

**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
March 2024

Introduction

This report is submitted by the Department of the Treasury in accordance with legislation that requires Treasury to report annually 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 (1) the U.S. Executive Director in influencing the IMF to adopt various policies and reforms as described in section 1503 of the IFI Act, 22 U.S.C. § 262o-2, and (2) 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 effective 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 OUSED discuss these policies with IMF management and staff and with other Board members. Additionally, OUSED advances these reform policies in statements and votes on programs and policies in the IMF Executive Board. Treasury officials vote on IMF governance matters and major policy issues through our Governor to the IMF.

In addition, Treasury's Office of International Monetary Policy and 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 OUSED in Promoting Policies at the IMF Described in Section 1503

While Treasury and OUSED continue to advance all of the policies described in Section 1503, this report specifically highlights new developments in relevant policy areas since October 1, 2022.

SEC. 1503(a)(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 trading systems.

During the period of this report, Treasury and OUSED continued to promote the IMF's rigorous analysis of exchange rates and global imbalances. The IMF's External Sector Report (ESR), the External Balance Assessment (EBA) methodology, and the individual country assessments are key to the IMF's execution of its core mandate of the consistent and comprehensive Fund surveillance of exchange rates and global imbalances. In the 2023 ESR, Treasury and OUSED broadly supported the IMF's findings and policy advice. We appreciated IMF staff's continued efforts to cover each ESR country with a comprehensive assessment and encouraged IMF staff to

continue with this timely annual exercise. In its Board statement, OUSED called on staff to place more urgency and emphasis on the need for structural reforms across ESR economies, pressed on countries to reduce excessive current account balances, and urged for greater transparency with respect to exchange rate regimes and foreign exchange management practices. OUSED also asked staff to further incorporate findings and analysis from the Fund's recently developed capital flow and exchange rate modeling framework (the Institutional Policy Framework) into the External Sector Report, as appropriate, and emphasized the importance of continued consistency in the policy advice across workstreams.

Finally, Treasury and OUSED promote exchange rate regimes consistent with economic fundamentals to avoid disorderly adjustment and avoid competitive devaluation, emphasizing greater exchange rate flexibility in many reviews of members' surveillance reports and programs. In Singapore's Article IV consultation, OUSED's Board statement pushed back against the Singaporean authorities' sizable FX purchases that contribute to the country's substantial external imbalances.

SEC. 1503(a)(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.

Treasury and OUSED encourage strengthening financial systems through a consistent focus on promoting independent monetary authorities, flexible exchange rates, and well-provisioned banking sectors during Article IV, Financial Stability Assessment Programs (FSAPs), and program reviews.

FSAPs are a comprehensive financial sector assessment that the IMF periodically conducts for its members, usually in concert with Article IV consultations. At the IMF Executive Board's discussions of:

- Mexico's FSAP in November 2022, OUSED encouraged staff to promote recommendations that support financial inclusion, improve beneficial ownership information availability, and engage on climate-related financial sector issues.
- Sweden's FSAP in March 2023, OUSED encouraged the Swedish authorities to address the risks from commercial real estate as well as further bolster Sweden's AML/CFT framework and tools.
- Iceland's FSAP in June 2023, OUSED welcomed the Icelandic authorities' ongoing efforts in their AML/CFT regime, while also encouraging the authorities to remain vigilant against risks in the real estate sectors and recommending closer supervision and stronger governance of pension funds.
- Botswana's FSAP in August 2023, OUSED commended Botswana for exiting the FATF grey list and strengthening its AML/CFT framework, while also encouraging authorities

to strengthen oversight of non-bank financial institutions given the significant sector linkages.

Overall, FSAP engagement plays an important role in strengthening financial systems in both developing and advanced economies.

