

United States House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

February 14, 2022

Memorandum

To: Members, Committee on Financial Services
From: FSC Majority Staff
Subject: February 17, 2022, National Security, International Development, and Monetary Policy Subcommittee Hearing entitled, “The Role of the International Monetary Fund in a Changing Global Landscape.”

The Subcommittee on National Security, International Development and Monetary Policy will hold a virtual hearing entitled, “The Role of the International Monetary Fund in a Changing Global Landscape” on Thursday, February 17, 2022, at 12:00 PM via Cisco WebEx. There will be one panel with the following witnesses:

- **Daouda Sembene**, Distinguished Non-Resident Fellow, Center for Global Development
- **Stephanie Segal**, Senior Associate, Economics Program, Center for Strategic and International Studies
- **Jayati Ghosh**, Professor of Economics, University of Massachusetts at Amherst
- **Joseph E. Stiglitz**, University Professor, Columbia University
- **Kenneth Rogoff**, Thomas D. Cabot Professor of Public Policy and Professor of Economics, Harvard University

Summary

This hearing will examine the evolving role the International Monetary Fund (IMF) plays as a central pillar of global economic cooperation, responsible for monitoring and preserving the stability of the international financial system. This hearing will also examine the shifts and challenges the IMF currently faces, including disruptions brought on by climate change, rising levels of unsustainable sovereign debt, and the potential for an uneven COVID-19 recovery to exacerbate inequality, undermine social cohesion, and increase instability across the globe.

Background

Before the conclusion of World War II, political leaders from the 44 Allied countries met at Bretton Woods, a New Hampshire resort hotel, in 1944 to create the institutional framework for the post-war global economic order. The Bretton Woods conference gave birth to two international financial institutions that have underpinned global cooperation and played a critical role in the international financial architecture in the succeeding 75 years—the International Monetary Fund (IMF) and the World Bank.

The U.S. is the IMF’s largest financial contributor, providing 17.4% of the IMF’s total quota resources (see Appendix II.) The U.S. contribution gives the U.S. the single largest voting share, including veto power over major IMF decisions, though not individual lending decisions. In the management of the IMF’s day-to-day affairs, the U.S. is represented by an Executive Director, who operates under the guidance of the Secretary of the Treasury.

The IMF plays a role in safeguarding the international financial system and promoting financial stability through its principal activities of surveillance, financing, and technical assistance. Through surveillance, the IMF monitors its members' economic and financial policies and the global economy, highlights possible domestic and external stability risks, and advises on needed policy adjustments.¹ The IMF also provides loans to countries experiencing financial crises, including debt, currency, and banking crises,² and provides technical assistance to countries to help strengthen their capacity to effectively manage their economies, including in areas such as central bank governance, banking supervision, domestic resource mobilization, and anti-money laundering and counter-terrorism financing frameworks.³ In response, to the health and economic impact of the COVID-19 pandemic, the IMF has provided \$117 billion in new financing to 87 member countries, including about \$12 billion in SDRs.⁴ The IMF has also mobilized over \$750 million through the Catastrophe Containment and Relief Trust (CCRT).⁵

Special Drawing Rights

Created by the IMF in 1969 to supplement the official reserves of its members, countries can hold Special Drawing Rights (SDRs), a special reserve asset of the IMF distributed to each member country in proportion to its shareholding in the Fund, as part of their precautionary reserve balances or convert SDRs for hard currency to finance balance of payments needs, adjust the composition of their reserves, or pay back IMF loans.⁶ In August 2021, the IMF approved a \$650 billion allocation of SDRs,⁷ of which \$275 billion went to emerging market and developing countries, including \$21 billion to low-income countries, to help transform the global pandemic crisis into a fair and resilient economic recovery.⁸

A primary concern of those opposed to such an allocation was that it would also provide unconditional liquidity to countries who act against U.S. interests, such as China, Russia, Iran, Syria, Venezuela, and Belarus.⁹ Six months after the SDR issuance, these geopolitical objections have so far proved to be unfounded.¹⁰ As of February 2022, none of these countries have converted any of their SDRs, and Afghanistan, Venezuela and Burma do not have access to SDRs due to their governments not being officially recognized by the international community.¹¹ Ethiopia received 288,207,426 SDRs and used all its new SDR allocation, plus most of its previous SDRs holdings.¹²

Debt Service Suspension Initiative

On April 15, 2020, in the wake of the economic devastation caused by the COVID-19 outbreak, the countries that make up the G20 announced the Debt Service Suspension Initiative (DSSI), which provided a temporary debt service standstill on low-income country bilateral debt to G20 countries.¹³ G20 countries called on private creditors to voluntarily participate in the DSSI and provide similar relief, but

¹ IMF, [Comprehensive Surveillance Review](#) (May 20, 2021).

