IMPLEMENTATION OF
CERTAIN LEGISLATIVE PROVISIONS
RELATING TO THE
INTERNATIONAL MONETARY FUND

A Report to Congress

in accordance with

Section 1705(a) of the International Financial Institutions Act, as amended

United States Department of the Treasury
October 2021

Introduction

This report is provided in accordance with legislation that requires Treasury to report to Congress on the status of reform efforts and policy implementation undertaken by the International Monetary Fund (IMF).

IMF Policies Reform Report: Section 1705(a) of the International Financial Institutions Act, as amended (IFI Act), 22 U.S.C. § 262r-4(a), requires the Secretary of the Treasury to submit a report on the progress made by (a) the U.S. Executive Director (USED) in influencing the IMF to adopt various policies and reforms as described in section 1503(a) of the IFI Act, 22 U.S.C. § 262o-2(a), and (b) the IMF in adopting and implementing the policies described in Section 801(c)(1)(B) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001, Pub .L. 106-429.

Treasury supports strengthened implementation of IMF country programs and promotes sound policy decisions within the IMF. To achieve these goals, Treasury and the Office of the U.S. Executive Director (OUSED) at the IMF vigorously seek to build support for these policies in the IMF's Executive Board and with IMF management. Treasury and the OUSED discuss these policies with IMF management and staff and with other Board members, and the OUSED advances these reform policies in statements and votes on programs in the IMF Executive Board.

In addition, Treasury's Office of International Monetary Policy and the OUSED communicate with other Treasury offices and U.S. Government agencies, as appropriate, to increase awareness about legislative mandates affecting U.S. participation in the IMF and identify opportunities to influence IMF decisions in line with broader U.S. international economic policy objectives.

Progress of the USED in Promoting Policies at the IMF Described in Section 1503(a)

While Treasury and the OUSED continue to advance all IMF policies described in Section 1503(a), this report specifically highlights new developments in relevant policy areas since October 1, 2020.

(1) Vigorously promote policies to increase the effectiveness of the International Monetary Fund in structuring programs and assistance so as to promote policies and actions that will contribute to exchange rate stability and avoid competitive devaluations that will further destabilize the international financial and trading systems.

Treasury and OUSED continued to promote the IMF's rigorous analysis of exchange rates and global imbalances, and strongly supported the 2021 External Sector Report (ESR) and External Balance Assessment (EBA). We emphasized to IMF staff that external assessments cannot just be covered in the ESR, but most be covered consistently in country reviews and bilateral surveillance. In particular, our IMF Executive Board statement underscored the need for Article IV staff reports to cover external sector issues consistently and comprehensively. Noting uncertainties raised by Covid-19, it also welcomed the analysis by IMF staff to determine transitory effects on current account balances, such as those related to travel disruption. We encouraged staff to track imbalances and related country policies closely, noting that policy developments and the progression of the pandemic will heavily impact the path of imbalances going forward. Further, OUSED asked IMF staff to consider how to analyze and advise countries where external balances are in line with fundamentals as a result of offsetting negative policy distortions.

2) Vigorously promote policies to increase the effectiveness of the International Monetary Fund in promoting market-oriented reform, trade liberalization, economic growth, democratic governance, and social stability through—

> **(E) establishing or strengthening key elements of a social safety net to cushion the effects on workers of unemployment and dislocation**

Treasury and the OUSED have supported the IMF's robust response in meeting the financing needs of developing and low-income countries during the COVID-19 pandemic. Since March 2020, the IMF has provided over $115 billion in total financing to member countries to support COVID responses and macroeconomic recoveries. This financing has included about $15 billion in zero-interest loans to low-income countries, nearly $9 billion of which was in rapidly disbursing, emergency lending with no policy conditionality to help countries immediately respond to the pandemic. The United States has consistently called for strong governance and transparency safeguards for this lending. As a result, the IMF required that countries conduct COVID-spending audits to prevent these funds from being misused.

The IMF has also provided about $675 million in debt service relief to hard-hit low-income countries with outstanding IMF debt through the Catastrophe Containment and Relief Trust since April 2020. The United States, in its statements and during Executive Board discussions, has regularly supported this debt relief to free up fiscal space and called for countries to use this space to support social safety nets for vulnerable populations. The IMF has also played a key role in supporting the G20's final extension of the Debt Service Suspension Initiative through December 2021, which has helped further expand the fiscal space of low-income countries, thereby helping them respond to the pandemic's impacts.

