IMPLEMENTATION OF
CERTAIN LEGISLATIVE PROVISIONS
RELATING TO THE
INTERNATIONAL MONETARY FUND

A Report to Congress

in accordance with

Section 1503 of the
International Financial Institutions Act, and

Section 801(c)(1)(B) of the
Foreign Operations, Export Financing, and Related Programs
Appropriations Act, 2001, as required by Section 1705(a) of the International Financial Institutions Act

and

Section 605(d) of the
Foreign Operations, Export Financing, and Related Programs
Appropriations Act, 1999

United States Department of the Treasury
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Introduction

The report reviews actions taken by the United States to promote legislative provisions in International Monetary Fund (IMF or the Fund) country programs. This report is prepared in accordance with Section 1705(a) of the International Financial Institutions Act (IFI Act".[1] Annex 1 also covers new IMF lending arrangements per section 605(d) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999. Earlier reports pursuant to these provisions are available on the Department of the Treasury's website: http://www.treasury.gov/resource-center/international/int-monetary-fund/Pages/imf.aspx

Treasury and the Office of the United States Executive Director (USED) at the IMF consistently endeavor to build support in the IMF's Executive Board for the objectives set by this legislation and other legislative mandates. These endeavors include meetings with IMF staff and other Board members on country programs and IMF policies, formal statements by the USED in the IMF Board, and USED votes in the Board. Treasury's objective is to support strengthened implementation of IMF country programs and sound policy decisions within the Fund. Treasury's IMF task force is charged with increasing awareness among Treasury staff about legislative mandates and with identifying opportunities to influence IMF decisions in line with broader U.S. international economic policy objectives.

This report is submitted in the context of ongoing recovery from the global financial and economic crisis that began in 2007 and, more recently, the sovereign debt crisis in Europe. The United States has been a leader in the international crisis response efforts throughout this period, and has collaborated closely with the Group of 20 countries (G-20) and the international financial institutions, including the IMF. The IMF played a key role in responding to recent crises and continues to address remaining vulnerabilities in the global economy – for instance, by providing financing, in partnership with the European Union, for distressed euro area members. At the G-20 Leaders' Summit in Los Cabos, Mexico in June 2012, members called on the IMF to provide stronger surveillance over members' policies, including with regard to exchange rate misalignments, global liquidity, and capital flows. At the most recent G-20 Leaders' Summit in St. Petersburg, Russia, members reaffirmed their commitment to implement the 2010 quota and governance reform, which will enhance the IMF's legitimacy, relevance, and effectiveness and enable the United States to continue to preserve its veto power and leadership position without making new financial commitments to the IMF.

[1] Section 1705(a), as codified at 22 U.S.C. § 262r-4(a), requires the Secretary of the Treasury to submit a report on the progress made to adopt the policies and reforms described in section 1503 of the IFI Act (22 U.S.C. 262o-2(a)) as well as the policies set forth in section 801(c)(1)(B) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001. The text of these legislative provisions is found at the back of this report.

Report on specific provisions of the legislation

<u>I. Section 1503(a)</u>

(1) Exchange rate stability

In June 2007, the IMF Executive Board adopted a new Decision on Bilateral Surveillance over Members' Policies ("Decision"), replacing the 1977 Decision on Surveillance over Exchange Rate Policies as the guiding document on surveillance. The United States strongly supported this decision, viewing it as a way to refocus the Fund on its core mandate, as established in Article IV of the IMF's Articles of Agreement "to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation."

Since the 2007 Decision, IMF surveillance of exchange rates has improved in both breadth and quality. The IMF's Independent Evaluation Office found that only 63 percent of Article IV reports from 1995-2005 included a clear assessment of the exchange rate's value in relation to economic fundamentals.[2] In contrast, both the 2008 and 2011 Triennial Surveillance Reviews found that over 90 percent had done so after the Decision.[3] Selected Issues papers accompanying Article IV staff reports have been increasingly devoted to exchange rate issues. The sophistication of exchange rate assessments has improved as econometric assessments of the exchange rate's equilibrium value have become more common. In July 2012, the IMF adopted the Integrated Surveillance Decision, which updates the June 2007 legal framework to reflect the already existing increased focus by the IMF on multilateral surveillance, while retaining all of the critical elements in exchange rate surveillance from the 2007 Decision.

The United States continues to advocate for further improvements to the IMF's surveillance over exchange rates. In 2012, with strong U.S. support, the IMF produced a pilot External Sector Report (ESR), which represents a substantial enhancement to the IMF's work on external analysis, as it includes much greater in-depth coverage of IMF exchange rate assessments, as well as assessments of reserves, drivers of current account imbalances, and capital flows and measures. Treasury has pressed for increased candor, transparency, and evenhandedness of IMF exchange rate surveillance as part of the G-20 agenda. In particular, we continue to advocate that Fund staff take tougher ultimate judgments on members' exchange rate management practices. The United States has been engaged in a careful multilateral effort in the G-20, supported by the IMF, to establish stronger norms for exchange rate policy and to identify and mitigate sources of future economic imbalances.

The Framework for Strong, Sustainable, and Balanced Growth agreed to at the Pittsburgh G-20 Summit calls on the IMF to play a key advisory role in the G-20 Mutual Assessment Process (MAP). Through the MAP, the IMF develops a forward-looking analysis of whether policies

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[2] Independent Evaluation Office of the International Monetary Fund, "An IEO Evaluation of IMF Exchange Rate Policy Advice, 1999-2005," 2007.

[3] International Monetary Fund, "2008 Triennial Surveillance Report – Overview Paper," September 2, 2008 and "2011 Triennial Surveillance Review – Staff Background Studies," August 29, 2011.

pursued by individual G-20 countries, including exchange rate policies, are collectively consistent with more sustainable and balanced trajectories for the global economy. The IMF reports regularly on its analysis to both G-20 Finance Ministers and the International Monetary and Financial Committee (IMFC). The IMF carried out such an assessment ahead of the June 2012 G-20 Summit in Los Cabos, Mexico, and provided an update to this analysis prior to the September 2013 G-20 Summit in St. Petersburg, Russia. Its recommendations included further rebalancing across emerging and advanced economies – tailored for deficit and surplus economies – and greater exchange rate flexibility in key emerging market economies. The reports served as inputs to the Los Cabos and St. Petersburg Action Plans for Growth and Jobs agreed upon by Leaders.[4]

At the September 2013 G-20 Leaders' Summit in St. Petersburg, members reiterated their commitments to move more rapidly toward more market-determined exchange rate systems and exchange rate flexibility to reflect underlying fundamentals. Members committed to not target exchange rates for competitive purposes.

The U.S. encourages the IMF to support exchange rates based on underlying fundamentals, which are aided in part through nominal exchange rate flexibility, in IMF board statements, including the following examples:

- In a July 2013 board statement on China's Article IV staff report, the USED urged China to increase the transparency of its actions in foreign exchange markets, including by publishing timely data on official foreign exchange intervention and subscribing to the IMF's Special Data Dissemination Standard (SDDS).

- In a February 2013 board statement on Malaysia's Article IV staff report, the USED urged the authorities to further rebalance growth by further strengthening domestic demand and continuing to move toward greater exchange rate flexibility.

- In a September 2013 board statement on The Gambia's Article IV staff report, USED expressed concern with the country's efforts to target an overvalued exchange rate and noted the importance of the restoration of a flexible exchange rate policy to restore investor confidence.

