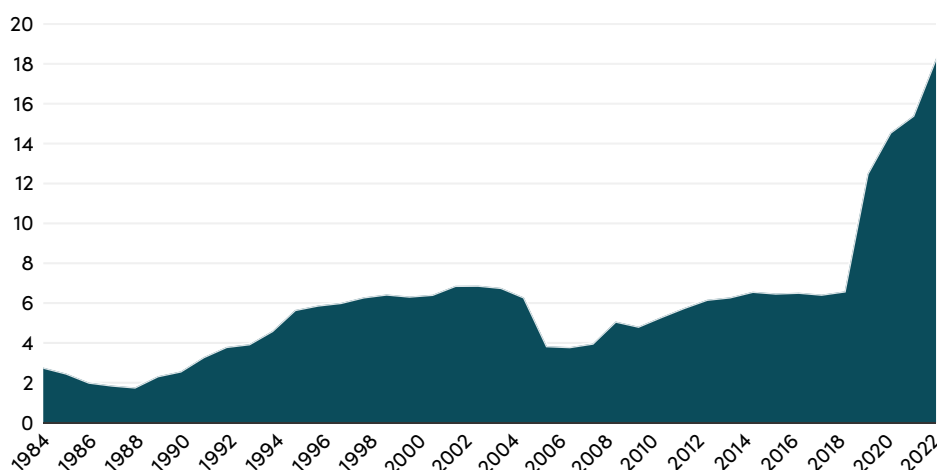
The financial structure of the PRGT



PRGT lending has not typically displayed the same volatility as GRA lending. In part this reflects the purposes of the PRGT. The ‘protracted’ balance of payments problems that PRGT users face cannot rapidly be resolved and, not surprisingly, many LICs are repeat users of the PRGT. Although PRGT lending will typically increase during times of global economic stress, total PRGT credit has not displayed the same strong cyclical pattern as seen for the GRA. During the first two decades the PRGT’s operations—and its earlier incarnations, the Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF)—total credit outstanding rose gradually to over SDR 6 billion in 2005. The total fell to under SDR 4 billion when the Multilateral Debt Relief Initiative (MDRI) financed the cancellation of a large part of this debt in 2006. Thereafter the global financial crisis raised LICs’ financing needs and total PRGT credit outstanding again rose to over SDR 6 billion, stabilizing at this level in the five years before the pandemic.

But PRGT lending has surged since the beginning of the pandemic to help meet LICs’ immediate financing needs. By the end of 2020, total PRGT credit outstanding had almost doubled to SDR 12.5 billion and by end 2023 had nearly tripled to SDR 18.3 billion.

PRGT credit outstanding in billions of SDRs



Unlike the GRA, the PRGT's lending capacity is now severely constrained, but not by loan resources.

The surge in lending since 2020 has far exceeded the PRGT's sustainable annual lending capacity which stood at SDR 1.4 billion before the pandemic. Member countries have responded promptly to repeated calls for more loan resources for the PRGT. These have also been bolstered by the inclusion in the US government funding bill passed in late March 2024 of the equivalent of almost SDR 16 billion in loan resources for the PRGT. This latest addition would bring the uncommitted loan resources of the PRGT close to SDR 40 billion—more than enough to cover likely demand for many years.

The PRGT's problem is a shortage of *subsidy* resources brought on by the higher levels of lending and, in the last two years, higher interest rates that have significantly increased the subsidy costs of this lending, all of which is now interest free.¹³ At the same time the medium-term financing needs of LICs have increased sharply. [We have estimated](#) that to meet these needs the PRGT will require an annual lending capacity of SDR 3 billion, or more than double its capacity before the pandemic.

Replenishing the PRGT's subsidy resources and raising its future lending capacity will require as much as SDR 10 billion.¹⁴ There are no easy options because filling this gap requires hard money—essentially grants—rather than loans. But, as we discuss below, there is also scope for using internal resources—elements of the GRA's balance sheet—to help close the gap.

¹³ To cover these much higher subsidy costs, the PRGT has in effect depleted the resources of the subsidy account which, together with the reserve account, provided an endowment designed to generate sufficient investment income to subsidize a self-sustaining lending capacity of about SDR 1.4 billion a year.

¹⁴ See [Whither or wither the PRGT? Funding options for a cash strapped PRGT](#).

The Resilience and Sustainability Trust

The RST, which began operations in October 2022, aims to enhance economic resilience and sustainability in a broad range of countries, helping them address risks to balance of payments stability stemming from specific longer-term structural challenges, especially climate change. All countries with a per capita income below a threshold 10 times higher than the IDA operational cutoff are eligible to access the RST, with a higher threshold for very small economies. Currently 143 countries are eligible, more than double the number eligible for the PRGT and collectively these countries account for 33 percent of IMF quotas.