Recipient countries have used IMF financing to provide support to the most vulnerable. For example, In April 2020 the IMF provided about $440 million in emergency lending to Senegal to help stabilize its economy and provide critical space for the authorities to expand their public health response while providing targeted social spending to vulnerable households. In June 2021 the IMF approved about $650 million in lending to Senegal to support its economic recovery and to help Senegal manage macroeconomic stability and fiscal spending while it rolls out a vaccination campaign and a new program to boost youth and women employment. To promote transparency and accountability, Senegal's government established COVD-19 spending oversight mechanisms and published quarterly reports on the use of COVID-19 funds, including those financed through IMF support, and audited COVID-19 spending.

Treasury also supported a $650 billion general allocation of Special Drawing Rights (SDRs), an international reserve asset, to boost global liquidity and support countries' efforts to address and recover from the COVID crisis. The allocation, which became effective on August 23, 2021, provided $212 billion to emerging market and developing countries (excluding China), of which $21 billion went to low-income countries. The SDR allocation is already helping vulnerable countries to rebuild their foreign reserve buffers, and fund critical spending to combat COVID-19, protect public health, and minimize economic scarring and social damage from the pandemic. For example, countries may use their SDR allocations to purchase vaccines or support increased domestic spending to protect public health and improve global health security, such as by strengthening the capacity to detect and prevent future pandemics. The U.S. called for the IMF to give guidance to countries on how to use their SDRs transparently and accountably, and within the bounds of maintaining sufficient foreign reserves to safeguard macroeconomic stability.

To magnify the benefit of the SDR allocation, Treasury also strongly supports major economies channeling their SDRs to poor and vulnerable countries through IMF trust funds. President Biden and other leaders have set a global ambition for economically stronger countries to channel up to $100 billion worth of their SDRs, which we believe is the size of response needed to prevent further global economic divergence and underpin sustainable recoveries for these countries. Channeling SDRs will help furnish the resources necessary for the IMF to provide additional support to low-income countries through the concessional Poverty Reduction and Growth Trust. OUSED is currently working closely with IMF and other Board members on development of an additional SDR-financed trust fund that would provide more transformational financing for climate and health, issues which deeply affect the most vulnerable populations.

(3) Vigorously promote policies to increase the effectiveness of the International Monetary Fund, in concert with appropriate international authorities and other international financial institutions (as defined in section 1701(c)(2)), in strengthening financial systems in developing countries, and encouraging the adoption of sound banking principles and practices, including the development of laws and regulations that will help to ensure that domestic financial institutions meet strong standards regarding capital reserves, regulatory oversight, and transparency.

The IMF completed its comprehensive review of its Financial Stability Assessment Program (FSAP) in May 2021. At the review, the U.S. Executive Director supported the expansion of financial surveillance covering emerging risks from cyber, financial technology, and climate change. FSAPs continue to receive high marks from country authorities, almost all of whom (95%) have implemented recommendations from FSAP assessments. We also secured IMF management's agreement to increase the effectiveness of financial surveillance by integrating FSAP work and findings more thoroughly in the IMF's broader Article IV surveillance process.

Treasury and OUSED also promote strengthened financial systems through a consistent focus on promoting independent monetary authorities, flexible exchange rates, and well-provisioned banking sectors during Article IV and program reviews. Especially as countries begin to roll back their pandemic-related emergency measures, such as loan moratoria, we have consistently pressed for vigilance with respect to potential financial sector stability risks. As an example, we encouraged Kenyan authorities to be aware of these risks during the IMF Board review of their Extended Credit Facility/Extended Fund Facility program in June 2021. At the Board review of Sierra Leone's Extended Credit Facility in July, we voiced concerns about high levels of non-performing loans and encouraged government authorities to follow IMF staff advice on monitoring and addressing this buildup. Similarly, at the June 2021 Board review of Mauritius'

Article IV, we emphasized the importance of government authorities foreswearing monetary financing of fiscal deficits. Treasury and OUSED consistently emphasize the importance of sound banking and monetary systems that can provide a basis for sustained growth.

(5) Vigorously promote policies that aim at appropriate burden-sharing by the private sector so that investors and creditors bear more fully the consequences of their decisions, and accordingly advocate policies which include—

> **(E) intensified consideration of mechanisms to facilitate orderly workout mechanisms for countries experiencing debt or liquidity crises;**

OUSED and Treasury staff have strongly supported the implementation of the Common Framework at the IMF Board and in discussions with IMF management and staff, as well as in other fora. Debt restructuring under the Common Framework can only go forward in cases where there is a staff-level agreement on an IMF program, thus requiring coordination between the IMF and participating Common Framework creditors. The Common Framework process requires equality of treatment and burden sharing by the private sector. In IMF Board discussions and in engagements with IMF staff the OUSED and Treasury representatives regularly press the need for robust and timely participation by creditor countries to help ensure the Common Framework's success. We look forward to continuing to promote this work through resolute engagement with the IMF Board, staff, and in the G20 going forward.