(2) Policies to increase the effectiveness of the IMF in promoting market-oriented reform, trade liberalization, economic growth, democratic governance, and social stability through:

(A) Establishment of an independent monetary authority

With the support of the United States, the IMF consistently advocates for greater monetary authority independence across countries. IMF conditionality frequently includes measures to strengthen central bank autonomy and accountability. The IMF also provides technical assistance to help countries achieve these goals. In addition, the Fund promotes these objectives

[4] Please see Jobs and Growth Action Plans in annexes to the Declarations found at http://www.g20.utoronto.ca/summits/.

through assessments of compliance with internationally-agreed upon standards and codes, as well as rules for safeguarding the use of IMF resources.

The U.S. encourages the IMF to support monetary authority independence, including through the following examples:

- In a January 2013 review of Uganda's Policy Support Instrument (PSI), the USED welcomed the authorities' intentions to further improve the independence and capacity of the central bank and to preserve the inflation target.

- In a February 2013 board statement on Bangladesh's Extended Credit Facility (EFC), the USED urged the authorities to continue to improve central bank independence and to reform its operations, especially its supervisory mandate.

(B) Fair and open internal competition among domestic enterprises

Although the World Bank has the lead mandate on these issues, the IMF, with the United States' support, encourages member countries to pursue policies that improve internal economic efficiency. These measures may include ending directed lending (or other relationships between government and businesses based on favoritism), improving antitrust enforcement, and establishing a sound and transparent legal system.

The U.S. has advocated the following in support of fair and open internal competition globally:

- In a July 2013 board statement on South Africa's Article IV staff report, the USED highlighted that, in addition to investments in development, authorities must accelerate their work on the regulatory and market barriers to growth. Our board statement encouraged the authorities to address non-competitive product markets, and to liberalize the labor market.

- In a January 2013 board statement on Algeria, the USED advocated improvements in the business climate and reforms to labor and product markets to bolster private sector activity as well as reduce the size of the informal economy.

(C) Privatization

The IMF has made privatization a component of those member country programs where the country's significant distortions and government ownership of business enterprises have created substantial inefficiencies in the allocation of resources and the production of goods. Collaborating with the World Bank, the Fund has supported the use of competitive and transparent means of privatization so that program countries might achieve gains in economic efficiency and improve their fiscal positions.

Examples of IMF program and surveillance discussions in which the USED has advocated privatization include the following:

- In a January 2013 review of Tanzania's Policy Support Instrument (PSI), the USED emphasized that structural policies to increase privatization are macro-critical to sustain growth into the medium-term, and should be considered as structural benchmarks under the programs.

- In the September 2013 board statement of Pakistan's Extended Fund Facility (EFF), the USED welcomed the authorities' ambitious privatization plan, noting it could yield efficiency improvement and fiscal savings.

(D) Economic deregulation and strong legal frameworks

Markets are distorted and entrepreneurship is stifled without strong property rights, enforcement of contracts, and fair and open competition. While these issues are often addressed as part of the World Bank's mandate, the IMF frequently includes such policy advice in its programs or surveillance on measures considered critical to the member country's macroeconomic performance.

(E) Social safety nets

While growth is an essential ingredient for poverty reduction, investment in human development and basic social services is also critical. Cost effective social safety nets can play an important role in building domestic support for economic reform, and in alleviating the direct impact of economic downturns.

The United States has strongly pushed the IMF to ensure that programs promote spending to reduce poverty. On average, countries with IMF programs increase spending for education by about 0.8 percentage points of GDP, and for health by about 1 percentage point of GDP, over a five-year period.[5]

In addition, debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative is part of a larger effort to address low-income countries' development needs. Before the HIPC Initiative, eligible countries were spending slightly more, on average, on debt service than on health and education combined. However, following HIPC debt relief, countries have been able to increase spending on health and education to about five times the amount of debt-service payments, on average. Consistent with a legislative mandate,[6] Treasury carefully evaluates whether IMF programs in HIPC countries allow for an increase in health and education expenditures.

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[5] IMF Discussion Note, *What Happens to Social Spending in IMF-Supported Programs?* August 31, 2011.

[6] See text under "IMF Programs and Exemptions for Health/Education/Agriculture and Food Security in HIPCs", section 7029(c), Department of State, Foreign Operations, and Related Programs Appropriations Act, Division I of the Consolidated Appropriations Act, 2012 (signed *12/23/11),* P.L. 112-74, This legislation states that that the Secretary of the Treasury is to instruct the USED at the IMF to use the voice and vote of the United States to oppose (abstain or vote NO) any loan, project, agreement, memorandum, instrument, plan, or other program of the IMF to a Heavily Indebted Poor Country that imposes budget caps or restraints that do not allow the maintenance of or an increase in governmental spending on health care or education; and to promote government spending on health care, education, agriculture and food security, or other critical safety net programs in all of the Fund's activities with respect to Heavily Indebted Poor Countries.

Through board statements, the USED stresses the importance of protecting health and education expenditures, as well as other poverty reduction and social safety net spending, including in the following examples:

- In Sudan's Article IV staff report, the USED stressed that the Sudanese authorities need to urgently strengthen revenue collection, reduce subsidies, and prioritize social expenditures that protect needy populations.

- In a July 2013 board statement on Yemen's Article IV staff report, the USED advocated fiscal restructuring, including subsidy reforms, to provide the fiscal space needed to boost overdue investments and increase much needed social spending. The USED also encouraged the authorities to explore options to offset the potential impacts of subsidy reform on vulnerable populations.

(F) Opening of markets for agricultural goods through reductions in trade barriers

The IMF encourages a multilateral, rules-based approach to trade liberalization across all sectors of the global economy, including, but not limited to, the agricultural sector. The IMF has played a supportive role in promoting trade liberalization, particularly in the context of the WTO trade negotiations. The IMF is prepared, along with the World Bank, to provide transitional assistance to member countries experiencing payment imbalances arising from the passage of trade reform legislation. In recent years, the IMF has stepped up its in-depth trade policy work in consultations with currency unions that are potentially impacted by trade liberalization, such as the Monetary and Economic Community of Central Africa (CEMAC) and West African Economic and Monetary Union (WAEMU), as well as for some other African and Western Hemisphere groupings.

(3) Strengthened financial systems and adoption of sound banking principles and practices

The joint IMF-World Bank Financial Sector Assessment Program (FSAP) has emerged as a critical instrument for financial sector surveillance and advice. FSAPs are used to generate assessments of compliance with key financial sector standards, such as the Basel Committee's Core Principles for Effective Banking Supervision, the International Organization of Securities Commission's Objectives and Principles of Securities Regulation, and the IMF's own Code of Good Practices on Transparency in Monetary and Financial Policies. The FSAP assessment results are summarized in Financial System Stability Assessments (FSSA), which are often provided to the public.

In September 2010, the USED supported the adoption of IMF management's proposal to make financial stability assessments under the FSAP a regular and mandatory part of bilateral surveillance under Article IV of the Fund's Articles of Agreement for 25 jurisdictions with systemically important financial sectors, including the United States. This decision will increase the coverage of financial stability issues in the Fund's bilateral surveillance of its members with the largest and most interconnected financial sectors, while also preserving access to the FSAP on a voluntary basis for the rest of the membership. To date, twelve countries have released their

FSSAs in 2013 and fifteen released FSSAs in 2012. These financial stability assessments will take place on a five-year cycle.