² IMF, [IMF Lending](#) (Feb. 22, 2021).

³ IMF, [Technical Assistance](#) (Last accessed Feb. 5, 2022).

⁴ Pazarbasioglu, C. and Ramakrishnan, U., International Monetary Fund, [Sharing the Recovery: SDR Channeling and a New Trust](#) (Oct. 8, 2021).

⁵ U.S. Department of the Treasury, [Report to Congress from the Chairman of the National Advisory Council on International Monetary and Financial Policies](#), (Jun. 2021).

⁶ Morgan Stanley Research, [SDR You Ready for More?](#) (Dec. 4, 2020).

⁷ IMF, [IMF Governors Approve a Historic US \\$650 Billion SDR Allocation of Special Drawing Rights](#), (Aug. 2, 2021).

⁸ International Monetary Fund, [A Shot in the Arm—How Special Drawing Rights Can Help Struggling Countries](#) (Aug. 26, 2021).

⁹ Atlantic Council, [IMF delivers fiscal firepower](#) (August 23, 2021).

¹⁰ Center for Business and Government, [The Dog that Has Not Barked: Use of the 2021 SDR Allocation](#) (Feb. 2022). Publication pending.

¹¹ Lawder, D., Reuters, [IMF blocks Afghanistan's access to SDR reserves over lack of clarity on government](#) (Aug. 18, 2021).

¹² Congressional Research Service (email dated Feb. 8, 2022).

¹³ World Bank, [COVID 19: Debt Service Suspension Initiative](#) (Apr. 23, 2021).

eligible low-income countries continued to pay their private creditors even after obtaining official relief due to fears of reputational damage, credit rating downgrades, and loss of market access.¹⁴ The DSSI expired at the end of 2021.¹⁵

Common Framework

Given the scale of the COVID-19 crisis, with interest rates rising and the number of vulnerable countries in or at high risk of debt distress, some countries may require more comprehensive debt relief. In November of 2020, the G20 launched the Common Framework for Debt Treatments beyond the DSSI (the Common Framework) to go beyond the DSSI to provide debt restructuring, and in some cases, debt forgiveness, to the same set of eligible countries.¹⁶ Countries seeking debt treatment under the Common Framework will need to have an IMF program, underpinned by policy commitments to restore sustainability. The Common Framework also requires full disclosure by the debtor country of the material claims of all its creditors, and debtors will be required to seek comparability of treatment from private creditors (terms “at least as favorable”) as they receive from official bilateral creditors.¹⁷ The most significant feature of the Common Framework is that it involves the participation of non-Paris Club creditors—including China—into a new multilateral process for official debt relief.

Over the past year only three countries have sought debt relief under the Common Framework, and each has experienced significant delays.¹⁸ On January 27, 2021, Chad became the first country to request debt restructuring¹⁹ and was followed shortly thereafter by Zambia and Ethiopia.²⁰ In addition to calling for a more effective implementation of the Common Framework, the IMF is also pushing for broader reforms, including expanded eligibility criteria to include all countries with unsustainable debt; a debt payment standstill for participating debtor countries to provide temporary cash flow relief and incentivize prompt debt restructuring resolutions; and, specific debt treatment benchmarks to help accelerate decision making.²¹

Climate Change

In July 2021, the IMF Board of Directors found that “climate change is a global existential threat that poses critical macroeconomic and financial policy challenges for the whole Fund membership in the coming years and decades.”²² The IMF is in the process of establishing a Resilience and Sustainability Trust (RST), which would provide affordable financing for long-term projects that will help member countries address prospective balance of payments issues that may occur as governments implement policy reforms to combat climate change.²³ The RST is expected to be available to low-income countries, vulnerable and developing small states, and some middle-income countries.²⁴ The RST will be funded by SDRs channeled from advanced and several large emerging market countries.²⁵ The IMF anticipates that the RST will begin with a \$50 billion endowment to meet initial projected demand.²⁶ Further specifics on

¹⁴ Yale Program on Financial Stability. [The Limits of the G20's Debt Service Suspension Initiative](#) (May 18, 2020).