However, the RST prioritizes assistance to smaller economies by capping access for large eligible countries. The IMF's scenarios of possible usage assume average access of up to 100 percent of quota.¹⁵ (By comparison the 59 current users of the PRGT have average credit outstanding to the PRGT of 138 percent of quota). But access for the 27 larger eligible countries users is capped at SDR 1 billion. Over 80 percent (116) of eligible countries accounting for just under 6 percent of total quotas would not be affected by this cap. At the other extreme, the 5 largest eligible countries (Brazil, China, India, Mexico, and Russia) account for over 16 percent of IMF quotas. But they are very unlikely to use the RST. China is the largest *contributor* to the RST. And for the others, drawings of SDR 1 billion would be very modest, on average equivalent to just 10 percent of their individual quotas. Total financing from RST is thus likely to be much less than suggested by the very broad coverage of the eligibility threshold.

The RST's financial structure broadly mirrors the PRGT's where bilateral loan resources are on-lent, and the reserve asset qualities of this lending is supported by an encashment regime (to provide liquidity) and a reserve account (to provide an additional buffer against credit risks). But unlike the PRGT, the RST starts without a large reserve account. And, in the absence of resources to lower borrowing costs, the RST's design does not include interest rate subsidies even for the poorest borrowers. The structure has three accounts:

- **Loan account:** SDR (or freely usable currency) loans that are on-lent to RST borrowers. All lenders earn the SDR interest rate. 20 percent of all committed loan amounts are held in reserve to meet possible encashment needs of other lenders.
- **Reserve account:** Funded initially by contributions—effectively grants—equal to at least 2 percent of contributors' loan commitments. The reserve account will be augmented by investment income from the deposit and reserve accounts and interest margins and service charges paid by most RST borrowers. Given the longer maturities of RST loans—a maximum of 20 years—it is expected to provide an adequate buffer against credit risks by the time repayments fall due. The reserve account does not subsidize interest costs to borrowers (as it

15 [Proposal to Establish a Resilience and Sustainability Trust](#), IMF, April 2022.

- **Deposit Account:** Funded by upfront SDR (or freely usable currency) deposits from loan contributors that are expected to be equal to at least 20 percent of contributors' loan commitments. The main function of the deposit account is to generate income to add to the reserve account, but the deposit account itself also provides additional 'gross' reserves for the RST. Contributors earn the SDR interest rate on their deposits. These funds are then invested in short duration fixed-income instruments, expected over the medium term to yield a premium of 45–50 bp over the SDR interest rate. Deposits can be counted as international reserve assets given the relatively low investment risks and the ability of depositors to withdraw funds in the event of BOP need.

The diagram illustrates the RST Cash Flow Model, showing the flow of funds between various entities:

- RST Contributors** (Top):
 - Provide **Contributors' Deposits** to the **Deposit Account (DA)**.
 - Provide a **Reserve Buffer** to the **Reserve Account (RA)**.
- Loan Account (LA)** (Left):
 - Receives **Loan Drawings** from **RST Borrowers**.
 - Provides **Loan Repayments** to **RST Borrowers**.
 - Receives **Interest Payments (SDR rate)** from **RST Borrowers**.
 - Receives **Interest Margin** from the **Reserve Account (RA)**.
- Reserve Account (RA)** (Center):
 - Receives **Net Returns on Investments** from the **Deposit Account (DA)**.
 - Provides **Interest Margin** to the **Loan Account (LA)**.
 - Provides **GRA Reimbursement** to the **GRA Reimbursement** entity.
- Deposit Account (DA)** (Right):
 - Receives **Interest Payments (SDR rate)** from **RST Contributors**.
- RST Borrowers** (Bottom Left):
 - Provide **Loan Disbursements** to the **Loan Account (LA)**.
- GRA Reimbursement** (Bottom Center):
 - Receives reimbursement from the **Reserve Account (RA)**.

The target for loans was about SDR 27 billion, with deposits accounting for the bulk of the remainder. Taking account of the 20 percent buffer held back from this total to cover possible encashment calls, SDR 27 billion would be sufficient to cover loans from the RST of about SDR 22 billion.¹⁶ Without further fund-raising, total financing available from the RST would be comparable to the current scale of the PRGT which at end-March had total loan commitments of SDR 25.4 billion (of which almost SDR 19 billion had been disbursed).

CAN THE IMF USE ITS BALANCE SHEET MORE EFFECTIVELY TO ADDRESS GLOBAL CHALLENGES?

Borrowers from the RST pay a margin over the prevailing SDR interest rate. Interest rates are not subsidized but 51 PRGT eligible countries that have lower incomes and are not expected to use PRGT resources blended with more expensive GRA resources, pay a margin of 55 basis points over the SDR interest rate. Other PRGT eligible countries and small states that are not PRGT eligible (27 in total) pay a margin of 75 bps and the remaining 65 users would pay a margin of 95 basis points.

Wouldn't it be better to consolidate all these operations into the GRA?

The three financial structures summarized above have distinctive features but much in common.

