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

and

Section 605(d) of the
Foreign Operations, Export Financing, and Related Programs
Appropriations Act, 1999, found in the Omnibus Consolidated and Emergency Supplemental
Appropriations Act, 1999, Public Law 105-277

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Introduction

This report provides a consolidated response to two legislative provisions that require Treasury to report to Congress on reform efforts and standby arrangements or programs undertaken by the International Monetary Fund (IMF).

IMF Policies Reform Report: Section 1705(a) of the International Financial Institutions Act (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 implementing policies, as set forth in section 801(c)(1)(B) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001, P.L. 106-429.

To advance all these policies, 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 continuously seek to build support for these policies in the IMF's Executive Board and with management. Treasury and the OUSED meet and discuss these policies with IMF staff and other Board members and the OUSED advances these reform policies in statements in the IMF Board and actual votes on programs in the Board. Throughout the report a number of examples of board statements are used to highlight the influence of the OUSED at the IMF.

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

Standby Arrangements: Section 605(d) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999, found in the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999, P.L. 105-277 mandates reports on IMF standby or other arrangements with its member countries. This information is provided in Annex I.

I. Progress of the OUSED in Promoting Policies at the IMF Described in Section 1503(a)

(1) Exchange rate stability and avoidance of competitive devaluations

The United States has continually advocated for further improvements to the IMF's surveillance on exchange rates. Treasury has emphasized the need for increased candor, transparency, and even-handedness of IMF exchange rate analysis. With strong United States support, the IMF now produces an annual External Sector Report (ESR), which provides an assessment of global imbalances, capital flows and movements in exchange rates. The report also analyzes exchange rates, and reserve adequacy, current account balances, capital flows and capital flow measures for each of 29 major economies.

The United States frequently encourages countries to pursue more flexible exchange rates based on underlying fundamentals through OUSED Board statements, as demonstrated in the following Board statements:

- In a March 2016 Board statement on Nigeria's Article IV staff report, the OUSED pressed Nigeria to allow greater exchange rate flexibility as a means to help the economy adjust to the drop in commodity prices.

- In a July 2016 Board statement on China's Article IV staff report, the OUSED agreed with IMF staff that China should continue progressing towards an effectively floating exchange rate regime. The OUSED emphasized that a market-based exchange rate is necessary to support internal economic rebalancing and sustained reduction in external imbalances.

- In a July 2016 Board statement on Morocco's request for a 3rd Precautionary and Liquidity Line program, the OUSED urged Moroccan authorities to continue with their transition towards a more flexible exchange rate regime to strengthen macroeconomic resilience.

Relatedly, the United States has also emphasized the need for greater transparency in exchange rate regimes.

- In a July 2016 Board statement on Korea's Article IV staff report, the OUSED urged the Korean authorities to publicly disclose foreign exchange market intervention and praised IMF staff for providing estimates of intervention.

(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 United States support, the IMF consistently advocates for greater monetary independence in member economies. IMF program conditionality often includes measures for improving central bank independence and accountability, and the IMF offers technical assistance to help countries achieve these goals. The United States continues to encourage the IMF to support monetary authority independence in various ways, such as through Board statements:

- In a March 2016 Board Statement on Guinea's 6th and 7th Extended Credit Facility review, the OUSED emphasized the importance of strengthening central bank independence and avoiding off-budget central bank financing in order to enable the central bank to achieve its inflation objectives.

- In a June 2016 Board statement on the 11th review of Pakistan's Extended Fund Facility, the OUSED welcomed administrative measures to enhance the financial independence of the State Bank of Pakistan, and encouraged completion and enactment of a time-bound legislative plan for addressing remaining safeguards assessment recommendations.

(B) Fair and open internal competition among domestic enterprises

With OUSED support, the IMF actively promotes measures to improve the efficiency and competitiveness of a country's economy. Examples of these measures may include improving anti-trust enforcement or establishing a transparent and sound judicial system. While the Multilateral Development Banks (MDBs) have the lead on fostering competition and efficiency within a country's economy, the IMF has at times incorporated these measures into a particular country's program when it considered them to be critical to the program's success:

- In a May 2016 Board statement on Tunisia's Extended Fund Facility program request, the OUSED emphasized the importance of reforms to Tunisia's competition and investment laws to strengthen private-sector competition and development in driving economic growth and job creation.

- In a May 2016 Board Statement on Cote d'Ivoire's Article IV staff report, the OUSED commended the authorities' decision to break up electricity and water monopolies and introduce competition to reduce utilities prices.