In February 2023, the IMF Executive Board reviewed a paper on the elements for effective policies for crypto assets, OUSED's Board statement supported the development of comprehensive regulations under the guidance of the FSB and other standard-setting bodies as well as emphasized the need to align further refinements of policies with the Fund's Transparency Policy. The IMF and the Financial Stability Board (FSB) worked together jointly to publish a Synthesis Paper on Policies for Crypto-Assets in 2023. The paper synthesizes the policy recommendations and standards on crypto-assets from the IMF and the FSB (alongside financial sectoral standard-setting bodies), providing comprehensive guidance to help authorities address the macroeconomic and financial stability risks posed by crypto-asset activities and markets, without establishing new policies, recommendations, or expectations for relevant member authorities. Treasury and the OUSED have engaged heavily to help shape IMF work on crypto assets, including by providing feedback and advice on the IMF and FSB recommendations for the regulation of crypto-asset markets, including stablecoins.

SEC. 1503(a)(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—

(E) intensified consideration of mechanisms to facilitate orderly workout mechanisms for countries experiencing debt or liquidity crises;

Treasury and OUSED press for equal burden sharing and timely and orderly debt restructurings, particularly for those countries that require debt treatments in order to secure IMF lending. While the Fund does not play a direct role in a member's debt restructuring, the IMF has helped to improve the process and practice of debt restructuring, including through its role as co-chair of the Global Sovereign Debt Roundtable (GSDR). Recent GSDR discussion have helped to enhance the understanding of comparability of treatment in the context of the G20 Common Framework, which brings together all official bilateral creditors to provide coordinated debt treatments for eligible low-income countries on a fair burden sharing basis. The IMF has also worked to clarify information sharing in the context of debt restructurings.

Treasury and OUSED have also worked with other Board members to encourage enhancements to the IMF's debt restructuring and financing assurances policies. The Board engaged with IMF staff to develop constructive proposals to address debt challenges in the context of the Fund's institutional policies on arrears, debt sustainability, market access, and financing assurances. In the July 2023 update to the Guidelines on Transparency, Treasury and OUSED supported Fund staff's call to strengthen debt transparency and coordinate the disclosure of more comprehensive public debt data. We continue to engage with the IMF to develop market-based, contractual enhancements that promote constructive creditor participation in debt restructuring processes by

discouraging holdout and other disruptive creditor behavior. We will continue to promote this work through resolute engagement with the IMF Board, staff, and in the G20 going forward.

SEC. 1503(a)(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.

Treasury and OUSED affirm that governance and corruption issues are macro-critical for many countries, and that the IMF's continued prioritization of these issues is essential for growth and stability. In the April 2023 review of the Implementation of the 2018 Framework for Enhanced Fund Engagement on Governance, OUSED's Board statement supported IMF staff's proposals to strengthen implementation of the 2018 Framework and reiterated the importance of more robust analysis on the effectiveness of the Fund's engagement on governance and anti-corruption. Additionally, Treasury and OUSED continued to press the IMF on the importance of proceeding with stocktaking of the implementation of governance commitments made in emergency financing, particularly financing which took place as part of the response to COVID.

Treasury and OUSED engage IMF staff and other constituencies at the IMF Board to promote good governance principles within countries receiving IMF financing. For example, during the request for Ukraine's Extended Fund Facility (EFF), OUSED called for the authorities to continue implementing governance and anti-corruption policies. As part of Sri Lanka's EFF program, the IMF has published a comprehensive diagnostic of governance deficiencies, and the program will include conditionality on implementation of recommendations based on this diagnostic. In other country reviews, OUSED also welcomed IMF staff's focus on the importance of economic governance for public confidence while stressing that political governance can also be a macro-critical issue. In Central African Republic's Article IV and Extended Credit Facility (ECF) request, OUSED's Board statement strongly supported the program's focus on strengthening governance and fiscal transparency, and it welcomed commitments from the authorities to upgrade the anti-corruption legal framework and adopt a mining code in line with international standards.

SEC. 1503(a)(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.