The most important commonality is that they are all designed to enable IMF member countries to provide financing for on-lending while protecting them from liquidity and credit risks. Liquidity risks in the GRA, the PRGT and the RST are all mitigated by the same expedient of not drawing fully on their respective credit lines (quotas or borrowing agreements). Instead, 20 percent of each country's commitment¹⁷ is held back and would only be draw upon to finance withdrawals by other lenders facing immediate balance of payments needs. The terminology differs—prudential balances in the GRA and encashment regimes for the PRGT and the RST—but the design is the same across all three. Similarly, all three have reserves—precautionary balances and gold holdings in the GRA, a reserve account in the PRGT, and reserve and deposit accounts in the RST—that provide financial buffers to protect lenders against credit risks. And these protections against liquidity and credit risks preserve the reserve asset characteristics of international reserves (SDRs or freely usable currencies such as US dollars or Euros) that lenders—typically their central banks—provide to the GRA, the PRGT or the RST.

The GRA and the two trusts also share similar lending modalities. Most lending from the GRA and PRGT takes place through arrangements with performance targets and policy measures that set conditions for phased disbursements of the amounts committed in the arrangement. All of this is geared to addressing the balance of payments problem that led the country to seek assistance from the IMF and, in the process, ensuring that the loan from the GRA or PRGT gets repaid. Using these modalities, the PRGT also borrows a key concept from the GRA, namely that arrangements in the PRGT must be judged to meet the standard of Upper Credit Tranche (UCT) conditionality that applies in GRA. And in this same vein, countries borrowing from the RST must do so alongside a UCT arrangement (GRA or PRGT) with the IMF.¹⁸

Conceptually, there could be potential gains from pooling risks. The reserves of the GRA—currently SDR 25 billion in precautionary balances and gold holdings with a market value of about SDR 160 billion—are much larger than the corresponding reserves of the PRGT and the RST. And as we have noted above, the lending operations of the PRGT and the RST are on a much smaller scale

¹⁷ In the GRA, provision of quota resources for lending by countries with strong external positions is an obligation of member. In contrast, entering into an agreement to lend to the PRGT and RSA is voluntary.

¹⁸ The IMF's New Resilience and Sustainability Trust: Demystifying the Debate over Upper Credit Tranche Conditionality.

than the GRA. The risks that borrowers from the GRA face are also somewhat different from those borrowing from the PRGT. Most notably, emerging markets are much more likely to be affected by capital account pressures than are PRGT borrowers that generally have more limited access to private capital markets. A smaller pool of shared reserves might therefore be adequate to cover the same risks currently managed separately. And if reserves could be pooled, why not go further, and combine all these operations on one balance sheet?

But the IMF's Articles of Agreement say otherwise.

GRA resources can only be lent to countries when they are experiencing an *actual balance of payments need*.¹⁹ This requirement severely limits the circumstances in which the GRA can provide support. In the context of climate change, for example, it allows the IMF to provide emergency relief after a climate related disaster that results in a balance of payments need. But it does not allow GRA lending to support policies to mitigate climate change or adapt to climate change unless these steps give rise to an actual (i.e. current) balance of payments need.

The resources of the PRGT and the RST can be used more broadly. As well as allowing for lending by the GRA, the Articles of Agreement²⁰ permit the IMF to provide 'financial services' to member countries, including through the establishment of trusts. The operations of these trusts must be 'consistent with the purposes' of the IMF; they cannot be 'on the account of' the IMF (so the GRA cannot bear any risk of loss) and they cannot 'impose obligations on members without their consent'. The requirement that they be consistent with the purposes of the IMF—helping countries address balance of payments issues—is much more permissive than the requirement of an actual balance of payments need. As well as being consistent with the overarching purpose of the IMF as set out in Article 1, the RST is seen as promoting the specific objective of exchange rate stability²¹ by providing financial assistance to help countries strengthen their *prospective* balance of payments stability. The latter could include the expected balance of payments impact of reforms to mitigate or adapt to climate change. The PRGT which provides support to countries in addressing *protracted* balance of payments problems—even if they do not have an actual balance of payments need—is similarly consistent with the purposes of the IMF. In addition, the PRGT uses resources from the Special Disbursement Account in the GRA²² which was funded by profits from gold sales. A separate provision in the Articles²³ allows these resources to be used to provide balance of payments assistance on special terms to developing countries.

19 Article V, Section 3. The concept of balance of payments need is wider than a BOP deficit. A country could have a BOP need because of an inadequate level of reserves, even if it is running a BOP surplus. For a fuller discussion, see IMF [Staff Guidance Note on the Use of Fund Resources for Budget Support](#).

20 Article V, Section 2(b).

21 Article V, (iii).

22 Since there are currently no resources in the Special Disbursement Account, it was not included in the earlier discussion of the GRA's financial structure.