The IMF also conducts financial sector surveillance through a semi-annual Early Warning Exercise (EWE) and Global Financial Stability Report (GFSR). The EWE is prepared jointly by the IMF and the FSB; and, the GFSR is produced by the IMF's Monetary and Capital Markets Division. In November 2008, G-20 Leaders called on the IMF and FSB to undertake EWEs. The EWE is intended to identify the most relevant tail risks to the global economy or major regions, to demonstrate how the possible emergence of these risks could be recognized, and to specify the policy changes that would need to be implemented if they were to materialize. The analysis is based on consultations with policymakers, outside experts, Article IV and FSAP findings, and internal IMF models.

The Standards and Codes Initiative, which was launched in 1999 to strengthen the international financial architecture, underwent a regular five-year review by the IMF and World Bank in early 2011. The review paid particular attention to the need to adapt the Initiative in light of the recent crisis. The USED has welcomed the IMF's active participation in the FSB process to reassess the existing set of standards and has expressed support for the proposals put forth by the Standing Committee on Standards Implementation (SCSI) Working Group to the FSB Plenary regarding the key standards.

Following the G-20 Finance Ministerial in April of 2009, the FSB and the IMF formed a working group to explore information gaps and provide appropriate proposals for strengthening financial sector data collection, and report back to the Finance Ministers and Central Bank Governors. In October 2009, the Working Group submitted a report to Finance Ministers and Central Bank Governors, which included a list of recommendations to fill existing information gaps. The Working Group continues to provide regular progress updates; the most recent update was released at the October 2013 G-20 Ministerial.

The following are key examples of the USED supporting the strengthening of financial systems:

- In a September 2013 board statement on Italy's Article IV staff report and FSSA staff report, the USED welcomed the Bank of Italy's strengthened inspection of select banks and noted that expanding the inspection's scope and publishing general findings would help boost market confidence and better position Italian banks for the ECB's balance sheet assessment.

- In a July 2013 board statement on Belize's Article IV staff report, the USED welcomed Belize's implementation of FSAP recommendations and progress in unifying bank supervision and bolstering provisioning for vulnerable financing institutions. Nevertheless, the USED noted that high non-performing loan levels at several banks underscore the importance of the timely implementation of a revised restructuring and resolution framework.

- In a June 2013 board statement on Ireland's 10th Extended Fund Facility (EFF) review, the USED welcomed the agreement reached on the timing of the bank stress tests, noting that such assessments are critical for getting a clearer picture of banking sector health. The USED also commended the preparatory work undertaken by the government to strengthen financial stability and facilitate Ireland's entry into the single supervisory mechanism (SSM).

- In a June 2013 board statement on Ghana's Article IV staff report, the USED noted the risks of increasing non-performing loans and the deterioration of asset quality in Ghanaian banks, and urged authorities to make progress implementing recommendations from the 2011 FSAP, including those on strengthening supervision and capital.

- In a September 2013 board statement on Thailand's Article IV staff report, the USED noted the expanding role of Specialized Financial Institutions (SFIs) and non-commercial banks and recommended that such institutions should be brought into the central bank's regulatory remit to prevent regulatory arbitrage, improve monitoring of asset prices, and ensure a level playing field in the financial sector between commercial banks, non-commercial banks, non-bank financial institutions, and SFIs.

(4) Internationally acceptable domestic bankruptcy laws and regulations

While the World Bank normally leads reviews of domestic insolvency laws, the IMF actively supports this agenda. The UN Commission on International Trade Law ("UNCITRAL") and the World Bank have worked to compile recommendations in this area covering, respectively, insolvency law and sound insolvency/creditor rights regimes. At the urging of the United States, staff from the World Bank, IMF, and UNCITRAL worked together to develop a standardized, unified assessment methodology to assess implementation of those recommendations.

The international financial institutions provide technical assistance to help emerging market economies develop efficient insolvency regimes. The IMF and the World Bank have supported adoption of the Model Law on Cross-Border Insolvency developed by the UN to facilitate the resolution of increasingly complex cases of insolvency where companies have assets in several jurisdictions. With the support of the United States, the IMF has worked with the World Bank to promote improved insolvency regimes in a number of countries.

With the strong support of the United States, the FSB developed a new international standard, the Key Attributes of Effective Resolution Regimes for Financial Institutions ("Key Attributes"), which specifies the core elements of national regimes that would allow authorities to resolve financial institutions in an orderly manner. The Key Attributes standard is now one of the international financial standards and codes used in the FSAP process. Along with officials from the United States and other national authorities, IMF and World Bank staffs continue to work with the FSB to develop an assessment methodology.

The following is an example of the USED supporting development of domestic bankruptcy laws and regulations:

- In a June 2013 board statement on Vietnam's IMF Article IV staff report, the USED urged Vietnamese authorities to adopt the recommendations of Vietnam's Financial

System Stability Assessment by strengthening and modernizing the supervisory regime and reforming bankruptcy, bank resolution, and property laws.

(5) Private sector involvement in crisis resolution

The United States continues to work to ensure that the private sector plays an appropriate role in the resolution of financial crises. Over the past several years, the IMF, with the support of the United States, has taken important steps towards strengthening crisis prevention and resolution. The IMF has strengthened its surveillance of member countries and instilled more discipline in the use of official sector financing, especially through the establishment of rules and procedures governing exceptional access to Fund resources. Additionally, the use of collective action clauses, supported by the IMF as an accepted contractual, market-based approach to sovereign debt restructurings, should help a sovereign restructure its debt when under financial distress.

(A) Strengthening crisis prevention through improved surveillance of economic policies and financial sector development

The United States continues to encourage the IMF to further strengthen its surveillance function and crisis prevention capabilities. Along with other G-20 members, the U.S. has reaffirmed the central role of the IMF as a critical forum for multilateral consultation and cooperation on monetary and financial issues, particularly in promoting international financial and monetary stability.

Key examples of the USED supporting better surveillance to prevent crisis include the following:

- In the February 2013 Board statement for Canada’s Article IV, the USED noted the staff’s analysis that Canada’s housing market may be overheating and could require greater attention, and concurred with the staff’s recommendations for developing regional level fiscal frameworks to insulate regional economies from the volatility of commodity prices. The USED encouraged Canadian authorities to consider developing such frameworks as global economic conditions normalize.

- In the USED’s statement in March 2013 regarding the Eastern Caribbean Currency Union, the USED endorsed plans to establish a Fiscal Council to evaluate country policies and economic projections. The proposed council was considered a first step in efforts to improve fiscal policy in the sub-region and prevent crises that could spread from island to island.

(B) Strengthening of emerging markets' financial systems

The IMF continues to work with other IFIs to promote stronger financial systems in emerging market economies. The IMF is actively involved with the World Bank in monitoring the implementation of the Basel Core Principles for Effective Banking Supervision. The IMF, with U.S. support, has increased its cooperation with the World Bank in this area, through the joint FSAP and in assessing countries’ observance of other standards and codes. The Fund also provides technical assistance to low- and lower-middle-income countries in the area of financial sector sustainability. Countries have asked for Fund assistance to address weaknesses identified in FSAPs, to adopt and adhere to international standards and codes, implement recommendations from off-shore financial center assessments, and strengthen measures to combat money laundering and the financing of terrorism.