(C) Privatization

Privatization is most appropriately addressed through the MDBs, but the IMF also supports competitive and transparent privatization processes so that borrowing countries might achieve gains in economic efficiency and finance their fiscal positions. Examples of IMF program and surveillance discussions in which the OUSED has advocated privatization include:

- In an October 2015 Board statement on Bosnia and Herzegovina Article IV consultations, the OUSED called for privatization and state enterprise reforms to limit the need for fiscal transfers to unprofitable firms and to limit revenue losses from those firms' non-payment of social insurance contributions.

- In a June 2016 Board statement on the 11th review of Pakistan's Extended Fund Facility, the OUSED urged the Pakistani authorities to continue efforts to build public consensus around the necessary restructuring and privatization of state-owned enterprises.

- In a July 2016 Board Statement on Chad's Article IV staff report, the OUSED encouraged private sector development and diversification, which should strengthen food production systems.

(D) Economic deregulation and strong legal frameworks

The United States strongly believes that a sound legal and regulatory environment is critical for the functioning of a strong and dynamic economy. The MDBs often address these issues, but IMF staff also provides advice on measures considered critical to macroeconomic performance.

The United States continues to advocate at the IMF for strengthened legal frameworks to promote investment and economic growth:

- In a June 2016 statement on Vietnam's Article IV assessment, OUSED encouraged authorities to continue strengthening the legal framework for state-owned enterprise reform, including improved transparency requirements, enhanced supervisory capacity, and divestment of non-core assets.

- In a June 2016 Joint Board Statement on Burkina Faso's 4^{th} and 5^{th} Extended Credit Facility program review, the OUSED supported the adoption of a mining code with strong incentives for investment, and welcomed the country's close cooperation with the IMF and World Bank to ensure the new code aligned with international best practices.

(E) Social safety nets

Investment in human development and basic social services is critical for sustained and inclusive economic growth. Cost-effective social safety nets can help build popular support for critical economic reforms and mitigate social disruption sometimes caused by economic adjustments. Thus, both the MDBs and the IMF frequently include benchmarks in lending programs that focus on specific poverty indicators and provision of social safety nets. The United States has stressed the importance of protecting social safety net spending, including in the following statements:

- In a November 2015 Board Statement on Cameroon's Article IV staff report, the OUSED advised authorities to direct fiscal savings into increased social spending, which is needed to help combat poverty and reverse the recent deterioration in gender-related social indicators.

- In a June 2016 Board Statement on Latvia's Article IV staff report, the OUSED urged IMF staff to conduct more analysis on the extent to which Latvia has space to boost spending on social programs and public investment, and noted that a stronger social safety net in Latvia could help discourage emigration and increase private consumption.

(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 the agricultural sector. The IMF is able to provide technical assistance to member countries experiencing agricultural payment imbalances arising from trade reform legislation. Through Board statements at the IMF, the United States has stressed the importance of opening markets for agricultural goods:

- In a 2016 Board statement on Japan's Article IV staff report, the OUSED echoed IMF staff's recommendations to deregulate agriculture and domestic services, as well as to accelerate deregulation in Japan's Special Economic Zones.

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

The IMF and World Bank jointly conduct Financial Sector Assessment Program (FSAP) assessments for emerging market and developing economies and the IMF conducts FSAPs for advanced economies. The FSAP analyzes the resilience of a country's financial sector, the quality of its regulatory and supervisory framework, and its capacity to manage and resolve a financial crisis. Based on the findings, IMF staff uses the FSAP to produce policy recommendations of a micro- and macro-prudential nature, tailored to country-specific circumstances. The IMF also conducts financial sector surveillance through a semi-annual Early Warning Exercise (EWE) and Global Financial Stability Report (GFSR), which identify unlikely, but plausible risks to the global economy or major regions and provide relevant risk-mitigating policy advice.

With U.S. Treasury input, IMF staff published a staff discussion note in June 2016 on the withdrawal of correspondent banking relationships ('de-risking') and its impact on financial stability, within the context of bilateral surveillance. When appropriate to country circumstances, de-risking has been featured in countries' Article IV consultations, FSAP programs, IMF technical assistance, and analytical work. Going forward, the United States will continue engaging with the IMF and other multilateral partners to examine drivers of de-risking and develop appropriate policy responses.

