The Growing Burden of IMF Surcharges: An Updated Estimate

By Francisco Amsler and Michael Galant

April 2023

CEPR

Center for Economic and Policy Research
1611 Connecticut Ave. NW
Suite 400
Washington, DC 20009

Tel: 202-293-5380
Fax: 202-588-1356
https://cepr.net

*Francisco Amsler is an international program intern at the Center for Economic and Policy Research (CEPR). Michael Galant is a senior research and outreach associate at CEPR.

The International Monetary Fund (IMF) imposes additional fees on loans to its most indebted middle-income borrowers, on top of regular interest payments and service fees. These "surcharges" — which add an extra 2 or 3 percentage points to borrowers' interest rates — divert scarce resources from other potential expenditures such as health, climate adaptation, and poverty reduction at the very time when these countries have the most liquidity constraints.

As the IMF does not publish data on its surcharges at the country level, there had until recently been little awareness of the significant burden that these surcharges impose on the countries that pay them. Since the start of the COVID-19 pandemic, however, the IMF's surcharge policy has been under increased scrutiny. The global economic downturn that resulted from the pandemic exacerbated debt sustainability difficulties throughout the developing world. Meanwhile, the number of countries paying surcharges nearly doubled during the pandemic — from 9 to 16.[1]

In light of the IMF's opaque treatment of surcharges, in September 2021 the Center for Economic and Policy Research published the first comprehensive estimate of these surcharges at the country level.[2] The report showed that surcharges account for 45 percent of all expected non-principal debt service owed by the five largest borrowers — comprising an estimated annual average payment of $1.3 billion in the 2021–2023 period. Over the last few years, there have been growing calls for the IMF to suspend surcharge payments for multiple years, or to eliminate the practice entirely, from dozens of former heads of state and government; UN special rapporteurs and human rights experts; members of the US Congress; the UN Global Crisis Response Group; leading economists, including from affected countries like Ukraine; UN Secretary-General Guterres; and over 150 civil society organizations from around the world.

While the global economy has partially recovered since the nadir of the pandemic downturn, thanks in part to high levels of borrowing, developing economies have been hit by a series of exogenous shocks that have greatly exacerbated underlying balance of payments and debt challenges. These include high food and energy prices brought about by the war in Ukraine; climate-related natural disasters; and, most significantly, a drastic tightening of monetary policy in advanced economies. In turn, the IMF lending rate has been rising sharply, greatly increasing middle-income borrowers' debt service payments to the Fund since December

1 Based on IMF Financial Data, the outstanding GRA credit to quota ratio shows that by the end of 2019, there were nine countries with ratios equal to or above the 187.5 percent threshold. As of March 2022, this number had increased nearly 80 percent relative to pre-pandemic levels, with 16 heavily indebted countries to pay surcharges.

2 A similar effort can be found in Eurodad's guide to IMF surcharges, published in December 2021.

2021. Today, the World Bank warns of a "sharp, long-lasting slowdown" that will "hit developing countries hard," and even a potential global recession.

Amid these profound economic shocks, for which developing countries themselves bear little responsibility, many governments have been forced to turn to the Fund for new credit lines. Consequently, the burden of surcharge payments has grown, and will likely continue to grow, particularly if a global downturn comes to pass. Given this troubling context, this brief seeks to provide an updated estimate of the costs of the IMF's surcharge policy for impacted countries.