In 2012, the G-20 authorities moved ahead with the October 2011 action plan to support the development of local currency bond markets (LCBMs), particularly in emerging market and developing countries. The action plan aims to bolster the role that LCBMs play in domestic and global financial stability, helping to expand the range of financial instruments available to manage volatile short-term flows. In accordance with the plan, the International Organizations (IOs) provided an update on implementation at the July 2013 meeting of G-20 finance ministers and central bank governors. Following on the commitment made at the November 2012 meeting, the authorities created a study group on long-term financing for infrastructure investment, approved the group's Terms of Reference, and established a work plan centered around six key themes.

Some key examples of the USED supporting a strengthening of emerging market financial systems are the following:

- In a July 2013 board statement on China's Article IV staff report, the USED encouraged liberalization of interest rates, along with strengthened financial regulation and oversight, establishment of a crisis management framework, and introduction of formal deposit insurance as key elements of a strategy to mitigate financial sector risks. The USED also highlighted potential systemic risk that could evolve from China's shadow banking sector, if remedial measures are not taken.

- In a January 2013 board statement on India's Article IV staff report, the USED welcomed publication of India's financial systems stability assessment (FSSA), and urged Indian authorities to publish the detailed assessment reports (DARs), which is an obligation of all Financial Stability Board members. The USED also encouraged India to increase the investor caps on foreign direct investment (FDI) in the financial sector, in particular the insurance and pension sector, which would attract more external investment and also help deepen India's financial markets. The USED noted that reducing the statutory liquidity ratio (SLR) would increase financial sector efficiency and lower borrowing costs for the private sector, which would, in turn, reduce Indian companies' reliance on foreign debt.

- In a September 2013 board statement on Thailand's Article IV staff report, the USED noted that rapid expansion of credit and of household debt merit increased supervisory vigilance, but may indicate both financial deepening and the success of efforts to promote financial inclusion. The USED expressed concern over the expanding role of Specialized Financial Institutions (SFIs) and non-commercial banks, and recommended that such institutions should be brought into the central bank's regulatory remit to prevent regulatory arbitrage, improve monitoring of asset prices, and ensure a level playing field in the financial sector between commercial banks, non-commercial banks, nonbank financial institutions, and SFIs.

- In a February 2013 board statement on Namibia's Article IV staff report, the USED emphasized that in light of the rapid increases in house prices and household debt, as well as increased exposures of banks to the property market, we concurred with the staff that the authorities should be cautious about developments in the housing sector. To safeguard financial stability, judicious use of macro prudential tools, such as tightening loan-to-value ratios, may be warranted. The USED also supported staff's recommendation to adopt bank stress testing techniques to better monitor these and other financial sector vulnerabilities.

(C-H) Strengthened crisis resolution mechanisms

The IMF's actions since the outset of the global financial crisis began have stabilized markets and boosted confidence, winning broad support and underscoring the Fund's central role in crisis response. A critical component of the response was ensuring that the IMF has adequate resources to address the needs of members hard hit by the global crisis.

To this end, the G-20 and IMF membership delivered on commitments to renew and expand the IMF's New Arrangements to Borrow (NAB) by over $500 billion to backstop the IMF. The IMF also took action in 2009 to supplement members' reserves and boost global liquidity through allocations of Special Drawing Rights (SDRs) equivalent to $283 billion. As global financial conditions eased in 2010, the G-20 and IMF membership decided on a set of quota and governance reforms designed to enhance IMF effectiveness. The reforms included a doubling of total quotas (with a corresponding rollback of the NAB) to restore the primacy of the Fund's quota-based financial structure and realign relative quota shares to better reflect global economic realities, while ensuring the Fund has adequate resources to play its central role in promoting global financial stability.

The United States, in cooperation with the IMF and the broader international financial community, promoted a strengthened framework for crisis resolution by overhauling the IMF's non-concessional lending framework in early 2009. The United States supported the creation of facilities, including the Flexible Credit Line (FCL) and the Precautionary and Liquidity Line (PLL) to help members prevent financial crisis and respond to external vulnerabilities and risks.

The United States has been a strong advocate for enhanced IMF support for low-income countries. In 2009, the IMF membership approved a package of reforms to increase the resources available to low-income countries (LICs), more than doubling the Fund's medium-term concessional lending capacity to $17 billion. These reforms allowed the Fund to dramatically expand its lending capacity during the crisis, with new Fund commitments for LICs totaling roughly $10.2 billion, or five times the historical average, since the beginning of 2009. In addition, in 2010, the IMF created the Post-Catastrophe Debt Relief (PCDR) Trust to provide debt relief for very poor countries hit by the most catastrophic of natural disasters. The PCDR financed the elimination of Haiti's entire debt stock to the IMF (about $268 million) following the 2010 earthquake. In 2012, with strong U.S. leadership, the IMF Board agreed to use all $3.8 billion of the IMF's windfall gold sales profits to support LICs through the Poverty Reduction and Growth Trust. Treasury has also strongly supported the IMF Board's decision to reduce interest rates to zero for all concessional lending through end-2014, to support low-income countries.

In April 2013, the IMF released a paper discussing recent developments in sovereign debt restructuring and listing four areas for further exploration by staff to: (1) improve the effectiveness of sovereign debt restructuring in restoring sustainability; (2) change contractual clauses in sovereign bonds to better overcome collective action problems; (3) clarify the framework for official sector involvement; and (4) review the Lending Into Arrears (LIA) policy in light of the growing complexity of the creditor base. The United States supports the IMF's efforts to consider its role in facilitating orderly debt restructurings when they are needed, and supports further work on market-based solutions.

An example of the U.S. supporting sound crisis resolution mechanisms:

- In a July 2013 board statement on the Euro Area Policies staff report, the USED urged swift work to establish a robust banking union that would help support growth throughout the euro area. The USED welcomed the recent progress in creating a single bank supervisor and encouraged timely decisions on setting up a centralized bank resolution process, identifying a common backstop for boosting bank capital where private capital is lacking, and creating a common deposit insurance scheme.

(6) Good governance

The IMF places great importance on good governance when providing policy advice, financial support, and technical assistance to member countries. The Fund's commitment to promoting good governance is outlined in the 1996 Declaration on Partnership for Sustainable Global Growth and the 1997 Guidelines on Good Governance. The IMF supports good governance through an emphasis on transparency, strong fiduciary diagnostics, and its promotion of market-based reforms. The IMF has actively promoted good governance through efforts to protect against abuse of the financial system and to fight corruption.

The Fund's involvement has focused on those governance aspects that are generally considered part of the IMF's core expertise, such as improving public administration, increasing government transparency, enhancing data dissemination, and implementing effective financial sector supervision. The IMF promotes best practice principles through its codes and standards, including the Code of Good Practice on Transparency in Monetary and Financial Policies. The IMF also collaborates with the World Bank to strengthen the capacity of HIPC countries to develop essential public financial management (PFM) systems and track public sector spending.

Examples of U.S. efforts to encourage good governance include the following:

- In a February 2013 board statement on Nigeria's Article IV staff report, the USED welcomed the authorities' commitment to operating their Sovereign Wealth Fund to manage oil revenues in line with best international practices, and encouraged them to follow the Santiago Principles.

- In a May 2013 board statement on Libya's Article IV staff report, the USED encouraged the authorities to take further steps towards improving public financial management to make better use of oil revenues and to make a commitment to implement the Extractive Industries Transparency Initiative (EITI).

- In a January 2013 board statement on the 5th review of Uganda's Policy Support Instrument (PSI), the USED urged the authorities to strengthen governance, improve public financial management systems, and step up the fight against corruption.

