

DANMARKS NATIONALBANK

3 FEBRUARY 2021 — NO. 2

Denmark supports the IMF's crisis response



Historically large number of IMF loans during coronavirus crisis

The IMF has approved a historically large number of loans during the coronavirus crisis. From March 2020 and for the rest of the year, 83 countries received IMF loans.

[Read more](#)



Further increase in IMF lending is expected

The coronavirus crisis and vulnerabilities in a number of countries make it more likely that larger and longer loans will be requested. The IMF has ample capacity to handle this.

[Read more](#)



Danmarks Natio- nalbank has given new lending com- mitments to the IMF

Danmarks Nationalbank contributes to the IMF's crisis management and has made new lending resources available to the IMF on behalf of Denmark.

[Read more](#)

The IMF has played an important role in coronavirus crisis response

The coronavirus crisis has had extensive health and economic consequences in large parts of the world. In particular, many low-income countries and emerging market economies are under pressure. This is due to the development in the spread of infection and various stages of lockdown, but also due to indirect effects such as weak foreign demand and pressure on financial markets. Many of these countries were already in a vulnerable situation at the outbreak of the pandemic as a result of among other things high debt, limited economic policy space, low capacity in the healthcare sector and an absence of social safety nets. In many cases, the crisis has also weakened the countries' opportunities to borrow in the international financial markets.

Many of these countries have therefore approached the International Monetary Fund (IMF), which has as one of its objects to help vulnerable economies and countries with balance of payments problems, see Box 1. During the crisis, the IMF has, among other things, granted emergency financing to mitigate balance of payments problems and cover urgent financing needs, including coronavirus-related healthcare expenses and support for the most vulnerable groups.

Historically large number of IMF loans since March 2020

In the spring of 2020, the IMF approved a crisis package to meet the urgent financing needs of its member countries. The main element of the package was temporary greater access to quick emergency financing, as the IMF temporarily doubled the access to loans under its two emergency financing facilities, the Rapid Financing Instrument and the Rapid Credit Facility (with only the poorest countries having access to the latter).¹

1 Access to the two emergency financing facilities was temporarily increased from an annual access limit of 50 per cent of a country's quota to 100 per cent, and the cumulative limit was increased from 100 to 150 per cent of quota. Quotas are the individual countries' member contributions to the IMF. See Gade et al. (2015) for an explanation of how they are determined. The IMF's crisis response also consisted of the establishment of a new Short-term Liquidity Line and limited debt relief to the poorest countries via the IMF's Catastrophe Containment and Relief Trust (CCRT).

The IMF promotes stability in the international monetary system

Box 1

The International Monetary Fund (IMF) has worked to promote international economic and financial stability since its establishment in 1944. A key element in this is to prevent and manage economic crises in the organisation's 190 member countries. As a small open economy, Denmark has a strong interest in the IMF being a well-functioning organisation with adequate resources. The IMF's work consists of three parts: surveillance, lending and capacity development.

Surveillance

To avoid build-up of economic and financial imbalances, the IMF continuously monitors the economic developments in its member countries as well as global and regional economic and financial trends. The surveillance activities result in the publication of reports containing recommendations for economic policy and any necessary reforms.

Lending

The IMF provides lending arrangements to member countries with balance of payments problems. The purpose of the arrangements is to prevent or handle crises in the individual countries and to prevent problems in one country from spreading to other parts of the international financial system. IMF lending arrangements come with conditions in the form of economic measures and reforms that the borrowing country must implement to support a sustainable economic recovery. Loan disbursements are usually divided into instalments over several years and are dependent on continuous implementation of the conditions. Lending conditions can contribute to creating trust in a country's economic sustainability, and an IMF lending arrangement can thus act as a catalyst for further lending from for example regional and bilateral creditors. In addition to its lending arrangements, the IMF grants emergency financing of limited size to member countries with urgent balance of payments problems stemming from for example natural disasters, conflicts and pandemics. There are no formal lending conditions attached to emergency financing. Historically, the IMF's loans have mainly been given to low-income countries and emerging market economies, but also more developed economies have received loans, but never Denmark.