In updating these estimates, we find that:

- The IMF will charge over $2 billion per year in surcharges through 2025.
- Annual average surcharge payments have substantially increased from pre-2023 levels as a result of countries' increased reliance on the Fund following exogenous shocks. In effect, developing countries are being punished with higher borrowing costs for a global economic crisis that is beyond their control.
- For surcharge-paying countries, surcharges make up, on average, 36 percent of all charges and interest payments to the IMF — 40.2 percent on average for the five most indebted countries. While this is a decrease from previous estimates, this is not the result of a decrease in the amount of surcharge payments that countries are making. Rather, while surcharge payments have increased, other costs have increased even more sharply.
- Ukraine remains one of the countries most heavily burdened by surcharges. From 2023 to 2031, Ukraine is expected to pay the IMF $3.5 billion in surcharges alone.
- Other countries heavily impacted by IMF surcharges include Pakistan, which is still recovering from a major climate catastrophe, and yet is expected to pay $142 million per year in surcharges. Egypt, which is experiencing a debilitating food price crisis, will pay $306 million per year.
- The evidence suggests that surcharges are not effective in achieving their purported goal of incentivizing early repayment of IMF debt. For instance, we find that the five most indebted countries over the 2018–2023 period are not only still paying more in surcharge fees, but their additional debt service burden is also extending over a longer period of time than initially projected.
- Developing countries struggling to withstand exogenous shocks are facing significantly increased borrowing costs. By the same token, the Fund itself is, effectively, profiting from these crises. This dynamic is likely to continue as the interrelated debt and climate crises continue.

Methodology

The IMF's advertised headline borrowing rate is low when compared to market rates, but the Fund requires borrowing countries to pay significant additional fees. For middle-income countries, these fees can include surcharges. However, the IMF does not disclose the exact amount of surcharges in countries' debt statistics. By aggregating all components of total borrowing costs under the broad concept of "charges and interest," the amount of each individual component remains opaque. Aiming to supplement the lack of clear information on IMF surcharge policy, this brief provides new surcharges estimates as an update to the data in CEPR's September 2021 report on IMF surcharges. We follow an analogous methodology, as presented in this section, while expanding the sample of IMF country members under analysis.

Table 1

IMF Cost of Borrowing, in Annual Percentage Rates

Decomposition of the IMF borrowing cost for General Resources Account (GRA) lending facilities.

Component	Definition
Basic rate of charge	*100 basis points fixed margin (annually set by the IMF Executive Board)*
	SDR interest rate (weighted average of USD, EUR, JPY, GBP and CNY policy rates)
Burden sharing adjustment	*Rate of charge upward adjustment for deferred charges under the burden sharing mechanism*
	Rate of charge upward adjustment under the burden sharing mechanism and allocated to the first Special Contingent Account (SCA-1)
Commitment fee	*15–60 basis points, refundable when disbursed*
Service charge	*50 basis points per disbursement*
Size-levied surcharge	*200 basis points if > 187.5% of quota*
Time-levied surcharge	*100 basis points if > 3 years (51 months for EFF)*

Table: Center for Economic and Policy Research • Source: based on Arauz et. al. (2021)

Table 1 shows the various elements that compose the total borrowing cost of the IMF's General Resources Account (GRA) facilities. Among regular fees and charges, the main component is the headline or basic charge rate, which comprises the Special Drawing Right (SDR) interest rate plus a lending margin. While the latter is fixed at 100 basis points, the SDR rate varies over time according to the interest rate policy of the central banks that issue the five major currencies that make up the SDR currency basket. Other regular charges include the burden sharing adjustment, commitment fee, and service charge. On top of these regular components, the IMF imposes surcharges on borrowing countries' debt payments should their outstanding credit meet certain conditions. If a country's debt exceeds 187.5 percent of its quota, it faces an additional size-levied charge of 200 basis points. If outstanding debt exceeds that limit for more than 36 or 51 months, depending on the lending facility, another time-levied fee of 100 basis points is added. These surcharges apply only to GRA debt, which are usually incurred by middle-income countries.

The IMF does not provide country-level data distinguishing the various elements that form "charges and interest" — with the only exception being Argentina's latest staff report in December 2022. Surcharge estimates presented in this issue brief are arrived at by disaggregating each component among the broadly defined "charges and interest" flows. We rely on the IMF's own projections, as published in its staff reports, which include country-level information on "Indicators of Fund Credit." Staff reports generally provide country-level information on projected debt stocks, disbursements, principal payments, and so-called "charges and interest" payments on an annual basis, both for existing *and* prospective Fund credit.

