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 2019

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).

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

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

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

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

While 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, 2018.

Exchange Rate Surveillance

The United States continually presses for further improvements to the IMF's surveillance on exchange rates, emphasizing candor, transparency, and even-handedness in the IMF's analysis. The United States regularly emphasizes the need for greater even-handedness and transparency in assessing exchange rate regimes in the IMF's surveillance of member countries. For example, in the U.S. Board statement for China's 2019 Article IV staff report, the U.S. chair noted the report placed too much emphasis on the need for short-run exchange rate flexibility to counter trade shocks, without a discussion of the trade-offs entailed in further depreciation. The OUSED also supported the IMF's call for greater transparency in China's exchange rate policies, including a request that China disclose foreign exchange intervention promptly given its economic size and importance.

With U.S. support, the IMF is undertaking a review of its Multiple Currency Practices (MCP) policy, in line with Article VIII Section 3 of the IMF Articles of Agreement, which prohibits members from engaging in discriminatory currency arrangements or multiple currency practices, unless authorized by the IMF. The review will update the current policy to take into account developments in foreign exchange markets over the last two decades and greater availability of data. The U.S. chair has urged staff to call out MCPs and exchange restrictions more forcefully in bilateral surveillance. The United States has also called for more regular reviews of the MCP policy to account for future developments in exchange markets. During Angola's Extended Fund Facility review, for example, the OUSED called for the removal of exchange restrictions and MCPs to support market-based price formation, protect reserves, and help absorb external shocks.

Good Governance

In April 2018, the IMF adopted the new Framework for Enhanced Fund Engagement on Governance 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 anti-money laundering/countering the financing of terrorism (AML/CFT).

Since the Executive Board approved this 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 an August 2019 report presented to the IMF, Mozambique government authorities, with assistance from IMF staff, conducted an internal analysis of governance and corruption challenges and identified areas for reform. In Iraq's 2019 annual Article IV surveillance review, the IMF provided analysis of public financial management issues, noting that Iraqi authorities are prioritizing anti-corruption and have begun developing an anti-corruption framework. U.S. Board statements have continued to highlight the importance of governance: for example, our statement on Mali's request for an Extended Credit Facility noted the macro-critical nature of corruption and called on the authorities to align anti-corruption standards with international levels and strengthen its AML/CFT regime to meet FATF standards. The U.S. Board statement on Angola's Extended Fund Facility pressed authorities to tackle corruption, improve governance of public institutions, and strengthen the business environment.

Debt Transparency

In November 2018, the IMF – in coordination with the World Bank – adopted a multi-pronged approach to enhance sovereign debt transparency and sustainability. The approach includes multiple work streams to improve recording, monitoring, and reporting of debt obligations, as well as to strengthen creditor coordination in debt restructuring situations. In line with this agenda, the U.S. chair has pushed the IMF to broaden debt coverage to include off-budget and contingent liabilities in both surveillance and lending. The U.S. chair has also pressed IMF members to increase transparency of debt data through publication. For example, the U.S. Board statement for Mali's request for an Extended Credit Facility pressed the authorities to broaden the coverage of debt to include liabilities of state-owned enterprises and contingent liabilities to improve transparency and debt management. During the first review of Ecuador's Extended Fund Facility, the OUSED called for the authorities to bring debt reporting up to international standards, while commending their work in providing staff with improved information on external debt. In China's Article IV review, the OUSED called for authorities to bring lending practices under the Belt and Road Initiative (BRI) in line with global standards, including the G20 Principles for Quality Infrastructure Investment. The IMF has incorporated conditions aimed at increasing debt transparency and limiting new collateralized debt in Angola's Stand-By Arrangement approved in December 2018. In Mongolia and North Macedonia, the IMF is supporting implementation of stronger standards for voluntary public data dissemination.