Capacity development

The IMF provides technical assistance and training to countries that need help in building their economic institutions. This is, for example, done through assistance with developing and conducting economic policy and statistics production.

1. See more about the IMF's mission ([link](#)).

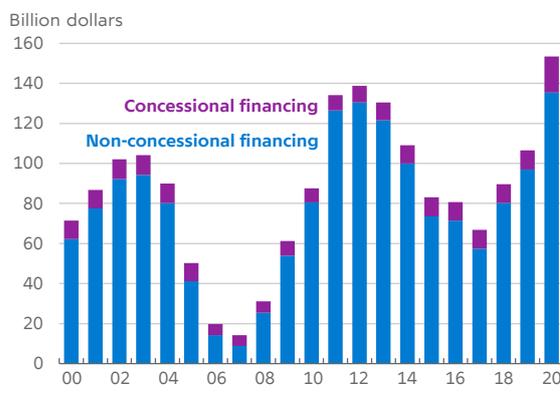
73 countries had emergency financing approved by the IMF totalling 31 billion dollars from March to the end of December 2020. In addition, the IMF approved new lending arrangements or extensions of existing arrangements to 16 countries totalling 22 billion dollars. The emergency financing is of limited size and without conditions, while the lending arrangements are larger in size² and subject to conditionality aimed at supporting a sustainable economic recovery in the borrowing country.³ Although no formal lending conditions are attached to emergency financing, the IMF requests that the countries commit to use the funds correctly, responsibly and transparently, and the IMF will follow up on these commitments after the crisis.⁴

In May, the IMF also approved three Flexible Credit Lines (FCL) totalling 48 billion dollars.⁵ One of the three credit lines was later augmented by just over 6 billion dollars, resulting in a total of 55 billion dollars being committed under the three precautionary facilities. This represents around half of the IMF's total lending engagements during the coronavirus crisis (a total of 108 billion dollars). One of the credit lines has been partially drawn on.

The number of IMF loans is historically high for such a short period of time. A total of 83 countries have received some type of financing⁶, compared with 44 countries during the financial crisis (2008-2009) and 41 countries during the European sovereign debt crisis (2011-2013), respectively. Although most of the loans granted in 2020 were small, the IMF's outstanding loans at the end of the year were higher than the level during these crises, see Chart 1.

IMF lending at historically high level

Chart 1



Note: Outstanding nominal loans at the end of each year. Exchange rate as of 4 January 2021. See the definition of the IMF's non-concessional financing in Box 2 and an explanation of concessional financing (PRGT) on page 4.
Source: IMF.

The IMF has sufficient resources for now

The IMF's ability to help vulnerable countries and countries with balance of payments problems depends on the organisation having sufficient resources to grant loans. During the financial crisis and the sovereign debt crisis, the IMF's lending capacity was increased significantly to the current level of around 1,000 billion dollars through a series of voluntary borrowing agreements.⁷

2 For lending arrangements with so-called normal access, there is an annual limit on the size of the loan of 145 per cent of a country's quota and a cumulative limit on the entire loan of 435 per cent of quota. Lending arrangements with exceptional access must be approved under the IMF's 'Exceptional Access' policy, where a number of special conditions and requirements apply.

3 Before the coronavirus crisis, the IMF rarely used its emergency financing facilities, see International Monetary Fund (2018).

4 Read more about the IMF's work to ensure responsible and transparent use of emergency financing, including country examples, here ([link](#)).

5 The credit lines are a form of insurance and allow countries with strong economies and policies to borrow funds in the event of balance of payments problems. See Ruhlmann (2021) for more information about the IMF's precautionary lending facilities.