Treasury and OUSED have pressed for IMF programs and assistance to be designed in such a way to mitigate the likelihood that they would promote ethnic or social strife. For example, Treasury and OUSED supported the extension of the Food Shock Window (FSW) and the increase in the cumulative access limit for low-income countries under the Rapid Credit Facility (RCF). The FSW offers emergency financing through the IMF's Rapid Financing Instrument and RCF to support countries dealing with urgent balance-of-payments needs from the global food price and availability shock that arose in the wake of Russia's invasion of Ukraine.

Recipients can use FSW financing to maintain their social safety net expenditures amid the price shock and rising food insecurity. The continuation of the FSW and heightened access limits for the RCF will provide vulnerable countries with the necessary support to prevent internal conflict and social strife caused by food insecurity. Treasury and OUSED advocate for social protections policies and social spending floors to mitigate social harm and political upheaval. In Benin's ECF and EFF Review, OUSED's Board statement encouraged the Beninese authorities to maintain fiscal space for priority social spending. In Armenia's Article IV consultation and Stand-By Agreement Review, OUSED supported social assistance and spending to help refugee populations through cash transfers and accommodation allowances.

SEC. 1503(a)(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.

Treasury and OUSED are deeply engaged with the IMF staff and other Executive Directors in continuing to ramp up the new Resilience and Sustainability Trust (RST). The RST helps members build external resilience to long-term structural challenges related to climate change, energy security, and pandemic preparedness. The RST requires ambitious fiscal, financial, and structural reforms to support balance of payments stability and catalyze additional public and private financing. In the case of climate, the RST requires high-quality reforms and provides space for eligible and qualifying emerging market and developing economies to reduce macroeconomic vulnerabilities to climate change and natural disasters. Individual country programs under the RST are called Resilience and Sustainability Facilities (RSFs). Treasury and OUSED always evaluate RSF requests for their macro-criticality and alignment with the mandate of the IMF. At the Board reviews of:

- Rwanda's RSF in May 2023, OUSED acknowledged and encouraged the Rwandan authorities to continue progress on integrating climate risks into assessments of fiscal risks and into their public investment management strategy and strengthening disaster risk reduction.
- Seychelles' RSF in May 2023, OUSED supported three major areas of focus for program implementation: (i) enable climate-responsive infrastructure investment and fiscal management, (ii) build financial sector resilience and mobilize climate finance, and (iii) implement climate mitigation and adaptation policy and disaster risk financing.
- Costa Rica's RSF in June 2023, OUSED highlighted RSF Reform Measure 2, improved adaptation, as a key step to facilitate private sector participation in renewable energy projects for households and businesses.
- Kenya's RSF in July 2023, OUSED strongly supported the establishment of an institutional framework to help disseminate early warning information, as better management of disaster risks could help to support prospective balance of payments stability.

SEC. 1503(a)(12) Facilitate greater International Monetary Fund transparency, including by enhancing accessibility of the International Monetary Fund and its staff, fostering 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.

Treasury and OUSED affirm that transparency by the IMF and member countries is necessary for sound economic decision-making and smoothly functioning markets. OUSED supports timely publication of press releases, policy advice reports, and IMF loan documents. While the publication of IMF documents by member countries is voluntary, OUSED's engagement has proven critical in making publication a norm among members. Partially in response to our efforts, in recent years, 98 percent of member countries that received IMF financing consented to publish the associated staff reports, and 95 percent of all members consented to publish their IMF Article IV reports. We continue to encourage the publication of all such reports for all countries.

**SEC. 1503(a)(15) Work with the International Monetary Fund to—
(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.**

Treasury and OUSED engage IMF staff and other constituencies at the IMF Board on the promotion of reforms to anti-money laundering and combating the financing of terrorism (AML/CFT) policies. In the IMF's 2023 AML/CFT Strategy Review, Treasury and OUSED welcomed the Fund's strategy of transitioning to deliver two mutual evaluations for upcoming Financial Action Task Force (FATF) reviews per year over the next six years, so as to ensure robust IMF participation in the next round of FATF evaluations. Treasury and OUSED regularly encourage the Fund to allocate internal funding to AML/CFT work, while maintaining a flat real budget.