The United States strongly supports policies to increase IMF effectiveness in strengthening financial systems in developing countries through engagement with appropriate international authorities and other international financial institutions. With IMF and World Bank partnership, the United States is leading an initiative at the Organization for Economic Cooperation and Development (OECD) to better align lending guidelines for OECD Export Credit Agencies (ECAs) with the IMF's Debt Limits Policy (DLP) and World Bank's Non-Concessional Borrowing Policy (NCBP). The DLP and NCBP are part of the joint-World Bank and IMF Debt Sustainability Framework for Low-Income Countries (DSF), which is designed to help mobilize financing for development needs while avoiding the unsustainable build-up of debt in the developing world and safeguarding donor resources over the long run. The OECD Sustainable Lending Guidelines (SLGs) specifically address the creditor component of the DSF by ensuring that OECD ECAs lend to low-income countries in a manner consistent with the DLP and NCBP. The year-long process to revise the SLGs is expected to conclude in November 2016.

Additional examples of the United States advocating for strengthened financial systems include:

- In a June 2016 Board Statement on the Bahamas' Article IV staff report, the OUSED stressed the importance of addressing the Bahamas' elevated level of non-performing loans in the financial sector and urged the GoB authorities to finalize the new banking resolution framework in order to safeguard the credibility of the financial sector and to work towards increasing private sector credit growth.

- In a July 2016 Board Statement on China's Article IV staff assessment, the OUSED noted that financial vulnerabilities in China are rising and pose strong risks to the economy, and strongly encouraged Chinese authorities to undertake financial stability measures, including more accurate recognition of losses on bank balance sheets, increased capital ratios, enhanced focus on funding and liquidity risks, and improved supervision of shadow banking risks.

- In a July 2016 Board Statement on Ireland's Article IV staff report, the OUSED noted the financial sector remains vulnerable to risks relating to the commercial real estate sector and the potential adverse impact of the June 23 referendum vote in the United Kingdom via Irish banks operating in the United Kingdom and other financial linkages, and encouraged the Irish authorities to implement FSAP recommendations.

- In Ukraine, the United States has supported the IMF program's focus on restoring confidence in the banking sector, including by strengthening banking supervision, suspending the licenses of weaker banks, and improving the capital adequacy of Ukraine's largest banks. In a September 2016 Board statement on the 2nd review of Ukraine's Extended Fund Facility, the OUSED noted that we expected the Ukrainian authorities to deliver on their banking sector commitments by the time of the next review.

(4) Internationally acceptable domestic bankruptcy laws and regulations

While this is primarily a focus of the MDBs, the IMF recognizes that developing national insolvency regimes is critical because a country's failure to resolve debt problems can itself be a barrier to growth, and the efficient resolution of the debt problems of private entities can help prevent private debt problems from accumulating and ultimately spilling over to the sovereign. Thus, the OUSED may note in his or her Board statements the need for effective domestic bankruptcy governance. For example:

- In a February 2016 Board statement on India's Article IV staff report, the OUSED urged Indian authorities to pursue comprehensive bankruptcy legislation to facilitate corporate debt restructuring and price discovery for bond market investors.

(5) Private sector involvement in crisis resolution

The United States recognizes and supports that private sector involvement in crisis resolution can play an important role in strengthening market discipline and facilitating equitable burden-sharing with the official sector during crisis. As a result, the United States advocates within the IMF for enhanced measures that enable more orderly financial crisis resolution.

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

The United States encourages the IMF to further strengthen surveillance and crisis prevention capabilities, and supports robust surveillance on monetary and financial issues. The IMF promotes financial system soundness through both multilateral and bilateral surveillance. In particular, the IMF and Financial Stability Board's joint EWE assesses systemic, low probability, high impact risks to the global outlook, and identifies possible mitigating actions.

The United States continues to advocate for strengthened surveillance in country assessments:

- In a May 2016 Board statement on Oman's Article IV staff report, the OUSED noted the uncertainty surrounding the estimates of the value of Oman's fiscal buffers, including its sovereign wealth fund assets, which represents potential for medium-term vulnerability in the event that further shocks materialize.

In addition, the United States continues to monitor the IMF's work on capital flow surveillance, as the assessment of risks and vulnerability stemming from large and sometimes volatile capital flows has become more central to IMF surveillance in recent years. The United States has been supportive of the IMF's efforts, through the IMF's "Institutional View on Liberalization and Management of Capital Flows," to articulate principles to promote openness of capital flows while recognizing the risks of excessive volatility. The IMF is now conducting a stock-taking of the Institutional View to determine how countries have applied the IMF's guidelines. This process began in the summer of 2016 and will continue through early 2017; in our engagement, the United States is emphasizing the benefits of open capital flows and welcoming the examination of whether individual country practices have followed the principles embodied in the IMF's Institutional View. One of these principles is that any capital flow restrictions in response to surges in capital flows should be temporary, targeted and not substitute for warranted macro-economic adjustment.