6 From March 2020 to the end of December 2020.

7 The IMF's non-concessional lending capacity was expanded in several stages. In 2009-10, the first bilateral borrowing agreements were agreed upon to supplement the IMF's quota resources and the resources in the New Arrangements to Borrow (NAB). The NAB resources were increased significantly in 2011, and new bilateral borrowing agreements were agreed upon in 2012 and 2016. See Box 2 for an explanation of the IMF's different types of resources for non-concessional financing. The purpose of the voluntary borrowing agreements is to supplement the quota resources, as approval of quota increases by the IMF's Executive Board takes time and is politically difficult.

A total of 26 per cent of the IMF's lending capacity was committed to lending at the end of 2020, see Chart 2. The IMF's lending engagements during the coronavirus crisis take up about 10 per cent of its lending capacity.

80 per cent of the committed lending resources are linked to lending arrangements in eight countries, see Chart 3. Many of the largest loans have been granted to countries in Latin America, including a total of four precautionary facilities. It is not unusual for a large proportion of the IMF's lending to go to a small group of countries or a region that is vulnerable or in crisis.

The coronavirus crisis, economic vulnerabilities and large remaining financing needs in many emerging market economies increase the likelihood that larger and longer lending arrangements will be requested in the future. However, due to the large buffer of uncommitted resources, the IMF estimates that it currently has sufficient resources for non-concessional financing. If a large increase in the demand for lending were to materialize, the IMF's member countries would have to decide, based on an assessment by the IMF, if it is necessary to come up with additional lending resources or build up buffers.

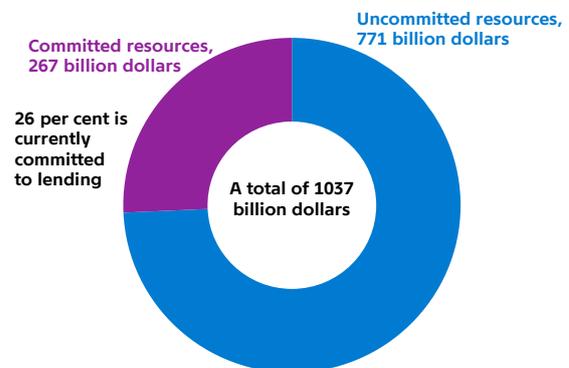
An IMF with sufficient resources ensures that the organisation is always ready to help countries in crisis with loans and thus is able to carry out its mission to promote international economic and financial stability. Therefore, the IMF's total lending resources in and of themselves constitute a great benefit to international economic stability. This is also the case when the resources are not drawn on.

The IMF's Poverty Reduction and Growth Trust (PRGT)⁸ which grants subsidised loans to the poorest countries is, however, already now facing a challenging resource situation. Lending from the PRGT has increased sharply since the beginning of the coronavirus crisis, as a lot of the emergency financing has been granted on concessional terms to the poorest countries. The PRGT's lending resources come from

The IMF's lending capacity can handle the demand for now

Chart 2

Resources for non-concessional financing, billion dollars



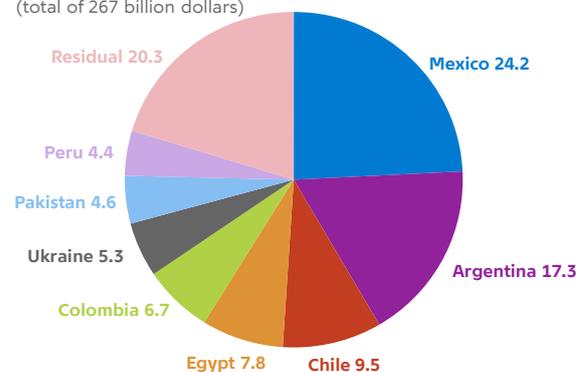
Note: The IMF's resources for non-concessional financing as of 1 January 2021 (does not include PRGT resources). Exchange rate as of 4 January 2021. The amounts have been rounded to the nearest whole number.

Source: IMF and own calculations.

