

**IMPLEMENTATION OF
CERTAIN LEGISLATIVE PROVISIONS
RELATING TO THE
INTERNATIONAL MONETARY FUND**



A Report to Congress

in accordance with

Section 1503 of the
International Financial Institutions Act, and

Section 801(c)(1)(B) of the
Foreign Operations, Export Financing, and Related Programs
Appropriations Act, 2001, as required by 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

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Introduction

The report reviews actions taken by the United States to promote legislative provisions in International Monetary Fund (IMF or the Fund) country programs. This report is prepared in accordance with Section 1705(a) of the International Financial Institutions Act (IFI Act).¹ Annex 1 also covers new IMF lending arrangements per section 605(d) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999. Earlier reports pursuant to these provisions are available on the Department of the Treasury's website: <http://www.treasury.gov/resource-center/international/int-monetary-fund/Pages/imf.aspx>

Treasury and the Office of the United States Executive Director (USED) at the IMF consistently endeavor to build support in the IMF's Executive Board for the objectives set by this legislation and other legislative mandates. These endeavors include meetings with IMF staff and other Board members on country programs and IMF policies, formal statements by the USED in the IMF Board, and USED votes in the Board. Treasury's objective is to support strengthened commitments to IMF programs, policy actions by program countries, and policy decisions at the IMF itself. Treasury's IMF task force is charged with increasing awareness among Treasury staff about legislative mandates and identifying opportunities to influence IMF decisions in line with broader U.S. international economic policy objectives.

This report is submitted in the context of the international response to the global financial and economic crisis that began in 2007 and, more recently, the sovereign debt crisis in Europe. The United States has been a leader throughout this period through its own economic policies, and has collaborated closely with the Group of 20 countries (G-20) and the international financial institutions, including the IMF. Over this period, the IMF has acted swiftly to play a key role in crisis response. The IMF continues to address remaining vulnerabilities in the global economy – for instance, by providing financing, in partnership with the European Union, for distressed euro area members. At the most recent G-20 leaders' summit in Los Cabos, Mexico in June 2012, members called on the IMF to provide stronger surveillance over members' economies, including with regard to exchange rate misalignments, global liquidity, and capital flows, in order to facilitate global, domestic and financial stability, including spillovers from countries' policies. Members also reaffirmed their commitment to implement the 2010 quota and governance reform, which will enhance the IMF's legitimacy, relevance, and effectiveness and enable the U.S. to continue to preserve its veto power and leadership position without making new financial commitments to the IMF.

¹ Section 1705(a), as codified at 22 U.S.C. § 262r-4(a), requires the Secretary of the Treasury to submit a report on the progress made to adopt the policies and reforms described in section 1503 of the IFI Act (22 U.S.C. 262o-2(a)) as well as the policies set forth in section 801(c)(1)(B) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001.

Report on specific provisions

I. Section 1503(a)

(1) Exchange rate stability

In June 2007, the IMF Executive Board adopted a new Decision on Bilateral Surveillance over Members' Policies ("Decision"), replacing the 1977 Decision on Surveillance over Exchange Rate Policies as the guiding document on surveillance. The new decision was strongly backed by the United States in an effort to refocus the Fund on its core mandate, as established in Article IV of the IMF's Articles of Agreement, "to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation."

Since the 2007 Decision, IMF surveillance of exchange rates has improved in both breadth and quality, though staff The IMF's Independent Evaluation Office found that only 63 percent of Article IV reports from 1995-2005 included a clear assessment of the exchange rate's value in relation to economic fundamentals.² In contrast, both the 2008 and 2011 Triennial Surveillance Reviews found that over 90 percent had done so after the Decision.³ Selected Issues papers accompanying Article IV staff reports have been increasingly devoted to exchange rate issues. The sophistication of exchange rate assessments has improved as econometric assessments of the exchange rate's equilibrium value have become more common. In July 2012, the IMF adopted the Integrated Surveillance Decision, which updates the June 2007 legal framework to reflect the already existing increased focus by the IMF on multilateral surveillance, while retaining all of the critical elements in exchange rate surveillance from the 2007 Decision.

The United States continues to advocate for further improvements to the IMF's surveillance over exchange rates. In 2012, with strong U.S. support, the IMF produced a pilot External Sector Report (ESR), which represents a substantial enhancement to the IMF's work on external analysis, as it includes much greater in-depth coverage of IMF exchange rate assessments, as well as assessments of reserves, drivers of current account imbalances, and capital flows and measures. Treasury has pressed for increased candor, transparency, and evenhandedness of IMF exchange rate surveillance as part of the G-20 agenda. In particular, we continue to advocate that Fund staff take tougher ultimate judgments on members' exchange rate management practices. The United States has been engaged in a careful multilateral effort in the G-20, supported by the IMF, to establish stronger norms for exchange rate policy and to identify and mitigate sources of future economic imbalances.

The Framework for Strong, Sustainable, and Balanced Growth agreed to at the Pittsburgh G-20 Summit calls on the IMF to play a key advisory role in the G-20 mutual assessment process (MAP). Through the MAP, the IMF develops a forward-looking analysis of whether policies pursued by individual G-20 countries, including exchange rate policies, are collectively

² Independent Evaluation Office of the International Monetary Fund, "An IEO Evaluation of IMF Exchange Rate Policy Advice, 1999-2005," 2007.

³ International Monetary Fund, "2008 Triennial Surveillance Report – Overview Paper," September 2, 2008 and "2011 Triennial Surveillance Review – Staff Background Studies," August 29, 2011.

consistent with more sustainable and balanced trajectories for the global economy. The IMF reports regularly on its analysis to both G-20 Finance Ministers and the International Monetary and Financial Committee (IMFC). The IMF carried out such an assessment ahead of the June 2012 G-20 Summit in Los Cabos, Mexico. Its recommendations included greater exchange rate flexibility and rebalancing in key emerging market economies and addressing high unemployment in advanced economies, and served as an input to the Los Cabos Action Plan for Growth and Jobs agreed upon by Leaders.

At the February 2013 G-20 Finance Ministerial in Moscow members reiterated their commitments to move more rapidly toward more market-determined exchange rate systems and exchange rate flexibility to reflect underlying fundamentals. Members agreed to not target exchange rates for competitive purposes.

The U.S. encourages the IMF to support exchange rate flexibility in IMF board statements, including the following examples:

- In a March 2012 board statement on Haiti's Article IV staff report, the USED urged the authorities to deepen financial markets and improve exchange rate flexibility to provide Haiti with better liquidity management and additional monetary policy flexibility. The USED also noted that these measures would help to address dollarization risks, and applauded the authorities plan to establish unconstrained single price foreign exchange auctions later in 2012.
- In a July 2012 board statement for the fifth review of Djibouti's Extended Credit Facility, the USED urged the authorities to closely safeguard the country's currency board reserves to maintain the credibility of its exchange rate regime.
- In a February 2012 board statement on Malaysia's Article IV staff report, the USED underscored the importance of structural reforms to support Malaysia's adjustment to changing economic dynamics to provide the authorities greater room for currency adjustment.
- In a July 2012 board statement on the seventh review of Sri Lanka's Stand-by Arrangement the USED commended the authorities for their implementation of a more flexible exchange rate regime. Sri Lanka introduced the new exchange rate regime in February 2012.
- In an August 2012 board statement on Jordan's Stand-by Arrangement, the USED noted staff's assessment that the exchange rate peg has served the country well and should be maintained.