23 Article V, Section 12(f)(ii).

These legal constraints preclude the consolidation of the PRGT and the RST in the GRA for the foreseeable future. In principle the Articles could be amended to broaden the uses of the GRA to encompass the operation of the PRGT and the GRA. But the practical and political obstacles to such a change effectively rule this out. Any amendment to the Articles requires formal acceptances from three-fifths of the membership accounting for 85 percent of total voting power. There have been only six amendments to the Articles since the IMF was established and the ratification of even seemingly noncontentious amendments often requires months, if not years. In this case, there would likely be significant political objections. Approval of the RST needed to overcome skepticism that the IMF had a role in providing financial support to address climate change even with resources that are not on the main balance sheet. And, perhaps more importantly, if the PRGT and the RST were on the main balance sheet, IMF members would be *required* to provide quota resources to finance these operations. Bringing the operations of the PRGT and the RST into the GRA would impose obligations on members, in the same way that countries with strong external positions are required to provide quota resources in SDRs or freely usable currencies when the GRA lends.

The current structure of separate accounts is thus the starting point for considering how IMF resources could be better used. In this context are there any lessons from the recent recommendations on MDBs capital adequacy frameworks for the GRA's operations?

Lessons from the independent review of Capital Adequacy Frameworks (CAFs)

Most of the recommendations from the CAF review do not readily transfer to the IMF. The IMF's distinctive financial structure, relying on official financing from member countries means that reserve adequacy in the IMF plays a different role. It is not intended to inform or facilitate private market financing for the IMF and the IMF is also not subject to assessments by credit rating agencies (item 4 of the summary recommendations in Box 1). In the same vein, the IMF's financial structure precludes the use of financial innovations to shift loan risks to counterparties (item 3). In a broad sense the IMF is already following relevant elements of the first and last recommendations by bringing new methodologies into its regular reviews of the adequacy of precautionary balances and promptly posting the papers for these reviews on its website.

At first blush, the recommendation to give more credit to callable capital also seems of little relevance to the IMF. The GRA's financial structure does not include callable capital. All quota contributions are paid-in (25 percent in freely usable currencies or SDRs and the remainder in domestic currency) and the IMF's precautionary balances are generated entirely from retained earnings.

However, there is one element of the GRA balance sheet that could be seen as analogous to callable capital. In the MDBs, callable capital is important in supporting the strength of the balance sheet.

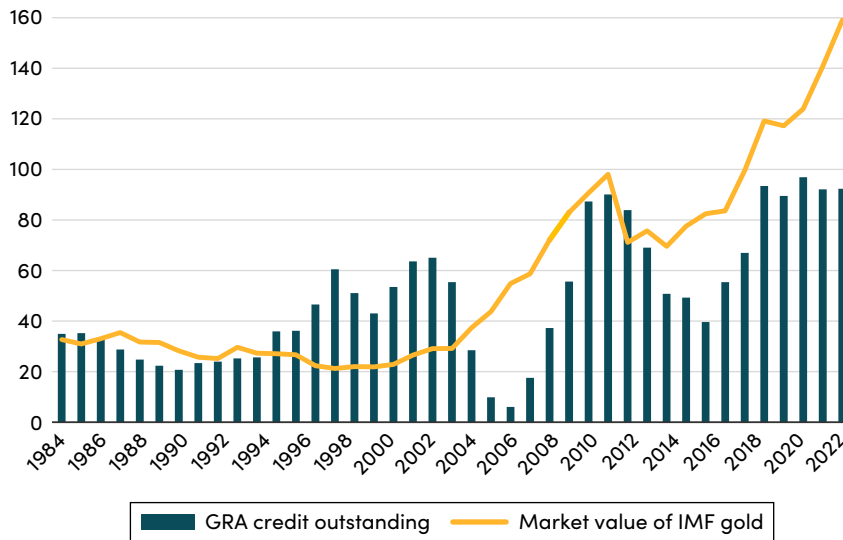
It is not expected to be called but resides as an additional assurance. The IMF's gold, whose true value is masked on the balance sheet, plays a similar role. There is no expectation that gold would be used directly to bolster the balance sheet. It stays in the background as an ultimate backstop.

In parallel with the recommendations of the CAF review, the GRA's gold holdings could be given greater weight in the institution's assessment of its reserve adequacy. And this is especially true with gold prices at record highs. The market value of the IMF's gold is now more than 175 percent of GRA credit, the highest it has ever been. By comparison, when GRA credit least peaked in 2012 during the global financial crisis, the market value of gold equated to 90 percent of credit outstanding.