Most of the IMF's committed resources go to a small group of countries

Chart 3

Committed resources for non-concessional financing, per cent (total of 267 billion dollars)



Note: As of 1 January 2021. Exchange rate as of 4 January 2021. Includes resources committed to lending facilities not drawn on. The lending commitments to Mexico, Chile, Peru and Colombia are precautionary (FCL).

Source: IMF and own calculations.

⁸ Since the mid-1980s, the IMF has been providing concessional financing to its poorest member countries, see the International Monetary Fund (2018). Since 2010, this has been done through the PRGT, which is managed separately from the IMF's resources for non-concessional financing, see Box 2.

voluntary bilateral lending commitments from a group of countries, including Denmark, who receive the market interest rate when they lend out to the PRGT. A pool of PRGT subsidy resources is used to reduce the borrowing countries' interest payments.⁹ However, the subsidy resources are limited and cannot match a sustained increase in PRGT lending without an injection of additional subsidy resources. In the spring of 2021, the IMF is expected to present proposals for how to solve the sustainability problem of the PRGT.

Denmark contributes to the PRGT's lending resources as one of currently 17 countries. Prior to the coronavirus crisis, the PRGT had 12 billion dollars in available lending resources. Since April 2020, through a loan mobilisation round, the PRGT has received lending commitments and formal promises of an additional 24 billion dollars in lending resources.

Danmarks Nationalbank has renewed its lending commitments to the IMF

The IMF's lending resources are provided by commitments from member countries, see Box 2. The so-called quotas are provided by all 190 member countries, while the other resources are based on voluntary lending commitments.

The voluntary lending commitments to the IMF are temporary and must therefore be renegotiated on an ongoing basis. As part of this process, in October 2019, the IMF received a mandate from its member countries to put together a resource package that maintains the IMF's resource level in the coming years.¹⁰ The resource agreement that followed, consisted of both a reform of the NAB and new

⁹ Countries borrowing from the PRGT pay a favourable interest rate (currently zero) on PRGT loans. The interest rate difference relative to the market interest rate received by the lending countries is covered by the subsidy resources of the PRGT. The subsidy resources originate from donations from IMF member countries and sales of part of the IMF's gold reserves.

¹⁰ The reason for the resource agreement was that the member countries had not succeeded in reaching an agreement on a quota increase, and that the bilateral borrowing agreements expired at the end of 2020. See the IMF's press release about the endorsement of the resource package here ([link](#)).

The IMF's resources for non-concessional financing consist of three types Box 2

In addition to the special trust, the PRGT, mentioned above, the IMF's lending capacity consists of three types of resources that can be referred to as lines of defense against economic crises and instability in the international monetary system. The three types of resources constitute the IMF's resources for non-concessional financing, which are managed separately from the concessional financing of the PRGT.

Quotas

The first line of defense is the quotas, which consist of membership contributions from all IMF member countries. The countries pay a fourth of their quota to the IMF. The rest is a standing lending commitment which the IMF can draw on when disbursing loans to member countries. Denmark's quota is kr. 30.1 billion.¹ The quota resources remained unchanged in the 2019 resource agreement.

NAB

The quotas are supplemented by voluntary standing multilateral borrowing arrangements called New Arrangements to Borrow (NAB). 40 countries participate in the NAB – typically larger and more stable economies, including the United States and several of the large euro area countries. Denmark has contributed to the NAB since its establishment in 1997. The NAB agreement is regularly updated for five years at a time.²

Bilateral Borrowing Agreements

Since 2009, the IMF has supplemented the quotas and NAB resources with a third type of resources in the form of Bilateral Borrowing Agreements (BBA). These agreements are voluntary and temporary. 42 countries currently have bilateral borrowing agreements.³ As with the NAB agreement, the contributors are primarily the larger and most stable economies, however not the United States. Denmark has had bilateral borrowing agreements with the IMF since 2009.