(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 the support of the United States, the IMF has been a consistent advocate of greater independence of monetary authorities across a range of countries. IMF conditionality frequently includes measures to strengthen central bank autonomy and accountability. The IMF also provides technical assistance to help countries achieve these goals. In addition, the Fund promotes these objectives through assessments of compliance with internationally-agreed upon standards and codes, as well as rules for safeguarding the use of IMF resources. Examples of United States activities with regard to these issues include the following:

- In a June 2012 board statement for Ukraine’s Article IV staff report, the USED encouraged the central bank to increase exchange rate flexibility and focus on maintaining price stability.
- In an April 2012 board statement on Bangladesh’s Extended Credit Facility, the USED urged the authorities to improve central bank independence and to reform its operations, especially its supervisory mandate.
- In a November 2011 board statement on Turkey’s Article IV staff report, the USED expressed concern that the authorities’ monetary policy framework is becoming overburdened and should return to a focus on inflation.
- In a January 2012 board statement in Hungary’s Article IV staff report, the USED emphasized that it is important for Hungary to make clear its commitment to central bank independence.

(B) Fair and open internal competition among domestic enterprises

Although the World Bank has the lead mandate on these issues, the IMF, with United States’ support, encourages member countries to pursue policies that improve internal economic efficiency. These measures may include ending directed lending (or other relationships between government and businesses based on favoritism), improving antitrust enforcement, and establishing a sound and transparent legal system. The U.S. has advocated the following in support of fair and open internal competition:

- In a January 2012 board statement for Iceland’s fourth review under a Stand-by Arrangement, the USED urged swift action to harmonize the capital requirements of the Housing Finance Fund, an independent government mortgage lending institution, with those of other financial institutions to promote a level playing field among mortgage lenders.
- In a May 2012 board statement on the UAE’s Article IV staff report, the USED emphasized the importance of mitigating risks from government-related entities (GREs) and took note of staff’s caution against allowing “non-viable” GREs to secure funding from domestic banks if foreign financing diminishes.

(C) Privatization

The IMF has made privatization a component of those member country programs where the country's significant distortions and government ownership of business enterprises have created substantial inefficiencies in the allocation of resources and the production of goods. Collaborating with the World Bank, the Fund has supported the use of competitive and transparent means of privatization so that program countries might achieve gains in economic efficiency and improve their fiscal positions. Examples of IMF program and surveillance discussions in which the USED has advocated privatization include the following:

- In a February 2012 board statement on Malaysia's Article IV staff report, the USED supported the Malaysian Government's efforts to divest from state-owned enterprises as well as to reduce support for and protection of SOEs to complement deficit reduction efforts.
- In a July 2012 fourth review of Tanzania's program under the Policy Support Instrument, the USED urged the authorities to continue structural reforms, including privatization and improving the business climate.

(D) Economic deregulation and strong legal frameworks

Markets are distorted and entrepreneurship is stifled without strong property rights, enforcement of contracts, and fair and open competition. While these issues are often addressed as part of the World Bank's mandate, the IMF frequently includes such policy advice in its programs or surveillance on measures considered critical to the member country's macroeconomic performance. Examples of United States' efforts to encourage these reforms include the following:

- In a November 2012 board statement, the USED commended IMF staff for asking for a more balanced approach to outlining the benefits and risks of capital account liberalization, and stressed that while full liberalization may not be an appropriate goal for all countries at all times, greater openness to capital flows is a worthy long-term goal and a key aspect of long-term development.
- In a July 2012 discussion of Angola's Article IV staff report and Post-Program Monitoring report, the USED noted the importance of deepening the structural reform agenda and creating a supportive environment for private sector led growth.

(E) Social safety nets

While growth is an essential ingredient for poverty reduction, investment in human development and basic social services is also critical. Cost effective social safety nets can play an important role in building domestic support for economic reform, and in alleviating the direct impact of economic downturns.

The IMF does not lend directly for budget support to build social safety nets. The Fund's policy advice and its focus on macroeconomic stability, however, encourage domestic policymakers to develop fiscal strategies that address the needs of the poor within a fiscal framework that is

sustainable over the long-term. Reducing generalized subsidies while protecting pro-poor spending, for example, is a common theme. In the poorest countries, IMF advice is developed within a country-specific poverty reduction strategy that encourages accountability between donors and recipients.

The United States has strongly pushed the IMF to ensure that programs promote spending to reduce poverty. On average, countries with IMF programs increase spending for education by about 0.8 percentage points of GDP and for health by about 1 percentage point of GDP over a five-year period.⁴

In addition, debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative is part of a larger effort to address low-income countries' development needs. Before the HIPC Initiative, eligible countries were spending slightly more, on average, on debt service than on health and education combined. However, following HIPC debt relief, countries have been able to increase spending on health and education to about five times the amount of debt-service payments, on average. For HIPCs, pursuant to a legislative mandate,⁵ Treasury carefully evaluates whether the IMF program allows for an increase in health and education expenditures. The USED's board statements in discussions of HIPC country programs stress the importance of protecting health and education expenditures, as well as other poverty reduction and social safety net spending:

- In a March 2012 board statement on Haiti's Article IV staff report, the USED urged the authorities to maintain a floor on poverty-related spending the USED also noted that in the near term, additional revenue generation would ensure fiscal space to address poverty-related and other priority spending.
- In a September 2012 discussion of Sudan's Article IV staff report, the USED noted the importance of abiding by the government's commitment to safeguarding social expenditures for the 40 percent of the population living below the poverty line.

(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, but not limited to, the agricultural sector. The IMF has played a supportive role in promoting trade liberalization, particularly in the context of the WTO trade negotiations. The IMF is prepared, along with the World Bank, to provide transitional assistance to member countries experiencing payment imbalances arising from the passage of trade reform. In recent years, the IMF has stepped up its in-depth trade policy work in consultations with

⁴ IMF Discussion Note, *What Happens to Social Spending in IMF-Supported Programs?* August 31, 2011.

⁵ IMF Programs and Exemptions for Health/Education/Agriculture and Food Security in HIPCs. [annual law]. (P.L. 111-32 section 1403(d), Supplemental Appropriations, 2009, signed 6/24/09; most recent: Consolidated Appropriations Act, 2012 (signed 12/23/11), P.L. 112-74, Division I, Foreign Operations, section 7029(c). This legislation requires that the Secretary of the Treasury instruct the USED at the IMF to use the voice and vote of the United States to oppose (abstain or vote NO) any loan, project, agreement, memorandum, instrument, plan, or other program of the IMF to a Heavily Indebted Poor Country that imposes budget caps or restraints that do not allow the maintenance of or an increase in governmental spending on health care or education; and to promote government spending on health care, education, agriculture and food security, or other critical safety net programs in all of the Fund's activities with respect to Heavily Indebted Poor Countries.

currency unions that are potentially impacted by trade liberalization, such as the Monetary and Economic Community of Central Africa (CEMAC) and West African Economic and Monetary Union (WAEMU), as well as for some other African and Western Hemisphere groupings.

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

The joint IMF-World Bank Financial Sector Assessment Program (FSAP) has emerged as a critical instrument for financial sector surveillance and advice. FSAPs are used to generate assessments of compliance with key financial sector standards such as the Basel Committee's Core Principles for Effective Banking Supervision, the International Organization of Securities Commission's Objectives and Principles of Securities Regulation, and the IMF's own Code of Good Practices on Transparency in Monetary and Financial Policies. The FSAP assessment results are summarized in Financial System Stability Assessments (FSSA), which are often provided to the public.

The U.S. agreed to conduct an FSAP with the IMF in 2006. After allowing for some time for U.S. regulators to continue their work on implementation of Basel II capital standards, the IMF's FSAP mission team began its work on the U.S. FSAP in 2009 and issued its report on July 30, 2010. In the FSSA, IMF staff provided the key findings of their assessment of the United States. The OUSED requested that the IMF publish all documents related to the U.S. FSAP that can be published under the IMF's rules. Accordingly, in addition to the FSSA, the IMF published seven Reports on Standards and Codes (ROSCs); seven Detailed Assessment Reports (DARs) on banking, securities, insurance, and clearing and settlement systems; and, eight technical notes on stress testing, consolidated supervision, OTC derivatives, crisis management, liquidity risk management, oversight of payments, Basel II implementation, and anti-money laundering and combating the financing of terrorism. The United States has since made progress on all of the U.S. FSAP recommendations.