Strengthened Financial Systems, including Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)

The United States actively supports the IMF's focus on AML/CFT to help maintain the integrity of the global financial system. The IMF contributes to the global AML/CFT policy agenda in cooperation with the Financial Action Task Force (FATF), the World Bank, and other stakeholders. In addition, AML/CFT and financial integrity issues have been increasingly integrated into the IMF's core activities. For example:

- The IMF routinely includes AML/CFT issues in country surveillance, identifying potential risks to domestic or international stability, highlighting best practices, and offering policy recommendations.
- The IMF also leads in-depth assessments of member countries' compliance with the FATF's global AML/CFT standard. In addition, the IMF regularly reviews mutual assessments led by other institutions including the FATF, FATF-Style Regional Bodies (FSRBs), and the World Bank to help ensure quality and consistency.
- The IMF includes an evaluation of the country's financial integrity efforts in all of its financial sector assessment reviews, which can help integrate AML/CFT-related vulnerabilities into the broader discussion of financial sector vulnerabilities and reform efforts.

Over the past year, with the Fund's technical assistance, Afghanistan, Iraq, Kuwait, Nepal, and Sudan have exited FATF monitoring lists, and recently Angola, Guatemala, and Jamaica used IMF capacity development assistance to improve regulatory standards to help respond to correspondent banking pressures.

The United States supports enhancements to IMF engagement on AML/CFT, recognizing that safeguarding financial integrity remains essential to the core mandate of the IMF. In October 2018, the IMF reviewed its strategy on AML/CFT. The U.S. chair stressed the importance of the IMF remaining closely engaged with the FATF and participating regularly in AML/CFT mutual evaluation assessments. The U.S. chair has also pressed IMF members to take steps to guard against money laundering risks. For example, in Montenegro's Article IV surveillance review the OUSED encouraged authorities to staff the AML directorate and strengthen offsite monitoring and onsite inspections. In Pakistan's Extended Fund Facility review, the U.S. chair welcomed the inclusion of a benchmark related to the implementation of the of the FATF action plan, which will improve the AML/CFT framework.

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] In 2019, the IEO reviewed the IMF's financial surveillance work, an evaluation the USED strongly supported. The IEO evaluation found that, in order to improve the relevance and traction of bilateral financial surveillance, the IMF needs to deepen its financial and macrofinancial analysis, particularly in its bilateral surveillance. The U.S. chair pressed the IMF to prioritize its core efforts on macro-financial analysis across the Fund's various surveillance and analytical tools and recommended the FSAP process focus on key risks while remaining comprehensive in its assessments. The OUSED also continues to press for greater accountability at the IMF, including by strengthening the IMF's process for addressing excessive delays in bilateral Article IV surveillance and calling for IMF members to publish their Article IV surveillance reviews.

Tailored Economic Prescriptions

In 2018, the IMF Executive Board approved technical reforms to the Low-Income Country Debt Sustainability Framework (LIC-DSF) that improved 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. The updated LIC-DSF was implemented beginning in July 2019, and the IMF is providing support to members on the revisions to the framework.

In 2019, the Executive Board conducted a review of the Facilities for Low-Income Countries, with the aim of improving the effectiveness of IMF lending to LICs. The OUSED also pressed the IMF to increase information requirements on countries' debt sustainability and capacity to repay, which will improve Executive Board oversight of countries with substantial IMF borrowing.

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

The IMF continues to implement the range of policies described in Section 801(c). In May 2019, the IMF updated its policy on conditionality in IMF lending programs.

[1] Independent Evaluation Office of the International Monetary Fund, https://ieo.imf.org/ (last visited Nov. 20, 2019).

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 include conditions aimed at helping countries resolve underlying balance-of-payments problems. Program conditions also help safeguard IMF resources by helping ensure that a country's external position will allow it to repay the IMF. In May 2019, the IMF conducted a review of program design and conditionality to evaluate the performance of Fund-supported programs. The OUSED supported the recommendations resulting from this review, which included an enhanced focus on growth in conditionality, improving the realism of baseline projections, increasing the use of conditionality to boost debt transparency, and streamlined program conditions that are focused on achieving meaningful objectives.