Review of the IMF's lending framework


In an effort to adapt to changes in its environment, the International Monetary Fund (IMF) has over the years adjusted its lending framework. Lending facilities and policies have been created, abolished or modified, according to changing global circumstances. Nevertheless, these adaptations have often been made on an ad hoc basis.

The IMF's response to the ongoing global financial crisis is an interesting case in point. The scale and nature of the problems in the countries affected by this crisis led the Fund to grant exceptional amounts of financial assistance at short notice. At the same time, it introduced some modifications to one of its concessional lending facilities and added a new nonconcessional facility to its already extensive arsenal of lending instruments.

This article examines the current structure of IMF lending facilities and the policies governing them. It illustrates how some of the Fund's lending facilities may have lost their relevance, that gaps could be perceived in the current lending framework and why the framework seems fragmented and overly complex. These issues can affect the credibility of the Fund's lending framework and hence the perceived legitimacy of the institution.

In order to address these issues, a comprehensive review of the IMF lending framework is direly needed. In fact, the Fund is currently reviewing its lending instruments and access policies in the context of its ongoing overall strategic review. This article seeks to provide an input into this process and, within this context, suggests three options for modernising the Fund's lending framework.

Under the first option, the spirit of the current multi-facility framework would be maintained, with a different facility for each type of financing need. In order to make this new multi-facility framework less complex and more internally consistent than the current set-up, a number of modifications are put forward to the policies governing it. A second option would involve the most far-reaching adjustment of the Fund's lending framework, as it would replace the whole arsenal of IMF facilities with a single, flexible facility. Such a system is appealing for its simplicity, transparency and because it avoids the problem of having to analyse ex ante the type and expected duration of a member's balance of payments needs. On the other hand, in order to be workable and to ensure uniformity of treatment, each lending decision would need to be based on clear rules and with due regard to precedents and the merits and requirements of each case. As an intermediary solution, the third option suggests replacing the current lending framework with a dual framework. Such a structure would comprise two facilities; one facility for short- and one for medium- to long-term access or, alternatively, one facility for normal access and one for exceptional access to IMF resources.