FSAPs and ROSCs also play an important role in the Financial Stability Board's (FSB) newly-established peer review surveillance process to assess countries' progress in strengthening their financial systems. The FSB, which was formed in 2009, uses FSAPs and ROSCs as the basis for its assessments.

In September 2010, the USED supported the adoption of IMF management's proposal to make financial stability assessments under the FSAP a regular and mandatory part of bilateral surveillance under Article IV of the Fund's Articles of Agreement for 25 jurisdictions with systemically important financial sectors, including the United States. This decision will increase the coverage of financial stability issues in the Fund's bilateral surveillance of its members with the largest and most interconnected financial sectors, while also preserving access to the FSAP on a voluntary basis for the rest of the membership. To date, five countries have released their FSSAs in 2013 and fifteen released FSSAs in 2012. These financial stability assessments will take place on a five-year cycle.

In the context of a December 2009 Review of the Fund's Transparency Policy, the USED noted the importance of enhanced transparency for improving the effectiveness of Fund advice, the quality of surveillance, and the Fund's legitimacy. The USED expressed strong support for a

proposal to shift to the publication of ROSCs on a non-objection basis, and urged members not presently publishing their staff reports to consider the benefits of greater transparency. The United States strongly supports this increased transparency, and, as a demonstration of our commitment, became the first country to request the early publication of its DARS well before the Board discussion.

The IMF also conducts financial sector surveillance through a semi-annual Early Warning Exercise (EWE) and Global Financial Stability Report (GFSR). The EWE is prepared jointly by the IMF and the FSB; and, the GFSR is produced by the IMF's Monetary and Capital Markets Division. In November 2008, G-20 Leaders called on the IMF and FSB to undertake EWEs. The EWE is intended to identify the most relevant tail risks to the global economy or major regions, to demonstrate how the possible emergence of these risks could be recognized, and to specify the policy changes that would need to be implemented if they were to materialize. The analysis is based on consultations with policymakers, outside experts, Article IV and FSAP findings, and internal IMF models.

The Standards and Codes Initiative, which was launched in 1999 to strengthen the international financial architecture, underwent a regular five-year review by the IMF and World Bank in early 2011. The review paid particular attention to the need to adapt the Initiative in light of the recent crisis. The USED has welcomed the IMF's active participation in the FSB process to reassess the existing set of standards and has expressed support for the proposals put forth by the Standing Committee on Standards Implementation (SCSI) Working Group to the FSB Plenary regarding the key standards.

Following the G-20 Finance Ministerial in April of 2009, the FSB and the IMF formed a working group to explore information gaps and provide appropriate proposals for strengthening financial sector data collection, and report back to the Finance Ministers and Central Bank Governors. In October 2009, the Working Group submitted this report to the Finance Ministers and Central Bank Governors, which included a list of recommendations to fill existing information gaps. The Working Group continues to provide regular progress updates.

Some key examples of where the USED has supported the strengthening of financial systems include the following:

- In a July 2012 board discussion on Japan's Article IV staff report, the USED noted its agreement with the recommendations in the FSSA, and stressed the following high-priority areas for reforms: more intense monitoring of SIFIs, including financial/sovereign stability linkages; assessment of the adequacy of the FSA's regulatory mandate and supervisory skills and resources; and, improvements to the resolution regime of SIFIs.
- In a May 2012 board statement on Switzerland's Article IV staff report, the USED agreed with IMF staff that Switzerland's two major banks pose risks to the Swiss economy, given their size relative to GDP, international exposure, dependence on wholesale funding, and relatively high use of leverage. The USED stressed that the banks should

make significant efforts to raise capital standards well before the country's new capital regulations are fully phased in, in 2019.

- In a September 2012 discussion of Zimbabwe's Article IV staff report, the USED welcomed steps taken to address financial sector weaknesses but raised concerns about underreporting of non-performing loans and the unintended effects of setting too high a minimum capitalization requirement.
- In a March 2012 board statement on Israel's Article IV staff report and FSSA, the USED expressed pleasure that the country's FSAP update found the financial system to be resilient in the face of potential shocks, but expressed concern over market concentration both at banks and their largest clients.

(4) Internationally acceptable domestic bankruptcy laws and regulations

While the World Bank normally leads reviews of domestic insolvency laws, the IMF actively supports this agenda. The UN Commission on International Trade Law ("UNCITRAL") and the World Bank have worked to compile recommendations in this area covering, respectively, insolvency law and sound insolvency/creditor rights regimes. At the urging of the United States, staff from the World Bank, IMF, and UNCITRAL worked together to develop a standardized, unified assessment methodology to assess implementation of those recommendations.

The international financial institutions provide technical assistance to help emerging market economies develop efficient insolvency regimes. The IMF and the World Bank have supported adoption of the Model Law on Cross-Border Insolvency developed by the UN to facilitate the resolution of increasingly complex cases of insolvency where companies have assets in several jurisdictions. With the support of the United States, the IMF has worked with the World Bank to promote improved insolvency regimes in a number of countries.

(5) Private sector involvement

The United States continues to work to ensure that the private sector plays an appropriate role in the resolution of financial crises. Over the past several years, the IMF, with the support of the United States, has taken important steps towards strengthening crisis prevention and resolution. The IMF has strengthened its surveillance of member countries and instilled more discipline in the use of official sector financing, especially through the establishment of rules and procedures governing exceptional access to Fund resources. Additionally, the use of collective action clauses, supported by the IMF as an accepted contractual, market-based approach to sovereign debt restructurings, should help a sovereign restructure its debt when under financial distress.

The IMF recognizes the need to preserve the fundamental principles that: (a) creditors should bear the consequences of the risks they assume; and (b) debtors should honor their obligations. Furthermore, the IMF has coordinated closely with other international financial institutions and relevant country regulatory authorities. The United States continues to advocate policies that promote investor confidence. In 2012, we supported a program for Greece that involved the private sector in debt restructuring.

- As part of Greece's 2012 EU/IMF program it undertook a private debt restructuring, which attracted high participation, to improve debt sustainability. Bondholders were invited to exchange their bonds for new bonds with a face value equal to 31.5 percent of the original amount and short-term EFSF notes worth 15 percent of the original amount. Interest on the new bonds will be paid annually and principal payments will be made in equal installments over 20 years after a 10-year grace period. Of the \$234 billion in eligible Greek-law bonds, 85.8 percent participated, and the authorities decided to activate collective action procedures, pulling in remaining hold outs. Overall, approximately \$258 billion in debt was subject to the exchange, and debt owed to the private sector was halved according to estimates.

(A) Increased crisis prevention through improved surveillance and debt and reserve management

The United States has urged the IMF to further strengthen its surveillance function and crisis prevention capabilities. The United States, along with other G-20 members, reaffirmed the central role of the IMF as a critical forum for multilateral consultation and cooperation on monetary and financial issues as well as in promoting international financial and monetary stability. In November 2008, G-20 Leaders called on the IMF, in collaboration with the expanded FSF and other bodies, to work to better identify vulnerabilities, anticipate potential stresses, and act swiftly to play a key role in crisis response. They also called on the IMF, given its universal membership and core macro-financial expertise, to take a leading role in drawing lessons from the current crisis, consistent with its mandate and in close coordination with the FSB and others. G-20 Leaders agreed that the IMF should conduct vigorous and even-handed surveillance reviews of all countries, as well as give greater attention to their financial sectors and better integrate the reviews with the joint IMF/World Bank financial sector assessment programs. The IMF decided to make financial stability assessment under the FSAP a regular and mandatory part of Article IV consultations for members with systemically important financial sectors. At the IMF's Triennial Surveillance Review in September 2011, the United States Executive Director called on the IMF to improve its external stability assessments; better integrate bilateral and multilateral surveillance; streamline its growing number of surveillance products; place a greater emphasis on risk in its surveillance; and further integrate financial sector surveillance into existing bilateral and multilateral surveillance.