To determine which countries are subject to surcharge payments, we first calculate the outstanding GRA credit-to-quota ratio for each borrowing country as of March 31, 2023. We estimate surcharges at the country level if its ratio is above or equal to the 187.5 percent threshold, and enough information is available on its latest IMF staff report. As a result, there are borrowing countries paying — or expected to pay — surcharges that are left out of our calculations. Currently we estimate that surcharge fees in the coming decade (2023–2033) are paid, or will be paid, by at least 16 countries (**Figure 1**). However, given the information readily available at the moment, surcharge estimates presented here only include Angola, Argentina, Barbados, Costa Rica, Ecuador, Egypt, Gabon, Georgia, Mongolia, Pakistan, Seychelles, Tunisia, and Ukraine.

Figure 1

Countries Paying Surcharges

A country is subject to pay surcharges when outstanding GRA (General Resource Account) credit is equal or above 187.5 percent of its quota.

Member	Outstanding GRA credit to Quota Ratio
Argentina	1073.9%
Ecuador	873.8%
Egypt	658.8%
Ukraine	449.4%
Angola	434.2%
Jordan	427.0%
Seychelles	395.6%
Barbados	355.7%
Gabon	348.4%
Mongolia	287.1%
Armenia	275.0%
Tunisia	274.5%
Pakistan	274.1%
Costa Rica	267.5%
Georgia	222.9%
Albania	200.5%

Outstanding GRA credit as of March 31, 2023.

Table: Center for Economic and Policy Research • Source: Calculations by the authors based on IMF Financial data

Figure 2

Countries at High or Moderate Risk of Paying Surcharges in the Future

Countries with outstanding GRA credit to quota ratio above 100 percent.

High risk of paying surcharges	Outstanding GRA credit to quota ratio	Moderate risk of paying surcharges	Outstanding GRA credit to Quota Ratio
Senegal	186.7%	Cote d'Ivoire	145.8%
Colombia	183.4%	Jamaica	141.6%
Benin	183.3%	Kenya	138.5%
Sri Lanka	180%	Bosnia and Herzegovina	133.9%
Moldova	170.2%	Ethiopia	130%
Morocco	167.7%	Serbia	120%
North Macedonia	160%	Honduras	112.7%
		Dominican Republic	100%
		Nigeria	100%
		Bahamas	100%
		El Salvador	100%
		Panama	100%
		Eswatini	100%
		South Africa	100%
		Montenegro	100%
		Namibia	100%

Outstanding GRA credit as of March 31, 2023; High risk: if outstanding GRA credit equal or above 150 percent and below 187.5 percent of quota; Moderate risk: if outstanding GRA credit equal or above 100 percent and below 150 percent of quota.

Table: Center for Economic and Policy Research • Source: Calculations by the authors based on IMF Financial data

In a nutshell, our surcharge estimate is based on a comparison between the aggregate country-level "charges and interest" expected payments, and those corresponding to the IMF basic charge rate on the annual average debt stock and service fee for each expected disbursement. In line with IMF staff reports, we assume all disbursements for access to Fund credit are effectively made and that therefore there are no commitment fees. Similarly, the rates of adjustment under the burden sharing mechanism are zero since at least January 2020, and thus we assume there is no burden of adjustment. That leaves three contrasting payment flows over time: the total "charges and interest" expected payments, those payments corresponding to the headline or charge rate, and payments corresponding to service fees. By measuring the difference between the first of these payment flows and the latter two — that is, any expected non-principal payment above what the country should pay for the charge rate plus the service fee — we can come up with an estimate of a country's surcharge payments.

