IMF Legislation: Overview

Summary
This legislation will advance U.S. leadership efforts to stabilize the international financial system and protect U.S. economic interests by allowing for: an increase in U.S. participation in the International Monetary Fund's (IMF) New Arrangements to Borrow (NAB); authorization for an increase in the U.S. quota in the IMF; authorization for the sale of gold by the IMF, including to support low-income countries; and associated authorizations for the United States to support the amendment of several provisions of the Articles of Agreement of the IMF.

Expand the New Arrangements to Borrow (NAB)
In April, the G-20 Leaders agreed to an expansion of the IMF's New Arrangements to Borrow (NAB) of up to $500 billion to provide an insurance policy for the global economy. This legislation will authorize an increase in U.S. participation in the NAB of up to $100 billion (75,000,000,000 Special Drawing Rights (SDRs)), meaning that U.S. participation will leverage up to $400 billion in the NAB from other countries. The NAB is a mechanism through which the IMF can obtain supplemental financial resources for temporary use in its lending operations when the IMF's existing resources are substantially drawn down in the face of circumstances that threaten the stability of the international monetary system. The current U.S. share of the NAB is currently valued at approximately $10 billion (6.6 billion in SDRs). The legislation will also allow the United States to agree to amendments to expand and make the NAB more flexible.

Quota Reform
This legislation will authorize certain reforms which are designed to increase the effectiveness and credibility of the IMF's governance structure by reflecting the rapid growth and increasing significance of dynamic emerging economies. These reforms include: (1) A new formula as the basis for determining country quotas, giving significantly more weight to gross domestic product (GDP) and thus better reflecting countries' relative weights in the global economy (this reform does not require congressional authorization); (2) A tripling of the basic votes of each member, which will boost the voice of the poorest countries, and an additional Alternate Executive Director for two sub-Saharan African chairs in the IMF Executive Board to enhance these countries' capacity for more effective representation and voice; and (3) A quota increase targeted at the most under-represented countries. No increase in quota can become effective before the entry into force of the amendments to the Articles on basic votes and additional Alternate Executive Directors.

This legislation will provide an increase in the U.S. quota in the IMF by approximately 5 billion in Special Drawing Rights (valued at about $8 billion) in order to maintain its current voting share at 16.7% of total voting power in the IMF and veto power within the organization.

Gold Sale and Related Amendments
The IMF relies predominantly on income from lending operations, which fluctuate with the global business cycle, to finance not just lending-related activities, but also the much larger share of its expenses associated with its global, regional, and bilateral surveillance and the expenses associated with other activities including the provision of international statistics and technical assistance. On the basis of recommendations from a distinguished panel of experts, in early

2008, the IMF Executive Board agreed on thorough reform of the IMF's income model, including (1) selling a small amount of the IMF’s gold holdings to finance an endowment, the return on which would finance a portion of IMF administrative expenses, and (2) modestly expanding the IMF's investment authority to enhance its potential investment earnings. The agreement reached by IMF Governors explicitly limits the proposed sale of gold to amounts that were not contributed by members, including from the United States.

This legislation will authorize the United States to agree to the sale of 12,965,649 ounces of the IMF’s gold. Amendments to the IMF Articles of Agreement are necessary to permit profits from the gold sale to be placed in the IMF’s Investment Account and for a conservative expansion of the IMF’s investment mandate. The legislation will also provide for actions the IMF U.S. Governor may take to permit some profits from the agreed gold sale to be used to support low-income countries and that the Secretary of the Treasury will seek to ensure this support be provided in a way that targets the needs of low-income countries in this time of crisis.

Fourth Amendment

This legislation will authorize United States support for a decision to allow the IMF to make a special one-time allocation of Special Drawing Rights (SDRs). In 1997, the United States and other IMF Governors agreed to amend the IMF Articles to permit this special one-time allocation of SDRs (the “4th Amendment”), which would enable all IMF members to participate in the SDR system on an equitable basis and correct for the fact that that many IMF member countries have missed some or all of previous SDR allocations. This amendment has already been accepted by 77 percent of the IMF's membership and will enter into force as soon as the United States accepts. The Treasury will submit a report to the relevant congressional committees on SDR use.

Support Government Spending on Health Care and Education in IMF Programs

This legislation will require that the Secretary of the Treasury instruct the U.S. Executive Director at the IMF to promote government spending on health care, education, food aid and other critical safety net programs in Fund programs in a Heavily Indebted Poor Country (HIPC) and to use the voice and vote of the U.S to oppose Fund programs in a HIPC that impose budget caps or restraints on government spending on health care or education.