The United States has joined with other G-20 members in calling on the IMF to play a key role in the mutual assessment process (MAP) under the Framework for Strong, Sustainable, and Balanced Growth. Through the MAP, the IMF develops a forward-looking analysis of whether policies pursued by G-20 countries are collectively consistent with sustainable and balanced trajectories for the global economy. In addition, the United States has worked consistently to promote global rebalancing, and the IMF has increased its attention to this issue. For economies running large current account surpluses, the USED has regularly called for stronger and sustainable domestic demand.

As part of the overhaul of its non-concessional lending framework in early 2009, the IMF created the Flexible Credit Line (FCL) to make it easier for the IMF's strongest-performing member

countries to access resources rapidly to prevent the spread of a crisis. In 2010, the IMF modified this instrument to make more funds available for a longer period of time. In 2010, the IMF created the Precautionary Credit Line (PCL), which provided a more limited crisis prevention line of credit to members with sound fundamentals, policies, and institutional policy frameworks but moderate vulnerabilities that would not meet the FCL's strong qualification standard. In November 2011, the PCL was broadened to allow countries with sound policies to draw immediately upon approval to meet actual financing needs. It is now called the Precautionary and Liquidity line (PLL). The IMF also streamlined existing instruments for emergency assistance by forming the Rapid Financing Instrument (RFI), which addresses urgent balance of payments needs specifically from post-conflict and natural disaster situations. Combined with responsive policy actions by country authorities, these instruments can help to support a reduction in risk perception and contribute to stabilizing financial market conditions.

- In the December 2011 Board statement for Canada's Article IV staff report, the USED encouraged staff to study the spillover effects of safe haven and other capital inflows on Canadian asset prices and financial stability. The USED expressed concern that low long-term yields in Canada may have been pushing capital toward relatively unproductive areas, such as real estate.

(B) Strengthening of emerging markets' financial systems

The IMF continues to work with other IFIs to promote stronger financial systems in emerging market economies (also see Section 3). The IMF is actively involved with the World Bank in monitoring the implementation of the Basel Core Principles for Effective Banking Supervision. The IMF, with U.S. support, has increased its cooperation with the World Bank in this area, through the joint FSAP and in assessing countries' observance of other standards and codes. The Fund also provides technical assistance to low- and lower-middle-income countries in the area of financial sector sustainability. Countries have asked for Fund assistance to address weaknesses identified in FSAPs, to adopt and adhere to international standards and codes, implement recommendations from off-shore financial center assessments, and strengthen measures to combat money laundering and the financing of terrorism.

In 2012, the G-20 authorities moved ahead with the October 2011 action plan to support the development of local currency bond markets (LCBMs), particularly in emerging market and developing countries. The action plan aims to bolster the role that LCBMs play in domestic and global financial stability, helping to expand the range of financial instruments available to manage volatile short-term flows. It entails (1) scaling up technical assistance – from the IMF and other international organizations – to emerging market and developing economies; (2) improving the breadth and transparency of available data, a precondition for efficient market functioning, building on work carried out by the IMF; and, (3) joint annual progress reports to the G-20 from the IMF and other international organizations. In accordance with the plan, the International Organizations (IOs) provided the first progress report on implementation at the November 2012 meeting of G-20 finance ministers and central bank governors, outlining the agreed division of labor and path forward for each of these efforts. At the November 2012 meeting, the authorities also highlighted the importance to both emerging and advanced

economies of long-term financing for infrastructure investment and tasked the IOs with assessing impediments to its availability.

Some key examples of where the USED has supported a strengthening of emerging market financial systems are the following:

- In October 2012, the U.S. Board statement on Antigua and Barbuda indicated that we appreciate the work that staff and the authorities have done on the Eastern Caribbean Currency Union (ECCU) Financial Action Task Force to develop a plan to strengthen the broader ECCU financial system. We noted that two recent bank failures in the past three years in the country clearly point to the need for improved financial supervision. We agreed with staff's recommendations for financial sector reforms, including increased frequency of on-site examinations; improved enforcement ability of supervisors; development of a more consolidated approach to supervision; and further domestic bank consolidation.
- In a February 2012 board statement on Panama's Article IV staff report, the USED noted the country's strong regulatory framework, as described in the accompanying FSAP. However, given the lack of a central bank to serve as lender of last resort, the USED urged the authorities to continue to develop a liquidity backstop that matches the size and importance of the financial sector.
- In a July 2012 board statement on China's Article IV staff report, the USED encouraged continued reforms to liberalize interest rates to more accurately reflect market conditions; improve the allocation of capital; and, to increase household incomes and consumption demand, promoting rebalancing in China's economy. The USED also encouraged IMF staff and Chinese authorities to consider the potential impacts of off-balance sheet lending and non-bank intermediation on the health of the formal banking system, to include estimates of these activities in the staff report in the future.
- In a March 2012 board statement on India's Article IV staff report, the USED encouraged Indian authorities to address high priority recommendations in India's Financial System Stability Assessment (FSSA). The USED also urged the Indian authorities to publish the FSSA along with the detailed assessment reports (DARs), which would support a commitment made by all members of the Financial Stability Board.
- In an April 2012 board statement on Thailand's article IV staff report, the USED emphasized the importance of a diversified, well-regulated financial services sector to address the economic issues arising from Thailand's demographic changes, encouraging the further development of local capital markets, including pension and insurance sectors.
- In a May 2012 board statement on Vietnam's Article IV staff report, the USED noted the importance of improving standards of bank supervision, particularly with respect to the classification of non-performing loans, to promote financial sector stability.

- In a November 2011 board statement on Turkey's Article IV staff report, the USED expressed concern over the increase in banks' short term external debt. The USED highlighted that, while bank balance sheets remain healthy and there is no evidence that external creditors are unwilling to roll-over short-term debt, an external liquidity shock could add significant pressure and push the economy towards a hard landing.

(C) Strengthened crisis resolution mechanisms

The IMF's actions since the outset of the global financial crisis began have stabilized markets and boosted confidence, winning broad support and underscoring the Fund's central role in crisis response. A critical component of the response was ensuring that the IMF has adequate resources to address the needs of members hard hit by the global crisis.

To this end, the G-20 and IMF membership delivered on commitments to renew and expand the IMF's New Arrangements to Borrow (NAB) by over \$500 billion to backstop the IMF. The IMF also took action in 2009 to supplement members' reserves and boost global liquidity through allocations of Special Drawing Rights (SDRs) equivalent to \$283 billion. More recently, IMF members agreed to a doubling of total quotas (with a corresponding rollback of the NAB) to restore the primacy of the Fund's quota-based financial structure and realign relative quota shares to better reflect global economic realities, while ensuring the Fund has adequate resources to play its central role in promoting global financial stability.

The United States, in cooperation with the IMF and the broader international financial community, promoted a strengthened framework for crisis resolution by overhauling the IMF's non-concessional lending framework in early 2009. As noted above, the United States supported the creation and enhancement of the FCL and PCL in 2010 and the creation of the PLL and RCF in 2011. These facilities enhance the Fund's toolkit to help its members prevent financial crises and respond to external vulnerabilities and risks that threaten macroeconomic stability.