The charge rate was set at (or very close to) a 1.05 annual percentage rate for a considerable period in the recent past. However, from January 2022 to the present, this rate has significantly increased due to the interest rate policy of central banks that issue the five major SDR currencies. At the end of March 2023, the charge rate was 4.46, an increase of 325 percent. **Figure 3** illustrates the recent evolution of the headline, or charge, rate. For our estimates, a varying headline rate requires that we determine a specific interest level over time in order to compute payments corresponding to the basic rate of charge. Whenever this rate is not explicitly stated in the staff report, we determine it according to its average level during the week immediately prior to the date of the staff report publication. Then, we apply this rate to the annual average stock of credit. In the cases of Barbados and Costa Rica, which have been recently granted Resilience and Sustainability Trust facilities, we proceed in a similar manner by applying the corresponding charge rate to this novel type of Fund credit. Finally, annual service fee estimates are calculated as 50 basis points of expected disbursement.

Figure 3

IMF Headline Annual Percentage Rate, Monthly Average

The headline rate is the main component of the regular charges and interest, and it consists on the SDR rate plus the lending margin, fixed at 100 basis points.

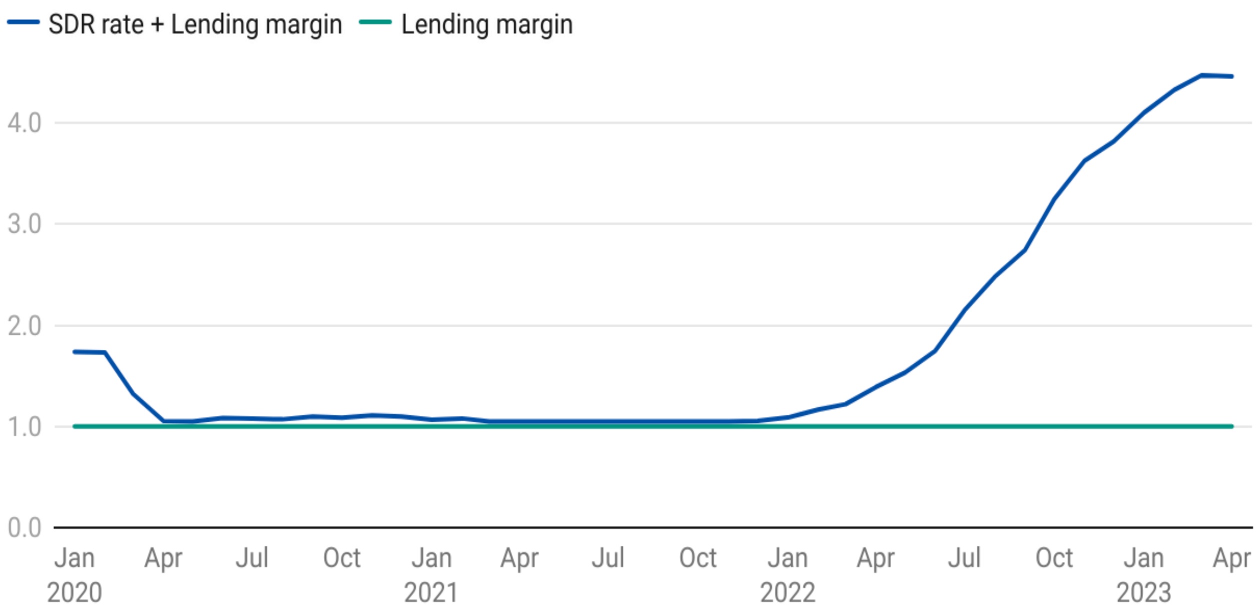

Chart: Center for Economic and Policy Research • Source: Analysis by the authors based on IMF Finances data

The latest IMF staff report on Argentina, which — unlike staff reports for other borrower countries — differentiates surcharge fees from the bulk charges, serves as a benchmark for our estimates. We find that on average our estimates fall within a 6.5 percent margin of error of the IMF Argentine surcharge projected payments for the 2023–2025 period.