(B) Strengthening of emerging markets' financial systems

The IMF works with other IFIs to promote stronger and more stable financial systems in emerging market economies, including providing technical assistance to low- and lower-middle-income countries to promote financial sector stability and sustainability. Examples of the OUSED supporting stronger financial systems in emerging markets include:

- In a February 2016 Board statement on Uruguay's Article IV staff report, the OUSED highlighted the risks from currency mismatches in the financial sector, including very high deposit dollarization and substantial foreign currency lending to unhedged borrowers.

- In a June 2016 Board statement on Vietnam's Article IV assessment, the OUSED expressed concern about banking sector weakness in Vietnam, particularly the lack of options for accelerated bank recapitalization given the limited fiscal space available. The OUSED emphasized that authorities should improve their strategy for communicating their macroprudential policy framework to systemically important financial institutions such as the State Bank of Vietnam.

This year, IMF staff developed a new diagnostic tool, the Financial System Stability Review (FSSR), which are smaller in scope than, but share many of the same goals and methods of the FSAP. When fully deployed, this new IMF technical assistance instrument for low and middle income countries will allow Fund staff to better promote stronger and more stable financial systems within the Fund's current resource envelope.

(C-H) Strengthened crisis resolution mechanisms

The United States encourages appropriate private sector involvement in debt resolution, including facilitating IMF efforts to strengthen resolution mechanisms and to improve sovereign debt restructuring processes.

In October 2014, the IMF Board endorsed a proposal based on work from a Treasury-facilitated roundtable for a new model of *pari passu* and collective action clauses (CACs). During the Board meeting, the OUSED strongly supported these contract revisions and highlighted the IMF's lead role in promoting adoption of the clauses. The IMF reported in April 2016 that, of the approximately 142 international sovereign bond issuances since October 2014, 92 issuances have included the enhanced CACs. To reduce the outstanding stock of debt that does not contain the clauses, the IMF continues to consider potential market-based solutions such as accelerated turnover and proactively managing restructurings to minimize holdout risks. As part of the G-20 agenda, Treasury continues to support the improvement of sovereign debt restructuring processes. At the July 2016 G-20 Finance Ministers and Central Governors meeting, members reiterated their support for the ongoing effort to incorporate enhanced contractual clauses into sovereign bonds.

With active Treasury support, the IMF Board reformed its lending framework in January 2016 to improve debt sustainability and enhance safeguards for IMF resources. Specifically, the IMF focused on exceptional access cases, and introduced criteria for IMF lending in "gray zone" situations where a borrowing country's debt may be sustainable but not with a high probability, for more appropriate burden-sharing by official and private lenders. Under the new framework, the IMF can grant exceptional access loans when debt sustainability is uncertain if the country's debt sustainability is strengthened through additional (non-IMF) contributions from bilateral creditors, multilateral financing agencies, or the private sector, including possibly through debt reprofiling.

In addition, the United States supported the IMF's refinement of its Non-Toleration of Official Arrears policy, to reduce room for holdout behavior by an official creditor while still protecting official creditor rights and recognizing the important financing role official creditors play when a country experiences debt distress.

The IMF will continue its work program on orderly sovereign debt crisis resolution later this year through discussion, inter alia, of issues related to debtor-credit engagement, including the IMF's lending-into-arrears policy for private creditors. The United States will remain closely involved in this process.

(6) Good governance

The IMF strongly supports good governance in member countries when providing policy advice, financial support, or technical assistance to member countries. Governance issues that the IMF focuses on include improving public administration, increasing the transparency of government operations, enhancing data quality and dissemination, and implementing effective financial sector supervision. With U.S. engagement, the IMF is currently working towards updating its

Guidance on the Role of the Fund in Governance Issues. Examples of United States emphasis on good governance include:

- In a January 2016 Board statement on the 1st review of Kosovo's Stand-by Arrangement, the OUSED noted with concern Kosovo's weak judiciary, high levels of official corruption and substantial presence of organized crime, and pressed the Kosovar authorities to continue prioritizing the implementation of Kosovo's anti-corruption strategy and to address weaknesses in the AML regime.