¹⁵ Financial Times. [G20 extends debt relief for low-income countries until end of this year](#) (Apr. 7, 2021).

¹⁶ Center for Strategic and International Studies, [Debt and A New Common Framework](#) (November 20, 2020)

¹⁷ HIS Markit. [The G20's Common Framework](#) (March 16, 2021).

¹⁸ Bloomberg, [G-20 Wrangles Over How to Save Debt-Relief Plan for Poor Nations](#) (October 28, 2021)

¹⁹ Reuters. [Chad becomes first country to ask for debt overhaul under G20 common framework](#) (January 28, 2021).

²⁰ Bloomberg. [Rescheduling Payments to Ease Ethiopia Debt Risks, IMF Says](#) (Apr. 15, 2021).

²¹ IMF Blog. [The G20 Common Framework for Debt Treatments Must Be Stepped Up](#) (Dec. 2, 2021).

²² IMF, [IMF Strategy to Help Members Address Climate Change Related Policy Challenges—Priorities, Modes of Delivery, and Budget Implications](#) (Jul. 30, 2021).

²³ IMF [A New Trust to Help Countries Build Resilience and Sustainability](#) (Jan. 20, 2022).

²⁴ This Day, [IMF Proposes \\$50bn Trust Fund to Help Low-income Countries](#) (Jan. 21, 2022).

²⁵ Boston University Global Development Policy Center, [Experts React – G20 Calls for a Resilience and Sustainability Trust at the IMF](#) (Oct. 14, 2021).

²⁶ IMF, [A New Trust to Help Countries Build Resilience and Sustainability](#) (Jan. 20, 2022).

the RST, including conditionality terms, access to financing, and expected collaboration with other international institutions, are expected to be deliberated and announced throughout 2022.²⁷

Some critics have pushed back against the IMF's decision to move beyond its traditional role as a lender of last resort and into climate-related financing.²⁸ However, some international development organizations believe that the IMF has the expertise to analyze global climate threats, assemble country-by-country data, and is well-positioned to determine proper risk models and assist countries in crafting strong and effective policies.²⁹

IMF Surcharges

The global health crisis and recession coupled with interest rates that are cycling upwards has brought new attention to the issue of IMF surcharges.³⁰ First established in 1997, the IMF began imposing significant interest-rate penalties on middle-income countries that take out large loans from the Fund for prolonged periods of time. Some Members of Congress and development experts have contested that IMF surcharges can hinder a country's ability to maintain sustainable levels of debt and also divert critical resources that could be spent on public health measures and social services.³¹ The IMF argues that surcharges are "primarily a risk management tool" designed to limit demand for IMF resources and encourage early repayment of loans.³² The IMF acknowledges that these surcharges also contribute significantly to the Fund's precautionary balances and provide up to 30% of the Fund's annual administrative budget. The Department of Treasury notes that very few countries are affected by these surcharges each year, and in fiscal year 2021, 95% of the total surcharge income of almost \$1 billion came from just five large borrowing countries – Argentina, Egypt, Ukraine, Pakistan, and Ecuador. The IMF estimates that surcharges have become the Fund's largest source of revenue, accounting for almost half of revenues from 2020-2022.³³

Conditionality

Given its role in dealing with countries in crisis, the IMF became known as an enforcer of tough reform policies—called "conditionality," which today is widely referred to as "austerity"—that attaches to its financing and is designed to address the balance of payment problems that occasioned the need for IMF financing. The Fund has been criticized for the number, scope and pacing of reform measures it imposes on countries in crisis, which cause a great deal of short-term pain, and are insufficiently attentive to questions of equity and whether the burden of economic adjustment is equitably shared in a society.