- In a December 2012 board statement on the 1st review of Bosnia's Standby Arrangement (SBA) the USED noted the program's focus on fostering better coordination among national institutions and the sub-national entities, a key issue in promoting growth, fiscal sustainability and good governance in a country still divided on ethnic lines.

(7) Channeling public funds away from unproductive purposes, including large "showcase" projects and excessive military spending, and toward investment in human and physical capital to protect the neediest and promote social equity

The Fund's Code of Good Practices on Fiscal Transparency, updated in 2007,[7] identified principles and practices to enhance fiscal policy transparency, promote quality audit and accounting standards, and reduce or eliminate off-budget transactions, which are often the source of unproductive government spending. Supplementing this Code is the Fund's Guide to Resource Revenue Transparency, also updated in 2007, a complement to the Fiscal Report on Standards and Codes (Fiscal ROSC) for use in resource-rich (oil/gas-mining) countries. The IMF also strongly supports the Extractive Industries Transparency Initiative (EITI) by providing policy and technical support to the EITI Secretariat and implementing countries.

The USED is promoting improved channeling of public resources in the following ways:

- In a July 2013 board statement on Oman's Article IV staff report, the USED advocated for the phasing out of energy subsidies that disproportionately advantage the wealthy, noting that the saving generated from these reforms could be used to finance social and capital spending to boost growth and productivity.

- In a January 2013 board statement on Equatorial Guinea's Article IV staff report, the USED noted that public expenditures were being directed towards the financing of "prestige projects" and concurred with IMF staff's determination that authorities should be more critical in selecting projects.

- In a September 2013 board statement on Romania's request for a Stand-By Arrangement (SBA), the USED welcomed the program's emphasis on improving public financial management and called for better prioritization of investment projects and budgetary planning to help address the country's infrastructure deficit.

[7] Fund staff are currently preparing a revised code for board review in 2014.

(8) Economic prescriptions appropriate to the economic circumstances of each country

The United States has emphasized the need to focus policy prescriptions and conditionality using measurable results on issues critical to growth and macroeconomic stability. Partly as a result of U.S. efforts, program conditions have focused increasingly on debt and financial vulnerability in middle-income countries and macroeconomic management in low-income countries.

The U.S. supports appropriate economic prescriptions in the following ways:

- In a May 2013 7th review of Seychelles' Extended Fund Facility (EFF), the USED emphasized that reserve coverage, while on an upward trend and in the context of a floating exchange rate, remains lower than preferable for a small island economy with very large external imbalances and high exposure to exogenous shocks.

- In an April 2013 board statement on Jordan's Article IV staff report, the USED supported a new investment law – intended to raise the potential growth rate and ensure that the benefits of economic growth are shared across the population – that was well-targeted, focusing on the areas where Jordan's business environment is perceived as particularly difficult for both domestic and foreign firms.

- In a September 2013 board statement on Ireland's 11th review of its Extended Fund Facility, the USED acknowledged that there might be some leeway to relax the pace of fiscal consolidation if the outlook tracked to the downside. The USED welcomed the IMF recommendation that automatic stabilizers be allowed to operate fully, and the decision of the Troika and Irish authorities to defer the establishment of a firm consolidation target for 2014 pending further information on growth prospects and the 2013 budget outturn.

- In a June 2013 board statement on the 7th review of Portugal's Extended Fund Facility, the USED noted that the proposed modification of fiscal targets is appropriate in light of the weaker economic outlook and the Portuguese authorities' strong track record. At the time of the review, Portuguese economic growth remained low, and contribution of net exports deteriorated with weak euro area demand.

(9) Core labor standards ("CLS")

Treasury works toward integrating core labor standards into the development agenda of the IFIs, including the IMF. To this end, Treasury encourages enhanced cooperation among the IFIs and the International Labor Organization (ILO) to establish best practices on CLS policies, and monitors and takes appropriate action on individual lending and non-lending programs that come before the respective Boards of Directors for decision. The State Department monitors labor standards in all IFI borrower countries, and, since 1994, Treasury has fulfilled a legislative mandate to submit a report to Congress assessing progress made by the IFIs, with respect to internationally recognized worker rights.

The U.S. supports improved labor standards, including through the following example:

- In a May 2013 board statement on Bangladesh's Extended Credit Facility (ECF), the USED urged the authorities to take steps to address workplace safety, drawing on the assistance of development and private sector partners.

(10) Discouraging practices that may promote ethnic or social strife

By helping to create the conditions for a sound economy, IMF assistance facilitates the reduction of ethnic and social strife to the extent such strife is driven in part by economic deprivation. For example, with United States support, the IMF has increasingly encouraged the strengthening of social safety nets. The IMF also encourages consultation with various segments of society in the development of programs so that these segments have an opportunity to participate in the implementation of national priorities. In some countries, IMF assistance has helped to free up resources for more productive public investment by recommending conditions that led to a reduction in the country's military expenditures.

The U.S. continues to discourage practices that may promote ethnic or social strife such as through the following example:

- In a September 2013 board statement on Sudan's Article IV staff report, the USED urged the authorities to strengthen revenue collection, reduce subsidies, and prioritize social expenditures that protect needy populations, reduce the regional inequities of fiscal policy, and lower the burden of security expenditures. The USED agreed with staff recommendations for Sudan to increase the allocation of budget resources to neglected areas to begin a virtuous cycle of stability and growth.

(11) Link between environmental and macroeconomic conditions and policies

With respect to individual lending operations, the IMF itself does not evaluate positive or negative linkages between economic conditions and environmental sustainability. Rather, the IMF coordinates with the World Bank which, unlike the IMF, has the mandate and internal expertise to address such linkages. Where environmental issues pose fiscal, financial, and macroeconomic challenges, the IMF provides advice in line with its mandate and expertise. There is ongoing coordination among the IFIs to assess the magnitude of pollution and other major environmental side effects associated with fossil fuel use, and to provide actionable guidance on energy tax reforms for a broad range of developed and developing countries.

The U.S. supports policies that increase macroeconomic stability while reducing negative environmental impacts including through the following examples:

- In February and May 2013 board statements on reviews of Bangladesh's Extended Credit Facility (ECF), the USED urged the authorities to move toward an automatic fuel price adjustment mechanism in order to reduce the fiscal (and environmental) cost of energy subsidies.

- In a February 2013 board statement on Malaysia’s Article IV staff report, the USED underscored the importance of faster progress to reduce fossil fuel subsidies.

- In an April 2013 board statement on Sri Lanka’s Article IV staff report, the USED encouraged authorities to take a comprehensive approach to energy sector reform, including a sequenced transition to automatic, full cost recovery pricing.

(12) Greater transparency

Transparency is critical for improving the quality of the IMF’s surveillance and the effectiveness of its policy advice, and enhances its legitimacy with members. With strong United States support, the IMF continues to encourage member countries to make their economic and financial policies more transparent. In recent years, the IMF has increased significantly the amount of information that is available to the public. The United States has stressed the need to build on this progress and expand the number of publications and IMF practices open to public scrutiny. The USED consistently encourages countries to publish the full Article IV staff report on the IMF's public website. The Board completed its latest review of IMF transparency in June 2013, which continued the presumption favoring publication to include all Article IV and Use of Fund Resources documents. The review introduced additional measures to increase the amount and timeliness of publications, protect the integrity of IMF documents, and enhance the accountability and legitimacy of the IMF.

