IMPLEMENTATION OF
CERTAIN LEGISLATIVE PROVISIONS
RELATING TO THE
INTERNATIONAL MONETARY FUND

A Report to Congress

in accordance with

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

United States Department of the Treasury
November 2018

Introduction

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

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

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

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

<u>Progress of the USED in Promoting at the IMF Policies Described in Section 1503(a)</u>

While the OUSED continues to advance all IMF policies described in Section 1503(a), this report specifically highlights new developments in relevant policy areas since October 1, 2017.

Exchange rate surveillance

The United States advocates for further improvements to the IMF's surveillance on exchange rates, emphasizing the need for increased candor, transparency, and even-handedness in the IMF's exchange rate analysis. In response to U.S. pressure, in 2012 the IMF began producing an annual External Sector Report (ESR), which provides a multilateral assessment of global imbalances and movements in exchange rates for 29 major economies. In 2018, for the first time, IMF Management elevated the ESR to a "flagship" report, in that it is now a formal publication of the IMF.

Through U.S. Board statements, the United States also emphasizes the need for greater transparency in exchange rate regimes in the IMF's surveillance efforts of member countries. For example, the U.S. Board statement for Thailand's 2018 Article IV report called on the authorities to allow greater exchange rate adjustment, ease controls on capital outflows, and publish intervention data. Likewise, the U.S. Board statement for Singapore's 2018 Article IV report called on the Singaporean government to increase the operational transparency of its exchange rate regime, including disclosure of foreign exchange market interventions.

Good governance

The IMF adopted the new Framework for Enhanced Fund Engagement on Governance in April 2018 in response to Board pressure, particularly from the United States, for more consistent and candid discussions of and engagement on poor governance, specifically corruption. Under the new framework, IMF staff analyze and provide recommendations to reduce corruption opportunities in countries where corruption has a significant macroeconomic impact in one or more of the following areas: fiscal governance; financial sector oversight; central bank governance and operations; market regulation; rule of law; and AML/CFT.

Since the Executive Board approved the new framework, we have seen improvements in IMF staff monitoring and policy advice on the issue of corruption. Annual country surveillance reviews increasingly feature IMF staff analysis of anti-corruption measures, which provide a helpful basis for candid Board discussions on these issues. For example, in Bulgaria’s 2018 surveillance review, IMF staff provided analysis on judicial reform, and the Bulgarian authorities described progress on anti-corruption legislation. The South African authorities welcomed the IMF’s analysis of public financial management issues in the country’s 2018 surveillance review, noting that the authorities are making anti-corruption a policy priority in the new administration.

Also in April, IMF staff updated its key tool for assessing infrastructure governance, the Public Investment Management Assessment (PIMA), to place greater emphasis on the procurement process. PIMA is one part of the IMF’s suite of fiscal governance assessment tools. First introduced in April 2015, the recently updated framework recognizes the importance of the procurement process in promoting efficiency and effectiveness in public investment, spurring economic growth, and combating corruption.

Strengthened financial systems, including Anti-Money Laundering/Combatting the Financing of Terrorism (AML/CFT)

The new Framework for Enhanced Engagement on Governance also contains a more robust focus on AML/CFT issues in bilateral IMF surveillance, including an assessment of the legal framework and institutional capacity for effective implementation of AML/CFT measures. The IMF also urges members to have their legal and institutional frameworks assessed to determine whether private actors are able to bribe foreign officials and if those officials are able to conceal bribery proceeds. The IMF will continue to rely on the Financial Action Task Force (FATF) and the World Bank for AML/CFT expertise to minimize work duplication, while continuing its existing financial oversight activities such as the Financial Sector Assessment Program and the Report on Standards and Codes.

Transparency and accountability

As a result of the strong urging of the OUSED, the Independent Evaluation Office (IEO) has provided objective and independent evaluations of IMF policies and activities since 2001. The

IEO operates independently of IMF management and the Board, and has three major 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] The IEO recently evaluated the IMF's role in fragile states –an evaluation that the U.S. Executive Board statement strongly supported. The IEO evaluation found that, while the IMF provides unique and essential services to fragile states, the IMF's overall impact is limited by inadequate financing instruments, poor collaboration with development partners, and other challenges.

The IEO also recently completed an update on its 2008 Evaluation of IMF Governance, which covered IMF transparency and accountability. The update confirmed the significant improvement in the IMF's transparency and archives policies, praised the IMF for its work to digitize Board-related documents for publishing on its website, and for recently clearing up a backlog of documents for disclosure. Based on discussions with external stakeholders, the IEO identified user-friendliness of the archive as an ongoing issue requiring attention, and in the Board discussion the U.S. chair highlighted user-friendliness as an area for improvement.

The OUSED also continues to lobby for greater transparency at the IMF, including by pressing for all countries to commit to publishing their Article IV surveillance reports, and urging IMF Management to reduce the number of informal Board meetings, as transcripts of informal meetings are not released to the public.

Tailored Economic Prescriptions

In late 2017, the IMF Executive Board approved several technical reforms to the Low-Income Country Debt Sustainability Framework (LIC-DSF). The LIC-DSF is the primary tool used by the IMF (jointly with the World Bank) to integrate debt sustainability analysis (DSA) into policy advice, with the goal of preventing excessive debt build-up in LICs that are mobilizing financing in pursuit of development goals. The reforms came into effect in July 2018 and improve upon the previous standard by introducing a more comprehensive set of economic indicators to measure debt-carrying capacity, tailored scenario stress tests to account for country-specific vulnerabilities, and better differentiation across LICs vulnerable to external shocks or abrupt macroeconomic policy changes. The reforms reflect the IMF's commitment to strengthening crisis prevention and early warning signals in LICs.

<u>Progress of the IMF in Implementing Policies Described in Section 801(c) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act</u>

The IMF continues to implement the range of policies described in Section 801(c). There were no notable developments related to changes in the IMF's policies on these issues since October 1, 2017.

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