

**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
January 2021

Introduction

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

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

Treasury supports strengthened implementation of IMF country programs and promotes sound policy decisions within the IMF. To achieve these goals, Treasury and the Office of the U.S. Executive Director (OUSED) at the IMF vigorously seek to build support for these policies in the IMF's Executive Board and with IMF management. Treasury and the OUSED discuss these policies with IMF 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 and any other pertinent legislation affecting U.S. participation in the IMF and identify opportunities to influence IMF decisions in line with broader U.S. international economic policy objectives.

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

While Treasury and the OUSED continue to advance all IMF policies described in Section 1503(a), this report specifically highlights new developments in relevant policy areas since October 1, 2019.

Establishing or Strengthening Key Elements of a Social Safety Net for the Most Vulnerable
Treasury and the OUSED have supported the IMF's robust response in meeting the financing needs of developing and low-income countries during the COVID-19 pandemic. Since March 2020, the IMF has provided over \$100 billion in total financing to support COVID response in more than 80 countries. This financing has included approximately \$30 billion in emergency lending, including \$6 billion in zero-interest emergency loans to low-income countries, and \$52 billion in new and expanded precautionary credit lines for emerging markets, including Chile, Colombia and Peru. The IMF has also provided approximately \$500 million in debt service relief to hard-hit low-income countries with outstanding debt to the Fund through the Catastrophe Containment and Relief Trust. In the records of IMF Executive Board decisions approving this financing, U.S. Board statements regularly called for this debt relief to free up fiscal space to support social safety nets for vulnerable populations in recipient countries. U.S.

Board statements also called for standardizing COVID-19 spending audits for countries receiving IMF financing, to prevent these funds being lost or wasted.

Recipient countries have used IMF financing to provide support to those most vulnerable. For example, the Republic of Guinea increased health spending and is implementing a cash transfer program for poor households. The Central African Republic authorities developed a plan to boost health and social spending by 2% of GDP, financed by redirecting other non-essential spending. The Cabo Verdian authorities developed a set of emergency social protection measures equivalent to 1.2% of GDP, with a specific goal of helping workers in the informal sector, making micro finance loans to small businesses, and providing food assistance for the elderly and other vulnerable groups.

The financing provided by the Fund has also provided necessary liquidity support, while allowing recipients time to secure additional financing from the international donor community, including multilateral development banks. For example, in Madagascar, total committed donor support reached \$278 million in July after the IMF's initial disbursement of \$166 million via the Rapid Credit Facility approved in April. The amount of donor support reported in July was twice the amount previously committed at the time of the April disbursement.

Strengthening Crisis Prevention and Early Warning Signals through Surveillance of the National Economic Policies and Financial Market Development of Countries

Treasury and the OUSED have supported changes to the IMF's Debt Limits Policy intended to increase debt transparency in Fund programs to facilitate better decision-making by creditors and borrowers and advance U.S. policy goals around increasing debt sustainability. The Debt Limits Policy guides when and how IMF staff apply conditions on public sector borrowing in IMF-supported programs and includes various debt transparency provisions. As a result of U.S. and other G7 engagement, IMF program documents will now include a table with a profile of the holders of the country's public debt stock and debt service, and any missing debt data will be addressed by the time of the second review of the program. The table will also identify debt subject to non-disclosure agreements. This table will substantially increase transparency of debt data to market participants.

The revised Debt Limits Policy also includes an updated definition of concessional debt that excludes grants-in-kind, which often contain terms and conditions that can obscure the true cost of funds, and debt that contains collateral unrelated to the project being financed. The OUSED encouraged and supported the IMF's updated guidance on the requirements for disclosing collateralized debt by all member countries. Both Treasury and the OUSED have also pressed for the IMF to include conditions in its programs aimed at limiting the use of collateralized debt, and have urged the institution to consider collateralized debt in assessing a country's capacity to repay the IMF.

Facilitating Greater International Monetary Fund Accountability, Self-Evaluation, and Effectiveness

The IMF's Independent Evaluation Office (IEO) conducted a review of the Fund's Collaboration with the World Bank on Macro-Structural Issues aimed at gaining insight to further strengthen the effectiveness of the Fund's collaboration with the World Bank and other international

organizations (IOs) on structural issues. The Board endorsed such recommendations as establishing overarching frameworks to guide IMF-World Bank collaboration on specific issues and greater knowledge sharing across both institutions. The IEO also conducted a review of the Fund's Institutional View on Capital Flows (IV) in preparation for upcoming Executive Board review of the IV in 2021. The Board welcomed the IEO findings that the core principles of the IV retained broad support within the membership. The U.S. Executive Director led other Directors in calling for any updates to the IV framework to retain its broad commitment to the benefits of open capital flows and to prevent the use of policy tools to affect countries' exchange rates in lieu of warranted macroeconomic adjustment.

In addition to supporting the work done by the IEO, the OUSED has also led an effort among like-minded Executive Directors to strengthen the IMF's enterprise risk management. As a result, the Office of Risk Management (ORM), which is responsible for developing and maintaining the IMF's risk framework and acceptance levels, now provides more frequent updates on risk to the Board.

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.

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 rapidly adapted the institution's toolkit to respond to the effects of the pandemic, including raising access limits for its two emergency lending facilities: the Rapid Credit Facility and the Rapid Financing Instrument. Even though both instruments traditionally do not include any conditions, Treasury and the OUSED pressed for the inclusion of governance and public financial management measures to help ensure emergency funding would be used to help respond to the COVID crisis. As countries shift toward the use of Upper Credit Tranche programs (programs with full conditionality and phased disbursements), Treasury and the OUSED have supported the use of robust conditions that address underlying structural issues, while still allowing for some flexibility in the phasing of reforms and the timing of IMF disbursements so as to accommodate the uncertainty around the current COVID crisis. Treasury and the OUSED have also supported the use of contingency plans and program adjustors in IMF program lending given the potential for a wide margin of error in program forecasts.

Regarding debt sustainability, Treasury has pressed the IMF to advance its debt sustainability analyses and its work with members on longer-term financing and debt strategies in conjunction with reform-driven IMF programs. The IMF work in this area supports the G20's efforts to establish a framework for timely and effective debt restructurings to improve members' debt sustainability.