BOX 1. Summary recommendations of the independent review of MDBs capital adequacy frameworks

1. **Adapt approach to defining risk tolerance.** Most MDBs and shareholders allow rating agency assessments considerable influence in determining risk tolerance, de facto embedding rating agency methodologies into internal policies. Shareholders and MDBs should further reflect on their approach to defining risk tolerance with evidence-based, realistic assessments of the risks posed by MDB operations, using rating agencies as an external evaluation tool.
2. **Give more credit to callable capital.** Callable capital is a powerful instrument expressing the commitment of shareholders to stand behind MDBs. MDBs should incorporate its financial benefits in MDB capital adequacy assessments, as is already the practice in some MDBs and in credit rating agency methodologies.
3. **Expand uses of financial innovations.** Proven innovations to create more usable capital or shift loan risks to willing counterparties should be used more widely and frequently by MDBs, mobilizing financial markets as sources of development finance and potentially freeing billions of dollars in additional financing.
4. **Improve credit rating agency assessment of MDB financial strength.** Clarity from G20 and shareholders more broadly on their support for MDBs is important for how rating agencies and markets view MDBs. At the same time, there may be scope for rating agencies to refine methodologies to better account for the unique mission, track record and financial strength of MDBs.
5. **Increase access to MDB data and analysis.** More accessible and comparable data and analysis, as well as regular capital reviews, will support shareholders, rating agencies and market participants in their assessment of MDB strength and demystify their financial model. Ensuring the right access to information and expertise by MDB boards will support shareholder consistency between strategic priorities and financial management.

GRA credit outstanding and the market value of the IMF's gold in billions of SDRs



Leveraging the GRA balance sheet to support the PRGT

Modest gold sales would be the best option. At current prices, [selling less than 8 percent of the IMF's gold](#) could generate the SDR 10 billion or so that is needed to replenish the PRGT's subsidy resources and bolster future lending capacity to SDR 3 billion a year. But this requires a solid consensus.²⁴ Crucially, the 85 percent majority needed for gold sales cannot be reached without the support of the United States, which in turn requires the backing of the US congress. And as recently as last September, Under Secretary of the Treasury Jay Shambaugh indicated at a [CGD event](#) that the United States would not push gold sales.

But even if gold is not sold, its high value could help to free up other resources. The target level of precautionary balances of SDR 25 billion has been attained. In the [recent discussion of reserve adequacy](#), the IMF's Executive Board agreed that the target should not be *lowered* at this stage and there was some support for *raising* the target. However, the high value of the IMF's gold was not highlighted in these discussions. Given the restrictions on gold's use it is not seen as 'part of or an alternative to precautionary balances.' Nonetheless, the additional assurance provided by gold can only have increased. In the last 10 years while precautionary balances doubled to SDR 25 billion, the value of the IMF's gold has more than doubled, rising by over SDR 80 billion. Taking this explicitly into account—mirroring the CAF recommendation that MDBs recognize the value of their callable

²⁴ The IMF's Gold: A Global Resource or a Chimera?

capital—would help to buttress the case for not raising the precautionary balance target and allowing some reserves to be put to other uses.²⁵

The case for using some GRA reserves to support the PRGT is also helped by the expectation of further reserve accumulation. The IMF's projections suggest that without policy changes, reserves are likely to continue rising rapidly. Credit is now expected to decline only gradually in the baseline scenario, resulting in average annual increases in precautionary balances of about SDR 2.5 billion over the next five years. The initial discussions on the possible use of some of the GRA's reserves showed differing views among IMF shareholders. There is some support for using reserves to bolster the PRGT. But later this year the IMF will review the contentious issue of surcharges paid by larger borrowers. Sharply reducing surcharges, the main driver of reserve accumulation, would limit the potential for reserves to be used for the PRGT.²⁶

Although it will take time to build reserves above the current target of SDR 25 billion that could be released for the PRGT, this delay could be put to good use to overcome procedural barriers.

By a 70 percent majority vote the Executive Board could decide on a distribution of reserves. However, the amounts released cannot be placed directly into the PRGT. General reserves (or equivalently net income at the end of a financial year) can only be distributed to the membership, pro rata to quota shares. If the distribution is to benefit the PRGT, the recipients would need to agree that their shares go to the PRGT. This process was used earlier to enable profits from gold sales in 2009 to be transferred to the PRGT. But this experience suggests that it will take time to obtain the required level of support.

The effectiveness of a decision to proceed with a distribution could be made conditional upon acceptance from a high percentage of recipients to allow their shares to benefit the PRGT. Thus, an early decision on a distribution could be taken in anticipation of further accumulation of reserves, recognizing that may take a year or more for countries to agree on the use of their shares. If reserves are to be the main source of financing to meet the needs of a suitably enlarged PRGT, two or more distributions phased over a period of years may be needed.

The strong pace of reserve accumulation also strengthens the case for eliminating annual reimbursement of the GRA. The cost estimate of SDR 10 billion to restore and then raise the PRGT's capacity assumes that the PRGT resumes annual payments to the GRA to cover the costs of running the PRGT. These payments, which were suspended to support the PRGT during the pandemic and its aftermath, would amount to only about 3 to 4 percent of the reserve accumulation that is projected

25 The analogy with callable capital is not precise, in part because the gold price could fall. However, even if the price were to fall by 25 percent, the value of the IMF's gold would still be higher in relation to current credit outstanding than it was during previous lending peaks.