- In a June 2016 Board Statement on Mali's 5th Extended Credit Facility review, the OUSED expressed concern regarding a prolonged deterioration in Mali's accountability score on the Ibrahim Index of African Governance. The OUSED emphasized that adequate transparency and accountability mechanisms should be implemented to help ensure that resources being transferred are well-used.

(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 IMF's Code of Good Practices on Fiscal Transparency identifies principles and practices to enhance fiscal policy transparency and oversight, promote quality audit and accounting standards, and reduce or eliminate off-budget transactions. The 2014 review of the Code placed a renewed focus on four key pillars of fiscal transparency: (I) timely and reliable fiscal reporting; (II) fiscal forecasting and budgeting; (III) disclosure of fiscal risks; and (IV) a transparent framework for resource revenue management. Standards for Pillars I, II, and III have been published, and a draft of Pillar IV, which adapts the first three pillars to the circumstances of resource-rich countries, is currently available for public consultation and piloting in the field. The United States strongly supports improved channeling of public resources towards productive uses. For example:

- In a March 2016 Board Statement on Nigeria's Article IV staff report, the OUSED advised authorities to take advantage of low oil prices to remove fuel subsidies, which have historically been a major source of fiscal leakages. The OUSED welcomed Nigerian efforts to identify and remove ghost workers from the public payroll.

- In the July 2016 Board statement on China's Article IV staff report, the OUSED encouraged China to move more public finances on-budget, eliminate quasi-fiscal spending and borrowing, and expand social security benefits and their portability.

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

The United States recognizes that different country situations warrant tailored policy proposals, and continues to support IMF staff efforts to increasingly adapt policy advice to country-specific circumstances:

- In a March 2016 Board statement on Turkey's Article IV assessment, the OUSED requested that IMF staff provides its views on the current and potential future economic impact of refugees in Turkey. Since Turkey has absorbed some 2.5 million Syrian refugees in the last five years, the OUSED noted that the economic impacts on informal labor markets, inflation, and even domestic demand could be significant, and quantifying these impacts could help to help inform the authorities in further refining their response.

- In a July 2016 Joint Board Statement on Niger's 8th Extended Credit Facility review, the OUSED acknowledged that balance of payments pressures required the authorities to take corrective actions, necessitating waivers and augmentations to the ECF arrangement.

(9) Core labor standards ("CLS")

The United States promotes integration of core labor standards into the IMF's analysis, including by encouraging the IMF to cooperate with the International Labor Organization (ILO) to establish best practices on CLS policies. In 2011, the United States supported the IMF's creation of a "Working Group on Jobs and Inclusive Growth," which has since encouraged greater evaluation of labor standards in IMF surveillance. The OUSED also highlights labor standards through IMF Board statements:

- In the July 2016 Board statement on Japan's Article IV staff report, the OUSED welcomed measures taken by the authorities to support growth, including raising the minimum wage.

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

By helping to create the conditions for a sound economy and financial inclusion, IMF assistance can help reduce ethnic and social strife. The United States continues to discourage practices that may promote ethnic or social strife.

- In a July 2016 Board statement on Iraq's request for a Stand-By Arrangement, the OUSED urged the Iraqi government authorities to work with the Kurdish Regional Government in developing and adhering to a revenue transfer agreement, which will help reduce political tensions with a key oil-producing region.

(11) Link between environmental and macroeconomic conditions and policies

Where environmental issues pose fiscal, financial, and macroeconomic challenges, the IMF provides advice in line with its mandate and expertise. In such cases, the MDBs and the IMF work together to assess the magnitude of pollution and other major environmental side effects associated with fossil fuel use. Together, the IFIs also provide guidance on energy tax reforms for a broad range of developed and developing countries. In addition, the IFIs work with countries to manage the macroeconomic risks associated with extreme weather events. Such work often includes developing comprehensive risk management frameworks to assess risks and determine the right mix of building domestic buffers versus risk transfer through insurance or financial market instruments. The United States supports policies that increase macroeconomic stability while reducing negative environmental impacts, including by encouraging fossil fuel subsidy reform in member countries, as in the following examples:

- In a July 2016 Board statement on Saudi Arabia's Article IV staff report, the OUSED welcomed the Saudi authorities' efforts to reduce inefficient subsidies for energy and water, and urged sustained commitment to subsidy reforms.

- In a July 2016 Board statement on the Marshall Islands' Article IV staff report, the OUSED welcomed IMF staff's efforts to improve the accounting of potential costs from extreme weather events and insert such accounting into the country's debt sustainability analysis.