In addition to pressing countries to publish their Article IV assessments, countries are urged to provide additional information to private market participants by regularly releasing data consistent with the IMF’s Special Data Dissemination Standards (SDDS). Over 90 percent of Fund members subscribe to either General Data Dissemination Standards or SDDS. In 2012, SDDS Plus was created to include nine additional data categories. These data categories cover: sectoral balance sheets; general government operations and general government gross debt; the other financial corporations’ survey, financial soundness indicators, and debt securities; and participation in the Coordinated Portfolio Investment Survey, the Coordinated Direct Investment Survey, and the Currency Composition of Official Foreign Exchange Reserves exercises.

The U.S. encourages greater transparency through the IMF, including in the following examples:

- The USED’s board statement for the 2013 Transparency Policy Review urged shorter lag periods before publication of board minutes and earlier release of archival material.

- In a July 2013 board statement on Brazil’s Article IV staff report, the USED called on Brazilian authorities to consent to the report’s publication.

- In a February 2013 board statement on Malaysia’s Article IV staff report, the USED encouraged the authorities to make its FSAP related documents and Article IV staff report publicly available.

- In a February 2013 board statement on the Bahamas’s Article IV staff report, the USED emphasized the need to address the lack of data regarding the Bahamas’s offshore financial sector, which prevents stress tests. That lack of transparency, the USED emphasized, is particularly troublesome given the sector's significant size, seventy-five times GDP.

(13) Greater IMF accountability and enhanced self-evaluation

In 2000, with the strong urging of the USED, the Executive Board established an Independent Evaluation Office (IEO) to supplement existing internal and external evaluation activities. The IEO provides objective and independent evaluation on issues related to the IMF, and operates independently of Fund management and at arm's length from the IMF Board. On average, the IEO concludes two or three evaluations per year, and each evaluation normally takes about 18 months to complete. Recent evaluations include the following, which are publicly available on the IEO's website[8]:

- The Role of the IMF as a Trusted Advisor (February 2013)
- International Reserves: IMF Concerns and Country Perspectives (December 2012)
- Research at the IMF: Relevance and Utilization (June 2011)
- IMF Performance in the Run-up to the Financial Crisis: IMF Surveillance in 2004-07 (February 2011)
- IMF Interactions with Member Countries (January 2010)

(14) Structural reforms which facilitate the provision of credit to small businesses, including microenterprise lending

The lack of financial services available to the poor is a significant obstacle to growth for many developing countries. Treasury engages with all the IFIs to promote structural reforms that encourage the provision of credit to small and micro enterprises. The IMF does not have the lead role among IFIs in microeconomic reforms to benefit small businesses, but the IMF frequently reviews the microfinance sector in the context of FSAPs for developing countries.

- In a September 2013 board review of Botswana's Article IV staff report, the USED urged the authorities to adopt the staff's recommendations on improving Botswana's business environment to help spur economic diversification, including the development of a stronger SME sector. High public sector employment and wage growth have spurred Botswanan banks' disproportionate focus on the household sector at the expense of potentially more productive lending to firms and SMEs.

(15) Anti-Money Laundering and Combating the Financing of Terrorism ("AML/CFT")

Incorporating the work of the IMF and the other IFIs into the global effort to fight illicit finance has been a consistent policy priority for the United States and its partners. We have encouraged collaboration between the IFIs and the Financial Action Task Force ("FATF") to assess global compliance with the FATF 40 Recommendations, which are the international standards on combating

[8] http://www.imf.org/external/np/ieo/index.htm

money laundering and the financing of terrorism and proliferation.

In April 2007, largely as a result of U.S. and G-7 leadership, the IMF Board reiterated the importance of AML/CFT standards to strengthening the integrity of financial systems and deterring financial abuse, and affirmed the collaborative arrangements presently in place with the FATF and FATF-style regional bodies ("FSRBs") for assessing AML/CFT regimes in the context of the IMF's financial sector work. The Board also encouraged greater transparency by calling for the publication of comprehensive country evaluations.

Coordination between the IMF, World Bank, FATF, and FSRBs in assessing compliance with the international AML/CFT standards, including the use of the same methodology, institutionalizes the global fight against terrorist financing and money laundering and helps countries to identify shortfalls in their AML/CFT regimes and implement reforms. As of September 2013, the IMF had conducted over 70 assessments of country compliance with the FATF Recommendations.

The IMF is also a substantial source of funding for countries' efforts to strengthen their own AML/CFT regimes – an activity that Treasury has supported and has joined in to leverage Treasury's own bilateral AML/CFT assistance. The IMF has provided substantial technical assistance ("TA") on a bilateral and regional basis. In late 2009, the IMF established a multi-donor TA trust fund to finance further TA and research activities in the area of AML/CFT. In coordination with the establishment of the multi-donor fund on AML/CFT, the IMF has also worked toward opening regional TA centers in Latin America, Central Asia, and Southern and Western Africa to strengthen its delivery of assistance to recipient countries.

Treasury and the USED played a role in mobilizing the IMF Board's support for this initiative, as well as ensuring that note is taken of AML/CFT issues in Article IV reviews and reports, IMF programs, and other regular reviews of country progress. Below are several examples:

- In a March 2013 board statement on the Philippines Article IV staff report, the USED welcomed the passage of amendments to the New Central Bank Act and bills to strengthen the AML/CTF regime in line with FATF recommendations.

- In a December 2012 board statement on Cambodia's Article IV staff report, the USED noted that Cambodia's progress in implementing high priority recommendations from the FSAP had been slow, particularly with respect to the introduction of AML/CFT measures and the delineation of supervisory responsibilities among domestic government agencies.

- In a June 2013 board statement on Belize's Article IV staff report, the USED praised the Belizean Central Bank's commitment to introduce a risk-based approach to AML/CFT supervision, and commended the IMF for providing relevant technical assistance. The USED said Belizean authorities should strengthen supervision of financial services, particularly in the off-shore and non-bank sectors, to prevent the use of financing for illicit purposes.

- In a November 2012 statement on Mongolia's Article IV staff report, the USED urged the authorities to address the deficiencies in their AML/CFT regime as identified by FATF.

- In a November 2012 U.S. Board statement on Turkey's Article IV staff report, the USED urged Turkey to expeditiously pass legislation to adequately address deficiencies in its AML/CFT framework in order to avoid suspension from FATF, prior to the February 2013 FATF deadline.

II. Section 801(c)(1)(B)

(I) Suspension of IMF financing if funds are being diverted for purposes other than the purposes for which the financing was intended

With strong United States support, the IMF works to ensure that IMF resources are used solely for the purposes for which they are intended. One of the IMF's most effective tools against corruption is the Safeguards Assessment used to prevent possible misuse of IMF resources and misreporting of information. All countries that request to use IMF resources must agree to undergo a Safeguards Assessment. Its purpose is to identify vulnerabilities in a central bank's control systems. IMF staff carry out this diagnostic exercise to consider the adequacy of five key areas of control and governance within a central bank: (i) the external audit mechanism; (ii) the legal structure and independence; (iii) the financial reporting framework; (iv) the internal audit mechanism; and (v) the internal controls system. The framework was introduced in March 2000 and most recently reviewed in July 2010. As of October 22, 2013, 252 Safeguards Assessments had been completed.

(II) IMF financing as a catalyst for private sector financing

The IMF recognizes that, if structured effectively, official financing can complement and attract private sector flows. The Fund promotes policy reforms that catalyze private financing and, in cases of financial crisis, allow countries to regain access to international private capital markets as quickly as possible. (See Section 5 above for a more in-depth discussion of private sector involvement.)