26 Earlier IMF scenarios indicated that suspending surcharges for two years would cut reserve accumulation by about SDR 3 billion while temporarily raising the threshold at which surcharges apply (from 187.5 percent of quota to 300 percent of quota) would reduce total reserve accumulation by over SDR 1 billion.

over the next five years. But they would impose a significant burden on the PRGT, using resources that could otherwise be used to pay subsidies. Allowing a resumption of reimbursement can thus be seen as an inefficient use of the IMF's resources. In the same vein, if reimbursements resume, this cost for the PRGT would need to be offset with subsidy resources from elsewhere. If these were, at the margin, met out of reserves this would entail an additional cost since not all countries are likely to agree that their shares of a reserve distribution accrue to the PRGT.

A distribution from reserves and elimination of reimbursement would likely not meet all the PRGT's needs. Other actions could help close the gap—and use resources more effectively.

- **The resources in the subsidy and reserve accounts could be invested to achieve higher average returns** than under the current mandate that aims for a premium of 90 basis points over the SDR interest rate. These gains could make a modest contribution to meeting subsidy costs.
- **The PRGT's scarce subsidy resources could also be better targeted.** Currently all borrowers from the PRGT pay zero interest. As far as possible all emergency borrowing (under the Rapid Credit Facility) should remain interest free. Given the current and expected level of the SDR interest rate, some increase in PRGT borrowing cost will likely be needed. But subsidies for borrowing under PRGT arrangements such as the Extended Credit Facility—which normally accounts for the bulk of PRGT lending—should be targeted on the poorer and more vulnerable countries. As in the RST, the 51 PRGT eligible countries that are not expected to blend the use of PRGT with GRA resources could pay a lower rate than other PRGT borrowers.
- **Lenders could agree to receive a lower interest rate.** Most countries lending to the PRGT earn the SDR interest rate. But subsidy costs could be significantly reduced if more lenders followed the example of the UK and agreed to accept a lower interest rate on these loans.

Can GRA lending play a larger role?

The GRA's large capacity is largely untapped, and the needs are great, especially for climate finance.

Even though GRA credit outstanding is close to historic highs, less than a quarter of total lending capacity has been committed. It is thus tempting to see this as a potential source of much-needed climate finance.

But the GRA is not well-suited to meeting climate finance needs. As was noted earlier, the IMF's Articles of Agreement limit the role of GRA lending to instances in which a member country faces an actual—current—balance of payments need. The GRA provided emergency financing in the pandemic and can similarly step in to provide emergency assistance to countries facing a balance of payments needs in the face of a climate-related disaster. There may also be circumstances in which policies to mitigate or adapt to climate change give rise to an actual balance of payments need

and thus a role for non-emergency GRA lending. For example, an oil exporter could face current pressures on its reserves and balance of payments during a transition away from oil production. But in general, mitigation and adaptation policies are more likely to have long-term impacts on the balance of payments and not give rise to the type of immediate balance of payments need that the GRA can cover.

In contrast, the GRA has a unique role in supporting global financial stability. Global international reserves have risen sharply in the last two decades and now stand at about US\$ 13 trillion. But their poor distribution, heavily skewed towards larger economies, limits their efficacy as a global first line of defense in a crisis. Bilateral swap lines between central banks and regional financing arrangements enable some pooling of reserves but with limited coverage. The IMF's lending—operating through pooling reserves via the GRA—is the only layer of the Global Financial Safety Net that is available to all member countries of the IMF. In this way the GRA serves as the international lender of last resort in a crisis.

The large scale of the GRA resources is geared to crisis prevention by providing an assurance that it has the financial capacity to contain contagion risks. The GRA's balance sheet has been further leveraged for crisis prevention through the development of large-scale precautionary arrangements, like the Flexible Credit Line. These involve the pre-qualification of countries with strong macroeconomic fundamentals and policy records for a line a credit that can be drawn upon when needed. In this way, precautionary arrangements, which are typically not drawn, provide a form of insurance to users and an assurance to their creditors. Commitments under the Flexible Credit Line—which account for the bulk of precautionary arrangements peaked at over SDR 80 billion during the pandemic. Without a large buffer of unused capacity, the GRA's role in crisis prevention—which is central to the IMF's mandate—would be seriously diminished.

The COVID pandemic showed the value of rapid unconditional support, but more could be done.