1. See Holmberg & Ruhlmann (2017) for more details on the IMF's quotas and how they are distributed between the member countries.
2. The NAB agreement must be activated for the IMF to draw on the NAB resources. An activation must be approved by the contributors and by the IMF's Board of Governors when the quota resources fall below a certain threshold. The NAB agreement has not been activated since February 2016.
3. The bilateral borrowing agreements can only be drawn on once the NAB agreement has been activated and when the quota and NAB resources have been sufficiently exhausted. The activation must be approved by the IMF's Board of Governors. The bilateral borrowing agreements have not been drawn on since 2012.

bilateral borrowing agreements. In connection with the implementation of the resource agreement, Danmarks Nationalbank has renewed Denmark's lending commitments to the IMF.

With the NAB reform, the total lending commitments in the NAB were doubled, and the arrangement was renewed for five years.¹¹

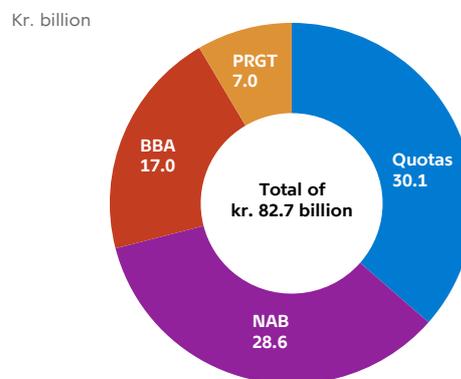
The new bilateral borrowing agreements replaced the previous borrowing agreements from 2016, which expired at the end of 2020. The agreements run for three years, with an option to extend for one year.¹² The total size of the new borrowing agreements is lower than the agreements from 2016. This is because the bilateral borrowing agreements, with the resource agreement, were reduced by an amount similar to the increase in the NAB resources, so that the IMF's total resources remained roughly unchanged. The NAB reform and the new bilateral borrowing agreements became effective on 1 January 2021.¹³ Of the IMF's resources for non-concessional financing (i.e. excluding the PRGT), quotas now account for 49 per cent, NAB resources for 37 per cent and the bilateral borrowing agreements for 14 per cent.

Danmarks Nationalbank is responsible for handling Denmark's financial relations with the IMF and has implemented the resource agreement on behalf of Denmark. With the implementation, Denmark's total commitments to the IMF's resources for non-concessional financing (i.e. excl. PRGT) amount to kr. 75.7 billion, see Chart 4. This corresponds to nearly 1 per cent of the IMF's resources.

With the 2019 agreement, a larger share of the total Danish commitments are in the NAB than previously, while a smaller share of the commitments are in the bilateral borrowing agreement. In addition, Denmark's total commitments to the IMF's resources for

Denmark has given commitments to the IMF totalling kr. 82.7 billion

Chart 4



Note: As of 1 January 2021. Exchange rate as of 4 January 2021. Commitments to the IMF's resources for non-concessional financing (quotas, NAB and bilateral borrowing agreement) amount to kr. 75.7 billion. PRGT commitments include the new lending commitment which is expected to be signed in February 2021.

Source: IMF.

non-concessional financing have decreased by kr. 8 billion relative to the period before January 2021. This should be seen in connection with the doubling of the NAB resources and the fact that some countries contribute to the NAB, but not to the bilateral borrowing agreements. One such example is the United States, which has doubled its NAB commitment, but does not have a bilateral borrowing agreement. Thus, the resource agreement has increased the overall commitments to the IMF of the United States and similar countries, while the commitments of for example Denmark have decreased. This has contributed to a more equal burden sharing.

In addition to its contributions to the IMF's resources for non-concessional financing, Denmark also makes

11 Until November 2025.

12 Until the end of 2023, with an option to extend to the end of 2024 if the contributing countries approve this.

13 Changes to the NAB agreement require approval by lending contributors representing 85 per cent of the total lending commitments to become effective. A few countries have not yet concluded their national procedures for ratification of the NAB agreement and the bilateral borrowing agreements. Their agreements will become effective once they have been ratified.

voluntary lending commitments to the PGRT, as mentioned above. Danmarks Nationalbank expects to sign a new lending agreement on a commitment to the PRGT of kr. 2.6 billion in February 2021. The commitment is in addition to an existing PRGT lending commitment of kr. 4.4 billion.¹⁴ The new commitment is being granted at the request of the IMF due to the extraordinarily large demand for PRGT lending since the beginning of the coronavirus crisis.