The United States has been a strong advocate for enhanced IMF support for low-income countries. In 2009, the IMF approved a package of extraordinary measures to sharply increase the resources available to low-income countries (LICs), more than doubling the Fund's medium-term concessional lending capacity to \$17 billion. These reforms allowed the Fund to dramatically expand its lending capacity during the crisis, with new Fund commitments for LICs totaling roughly \$6.8 billion, or five times the historical average, since the beginning of 2009. In addition, in 2010, the IMF created the Post-Catastrophe Debt Relief (PCDR) Trust to provide debt relief for very poor countries hit by the most catastrophic of natural disasters. The PCDR financed the elimination of Haiti's entire debt stock to the IMF (about \$268 million) following the 2010 earthquake. In 2012, with strong U.S. leadership, the IMF Board agreed to use all \$3.8 billion of its windfall gold sales profits to support LICs through the Poverty Reduction and Growth Trust. Treasury also strongly supported the IMF Board's decision to reduce interest rates to zero for all concessional lending through end-2014, as a measure to support low-income countries during the global economic crisis.

The USED continues to support the IMF's crisis resolution mechanisms, including in the following example:

- In the November 2011 board statement for the Eastern Caribbean Currency Union staff report, the USED welcomed the decision by all ECCU members to announce annual fiscal targets, while noting the IMF staff's suggestion that national governments submit their budgets to the Monetary Council prior to submission to national parliaments as a good first step towards improved fiscal coordination. The USED also encouraged staff and the authorities to explore further the viability of ECCB penalties on member states that do not meet fiscal targets consistent with medium-term debt sustainability.

(6) Good governance

The IMF places great importance on good governance when providing policy advice, financial support, and technical assistance to member countries. The Fund's commitment to promoting good governance is outlined in the 1996 Declaration on Partnership for Sustainable Global Growth and the 1997 Guidelines on Good Governance. The IMF supports good governance through an emphasis on transparency, strong fiduciary diagnostics, and its promotion of market-based reforms. The IMF has actively promoted good governance through efforts to protect against abuse of the financial system and to fight corruption.

The Fund's involvement has focused on those governance aspects that are generally considered part of the IMF's core expertise, such as improving public administration, increasing government transparency, enhancing data dissemination, and implementing effective financial sector supervision. The IMF promotes best practice principles through its codes and standards, including the Code of Good Practice on Transparency in Monetary and Financial Policies. The IMF also collaborates with the World Bank to strengthen the capacity of HIPC countries to develop essential public financial management (PFM) systems and track public sector spending. The IMF is also an active participant in the Public Expenditure and Financial Accountability (PEFA) initiative, which aims to support integrated and harmonized approaches to assessment and reform in the field of public expenditure; procurement; and financial accountability. PEFA assessments are increasingly being used to measure country PFM performance, and a number of countries have undergone second and third PEFA assessment, which allows policy makers and donors to track trends over time.

Examples of U.S. efforts to encourage good governance include the following:

- In a March 2012 board statement on Haiti's Article IV staff report, the USED urged the Haitian government to enhance both the transparency and the accountability of domestically-financed investment spending.
- In a February 2012 board statement on Panama's Article IV staff report, the USED recognized that the changes made by Panama to its domestic legislation enable it to comply with transparency and exchange of information obligations under tax information exchange agreements. In the statement, the USED encouraged continued progress with regard to the peer review process in the OECD Global Forum on Transparency and Exchange of Information.

- In a July 2012 board statement on Tunisia’s Article IV staff report, the USED emphasized the importance of strengthening the governance of public sector banks in Tunisia, and encouraged Tunisian authorities to rethink these banks’ strategies to allow them to lend based on economic rather than policy motives.
- In an April 2012 board statement on Bangladesh’s Extended Credit Facility (ECF), the USED encouraged the authorities to strengthen procurement process shortfalls and other governance measures to combat corruption and to bolster investor confidence.
- In a February 2012 board statement on the Philippines’ Article IV staff report, the USED supported the authorities’ efforts to prevent corruption and to increase and improve the effectiveness and targeting of social spending through the government’s conditional cash transfer program.
- In a December 2011 board statement on the third review of Romania’s Stand-by Arrangement, the USED cited continued improvement in the accountability and transparency of public procurement as an achievement under the program and endorsed staff’s calls for further improvements in fiscal transparency.

(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 Fund’s Code of Good Practices on Fiscal Transparency, updated in 2007, identified principles and practices to enhance fiscal policy transparency, promote quality audit and accounting standards, and reduce or eliminate off-budget transactions, which are often the source of unproductive government spending. Supplementing this Code is the Fund’s Guide to Resource Revenue Transparency, also updated in 2007, a complement to the Fiscal Report on Standards and Codes (Fiscal ROSC) for use in resource-rich (oil/gas-mining) countries. The Guide is being used increasingly in diagnostic work in extractive industry intense economies. The IMF also has been a strong supporter of the Extractive Industries Transparency Initiative (EITI) by providing policy and technical support to the EITI Secretariat and implementing countries. Numerous countries have had resource revenue and extractive industries issues covered in their ROSCs. The USED is promoting improved channeling of public resources in the following ways:

- In a September 2012 board statement for the sixth review of Romania’s Stand-by Arrangement, the USED encouraged the Romanian authorities to improve the quality of public capital spending and welcomed the program’s new structural benchmark to prioritize local government projects and publish a list of projects to be discontinued.
- In the October 2012 board statement on Antigua and Barbuda’s Article IV staff report and 7th program review, the USED urged the authorities to maintain their efforts to improve the efficiency of the public sector and introduce labor market reforms.

- In a March 2012 board statement on Haiti’s Article IV staff report, the USED noted that Haitian authorities need to focus on ensuring that priority spending is executed in a timely manner. The USED also stated that improving the preparation, implementation, reporting, and management of the public investment program is critical, since the effectiveness and efficiency of public investments are fundamental to accelerating reconstruction and to building a base for private sector investment and growth.
- In a September 2012 board discussion of Zimbabwe’s Article IV staff report, the USED recommended that the government address delays in critical infrastructure investments and spending in priority social sectors by reining in personnel expenditures, which are among the highest in the region.

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

The United States has emphasized the need to focus policy prescriptions and conditionality using measurable results on issues critical to growth and macroeconomic stability. Partly as a result of U.S. efforts, program conditions have focused increasingly on debt and financial vulnerability in middle-income countries and macroeconomic management in low-income countries.

- In a February 2012 board statement on Panama’s Article IV staff report, the USED noted that fiscal performance had been sound and that the USED recognized the rationale for monetary policy loosening in 2011 to address flood damage needs.
- In a March 2012 board statement on Niger’s request for an ECF arrangement, the USED urged caution in using non-concessional resources to fulfill the authorities’ desire to increase infrastructure investment, and asked Fund staff to provide a full explanation of their assessment on whether to remove the zero ceiling on non-concessional borrowing at the first review.

(9) Core labor standards (“CLS”)

Treasury works toward integrating core labor standards into the development agenda of the IFIs, including the IMF. To this end, Treasury encourages enhanced cooperation among the IFIs and the International Labor Organization (ILO) to establish best practices on CLS policies, and monitors and takes appropriate action on individual lending and non-lending programs that come before the respective Boards of Directors for decision. The State Department monitors labor standards in all IFI borrower countries, and since 1994, Treasury has been mandated to submit a separate report to Congress assessing progress made by the IFIs and IFI borrowers] with respect to internationally recognized worker rights. The most recent report was submitted in January 2011.

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

By helping to create the conditions for a sound economy, IMF assistance facilitates the reduction of ethnic and social strife to the extent such strife is driven in part by economic deprivation. For

example, with United States support, the IMF has increasingly encouraged the strengthening of social safety nets. The IMF also encourages consultation with various segments of society in the development of programs so that these segments have an opportunity to participate in the implementation of national priorities. IMF assistance has helped to free up resources for more productive public investment by contributing to a reduction in country military expenditures.

- In a March 2012 board statement on Israel's Article IV staff report and FSSA, the USED noted that a rising share of the population is not fully integrated into the economy and this could have negative consequences in the form of lower potential growth and increasing claims on the public purse. The USED noted that the authorities acknowledge this problem and support efforts to improve workforce participation by all groups.