Emergency financing was disbursed in larger amounts and more rapidly than ever before, while the SDR allocation also provided crucial support. The PRGT disbursed over SDR 6 billion in emergency financing under its Rapid Credit Facility to 51 countries—over 70 percent the PRGT eligible countries—and by end 2021 the RCF accounted for close to half of PRGT credit outstanding. But in the GRA the use of emergency finance was relatively limited. Almost SDR 15 billion was disbursed over the same period to 36 countries—a much smaller proportion of the membership—and at the end of 2021 emergency financing (under the Rapid Financing Instrument, RFI) accounted for about one-sixth of GRA credit outstanding. Some of this disparity in use reflects the greater vulnerability of LICs that had access to the RCF. Although both the RCF and the RFI provide disbursement without conditionalities, drawings from the GRA under the RFI are more likely to have been discouraged by the stigma of resorting to IMF borrowing and the related concern that even emergency financing could have adverse implications for capital market access.

A broad-based Contingent Credit Line would be more effective. Like the current emergency lending this would address short-term needs without conditions being applied to disbursements. But rather than being focused on individual countries, access to immediate relief would be triggered when a large-scale global economic shock affects a substantial proportion of IMF member countries. By providing an assurance of rapid unconditional support to the bulk of middle- and low-income countries that are not covered by precautionary arrangements this would enhance the crisis response of the global financial safety net. Drawings under this contingent facility should also not be subject to the surcharges that may also have discouraged use of the RFI by some countries.

Climate finance and the RST

If the IMF is to play more than a very minor role in climate finance, the RST will need more resources. The estimated financing costs for mitigation and adaptation are huge—in the trillions per year—and the IMF’s contribution will inevitably be small. In financial terms, the key role of the RST should be to catalyze much larger public and private support.²⁷ But without more financing, the RST will only be able to assist a small fraction of the membership. And the amounts available for each country and their catalytic role will also be modest particularly if, as is currently envisaged, users will have only one RST without the potential for a successor arrangement.

The initial funding target provided for total RST disbursements of about SDR 22 billion. This was in line with a stylized projection of demand. The resulting target for financing from the membership (SDR 33 billion covering contributions to loans, deposit, and reserve accounts) was also broadly in line with the additional commitments that countries needed to make to reach the G20 target of recycling the equivalent of \$100 billion of SDRs.

The RST’s limited resources have so far not been a constraint. The pace of initial operations has been impressive—in the first 18 months 18 RST arrangements were agreed with 18 countries. (By comparison, 18 of the 34 PRGT arrangements that are currently in place were approved after the RST began operations). The bulk of the financing required from contributors is in place and by end-March 2024 SDR 6.2 billion or about one-third of the available pool of lending resources had been committed in these 18 arrangements. The pace of disbursements has been slower—only SDR 1.5 billion to date. This partly reflects the design of the RST—disbursements are phased and, in contrast to most IMF lending, no initial funding is released on approval of the RST.

But demand may soon outstrip the RST’s current capacity. Managing Director Kristalina Georgieva noted in a recent [CGD event](#) that an additional 30 countries are in the queue asking for RST programs. If the average size of these programs matches those approved so far, this would exhaust almost all the RST’s loan resources. It is also notable that the original demand estimate of SDR 22 billion was

27 For a discussion of the role of the RST and steps to strengthen its catalytic role see ‘[The IMF’s Resilience and Sustainability Trust: The Little Engine That Could](#)’.

constrained by assuming that only countries that had UCT quality programs in the previous 10 years would seek financing. This was presumably intended to reflect requirement that borrowers enter an GRA or PRGT arrangement alongside their RST arrangement. However, it meant that the estimate covered only about half of all the eligible countries—and only slightly more than half of the PRGT eligible countries and small states—and may well have excluded countries particularly vulnerable to the effects of climate change.

The lending capacity of the RST could easily be increased. The financial structure of the RST made it relatively easy for contributors to provide the necessary financing. This kept budgetary costs for contributors to a minimum and preserved the reserve asset characteristics of the loan and deposit accounts to facilitate SDR recycling.²⁸ The structure is also readily scalable, allowing it to be augmented without significant modifications.

In principle, the lending capacity of the RST could be almost doubled through new loan contributions without further additions to the deposit or reserve accounts. The pattern of contributions to date, which has been somewhat skewed towards the deposit and reserve accounts, also makes it easier to add loan resources. Most contributions to the RST have included resources for the deposit and reserve accounts along with loan resources, but some have been ‘standalone’ contributions to the loan or reserve accounts.²⁹ As a result the deposit and reserve accounts are now almost double the levels originally targeted, equating to about 40 percent and 4 percent of loan contributors loan commitments.

The costs of borrowing from the RST should be reduced. Unlike the PRGT, the RST does not subsidize interest rates paid by LIC users. The sharp differential between borrowing costs—zero for the PRGT and 4.5 percent for the RST—may help explain why to date only 4 of the 51 countries in the lowest income group have RST arrangements. In April 2023, there was some support in the IMF’s Board for capping the interest rate for the lowest income group of borrowers, but this was tempered by a concern that the costs would ultimately be covered by income that would otherwise contribute to the RST’s reserve accumulation.³⁰ The higher level of the reserve and deposit accounts may ease this trade-off. In addition, given the GRA’s comfortable income and reserve position the policy of RST reimbursements to the GRA for its administration costs should be reconsidered. The logic of this approach was to make the RST self-sufficient. However, given the growing importance of the IMF’s work on climate change to its core mandate, this logic is questionable. Ending reimbursement by the RST would free up resources in the RST’s reserve account, in the same way that eliminating reimbursement by the PRGT would remove a costly burden on the PRGT. The savings for the RST could then be used to lower interest costs for the most vulnerable countries.