Results

Based on staff reports, our estimates show that in the next decade (2023–2033) the IMF expects to collect around $39.5 billion (SDR 29.5 billion) from the 13 borrowing countries under analysis, of which 36.2 percent — or $14.3 billion (SDR 10.7 billion) — are surcharges.[3] **Figure 4** shows accumulated results per country in 2023–2033.

3 For amounts expressed in US dollars, we use the SDR to USD exchange rate as of March 1, 2023.

The proportion of surcharges relative to total charges varies across countries, between 14.7 and 43.2 percent. Among the top five indebted countries, surcharges represent a substantial portion of total charges and interest, with an average relative weight of 40.2 percent.

Figure 4

Accumulated Charges and Interest Payments and Estimates of Surcharges in 2023 – 2033, in USD millions

Country	Charges and interest (IMF projections)	Surcharges (CEPR estimates)	Surcharges, as percentage
All selected countries	***39,481***	***14,302***	***36.2%***
Argentina*	20,337	7,144	35.1%
Ukraine	9,815	3,837	39.1%
Egypt	3,195	1,273	39.9%
Ecuador	2,525	1,079	42.8%
Pakistan	1,274	550	43.2%
Angola	998	146	14.7%
Costa Rica	737	113	15.4%
Barbados	206	54	26.2%
Georgia	150	23	15.5%
Gabon	134	46	34.2%
Tunisia	65	24	36.1%
Seychelles	33	8	23.9%
Mongolia	11	4	38.5%

SDR to USD exchange rate as of March 1, 2023; (*) For Argentina, we compute surcharge projections by the IMF.

Table: Center for Economic and Policy Research • Source: Calculations by the authors based on IMF Staff Reports for selected countries

Surcharge obligations are concentrated in the first years of the 2023–2033 period. Of total surcharges, 70 percent are expected to be paid in the first five years. **Table 2** displays annual average payments to the IMF between 2023 and 2031 in subperiods of three years. According to our estimates, the IMF expects to charge, on average, around $2 and $1.7 billion in surcharges annually for the 2023–2025 and 2026–2028 periods, respectively, on top of regular fees.

Table 2

Annual Average Payments to the IMF with Surcharge Payment Estimates, in USD millions

	Annual average payments in USD			Total payments 2023–2031	
	2023–25	2026–28	2029–31	In SDR millions	In USD millions
Total obligations to the IMF (IMF projections)	22,958	14,461	13,284	114,036	152,110
Principal payments	17,314	9,823	10,859	85,457	113,989
Charges and interest payments	5,643	4,639	2,425	28,581	38,123
Of which surcharges (CEPR estimate)	2,066	1,726	840	10,418	13,896
Annual average surcharges per country in USD millions (CEPR estimates)					
Angola	29	16	4	110	146
Argentina*	1,043	940	393	5,345	7,130
Barbados	7	6	3	37	49
Costa Rica	17	17	3	82	110
Ecuador	179	143	38	809	1,079
Egypt	306	91	27	955	1,273
Gabon	11	3	1	34	46
Georgia	5	3	0	17	23
Mongolia	1	0	0	3	4
Pakistan	142	41	0	412	550
Seychelles	1	1	0	6	8
Tunisia	8	0	0	18	24
Ukraine	316	464	371	2,589	3,454

For amounts expressed in USD, we use the SDR exchange rate as of March 1, 2023; (*) For Argentina, we compute surcharge projections by the IMF.

Table: Center for Economic and Policy Research • Source: Calculations by the authors based on IMF Staff Reports for selected countries

To put our surcharge estimates in perspective, **Table 3** contrasts our updated estimated surcharge payments with 2021 estimates in six-year spans.[4] Annual average and total payments are expressed in SDR millions to isolate SDR to USD exchange rate variability over time. Based on the latest staff report information, we find that annual average payments of both charges and interest, on the one hand, and expected surcharge payments, on the other, will increase in the next six years (2023–2028) relative to the previous six (2018–2023).