(11) Link between environmental and macroeconomic conditions and policies

With respect to individual lending operations, the IMF itself does not evaluate positive or negative linkages between economic conditions and environmental sustainability. Rather, the IMF coordinates with the World Bank which, unlike the IMF, has the mandate and internal expertise to address such linkages. Where environmental issues pose fiscal, financial, and macroeconomic challenges, the IMF would provide advice in line with its mandate and expertise. The IMF has conducted studies on how to reform tax systems to deal better with broader environmental and related problems that can be a significant drag on economic growth, such as the health and productivity impacts of poor air quality, and severe congestion of major urban centers. There is ongoing work to assess the magnitude of pollution and other major environmental side effects associated with fossil fuel use, to provide actionable guidance on energy tax reforms for a broad range of developed and developing countries. The IMF has also been involved in work for the G-20 advanced and emerging economies on potential sources of climate finance for developing countries.

(12) Greater transparency

The IMF continues to encourage, with strong United States support, member countries to make their economic and financial conditions more transparent. In recent years, the IMF has increased significantly the amount of program information that is available to the public. The United States has stressed the need to build on this progress and expand the number of publications and IMF practices open to public scrutiny. As a result of earlier efforts, publication of all Article IV and Use of Fund Resources staff reports is presumed unless a country objects. In addition, all exceptional access reports generally will be published as a pre-condition to the Board's approval of such an arrangement. The USED consistently encourages countries to publish the full Article IV staff report on the IMF's public website. The Board completed its latest review of IMF transparency in December 2009. The review suggested measures to increase the amount and timeliness of publications, protect the integrity of IMF documents, and enhance the accountability and legitimacy of the IMF.

In addition to pressing countries to publish their Article IV assessments, countries are urged to provide additional information to private market participants by regularly releasing data

consistent with the IMF's Special Data Dissemination Standards (SDDS). Almost 90 percent of Fund members subscribe to either General Data Dissemination Standards or SDDS.

- In the July 2012 board statement on Brazil's Article IV staff report, the USED called on the Brazilian authorities to consent to publication of the staff report. The U.S. chair also called on Brazil to publish the FSSA and detailed assessment reports prepared under the FSAP. Brazil subsequently consented to publishing both its Article IV staff report and the FSSA.
- In a September 2012 board statement on Guinea's first ECF review, the USED urged the authorities to continue their efforts to enhance transparency, with particular attention to implementation of the new mining code and rapid progress on Guinea's meeting the requirements for full membership in the EITI.
- In a September 2012 board statement for the Democratic Republic of the Congo's Article IV staff report, the USED urged the government to improve governance and transparency, particularly of natural resources to improve the business climate and support broad-based growth.
- In a May 2012 board statement on the UAE's Article IV staff report, the USED welcomed recent improvements in data on government related entities and encouraged further progress to allow for a between assessment of sector risks.
- In the December 2011 board statement for Portugal's second program review, the USED commended the authorities for increasing the transparency of the state budget and implementing public financial management reforms.

(13) Greater IMF accountability and enhanced self-evaluation

In 2000, with the strong urging of the USED, the Executive Board established an Independent Evaluation Office (IEO) to supplement existing internal and external evaluation activities. The IEO provides objective and independent evaluation on issues related to the IMF and operates independently of Fund management and at arm's length from the IMF Board. On average, the IEO concludes two or three evaluations per year, and each evaluation normally takes about 18 months to complete. Recent evaluations include the following:

- The Role of the IMF as a Trusted Advisor (February 2013)
- International Reserves: IMF Concerns and Country Perspectives (December 2012)
- Research at the IMF: Relevance and Utilization (June 2011)
- IMF Performance in the Run-up to the Financial Crisis: IMF Surveillance in 2004-07 (February 2011)
- IMF Interactions with Member Countries (January 2010)
- IMF Involvement in International Trade Policy Issues (June 2009)
- Governance of the IMF: An Evaluation (May 2008)
- Structural Conditionality in IMF-Supported Programs (January 2008)
- IMF Exchange Rate Policy Advice, 1999-2005 (May 2007)

- The IMF and Aid to Sub-Saharan Africa (March 2007)

All reports are publicly available on the IEO's website at (<http://www.imf.org/external/np/ieo/index.htm>).

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

The lack of financial services available to the poor is a significant obstacle to growth for many developing countries. The IMF does not have the lead role among IFIs in microeconomic reforms to benefit small businesses; however, Treasury engages with the IFIs to promote structural reforms that encourage the provision of credit to small and micro enterprises. The microfinance sector is frequently reviewed in the context of the FSAP in developing countries.

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

Comprehensive integration of the work of the IMF and the other IFIs as part of the effort to fight terrorism worldwide has been a consistent policy priority for the United States and its partners. We have encouraged collaboration between the IFIs and the Financial Action Task Force (“FATF”), which is recognized by the G20, IMF, and the other IFIs as the international standard-setting body for anti-money laundering and countering the financing of terrorism (“AML/CFT”). The FATF recently revised its 40 AML/CFT Recommendations and will be starting a fourth round of mutual evaluations, or peer reviews, next year to assess compliance.

In April 2007, largely as a result of U.S. and G-7 leadership, the IMF Board reiterated the importance of compliance with the FATF standards to strengthening the integrity of financial systems and deterring financial abuse, and affirmed the collaborative arrangements presently in place with the FATF and FATF-style regional bodies (“FSRBs”) for assessing AML/CFT regimes in the context of the IMF's financial sector work.

Collaboration between the IMF, World Bank, and FATF to incorporate the FATF AML/CFT mutual evaluation process into the Financial Sector Assessment Program (FSAP) has institutionalized the global fight against terrorist financing and money laundering and is helping countries to identify shortfalls in their AML/CFT regimes and implement reforms. FSAP policy requires that every initial FSAP and FSAP update incorporate a full AML/CFT assessment. As of November 2011, the IMF had conducted 60 assessments of country compliance with the AML/CFT standards as part of the third round of FATF mutual evaluations, in cooperation with the FATF, FSRBs, and the World Bank.

The IMF is also a substantial source of funding for countries' efforts to strengthen their own AML/CFT regimes – an activity that Treasury has supported and has joined in to leverage Treasury's own bilateral AML/CFT assistance. The IMF has provided substantial technical assistance (“TA”) on a bilateral and regional basis.

Treasury and the USED played a crucial role in ensuring that note is taken of AML/CFT issues in Article IV reviews and reports, IMF programs, and other regular reviews of country progress.

- In the December 2011 board statement for Uruguay's Article IV, the USED commended the Uruguayan authorities for their improved compliance with the FATF standards.
- In an April 2012 board statement on San Marino's Article IV staff report, the USED congratulated the authorities on their progress in efforts to fight money laundering and the financing of terrorism. Treasury also noted the successful technical assistance program on financial crimes that had recently been completed.
- In a December 2012 board statement on the second review of Kenya's ECF arrangement, the USED urged the authorities to address strategic deficiencies in Kenya's anti-money laundering and combating the financing of terrorism framework.
- In the August 2012 board statement on the Laos Article IV staff report, the USED underscored the need for the authorities to address deficiencies in the country's AML/CFT regime.
- In the February 2012 board statement for the Philippines Article IV staff report, the USED urged speedy passage of amendments to the New Central Bank Act and bills to strengthen the AML/CTF regime in line with FATF recommendations. The government subsequently passed these amendments in June 2012.

II. Section 801(c)(1)(B)

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

With strong United States support, the IMF has taken steps to ensure that IMF resources are used solely for the purposes for which they are intended. One of the IMF's most effective tools against corruption is the Safeguards Assessment to prevent possible misuse of IMF resources and misreporting of information. All countries that request to use IMF resources must agree to undergo a Safeguards Assessment. Its purpose is to identify vulnerabilities in a central bank's control systems. IMF staff carry out this diagnostic exercise to consider the adequacy of five key areas of control and governance 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. The framework was introduced in March 2000 and reviewed in April 2005. As of September 2011, 225 Safeguards Assessments had been completed.