28 The IMF’s RST has met contributors’ wishes—Now it must meet borrowers’ needs!

29 Germany has contributed of SDR 5.1 billion (20 percent of its 2021 SDR allocation) to the deposit and reserve accounts.

30 2023 Review of the Resource Adequacy of the PRGT, the RST and Debt Relief Trusts.

Conclusions

For the GRA

- **Although the IMF's financial structure and mandate differ sharply from MDBs' the CAF review does have an important lesson for the IMF.** The IMF's reserves on its main balance sheet, which mirror the role of capital in MDBs, could be used more effectively without endangering the robustness of financial buffers that are essential to protect its unique financing mechanism.
- **The best option, particularly while gold prices are at record highs, would be to sell a small fraction of the IMF's gold** and use the proceeds to restore and augment the lending capacity of the PRGT. But there is a high political bar for approving gold sales and no clear sign of an emerging consensus to go ahead.
- **Even without sales, the high market value of the IMF's gold could be leveraged to strengthen the case for using reserves to support the PRGT.** The IMF's non-gold reserves (precautionary balances) on its main balance sheet are continuing to rise sharply and have reached SDR 25 billion, a level that the Board generally considers adequate to mitigated current and medium-term financial risks. A fuller recognition of the high value of the GRA's gold in the assessment of reserve adequacy would reinforce the case for using at least some of the reserves accumulating in coming years to raise the PRGT's depleted lending capacity.
- **The lending operations of the GRA, the PRGT and the RST share important similarities, but there is an irrefutable case for maintaining them as separate entities.** Strict limitations on the use of GRA resources that are hard-wired into the IMF's Articles of Agreement and thus very difficult to amend. These prevent the GRA for providing support tailored to the specific balance of payments problems that the PRGT and RST are designed to address. The restrictions on the use of GRA resources also mean that it is not well-suited to providing support for climate change adaptation or mitigation.
- **The lending capacity of the GRA is an essential part of the Global Financial Safety Net.** It can rapidly be called upon to provide support to individual countries in a financial crisis. But the large scale of the GRA resources is also geared to crisis prevention, providing an assurance that contagion risks can be contained.
- **The Covid pandemic showed the value of rapid unconditional support, but more could be done.** A new broad-based Contingent Credit Line could be triggered when a large-scale global economic shock affects a substantial proportion of IMF member countries. By providing an assurance of rapid unconditional support to the bulk of middle- and low-income countries this would enhance the crisis response of the global financial safety net.

For the PRGT

- **Gold sales or the use of reserves are essential to replenish and augment the PRGTs lending capacity.** But other measures, which also increase the efficiency of use of scarce resources, will likely be needed.

- **The strong pace of reserve accumulation in the GRA strengthens the arguments for eliminating the PRGT's payments to the GRA to cover administration costs.** These annual payments make a very minor contribution to the accumulation of precautionary balances but place a heavy burden on the already depleted resources of the PRGT.
- **Resources in the PRGT's subsidy and reserve accounts could be invested to achieve higher average returns.** These gains could make a modest contribution to meeting subsidy costs.
- **The PRGT's scarce subsidy resources could be better targeted.** Emergency financing should remain interest free. But subsidies for borrowing under PRGT arrangements should be targeted on the 51 PRGT eligible countries that are not expected to blend the use of PRGT with more expensive GRA resources.
- **Lenders should agree to receive a lower interest rate.** Subsidy costs could be significantly reduced if more lenders followed the example of the UK and agreed to accept a lower interest rate.

For the RST

- **If the IMF is to play more than a very minor role in climate finance, the RST will need more resources.** The RST will only be able to assist a small fraction of the membership and the amounts available for each country and their catalytic role will be modest.
- **Demand may soon outstrip the RST's current capacity.** 18 arrangements accounting for about a third of the available financing are already in place and 30 more countries are in the queue.
- **The lending capacity of the RST could easily be increased.** The financial structure of the RST made it relatively easy for contributors by keeping budgetary costs low and preserving reserve asset characteristics. The pattern of contributions to date, which has been somewhat skewed towards the deposit and reserve accounts, also makes it easier to add loan resources.
- **The costs of borrowing from the RST should be reduced.** The sharp differential between borrowing costs—zero for the PRGT and 4.5 percent for the RST—may help explain why only 4 of the 51 countries in the lowest income group have RST arrangements.
- **Payments from the RST to the GRA to cover administrative costs should also cease.** This could make an important contribution to lowering interest costs for low-income borrowers.