Treasury and OUSED also provide input on AML/CFT issues in formal statements to the Board on Article IV and country program reviews. OUSED consistently promotes country engagement with the FATF to make sure that country authorities adopt reforms as needed. For example, at the Board review of:

- Bosnia and Herzegovina's 2023 Article IV report, OUSED supported a call to advance and enhance their AML/CFT regime to align with international standards and prioritize passage of the new AML/CFT law to address risks to the financial system and build momentum for the country's progress toward EU membership.
- Tanzania's first ECF review in July 2023, OUSED encouraged the Tanzanian authorities to continue paying close attention to AML/CFT risks. OUSED also acknowledged the need for Tanzanian authorities to align the legal framework with the FATF standards and improve the effectiveness of the AML/CFT framework, including for risk-based supervision of banks and strengthening enforcement.
- Zambia's first ECF review in July 2023, OUSED encouraged the authorities to prioritize making progress on AML/CFT reforms to allow for a more conducive environment for private sector development and help attract much needed foreign direct investment.

- Jamaica’s first Precautionary and Liquidity Line (PLL) review in August 2023, OUSED underscored the importance of the Jamaican authorities’ implementation of the FATF amendments on beneficial ownership and the risk-based supervision framework, as well as aligning the existing AML/CFT framework with FATF standards.

Progress of the IMF in Implementing Policies Described in Section 801(c)(1)(B) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act

While Treasury and the OUSED continue to advance the range of policies described in Section 801(c)(1)(B), this report specifically highlights new developments in relevant policy areas since October 1, 2022.

Implementation by the fund of certain policies. The Fund is implementing:

(i) policies providing for the suspension of a financing if funds are being diverted for purposes other than the purpose for which the financing was intended;

Treasury and OUSED engage with the IMF to exercise oversight of funds disbursed via programs to verify that the financing is achieving its intended purpose. For example, Treasury and OUSED have pushed to increase transparency in cases where countries have accessed funding through the IMF’s emergency lending programs, the Rapid Credit Facility or Rapid Financing Instrument, including through implementing audits of all IMF resources. Treasury and OUSED have also asked the IMF to adopt fiscal safeguards to protect IMF resources in the context of lending to fragile and conflict-affected states with weak governance institutions. For example, during the request for the Central African Republic’s ECF, OUSED supported the incorporation of safeguards into the design of the ECF to make sure that Fund resources are used in line with their intended purpose. These safeguards include the establishment of an escrow account and coordination with the World Bank on additional guardrails.

(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;

Treasury and OUSED advocate for policies that will encourage IMF financing to be a catalyst, not replacement, for private sector financing. Lending through the General Resources Account, which is the non-concessional arm of the IMF, requires that countries address the underlying balance-of-payments issue during the program, which facilitates private sector financing upon completion. Additionally, the Exceptional Access framework requires that countries regain market access in a timeframe and on a scale that will enable the country to meet its obligations falling due to the IMF. The Roundtable(s) on Catalyzing Climate Finance, convened through the RSF, bring together private financiers, the IMF, and country authorities to discuss climate investment opportunities.

(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;

For countries accessing IMF funding through Upper Credit Tranche (UCT) programs, IMF staff have continued to measure country progress against agreed-upon quantitative criteria and structural benchmarks. Treasury and OUSED have strongly supported disbursement of funds under UCT programs only when borrowers demonstrate meaningful progress toward achieving agreed-upon criteria and benchmarks, consistent with program objectives.

(iv) policies vigorously promoting open markets and liberalization of trade in goods and services;

IMF programs include conditionality that reduce restrictions on trade and market access, especially where these restrictions are macro-critical or contribute to balance-of-payments issues. Treasury and OUSED have focused attention on the role that regulations and dominant state-owned enterprises can play in restricting market entry and competition. Amid the ongoing challenges to global food security, the IMF has also highlighted the need to maintain open trade and avoid food export restrictions.