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

The IMF recognizes that, if structured effectively, official financing can complement and attract private sector flows. The Fund promotes policy reforms that catalyze private financing and, in cases of financial crisis, allow countries to regain access to international private capital markets as quickly as possible. (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

IMF disbursements are made in tranches based on a country's performance against specified criteria and policy actions, both prior to and during the program. Together with the rest of the IMF's Executive Board, the USED plays a strong oversight role in ensuring that management only brings forward new programs or releases a new tranche of funds after such criteria and policy actions have been met.

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

The IMF has advocated consistently for open markets and trade liberalization. The Fund also recognizes that trade adjustments can cause temporary balance of payments problems and has developed the Trade Integration Mechanism (TIM) to provide transitional financial assistance to countries if needed. The Fund 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. During the recent economic downturn, the IMF consistently advised countries that protectionism is not a path to economic recovery.

The IMF has developed an implementation plan for international trade policy issues that calls for reviews of Fund work on trade policy every five years, beginning in 2014. The plan

deemphasizes trade policy as an element of program conditionality but still emphasizes trade liberalization where necessary to achieve the macroeconomic objectives of a Fund-supported program, as well as the need to avoid trade-restricting measures. The plan also calls for more frequent coverage of cross-cutting trade policy issues in the Fund's multilateral and regional surveillance vehicles (such as the World Economic Outlook and the Regional Economic Outlooks) and closer cooperation with the WTO and World Bank on trade.

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

In 2000 and again in 2009, with strong United States support, the IMF agreed to reorient IMF lending to discourage continued or prolonged use of IMF funds and provide incentives for quick repayment. In 2000, the IMF introduced a shorter repayment period for the Extended Arrangement, and in 2009 initiated a time-based surcharge to promote early repayment, and increased commitment fees for higher levels of access.

For low-income countries, the IMF established the Standby Credit Facility (SCF) in July 2009 as a new instrument for concessional financing, largely in response to U.S. advocacy. The SCF will fill a long-standing gap in the IMF concessional facilities architecture by providing low-income countries with a facility specifically designed for intermittent use in response to short-term balance of payments financing gaps. The SCF also carries a shorter repayment period than the IMF's other concessional facilities. The United States also continues to be a strong advocate for the non-borrowing Policy Support Instrument (PSI) which provides a framework for IMF policy advice and donor signaling without the need for IMF lending. The United States has discouraged low-income countries from pursuing serial Poverty Reduction and Growth Trust (PRGT) programs. The United States urges those countries without a clear balance of payments need to opt for a PSI, in which case they retain the option of seeking SCF financing in the event of sudden adverse developments.

Along similar lines, the November 2011 creation of the PLL and RCF, noted above, is aimed at providing middle-income countries with shorter-term liquidity to meet temporary balance of payments needs.

- In an August 2012 board statement, the USED supported a proposed two year Precautionary and Liquidity Line (PLL) arrangement for Morocco based on the authorities' strong track record of macroeconomic management and adoption of policies to reduce fiscal and external deficits.
- In an April 2012 board statement, the USED supported cancellation of Yemen's Extended Credit Facility (ECF) arrangement and disbursement under a new Rapid Credit Facility (RCF). The USED expressed hope that the RCF will provide a bridge to an appropriately-designed, longer term arrangement to underpin much needed reforms and catalyze donor support.
- In a May 2012 board statement on Gambia's Extended Credit Facility (ECF) program request, the USED expressed the need for a stronger rationale of the underlying balance

of payments difficulties that the country faces, and expressed concern about the heavily front-loaded disbursement schedule.

- In a December 2011 board statement on Mali's seventh Extended Credit Facility (ECF) review, the USED asked staff to comment on whether other forms of engagement beyond a successor ECF program were considered. Given that Mali has had six previous Fund programs, the USED asked the Fund to begin to develop an exit strategy for the country (Note: the successor program was placed on hold following a March 2012 coup).

(VI) Graduation from receiving financing on concessionary terms

The United States supports comprehensive growth strategies to help countries graduate from concessional to market-based lending. The United States works closely with the IMF and World Bank to promote a growth-oriented agenda in developing countries based on strong macroeconomic and structural policies. The IMF extends concessional credit through the PRGT. Eligibility is based principally on a country's per capita income and eligibility for financing under the International Development Association ("IDA"), the World Bank's concessional window. The current operational cutoff point for IDA eligibility is an IMF fiscal year 2012 per capita GNI level of \$1,175. A member will graduate and be removed from the PRGT-eligibility list 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/or (2) the member has the ability to durably and substantially access international financial markets and has a per capita GNI above 80 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 Fund's quantitative analysis.

Legislative Provisions

Section 1705(a) of the International Financial Institutions Act, as amended Annual report and testimony on state of international financial system, IMF reform, and compliance with IMF agreements

(a) Access to Materials. - Not later than October 1 of each year, the Secretary of the Treasury shall submit to the Committees on Banking and Financial Services and on Ways and Means of the House of Representatives and the Committees on Finance and on Foreign Relations of the Senate a written report on (1) the progress (if any) made by the United States Executive Director at the International Monetary Fund in influencing the International Monetary Fund to adopt the policies and reform its internal procedures in the manner described in section 1503, and (2) the progress made by the International Monetary Fund 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.

Section 1503(a) of the International Financial Institutions Act, as amended (originally passed as Section 610(a) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999, and amended in 2004)

The Secretary of the Treasury shall instruct the United States Executive Director of the International Monetary Fund to use aggressively the voice and vote of the Executive Director to do the following:

- (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 trade systems.
- (2) Vigorously promote policies to increase the effectiveness of the International Monetary Fund in promoting market-oriented reform, trade liberalization, economic growth, democratic governance, and social stability through –
 - (A) Establishing an independent monetary authority, with full power to conduct monetary policy, that provides for a non-inflationary domestic currency that is fully convertible in foreign exchange markets;
 - (B) Opening domestic markets to fair and open internal competition among domestic enterprises by eliminating inappropriate favoritism for small or large businesses, eliminating elite monopolies, creating and effectively implementing anti-trust and anti-monopoly laws to protect free competition, and establishing fair and accessible legal procedures for dispute settlement among domestic enterprises;
 - (C) Privatizing industry in a fair and equitable manner that provides economic opportunities to a broad spectrum of the population, eliminating government and elite monopolies, closing loss-making enterprises, and reducing government control over the factors of production;

(D) Economic deregulation by eliminating inefficient and overly burdensome regulations and strengthening the legal framework supporting private contract and intellectual property rights;

(E) Establishing or strengthening key elements of a social safety net to cushion the effects on workers of unemployment and dislocation; and

(F) Encouraging the opening of markets for agricultural commodities and products by requiring recipient countries to make efforts to reduce trade barriers.

(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.

(4) 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 facilitating the development and implementation of internationally acceptable domestic bankruptcy laws and regulations in developing countries, including the provision of technical assistance as appropriate.