(12) Greater transparency

Transparency in IMF advice and policies is integral to improving accountability across IMF surveillance, lending, and technical assistance. The Board last reviewed the IMF's transparency framework, which continued to favor publication of all Article IV and Use of IMF Resources documents, in June 2013. In 2014, 92 percent of member countries agreed to publish their respective IMF Article IV country reports in a timely manner. Only four countries have never allowed Article IV report publication – Bahrain, Brunei, Oman, and Turkmenistan. At the Board, the United States continues to press those countries to publish their Article IV reports. In 2014, 97 percent of member countries with an IMF program agreed to publish their letters of intent, memoranda on economic and financial policies, and technical memoranda of understanding. Over the past decade the IMF has published all exceptional access program proposals and program reviews. Most of these are available within a few weeks of the Board meeting.

- In May 2016, at the Board review of Timor-Leste's Article IV staff report, the OUSED urged the authorities to publish the report (which had not been published in 2014) to enhance transparency and public discourse. The Article IV staff report was published in June 2016.

With U.S. support, the IMF continues to urge countries to provide additional economic and financial information to the public by regularly releasing data consistent with the IMF's Special Data Dissemination Standards (SDDS). In 2015, the IMF announced the first group of adherents, including the United States, to the SDDS Plus initiative, which includes nine additional data categories. More than 97 percent of IMF member countries currently participate in the enhanced General Data Dissemination Standards (e-GDDS), SDDS, or SDDS Plus. Based on the results of a 2015 review of the IMF's Data Standards Initiative, IMF management decided to focus greater attention on helping GDDS countries graduate to SDDS. Notably, in October 2015, China subscribed to SDDS, which will help it provide better public information across a number of data categories, including reserve holdings.

The United States has also pushed for all major economies to report to the IMF the composition of their foreign currency reserves through the Currency Composition of Official Foreign Exchange Reserves (COFER) survey. Data for individual countries are confidential but aggregate data are reported quarterly by the IMF. In September 2015, China announced it would begin providing data to the COFER survey.

The OUSED also advocates for greater transparency in IMF member countries, including in the following statements at the IMF Executive Board:

- In a December 2015 Board Statement on Malawi's Article IV staff report, the OUSED recommended that the authorities both ensure compliance with the basic fiscal reporting requirements under Malawi's Public Financial Management Act (2004) and complete bank reconciliations.

- In the July 2016 Board statement on China's Article IV staff report, the OUSED noted IMF staff's finding that China's data are "only barely" adequate for surveillance, and urged Chinese authorities to address the serious data shortcomings that continue to hamper analysis and to dedicate sufficient resources to do so.

(13) Greater IMF accountability and enhanced self-evaluation

In 2000, with the strong urging of the OUSED, the Executive Board established an Independent Evaluation Office (IEO) to supplement existing internal and external evaluation activities. Since its inception, the IEO has provided objective and independent evaluation of IMF policies and activities. The IEO operates independently of IMF management and the IMF Board, and has three main objectives: 1) to enhance the learning culture within the IMF, 2) to strengthen the IMF's external credibility, and 3) to support institutional governance and oversight. Evaluations are publicly available on the IEO's website.[1] Recent evaluations include the following:

- The IMF and the Crises in Greece, Ireland, and Portugal (July 2016)

- Behind the Scenes with Data at the IMF: an IEO Assessment (March 2016)

The IEO is currently working on an evaluation entitled "The IMF and Social Protection."

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

Broadening financial services access in developing countries, such as through better access to credit for small- and medium-sized firms and their wider access to banking services, can spur economic growth. Responsibility for assistance in establishing micro-finance programs lies with MDBs. However, IMF member countries may include plans to develop micro-finance institutions in their structural adjustment programs. Through the IMF, the United States promotes structural reforms that encourage credit provision to small- and micro-enterprises. For example:

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

- In a December 2015 Board Statement on Mozambique's Article IV staff report and Policy Support Instrument (PSI) review, the OUSED encouraged authorities to accelerate progress on financial sector reforms in order to increase financial access for small enterprises.

- In a July 2016 Board Statement on Ireland's Article IV staff report, the OUSED encouraged the authorities to reinforce Ireland's competitiveness through structural reforms recommended by staff, including measures to broaden financing options for small and medium sized enterprises.

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

The United States supports the ongoing work of the IMF to integrate AML/CFT into its programs, including Reports on the Observance of Standards and Codes, the Financial Sector Assessment Program, capacity development, and surveillance. In 2014, the IMF Board endorsed the revised Financial Action Task Force (FATF) AML/CFT Recommendations and reaffirmed the IMF commitment to keep AML/CFT as a component of the FSAP.