Table 3

Updated and 2021 Estimates Comparison of Annual Average and Total Surcharge Payments to the IMF for the Five Most Indebted Countries, in SDR millions

	Annual average payments				Total payments	
	2018–20 (2021 estim.)	2021–23 (2021 estim.)	2023–25 (updated estim.)	2026–28 (updated estim.)	2018–23 (2021 estim.)	2023–28 (updated estim.)
Charges and interest payments	1,124	1,492	3,928	3,286	7,848	21,642
Of which surcharges (CEPR esitmate)	495	916	1,489	1,260	4,234	8,245
Annual average surcharge payments for the five most indebted countries (CEPR estimates)						
Argentina*	300	479	782	705	2,335	4,460
Ecuador	0	81	134	107	242	723
Egypt	112	260	230	69	1,115	895
Pakistan	38	73	107	31	334	412
Ukraine	46	24	237	348	208	1,755

(*) For Argentina, we compute surcharges projections by the IMF.

Table: Center for Economic and Policy Research • Source: Calculations by the authors based on IMF Staff Reports for top 5 largest borrowing countries; previous estimation as in Arauz et al (2021)

4 CEPR's previous surcharge estimate (2021) was focused on the top five largest borrowers. For reasons of comparability, we keep the following analysis within this group of countries.

Table 3 also shows the accumulated surcharge and total charges and interest payments in millions of SDR for both 2021 and updated estimates. Total expected surcharge payments between 2023 and 2028 are 94.7 percent larger than those corresponding to the previous six years (2018–2023), while the total charges and interest payments increase is even larger — 175.8 percent higher. The sharpest surge in accumulated surcharges is for Ukraine. Between 2018 and 2023, the country was projected to pay a total of SDR 208 million. Over the next six years, we estimate these extra fees to reach SDR 1,755 million — a 743.6 percent jump compared to the previous six years. Table 3 reveals that the drop of almost 5 percentage points of the surcharges' relative weight over total charges and interest payments, when compared to the 2021 estimates, is not due to a decrease in the level of surcharges, but instead is explained by an even more drastic increase in total charges and interest owed by borrowing countries.

Similarly, **Figure 5** shows that expected annual surcharge payments for the top five most heavily indebted countries have increased substantially when compared year-to-year to surcharge estimates in 2021.

Figure 5

2021 and Updated Estimates of Surcharges Expected Annual Payments for the Five Most Indebted Countries, in SDR millions