(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 –

(A) Strengthening crisis prevention and early warning signals through improved and more effective surveillance of the national economic policies and financial market development of countries (including monitoring of the structure and volume of capital flows to identify problematic imbalances in the inflow of short and medium term investment capital, potentially destabilizing inflows of offshore lending and foreign investment, or problems with the maturity profiles of capital to provide warnings of imminent economic instability), and fuller disclosure of such information to market participants;

(B) Accelerating work on strengthening financial systems in emerging market economies so as to reduce the risk of financial crises;

(C) Consideration of provisions in debt contracts that would foster dialogue and consultation between a sovereign debtor and its private creditors, and among those creditors;

(D) Consideration of extending the scope of the International Monetary Fund's policy on lending to members in arrears and of other policies so as to foster the dialogue and consultation referred to in subparagraph (C);

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

(F) Consideration of establishing ad hoc or formal linkages between the provision of official financing to countries experiencing a financial crisis and the willingness of market participants to meaningfully participate in any stabilization effort led by the International Monetary Fund;

(G) Using the International Monetary Fund to facilitate discussions between debtors and private creditors to help ensure that financial difficulties are resolved without inappropriate resort to public resources; and

(H) The International Monetary Fund accompanying the provision of funding to countries experiencing a financial crisis resulting from imprudent borrowing with efforts to achieve a significant contribution by the private creditors, investors, and banks which had extended such credits.

(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.

(7) Vigorously promote the design of International Monetary Fund programs and assistance so that governments that draw on the International Monetary Fund channel public funds away from unproductive purposes, including large “show case” projects and excessive military spending, and toward investment in human and physical capital as well as social programs to protect the neediest and promote social equity.

(8) Work with the International Monetary Fund to foster economic prescriptions that are appropriate to the individual economic circumstances of each recipient country, recognizing that inappropriate stabilization programs may only serve to further destabilize the economy and create unnecessary economic, social, and political dislocation.

(9) Structure International Monetary Fund programs and assistance so that the maintenance and improvement of core labor standards are routinely incorporated as an integral goal in the policy dialogue with recipient countries, so that –

(A) Recipient governments commit to affording workers the right to exercise internationally recognized core worker rights, including the right of free association and collective bargaining through unions of their own choosing;

(B) Measures designed to facilitate labor market flexibility are consistent with such core worker rights; and

(C) The staff of the International Monetary Fund surveys the labor market policies and practices of recipient countries and recommends policy initiatives that will help to ensure the maintenance or improvement of core labor standards.

(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.

(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.

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

(13) Facilitate greater International Monetary Fund accountability and enhance International Monetary Fund self-evaluation by vigorously promoting review of the effectiveness of the Office of Internal Audit and Inspection and the Executive Board's external evaluation pilot program and, if necessary, the establishment of an operations evaluation department modeled on the experience of the International Bank for Reconstruction and Development, guided by such key principles as usefulness, credibility, transparency, and independence.

(14) Vigorously promote coordination with the International Bank for Reconstruction and Development and other international financial institutions (as defined in Section 1701 (c)(2)) in promoting structural reforms which facilitate the provision of credit to small businesses, including microenterprise lending, especially in the world's poorest, heavily indebted countries.

(15) Work with the International Monetary Fund to

(A) foster strong global anti-money laundering (AML) and combat the financing of terrorism (CFT) regimes;

(B) ensure that country performance under the Financial Action Task Force anti-money laundering and counterterrorist financing standards is effectively and comprehensively monitored;

(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;

(D) ensure that effective AML and CFT regimes are considered to be indispensable elements of sound financial systems; and

(E) emphasize the importance of sound AML and CFT regimes to global growth and development.

Section 801(c)(1)(B) Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001

Treasury should report on the extent to which the IMF is implementing –

I. Policies providing for the suspension of financing if funds are being diverted for purposes other than the purpose for which the financing was intended;

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;

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;

IV. Policies vigorously promoting open markets and liberalization of trade in goods and services;

V. Policies providing that financing by the Fund concentrate chiefly on short-term balance of payments financing;

VI. Policies providing for the use, in conjunction with the Bank, of appropriate qualitative and quantitative indicators to measure progress toward graduation from receiving financing on concessionary terms, including an estimated timetable by which countries may graduate over the next 15 years.

**Section 605(d) of the Foreign Operations, Export Financing, and Related Programs
Appropriations Act, 1999**

On a quarterly basis, the Secretary of the Treasury shall report to the appropriate committees on the standby or other arrangements of the Fund made during the preceding quarter, identifying separately the arrangements to which the policies described in section 601(4) of this title apply and the arrangements to which such policies do not apply.

Section 601. ***

(1) Policies providing that, in circumstances where a country is experiencing balance of payments difficulties due to a large short-term financing need resulting from a sudden and disruptive loss of market confidence and in order to provide an incentive for early repayment and encourage private market financing, loans made from the Fund's general resources after the date of the enactment of this section are—

(A) made available at an interest rate that reflects an adjustment for risk that is not less than 300 basis points in excess of the average of the market-based short term cost of financing of its largest members; and

(B) repaid within 1 to 2 ½ years from each disbursement.

**ANNEX 1 Report to Congress on International Monetary Fund Lending
October 1, 2011 – December 31, 2012**

October 1 – December 31, 2011

Board Approval Date	Country	Amount	Type	U.S. Position
11/04/2011	Côte d'Ivoire	SDR 390.24 million (\$615.9 million)	ECF	Support
		SDR 5.04 million (\$8 million)	Additional Interim Enhanced HIPC Assistance	
11/14/2011	Islamic Republic of Afghanistan	SDR 85 million (\$133.6 million)	ECF	Support
11/23/2011	Solomon Islands	SDR 5.2 million (\$ 8.08 million)	SCF	Support
12/12/2011	Mali	SDR 30 million (\$46.3 million)	ECF	Support

January 1, 2011 – March 31, 2012

Board Approval Date	Country	Amount	Type	U.S. Position
03/16/2012	Niger	SDR 78.96 million (\$120.97 million)	ECF	Support
03/15/2012	Greece	SDR 23.8 billion (\$36.7 billion)	Extended EFF	Support
02/24/2012	Guinea	SDR 128.52 million (\$198.9 million)	ECF	Support
		SDR 1.2852 million (\$1.99 million)	Add'l Interim Assistance Under Enhanced HIPC	
02/06/2012	Djibouti	SDR 9.54 million (\$14.7 million)	ECF Augmentation	Support
01/13/2012	Burundi	SDR 30 million (\$46.5 million)	ECF	Support
01/11/2012	Dominica	SDR 2.05 million (\$3.1 million)	RCF	Support

April 1, 2012 – June 30, 2012

Date	Country	Amount	Type	U.S. Position
4/4/12	Republic of Yemen	SDR 60.875 million (\$93.75 million)	RCF	Support
4/9/12	Kingdom of Lesotho	SDR 8.725 million (\$13.423 million)	ECF Augmentation	Support
4/11/12	Bangladesh	SDR 639.96 million (\$987 million)	ECF	Support
4/11/12	Georgia	SDR 250 million (\$385.6 million)	SBA / SCF	Support
4/27/12	Republic of Kosovo	SDR 90.968 million (\$140.8 million)	SBA	Support
5/25/12	The Gambia	SDR 18.66 million (\$28.3 million)	ECF	Support
6/25/12	Central African Republic	SDR 41.775 million (\$63.2 million)	ECF	Support
IMF 6/25/12	Côte d'Ivoire	\$3.1 billion	Enhanced HIPC	Support
IDA 6/26/12		\$1.3 billion	MDRI	

July 1, 2012 – September 30, 2012

Board Approval Date	Country	Amount	Type	U.S. Position
07/06/2012	Tanzania	SDR149.175 million (\$224.9 million)	SCF	Support
07/20/2012	São Tomé and Príncipe	SDR2.59 million (\$3.9 million)	ECF	Support
07/23/2012	Malawi	SDR104.1 million (\$156.2 million)	ECF	Support
08/03/2012	Jordan	SDR1.364 billion (\$2.06 billion)	SBA	Support
09/26/2012	Bosnia and Herzegovina	€405.3 million (\$520.6 million)	SBA	Support

Notes:

1. FCL: Flexible Credit Line; RCF: Rapid Credit Facility; ENDA: Emergency Natural Disaster Assistance; PCL: Precautionary Credit Line; ECF: Extended Credit Facility; SBA: Stand-By Arrangement
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.