Danmarks Nationalbank's total commitments to the IMF to both resources for non-concessional financing and the PRGT amount to kr. 82.7 billion. This corresponds to 3.5 per cent of Denmark's gross domestic product (GDP).

Historically large drawdown on Danish commitments

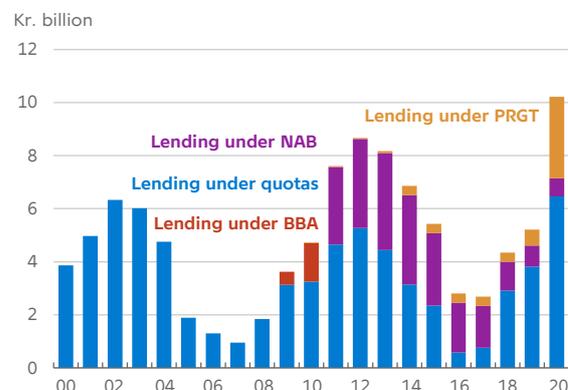
The size of the IMF's drawdown on Danmarks Nationalbank's overall commitments is closely linked to the IMF's lending activity. The high level of lending activity since March 2020 has therefore also resulted in a historically large drawdown on Danmarks Nationalbank's commitments to the IMF, see Chart 5. The drawdown on the lending commitment to the PRGT is particularly high, which is also due to the fact that Denmark, as mentioned, is one of relatively few countries to contribute lending resources to the PRGT.

As of 31 December 2020, Danmarks Nationalbank has outstanding loans to the IMF of kr. 10.2 billion, corresponding to 12 per cent of the Danish commitments (incl. the PRGT). The drawdown on the PRGT lending agreement constitutes approximately one third of the total drawdown. Since the end of March, when the coronavirus crisis began to have serious economic consequences globally, Danmarks Nationalbank's lending to the IMF has increased by kr. 5.2 billion.

If the demand for larger and longer IMF lending arrangements were to increase in the future, it would mean that a greater share of Danmarks Nationalbank's commitments may be drawn on.

Large drawdown on Danish commitments during coronavirus crisis

Chart 5



Note: Outstanding loans as of 31 December each year. Exchange rate as of 4 January 2021. See Box 2 for an explanation of quotas, NAB and BBA, and page 4 for more details on the PRGT. BBA lending was conducted under a previous bilateral borrowing agreement from 2009. In 2011, these loans were placed under the NAB. The NAB agreement has not been activated since February 2016 and has therefore not financed new lending since then. The bilateral borrowing agreement from 2016 has not been activated.

Source: IMF and own calculations.

When the IMF draws down on Danmarks Nationalbank's lending commitments, the amount is transferred in euro from the Danish foreign exchange reserve to the borrowing country. In turn, Danmarks Nationalbank receives a claim on the IMF, which enters into the foreign exchange reserve. Therefore, a drawdown does not change the size of the Danish foreign exchange reserve, but changes its composition.¹⁵

Limited risk for Denmark on IMF loans

Danmarks Nationalbank's credit exposure is directly to the IMF and not to the countries that the IMF lends to, when the IMF draws down on the Danish commitments. Danmarks Nationalbank receives

¹⁴ The original lending commitment will expire at the end of 2024, while the new commitment will expire at the end of 2029.