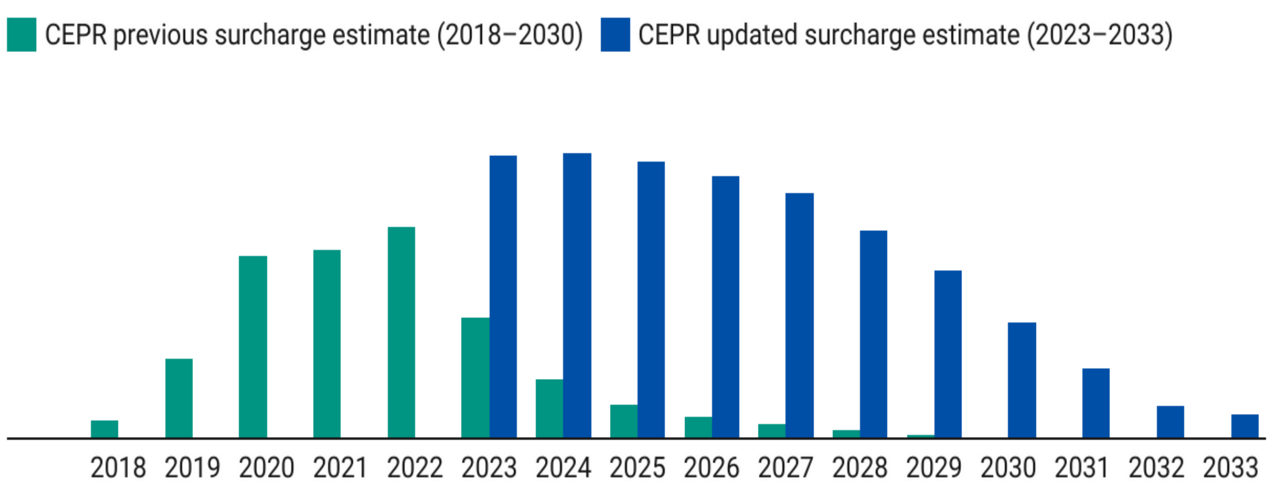

Chart: Center for Economic and Policy Research • Source: Calculations by the authors based on IMF Staff Reports for selected countries and IMF Finances data, previous estimates as in Arauz et al (2021)

How can we interpret this comparison? As explained above, the IMF does not publish exact amounts of surcharge payments in its debt country statistics. Due to the opaque treatment of surcharge policy information, we advance estimates that rely on IMF staff reports that necessarily include future projections for existing and prospective Fund credits. Previous surcharge estimates are based on IMF projections in 2021, while updated estimates rely on current projections. In other words, the difference across estimates reflects the change in the amount of surcharges that the IMF expected to levy in 2021 versus what the institution currently expects to charge heavily indebted countries based on current debt indicators.

From its origins, the official goals of the surcharge policy were to limit the use of Fund credit, minimize moral hazard (seeking to keep borrowers from becoming overly dependent on IMF credit for long periods), and incentivize early repayment (in order to regain access to international capital markets). Figure 4 shows that, according to 2021 projections, the five most indebted countries were to pay surcharges until 2029, with a peak in 2022 and decreasing payments afterward. However, based on current projections, these countries are expected not only to pay ever-larger surcharge fees from 2023 on, but their additional debt service burden will also be extended over a longer period. The significant contrast between the two sets of surcharge projections over overlapping years, and the major lengthening of the period during which these countries are expected to make surcharge payments, may therefore be seen as a sign of the ineffectiveness — if not failure — of the surcharge policy itself. The surcharge policy does not seem to reach its objectives, while it increases the debt burden precisely for the middle-income countries facing the most acute balance of payments problems.

Conclusion

These updated estimates make clear that IMF surcharges represent a significant and costly burden to countries already facing balance of payment problems. From 2023 to 2025, the IMF will charge on average $2 billion per year in surcharges. Results show that annual average payments have substantially increased compared to pre-2023 levels, and that they can be expected to remain at high levels for at least the next six years. The slight drop in the average weight of surcharges relative to total non-principal debt service, from 45 to 40.2 percent for the five most indebted countries, is not due to an absolute decrease in the amount of surcharges, but can be explained, instead, by a sharper surge in the standard components of debt service to the IMF.

Our results are of particular concern for countries experiencing major disruptions due to economic and noneconomic shocks. Over the next three years, Pakistan — which recently suffered devastating flooding that left over one-third of the country under water — is expected to pay $142 million per year in surcharges. Egypt — one of the countries most deeply affected by soaring food prices — will pay $306 million per year. And Ukraine — which is in the midst of a devastating full-scale war — will pay $316 million each year. From 2023 to 2031, Ukraine's total surcharge payments to the IMF are expected to amount to nearly $3.5 billion.

We do not find evidence to support the claim that surcharges incentivize early repayment to the Fund. A comparison of updated surcharge estimates with those made in 2021 reveals that the most heavily indebted countries not only continue to pay ever-larger surcharge fees, but also that they have to pay surcharges over far longer periods than initially projected.

The evidence does indicate, however, that in a period of profound and unprecedented global economic crises, highly indebted countries have been forced to deepen their dependence on the IMF. As a result, developing countries struggling to withstand exogenous shocks are facing significantly increased borrowing costs. By the same token, the Fund itself is, effectively, profiting from these crises. This dynamic is likely to continue as the interrelated debt and climate crises continue.