The United States also supports the active role the IMF plays in the global AML/CFT network led by the FATF and FATF-style regional bodies. The IMF has had a direct role in nine of the 11 FATF compliance assessments under the new Recommendations, and has led two assessments. The IMF co-chaired a FATF project team in 2015, developing guidance to countries on the collection and analysis of AML/CFT data and statistics.

In addition, the IMF provides technical assistance to help member countries strengthen their regulatory and supervisory frameworks, increasingly with respect to AML/CFT. The IMF provides expert assistance aimed at supporting efforts to put in place effective AML/CFT frameworks in compliance with AML/CFT international standards, including FATF 40+9 Recommendations, relevant international conventions, and United Nations Security Council Resolutions. Examples of OUSED support for improved AML/CFT frameworks include the following:

- In the November 2015 Board statement on Bolivia's Article IV staff report, the OUSED welcomed Bolivia's plan to publish a national strategy on AML/CFT by the end of the year.

- In a December 2015 Board Statement on Iran's Article IV staff report, the OUSED urged the Iranian authorities to address the deficiencies in their regime on AML/CFT.

- In a June 2016 Board Statement on Latvia's Article IV staff report, the OUSED urged Latvian authorities to proceed with implementation of AML/CFT regulations to bring Latvia in line with FATF standards, and to continue to assess how the structure of the country's banking sector impacts its ability to implement sound AML/CFT policies.

II. <u>IMF Implementation of Six Reform Policies Described in Section 801(c)(1)(B)</u>

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

With strong U.S. support, the IMF works to ensure that its resources are used solely for their intended purposes. A primary IMF tool against corruption is the Safeguards Assessment, which is a diagnostic tool used to prevent possible misuse of IMF resources and misreporting of information. All countries that receive IMF resources must agree to undergo a Safeguards Assessment to identify vulnerabilities in a central bank's governance and control systems. IMF staff carry out this exercise to consider the adequacy of five main areas of governance and control 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. This process involves the IMF staff, country authorities, and central banks, and is conducted independently from other IMF activities. The IMF most recently reviewed the framework in September 2015, noting that there have been no serious reports of misuse of IMF funds or misreporting, and that the implementation of recommendations remains high. To date, the IMF has completed 287 assessments.[2]

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

The IMF recognizes that effectively structured official financing can complement and attract private sector flows. With U.S. support, the IMF promotes policy reforms that catalyze private financing and, in cases of financial crisis, allow countries to regain access to international private capital markets quickly, contributing to the countries' stabilization. For example, Ukraine raised $1 billion from the international capital markets based on a U.S. loan guarantee in 2016, and with continued implementation of its IMF reform program, the IMF expects Ukraine to regain access to international capital markets on its own by late 2017. The yield on Ukraine's sovereign debt has fallen to about 8 percent currently (from highs near 12 percent in February 2016), indicating that conditions for eventual access to international capital markets are improving. (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

The IMF's lending programs have built-in requirements to help compel countries to adopt policies that are in line with IMF recommendations in exchange for IMF financial disbursements. A member country that is borrowing from the IMF is usually required to commit to the implementation of a series of policies that have been negotiated between IMF staff and country authorities ('conditionality'). Conditionality may include *prior actions*, measures that a country must adopt or implement before program approval from the Board, ongoing *performance criteria* for key fiscal and monetary indicators, and forward-looking *structural benchmarks* (such as specific actions to improve public financial management).

The OUSED plays a strong oversight role in encouraging IMF management to approve new programs or requests for disbursements only after the requesting country has accomplished the

[2] http://www.imf.org/external/np/tre/safegrds/complete/index.aspx

required policy actions. If a country fails to meet its commitments, the program may be put on hold – and disbursements cease until the government has taken the necessary steps to put the program back on track.

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

The IMF has advocated consistently for open markets and trade liberalization. However, the Fund also recognizes that trade adjustments can cause temporary balance of payments problems and, as a result, has developed the Trade Integration Mechanism (TIM) to provide transitional financial assistance to countries, if needed. The IMF 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.