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

IMF disbursements are made in tranches based on a country's performance against specified criteria and policy actions, both prior to and during the program. Together with the rest of the IMF's Executive Board, the USED plays a strong oversight role in ensuring that management only brings forward new programs or releases a new tranche of funds after such criteria and policy actions have been met.

(IV) Open markets and liberalization of trade in goods and services

The IMF has advocated consistently for open markets and trade liberalization. The Fund also recognizes that trade adjustments can cause temporary balance of payments problems and has developed the Trade Integration Mechanism (TIM) to provide transitional financial assistance to countries if needed. The Fund also has a key responsibility in dealing with the revenue implications of trade liberalization, such as sequencing domestic tax reforms with the trade liberalization process. Throughout the financial crisis the IMF consistently advised countries that protectionism is not a path to economic recovery.

The IMF has developed an implementation plan for international trade policy issues that calls for reviews of Fund work on trade policy every five years, beginning in 2014. The plan deemphasizes trade policy as an element of program conditionality, but still emphasizes trade liberalization where necessary to achieve the macroeconomic objectives of a Fund-supported program. The plan also calls for more frequent coverage of cross-cutting trade policy issues in the Fund's multilateral and regional surveillance vehicles (such as the World Economic Outlook and the Regional Economic Outlooks) and closer cooperation with the WTO and World Bank on trade.

(V) IMF financing to concentrate chiefly on short-term balance of payments financing

In 2000 and again in 2009, with strong United States support, the IMF agreed to reorient IMF lending to discourage continued or prolonged use of IMF funds and provide incentives for quick repayment. In 2000, the IMF introduced a shorter repayment period for the Extended Arrangement, and in 2009 initiated a time-based surcharge to promote early repayment, and increased commitment fees for higher levels of access.

For low-income countries, the IMF established the Standby Credit Facility (SCF) in July 2009 as a new instrument for concessional financing, largely in response to U.S. advocacy. The SCF will fill a long-standing gap in the IMF concessional facilities architecture by providing low-income countries with a facility specifically designed for intermittent use in response to short-term balance of payments financing gaps. The SCF also carries a shorter repayment period than the IMF's other concessional facilities. The United States also continues to be a strong advocate for the non-borrowing Policy Support Instrument (PSI) which provides a framework for IMF policy advice and donor signaling without the need for IMF lending. The United States has discouraged low-income countries from pursuing serial Poverty Reduction and Growth Trust (PRGT) programs. The United States urges those countries without a clear balance of payments need to opt for a PSI, in which case they retain the option of seeking SCF financing in the event of sudden adverse developments.

Along similar lines, the November 2011 creation of the Precautionary and Liquidity Line (PLL) and the Rapid Credit Facility (RCF) could provide countries with shorter-term liquidity to meet temporary balance of payments needs.

(VI) Graduation from receiving financing on concessionary terms

The United States supports comprehensive growth strategies to help countries graduate from concessional to market-based lending. The United States works closely with the IMF and World Bank to promote a growth-oriented agenda in developing countries based on strong macroeconomic and structural policies. The IMF extends concessional credit through the PRGT. Eligibility is based principally on a country's per capita income and eligibility for financing under the International Development Association ("IDA"), the World Bank's concessional window. The current operational cutoff point for IDA eligibility, for IMF fiscal year 2013, is a per capita GNI level of $1,195. A member will graduate and be removed from the PRGT-eligibility list if the following apply: (1) its annual per capita GNI has been above the IDA cutoff point for the past five years with an increasing trend, and is currently at least twice the operational IDA cutoff for most states (three times the cutoff for small states and six times the cutoff for microstates); and/or (2) the member has the ability to durably and substantially access international financial markets and has a per capita GNI above 80 percent of the IDA cutoff, with GNI per capita on an increasing trend for the past five years; and, (3) the member country faces a low risk of a sharp decline in income or market access and limited debt vulnerabilities, as determined by the Fund's quantitative analysis.

In January 2010, Albania, Angola, and Azerbaijan graduated on the basis of the income criterion, while India, Sri Lanka, and Pakistan graduated on the basis of the market access criterion. In 2013 Armenia and Georgia graduated on the basis of the income criterion. While other countries have met the income and market access criteria for graduation, they had not been proposed for graduation given that they face serious short-term vulnerabilities. The next graduation review will take place in 2015.

Legislative Provisions

Section 1705(a) of the International Financial Institutions Act, as amended
Annual report and testimony on state of international financial system, IMF reform, and compliance with IMF agreements

(a) Access to Materials. - Not later than October 1 of each year, the Secretary of the Treasury shall submit to the Committees on Banking and Financial Services and on Ways and Means of the House of Representatives and the Committees on Finance and on Foreign Relations of the Senate a written report on (1) the progress (if any) made by the United States Executive Director at the International Monetary Fund in influencing the International Monetary Fund to adopt the policies and reform its internal procedures in the manner described in section 1503, and (2) the progress made by the International Monetary Fund 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.

Section 1503(a) of the International Financial Institutions Act, as amended (originally passed as Section 610(a) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999, and amended in 2004)

The Secretary of the Treasury shall instruct the United States Executive Director of the International Monetary Fund to use aggressively the voice and vote of the Executive Director to do the following:

(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 trade systems.

(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 –

> (A) Establishing an independent monetary authority, with full power to conduct monetary policy, that provides for a non-inflationary domestic currency that is fully convertible in foreign exchange markets;
> (B) Opening domestic markets to fair and open internal competition among domestic enterprises by eliminating inappropriate favoritism for small or large businesses, eliminating elite monopolies, creating and effectively implementing anti-trust and anti-monopoly laws to protect free competition, and establishing fair and accessible legal procedures for dispute settlement among domestic enterprises;
> (C) Privatizing industry in a fair and equitable manner that provides economic opportunities to a broad spectrum of the population, eliminating government and elite monopolies, closing loss-making enterprises, and reducing government control over the factors of production;

(D)Economic deregulation by eliminating inefficient and overly burdensome regulations and strengthening the legal framework supporting private contract and intellectual property rights;
(E) Establishing or strengthening key elements of a social safety net to cushion the effects on workers of unemployment and dislocation; and
(F) Encouraging the opening of markets for agricultural commodities and products by requiring recipient countries to make efforts to reduce trade barriers.

(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.

(4) 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 facilitating the development and implementation of internationally acceptable domestic bankruptcy laws and regulations in developing countries, including the provision of technical assistance as appropriate.

(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 –

(A) Strengthening crisis prevention and early warning signals through improved and more effective surveillance of the national economic policies and financial market development of countries (including monitoring of the structure and volume of capital flows to identify problematic imbalances in the inflow of short and medium term investment capital, potentially destabilizing inflows of offshore lending and foreign investment, or problems with the maturity profiles of capital to provide warnings of imminent economic instability), and fuller disclosure of such information to market participants;
(B) Accelerating work on strengthening financial systems in emerging market economies so as to reduce the risk of financial crises;
(C) Consideration of provisions in debt contracts that would foster dialogue and consultation between a sovereign debtor and its private creditors, and among those creditors;
(D)Consideration of extending the scope of the International Monetary Fund's policy on lending to members in arrears and of other policies so as to foster the dialogue and consultation referred to in subparagraph (C);
(E) Intensified consideration of mechanisms to facilitate orderly workout mechanisms for countries experiencing debt or liquidity crises;
(F) Consideration of establishing ad hoc or formal linkages between the provision of official financing to countries experiencing a financial crisis and the willingness of market participants to meaningfully participate in any stabilization effort led by the International Monetary Fund;

(G)Using the International Monetary Fund to facilitate discussions between debtors and private creditors to help ensure that financial difficulties are resolved without inappropriate resort to public resources; and
(H)The International Monetary Fund accompanying the provision of funding to countries experiencing a financial crisis resulting from imprudent borrowing with efforts to achieve a significant contribution by the private creditors, investors, and banks which had extended such credits.

