FACT SHEET

Surcharges at the IMF:
Regressive, Counterproductive and Bad for the World Economy

CEPR

IMF surcharges — additional costs levied on top of the normal interest payments and other fees involved in IMF lending — contravene the IMF Articles of Agreement, economically harm countries already facing challenges, and have unconvincing rationales, especially during a global pandemic. They should be abolished.

THE TOP FIVE COUNTRIES IMPACTED BY SURCHARGES PAY:

- **$2.7 billion** in 2022
- **$7.1 billion** from 2018–2029

On average, surcharge payments will make up **45 percent** of non-principal debt service for these countries from 2018–2030.

WHAT ARE SURCHARGES?

The International Monetary Fund (IMF) is an international financial institution that is a lender of last resort to countries experiencing economic difficulties, among other roles.

First introduced in 1997, IMF surcharges are additional payments, on top of regular interest payments and other fees, that countries are required to pay to the Fund if they have high levels of IMF debt (exceeding 187.5 percent of their quota share at the IMF) or if they have three or more years of outstanding debt to the IMF.

Surcharges increase countries' borrowing costs to the IMF significantly, and are generally paid by countries facing balance of payments difficulties and often other financial problems.

While the IMF's standard interest rate on its loans to middle- and high-income countries is currently 1.05 percent, surcharges can result in rates of 2.05 percent (if the time threshold is surpassed), 3.05 percent (if quota threshold is surpassed) or 4.05 percent (if the quota and time thresholds are surpassed).

SURCHARGES CAUSE FURTHER HARM TO COUNTRIES IN CRISIS

> **Surcharges extract significant amounts of hard currency from countries already in crisis, further jeopardizing their economic recovery.**

The five largest current borrowers — Argentina, Ecuador, Egypt, Pakistan, and Ukraine — account for about 70 percent of outstanding credit at the IMF. All five of these countries are experiencing serious economic difficulties and liquidity shortages. Collectively they will pay $2.7 billion to the IMF in surcharges in 2022. From 2018–2029, they will pay an estimated $7.1 billion, which is roughly 45 percent of their non-principal debt service. Surcharge payments are forcing these countries to use large quantities of already scarce liquid resources for additional IMF payments rather than for critical domestic expenditures.

Argentina will spend $3.3 billion on surcharges from 2018–2023, enough to vaccinate its entire population against COVID-19 nine times. Egypt will spend $1.8 billion from 2019–2023, enough to vaccinate its population three times. Both will spend a significant amount of their yearly export earnings on debt service, topping out at 30 percent and 16 percent, respectively.

> **Surcharges are opaque and conceal high interest rates on IMF loans.**

The IMF publishes interest rates charged for country loans, but surcharge fees — which are not made public — significantly raise the real rate. For example, Ecuador has a 1.12 percent published rate, but including surcharges, the true cost of borrowing is about 2.74 percent, peaking at 3.49 percent in 2025.

> **Surcharges currently affect 14 countries, with several others close to being impacted.**

Albania, Angola, Argentina, Armenia, Barbados, Ecuador, Egypt, Gabon, Georgia, Jordan, Mongolia, Pakistan, Tunisia, and Ukraine are currently paying surcharges. These surcharges will total $7.9 billion from 2021–2028, and increase the cost of borrowing for these countries by 64.1 percent. The amount paid by these countries in surcharges is about ten times the resources allocated for debt payment cancellation by the IMF Catastrophe Containment Relief Trust.

"Surcharges are going exactly against what [the IMF is] supposed to be doing. It's supposed to be helping countries...not extracting extra rents from them because of their dire need."

— **Joseph Stiglitz**, at the panel "IMF Surcharges: A Necessary Tool or Counter-Productive Obstacle to a Just and Green Recovery?"

THERE IS NO JUSTIFICATION FOR SURCHARGES

> **Surcharges do not mitigate credit risk and do not incentivize countries to limit their need for IMF assistance.**

The IMF claims surcharges reduce credit risk, incentivize countries to pay back loans early, and limit the need for IMF assistance. In fact, surcharges significantly increase countries' debt burdens and, as the Fund's own debt sustainability analyses show, a lower debt burden is necessary to ensure a higher probability of timely repayment and sustainable financing. Furthermore, it's highly improbable that any government would choose to extend the repayment of an IMF loan any longer than necessary, given that IMF programs come with intrusive conditions that greatly limit sovereign economic policymaking. For this reason, and because of the reputational risks associated with borrowing money from the IMF, countries generally only turn to the Fund when they are unable to obtain the funding they need from other international lenders. Lastly, surcharges are particularly harmful given the impact of the economic fallout from the pandemic, which impacts all countries' economies and public finances.

> **The IMF does not require the income from surcharges to help build up its precautionary balances.**

The IMF has claimed in the past that it requires income from surcharges in order to maintain its precautionary balances, or liquid reserves kept to protect the Fund against potential financial losses. However, it is unfair and absurd to rely on countries facing extreme financial distress to maintain and replenish these reserves. It is also very counterproductive as these surcharges increase the risk of non-repayment by countries, thereby creating a greater need for a larger quantity of precautionary balances! The IMF should find other, more fair and rational methods for funding for its precautionary balances, for example by seeking relatively small contributions from high-income countries.

> **Surcharges violate Article 1(v) of the IMF Articles of Agreement.**

Surcharges unnecessarily funnel scarce resources away from countries in crisis and thus violate Article 1 of the IMF Articles of Agreement which requires the Fund to make temporary funding available to member countries "***without resorting to measures destructive of national or international prosperity***."

FURTHER READING

> **IMF Surcharges: Counterproductive and Unfair**, Center for Economic and Policy Research
https://cepr.net/report/imf-surcharges-counterproductive-and-unfair/

> **Understanding the Consequences of IMF Surcharges: The Need for Reform**, BU Global Development Policy Center
https://www.bu.edu/gdp/2021/10/04/understanding-the-consequences-of-imf-surcharges-the-need-for-reform/

> **A guide to IMF surcharges**, EURODAD
https://www.eurodad.org/a_guide_to_imf_surcharges

> **IMF Surcharges: "Regressive" and "Bad News for the World Economy"**, Center for Economic and Policy Research
https://cepr.net/imf-surcharges-regressive-and-bad-news-for-the-world-economy/

1611 Connecticut Ave., NW
Suite 400
Washington, DC 20009
(202) 293-5380
info@cepr.net