The IMF has developed an implementation plan for international trade policy issues that calls for reviews of IMF work on trade policy every five years. The plan, last reviewed in 2015, calls for more frequent coverage of cross-cutting trade policy issues in the IMF's multilateral and regional surveillance vehicles (such as the World Economic Outlook and the Regional Economic Outlooks), as well as closer cooperation with the World Trade Organization and World Bank on trade matters. One of the October 2016 World Economic Outlook chapters will investigate the extent of the trade slowdown across different economies and products, the impact of the weak post-crisis recovery on economic activity, and long-term factors holding back trade growth. A broader "Reference Note on Trade and Trade Policy Issues," that is scheduled to be circulated to the Board in November 2016, will also update the IMF's international trade policy implementation plan.

In addition, the OUSED stresses the importance of trade liberalization through statements at the IMF Executive Board:

- In a July 2016 Board statement on Ecuador's Article IV staff report, the OUSED urged the authorities to phase out distortionary tariff surcharges as soon as possible.

- In a July 2016 Board statement on Japan's Article IV staff report, the OUSED welcomed the likelihood of Japan's parliament approving the Trans-Pacific Partnership (TPP) this fall, noting that the TPP should catalyze further reform and deregulation.

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

With strong U.S. support, the IMF has continued to innovate in this area, creating new facilities to respond to member countries facing short-term balance of payments concerns. In 2009, for instance, the IMF created the Flexible Credit Line (FCL), the Precautionary and Liquidity Line (PLL), and the Rapid Credit Facility (RCF) to provide members with shorter-term liquidity to meet temporary balance of payments needs. The IMF Board last completed a review of these arrangements in 2014, resulting in a modification of PLL assessment criteria, adoption of institutional capacity indicators for assessing qualification, and creation of an external risk index that will help guide discussions about country exit from these credit line arrangements. The next review of these IMF facilities is currently slated for 2017. Treasury will remain closely engaged in the IMF’s review of lending facilities.

(VI) Graduation from receiving financing on concessionary terms

The United States supports comprehensive growth strategies to help countries transition from concessional to market-based lending, working closely with the IMF and MDBs to promote strong macroeconomic and structural policies that support a growth-oriented agenda in developing countries. The IMF extends concessional credit through the Poverty Reduction and Growth Trust (PRGT), where eligibility is primarily based on a country's per capita income and eligibility for financing from the International Development Association (IDA), the World Bank's concessional window. The current operational threshold for IDA eligibility is a per capita gross national income (GNI) level of below $1,185.

A member will graduate from PRGT-eligibility 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 two times the operational IDA cutoff for most states (three times the cutoff for small countries 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 100 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 IMF’s quantitative analysis.

The IMF Executive Board reviews PRGT eligibility bi-annually. In 2015, Bolivia, Nigeria, Vietnam, and Mongolia graduated from access to IMF concessional financing. The next PRGT eligibility review is scheduled for 2017.

ANNEX 1 Report to Congress on International Monetary Fund Lending

New IMF Lending Arrangements
October 1, 2015 – September 30, 2016

October 1 – December 31, 2015

Board Approval Date	Country	Amount	Type	U.S. Position
12/18/15	Mozambique	$285 million	SCF	Support

January 1 – March 31, 2016

Board Approval Date	Country	Amount	Type	U.S. Position
3/14/16	Kenya	$1.5 billion	SBA/SCF	Support

April 1 – June 30, 2016

Board Approval Date	Country	Amount	Type	U.S. Position
5/20/16	Tunisia	$2.9 billion	EFF	Support
5/27/16	Suriname	$478 million	SBA	Support
5/27/16	Mexico	$88 billion	FCL	Support
6/3/16	Sri Lanka	$1.5 billion	EFF	Support
6/8/16	Rwanda	$204 million	SCF	Support
6/13/16	Colombia	$11.5 billion	FCL	Support

July 1 – September 30, 2016

Board Approval Date	Country	Amount	Type	U.S. Position
7/7/16	Iraq	$5.34 billion	SBA	Support
7/20/16	Afghanistan	$44.9 million	ECF	Support
7/20/16	Central African Republic	$115.8 million	ECF	Support

7/22/16	Morocco	$3.47 billion	PLL	Support
7/27/16	Madagascar	$304.7 million	ECF	Support
8/24/16	Jordan	$713.8 million	EFF	Support
9/7/16	Bosnia and Herzegovina	$598.1 million[3]	EFF	Support

Notes:

1. FCL: Flexible Credit Line; PLL: Precautionary and Liquidity Line; ECF: Extended Credit Facility; SBA: Stand-By Arrangement: EFF: Extended Fund Facility; SCF: Stand-by Credit 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.

[3] Based on September 9, 2016 exchange rates.