The IMF is also currently reviewing its Lending into Arrears policy. While this review is ongoing, OUSED has pressed for improvements that would encourage more proactive public and private sector participation and burden sharing by increasing the Fund's flexibility to lend into arrears in cases when a holdout creditor is not engaging in good faith.

(6) Vigorously promote policies that would make the International Monetary Fund a more effective mechanism, in concert with appropriate international authorities and other international financial institutions (as defined in section 1701(c)(2)), for promoting good governance principles within recipient countries by fostering structural reforms, including procurement reform, that reduce opportunities for corruption and bribery, and drug-related money laundering.

OUSED and Treasury staff have continued to engage IMF staff and Executive Directors on a range of issues to promote stronger financial systems in emerging market economies. One such workstream is the promotion of anti-money laundering/combating the financing of terrorism (AML/CFT) reforms. In formal statements to the Board on Article IV and country program reviews, OUSED consistently promotes country engagement with the Financial Action Task Force (FATF) to ensure that these reforms are adopted. For example, when Panama's Precautionary Liquidity Line program was up for review in July 2021, we issued a joint statement with seven other Executive Directors supporting the addition of a structural benchmark requiring Panama to make meaningful progress on its FATF Action Plan.

(11) Vigorously promote recognition by the International Monetary Fund that macroeconomic developments and policies can affect and be affected by environmental

conditions and policies, and urge the International Monetary Fund to encourage member countries to pursue macroeconomic stability while promoting environmental protection.

In spring 2021, the IMF introduced its first comprehensive climate strategy, which recognizes that climate change poses significant national and global macroeconomic challenges. By elongating droughts, intensifying natural disasters, and inducing other changes with negative economic effects, climate change can threaten financial stability and debt sustainability by subjecting firms, governments, and households to greater shocks. The IMF's strategy recognizes that macroeconomic stability and environmental protection are fundamentally linked. The OUSED strongly supported the inclusion of climate change-related issues into Article IV reviews where macro-critical.

Additionally, Treasury and OUSED are currently engaged with IMF staff and other Directors around efforts to develop a new IMF trust, funded with SDRs lent by economically strong countries, that would provide financing for countries to address climate and health-related vulnerabilities. This new facility would reflect the global benefits that efforts to address climate change and pandemic preparedness can provide. Failures to invest in preventing and mitigating the threats these issues present can create macroeconomic risks for countries themselves as well as the rest of the world, as the Covid-19 pandemic has painfully demonstrated.

Progress of the IMF in Implementing Policies Described in Section 801(c)(1)(B) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act

While Treasury and the OUSED continue to advance the range of policies described in Section 801(c)(1)(B), this report specifically highlights new developments in relevant policy areas since October 1, 2020.

Financing must be disbursed (i) on the basis of specific prior reforms; or (ii) incrementally upon implementation of specific reforms after initial disbursement

Treasury and OUSED have continued our previous efforts to increase transparency to cases where countries have accessed funding through the IMF's emergency lending programs, the Rapid Credit Facility or Rapid Financing Instrument. For countries accessing IMF funding through Upper Credit Tranche (UCT) programs, IMF staff have continued to measure country progress against agreed-upon quantitative criteria and structural benchmarks, though the IMF Board has provided waivers in some cases when Covid-19-related factors have impaired a country's progress. In general, however, Treasury and OUSED have strongly supported disbursement of funds from a UCT program only when the borrower has demonstrated meaningful progress toward achieving agreed-upon criteria and benchmarks.

Treasury continues to work to improve debt sustainability and transparency through debt-related policies in various international fora, most importantly the IMF and the World Bank. Through the joint IMF-World Bank Multipronged Approach to Address Debt Vulnerabilities, the IMF is updating key policies to improve public debt transparency practices and debt data disclosure. A recent review of the IMF Debt Limits Policy led to the IMF requiring a new debtholder profile data table for all countries with IMF programs. The table will provide increased details about the composition of public debt and information on debt subject to non-disclosure agreements. Treasury is also encouraging the IMF and World Bank to develop guidelines, or best practices, to help developing countries in the use of collateralized borrowing. Finally, Treasury has contributed $2 million to the joint IMF/World Bank Debt Management Facility III, which provides technical assistance to over 80 countries (mostly low-income countries), to strengthen debt management capacity. This support will help to build debt reporting capacity and increase the transparency and granularity of debt reporting.