(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.

(7) Vigorously promote the design of International Monetary Fund programs and assistance so that governments that draw on the International Monetary Fund channel public funds away from unproductive purposes, including large “show case” projects and excessive military spending, and toward investment in human and physical capital as well as social programs to protect the neediest and promote social equity.

(8) Work with the International Monetary Fund to foster economic prescriptions that are appropriate to the individual economic circumstances of each recipient country, recognizing that inappropriate stabilization programs may only serve to further destabilize the economy and create unnecessary economic, social, and political dislocation.

(9) Structure International Monetary Fund programs and assistance so that the maintenance and improvement of core labor standards are routinely incorporated as an integral goal in the policy dialogue with recipient countries, so that –

(A) Recipient governments commit to affording workers the right to exercise internationally recognized core worker rights, including the right of free association and collective bargaining through unions of their own choosing;
(B) Measures designed to facilitate labor market flexibility are consistent with such core worker rights; and
(C) The staff of the International Monetary Fund surveys the labor market policies and practices of recipient countries and recommends policy initiatives that will help to ensure the maintenance or improvement of core labor standards.

(10) Vigorously promote International Monetary Fund programs and assistance that are structured to the maximum extent feasible to discourage practices which may promote ethnic or social strife in a recipient country.

(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.

(12) Facilitate greater International Monetary Fund transparency, including by enhancing accessibility of the International Monetary Fund and its staff, foster a more open release policy toward working papers, past evaluations, and other International Monetary Fund documents, seeking to publish all Letters of Intent to the International Monetary Fund and Policy Framework Papers, and establishing a more open release policy regarding Article IV consultations.

(13) Facilitate greater International Monetary Fund accountability and enhance International Monetary Fund self-evaluation by vigorously promoting review of the effectiveness of the Office of Internal Audit and Inspection and the Executive Board's external evaluation pilot program and, if necessary, the establishment of an operations evaluation department modeled on the experience of the International Bank for Reconstruction and Development, guided by such key principles as usefulness, credibility, transparency, and independence.

(14) Vigorously promote coordination with the International Bank for Reconstruction and Development and other international financial institutions (as defined in Section 1701 (c)(2)) in promoting structural reforms which facilitate the provision of credit to small businesses, including microenterprise lending, especially in the world's poorest, heavily indebted countries.

(15) Work with the International Monetary Fund to

(A) foster strong global anti-money laundering (AML) and combat the financing of terrorism (CFT) regimes;
(B) ensure that country performance under the Financial Action Task Force anti-money laundering and counterterrorist financing standards is effectively and comprehensively monitored;
(C) ensure note is taken of AML and CFT issues in Article IV reports, International Monetary Fund programs, and other regular reviews of country progress;
(D) ensure that effective AML and CFT regimes are considered to be indispensable elements of sound financial systems; and
(E) emphasize the importance of sound AML and CFT regimes to global growth and development.

Section 801(c)(1)(B) Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001

Treasury should report on the extent to which the IMF is implementing –

I. Policies providing for the suspension of financing if funds are being diverted for purposes other than the purpose for which the financing was intended;

II. Policies seeking to ensure that financing by the Fund normally serves as a catalyst for private sector financing and does not displace such financing;

III. Policies requiring that financing must be disbursed (i) on the basis of specific prior reforms; or (ii) incrementally upon implementation of specific reforms after initial disbursement;

IV. Policies vigorously promoting open markets and liberalization of trade in goods and services;

V. Policies providing that financing by the Fund concentrate chiefly on short-term balance of payments financing;

VI. Policies providing for the use, in conjunction with the Bank, of appropriate qualitative and quantitative indicators to measure progress toward graduation from receiving financing on concessionary terms, including an estimated timetable by which countries may graduate over the next 15 years.

Section 605(d) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999

On a quarterly basis, the Secretary of the Treasury shall report to the appropriate committees on the standby or other arrangements of the Fund made during the preceding quarter, identifying separately the arrangements to which the policies described in section 601(4) of this title apply and the arrangements to which such policies do not apply.

Section 601. ***

(1) Policies providing that, in circumstances where a country is experiencing balance of payments difficulties due to a large short-term financing need resulting from a sudden and disruptive loss of market confidence and in order to provide an incentive for early repayment and encourage private market financing, loans made from the Fund's general resources after the date of the enactment of this section are—

(A) made available at an interest rate that reflects an adjustment for risk that is not less than 300 basis points in excess of the average of the market-based short term cost of financing of its largest members; and

(B) repaid within 1 to 2 ½ years from each disbursement.

ANNEX 1 Report to Congress on International Monetary Fund Lending
October 1, 2012 – September 30, 2013

October 1 – December 31, 2012

Board Approval Date	Country	Amount	Type	U.S. Position
11/19/2012	Liberia	SDR 51.68 million ($78.9 million)	ECF	Support
11/28/2012	Solomon Islands	SDR 1.04 million ($1.59 million)	ECF	Support
11/30/2012	Mexico	SDR 47.292 billion ($73 billion)	FCL	Support
12/17/2012	Seychelles	SDR 6.6 million ($10.23 million)	EFF Augmentation	Support

January 1, 2013 – March 31, 2013

Board Approval Date	Country	Amount	Type	U.S. Position
1/18/2013	Poland	SDR 22 billion ($33.8 billion)	FCL	Support
1/28/2013	Mali	SDR 12 milloin ($18.4 million)	RCF	Support

April 1, 2013 – June 30, 2013

Date	Country	Amount	Type	U.S. Position
5/01/2013	Jamaica	SDR 615.38 million ($932.3 million)	EFF	Support
5/15/2013	Cyprus	SDR 891 million ($1.33 billion)	EFF	Support
5/15/2013	Samoa	SDR 5.8 million ($8.6 million)	RCF	Support
6/07/2013	Tunisia	SDR 1.146 billion ($1.74 billion)	SBA	Support
6/10/2013	Mali	SDR 10 million ($15.1 million)	RCF	Support
6/24/2013	Colombia	SDR 3.87 billion ($5.84 billion)	FCL	Support
6/24/2013	Republic of Mozambique	NCV	PSI	Support
6/28/2013	Uganda	NCV	PSI	Support

July 1, 2013 – September 30, 2013

Board Approval Date	Country	Amount	Type	U.S. Position
9/4/2013	Pakistan	SDR 4.393 billion ($6.64 billion)	EFF	Support
9/27/2013	Romania	SDR 1.75 billion ($2.68 billion)	SBA	Support

Notes:

1. FCL: Flexible Credit Line; RCF: Rapid Credit Facility; PLL: Precautionary and Liquidity Line; ECF: Extended Credit Facility; SBA: Stand-By Arrangement: PSI: Policy Support Instrument; EFF: Extended Fund Facility

2. The policies described in section 601(4) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act 1999 did not apply to any of the programs above.