In a shift, the IMF's response to the COVID pandemic-induced economic crisis has proven to be far less conditional on fiscal adjustment. According to one study, the IMF financed over 100 programs in 2020. Aside from 13 of them, the vast majority had no, or few, strings attached to them. Many of the IMF programs also encouraged members to prioritize health expenditure and social spending, and to protect vulnerable populations.³⁴

²⁷ Center for Global Development, [The IMF's New Resilience and Sustainability Trust: Demystifying the Debate over Upper Credit Tranche Conditionality](#) (Dec. 22, 2021).

²⁸ Cohen, P., [Debate Looms Over I.M.F.: Should It Do More Than Put Out Fires?](#) New York Times (Oct. 9, 2021).

²⁹ Center for Global Development, [The IMF's Surveillance Role and Climate Change](#) (Jan. 11, 2022).

³⁰ Financial Times, "The IMF's surcharges are unfit for purpose", (Mar. 2, 2021).

³¹ New York Times, [Critics Say I.M.F. Loan Fees Are Hurting Nations in Desperate Need](#) (Jan. 14, 2022).

³² IMF Staff Report, *Interim Review of the Adequacy of the Fund's Precautionary Balances*, completed on Nov. 12, 2021, for the Executive Board's consideration on Dec. 13, 2021.

³³ IMF, [Review Of the Fund's Income Position for FY 2020 And FY 2021-2022](#) (Jul. 24, 2020).

³⁴ *The IMF COVID-19 Recovery Index*, by Kevin P. Gallagher and Franco Maldonado Carlin, published in the journal of COVID Economics

The IMF has begun to signal that once the virus is beaten back and the global recession eases, public finances will have to be put back in order, especially in countries where debt was already high before the pandemic arrived.³⁵ This has revived long-standing criticisms of the Fund's approach to crises, including fiscal consolidation that disproportionately impacts vulnerable communities, exacerbates global levels of inequality, and hinders an equitable and inclusive recovery.³⁶

Appendix I: Legislation

- **H.R. 5055, IMF Afghan Recognition Assurance Act** (Barr). This bill directs the Secretary of the Treasury to oppose recognition of Afghanistan at the International Monetary Fund if the Taliban controls Afghanistan's government unless they are found to uphold the rights of women and girls and not providing support for international acts of terrorism.
- **H.R. 6549, To provide support for international initiatives to provide debt relief to developing countries with unsustainable levels of debt, and for other purposes** (Ocasio-Cortez). This bill directs the Secretary of Treasury and the United States representatives at the International Monetary Fund and the World Bank to engage with international financial institutions, official creditors, and relevant commercial creditor groups to advocate for the effective implementation and expansion of the G-20's Common Framework, including through expanded eligibility criteria to include all countries with unsustainable debt; a debt payment standstill for participating countries to provide temporary cash flow relief and incentivize prompt debt restructuring resolutions; and specific debt treatment benchmarks to help accelerate decision making.
- **H.R. ___** (Waters). This bill would authorize a \$100 million contribution to the IMF's Catastrophe Containment and Relief Trust (CCRT) to support the ability of the IMF to provide immediate debt service relief to poor countries in the wake of catastrophic natural disasters or major, fast-spreading public health emergencies.
- **H.R. ___**. This bill would instruct the U.S. executive director at each of the multilateral development banks to vote against any project that provides a public subsidy to a private sector firm unless the subsidy is awarded using an open, competitive process or on an open-access basis, and for other purposes.
- **H.R. ___**. This bill would authorize the Secretary of the Treasury to loan up to 15 billion Special Drawing Rights to the Poverty Reduction and Growth Trust or other special purpose vehicle at the International Monetary Fund to support climate change and pandemic resiliency in low- and middle-income member countries.

³⁵ International Politics & Society, *The IMF's return to austerity?* Kevin P. Gallagher (Oct. 13, 2020).

³⁶ Tamale, N., Oxfam, *Adding Fuel to Fire: How IMF demands for austerity will drive up inequality worldwide* (Aug. 11, 2021).

Appendix II: IMF Members with Largest Quota and Voting Shares

Member	Quota share (Percentage)	Voting Share (Percentage)
United States	17.43	16.50
Japan	6.47	6.14
China	6.40	6.08
Germany	5.59	5.31
France	4.23	4.03
United Kingdom	4.23	4.03
Italy	3.16	3.02
Russia	2.71	2.59
Canada	2.31	2.22
Saudi Arabia	2.10	2.01

Source: International Monetary Fund