¹⁵ Claims on the IMF are included in the foreign exchange reserve in accordance with applicable international standards, as the IMF's existing measures ensure a sufficiently high level of liquidity and credit security. For more details on how Denmark's commitments to the IMF affect Danmarks Nationalbank's foreign exchange reserve, see Holmberg & Ruhlmann (2017).

interest payments on the loans, including on the PRGT loans, and also receives ongoing debt repayments on the loans. Danmarks Nationalbank's claims on the IMF and the repayment of the loans are guaranteed by the IMF's very high creditworthiness.

The IMF is de facto a 'preferred creditor'. This means that the IMF's claims rank higher than other creditors if a borrowing country cannot fully meet its debt liabilities.¹⁶ Furthermore, the IMF's lending arrangements include, as mentioned, requirements of compliance with a number of lending conditions. The conditions help ensure that borrowing countries implement necessary reforms to achieve economic recovery and that the loan disbursements are used responsibly for the right purposes. In addition, the

IMF has significant reserves that help ensure that its creditors (including Danmarks Nationalbank) are covered against potential losses on their lending. Historically, the IMF's creditors have never experienced any losses.

Lending from the PRGT has a somewhat higher credit risk. This is because the PRGT loans are not covered by the IMF's general reserves and because they are granted to the poorest countries, which generally have a weaker repayment capacity. In addition, a large part of the PRGT loans in 2020 consist of emergency financing without lending conditions. For these reasons, Danmarks Nationalbank's lending commitments to the PRGT are covered by a state guarantee.

16 The IMF's 'preferred creditor' status does not appear in legally binding agreements with debtors and other creditors, but is confirmed by the Paris Club. The club is a forum in which a number of major bilateral creditors enter agreements on debt restructuring and debt relief to borrowing countries that cannot pay their liabilities.

Literature

Gade, Thomas Pihl, Sune Malthe-Thagaard & Casper Ristorp Thomsen (2015), Voice and Representation in the IMF, *Danmarks Nationalbank Monetary review*, 2nd quarter.

Holmberg, Martin & Klaus Lund Ruhlmann (2017), Denmark contributes to a strong IMF, *Danmarks Nationalbank Analysis*, no. 7, May.

International Monetary Fund (2018), *IMF Financial Operations 2018*, Fourth Edition.

Ruhlmann, Klaus Lund (2021), The IMF's provision of insurance against balance of payments needs and how to improve it, *Danmarks Nationalbank Economic Memo*, no. 1, February.

PUBLICATIONS



NEWS

News offers a quick and accessible insight into an Analysis, an Economic Memo, a Working Paper or a Report from Danmarks Nationalbank. News is published continuously.



ANALYSIS

Analysis from Danmarks Nationalbank focuses on economic and financial matter. Some of the analyses are published with a regular frequency e.g. *Outlook for the Danish economy and Financial stability*. Other analyses are published continuously.



REPORT

Report comprises recurring reports and reviews of the functioning of Danmarks Nationalbank. For instance Report includes the *Annual report* and the annual publication *Danish government borrowing and debt*.



ECONOMIC MEMO

Economic Memo is a cross between Analysis and Working Paper and it often shows the ongoing study of the authors. The publication series is primarily targeted at professionals. Economic Memo is published continuously.



WORKING PAPER

Working Paper presents research projects by economists in Danmarks Nationalbank and their associates. The series is primarily targeted at professionals and people with an interest for academia. Working Paper is published continuously.

The analysis consists of a Danish and an English version. In case of doubt regarding the correctness of the translation the Danish version is considered to be binding.

DANMARKS NATIONALBANK
LANGELINIE ALLÉ 47
DK-2100 COPENHAGEN Ø
WWW.NATIONALBANKEN.DK

This edition closed for
contributions on 26 January 2021



**DANMARKS
NATIONALBANK**

Anne Ulstrup Mortensen
Economist
aum@nationalbanken.dk

ECONOMICS AND
MONETARY POLICY

CONTACT

Ole Mikkelsen
Communications
and Press Officer

omi@nationalbanken.dk
+45 3363 6027

SECRETARIAT
AND COMMUNICATIONS