THE CASE AGAINST IMF SURCHARGES

What Are IMF Surcharges?

The International Monetary Fund (IMF) is an international financial institution that makes loans 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. What does this mean in practice? Surcharges significantly increase countries' borrowing costs to the IMF, and are generally paid by countries facing balance of payments difficulties and often other financial problems.

Surcharges can add an additional 2 to 3 percentage points to the standard interest rate of a loan. For surcharge-paying countries, these fees have, in recent years, increased the cost of borrowing by over 48 percent on average.

Top 5 Countries Impacted by Surcharges Pay:

$2 Billion
IN 2023

$11 Billion
FROM 2023 TO 2028

UKRAINE
ALONE WILL PAY $3.5 BILLION FROM 2023 TO 2031

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 from the IMF — Argentina, Ecuador, Egypt, Pakistan, and Ukraine — are all experiencing serious economic and non-economic challenges. Collectively, they paid nearly $2 billion to the IMF in surcharges in 2023.

From 2023 to 2028, they will pay an estimated $11.1 billion, which is, on average, 40 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. Ukraine — which is in the midst of a war — will pay the IMF $3.5 billion in surcharges from 2023 to 2031.

In the same period, Pakistan — a third of which was recently underwater as a result of climate change-driven flooding — will pay $550 million, and Egypt — one of the countries hardest hit by soaring food prices — will pay $1.3 billion. From 2020 to 2022, Argentina spent $2.6 billion on surcharges, enough to buy a full course of COVID-19 vaccines for its entire population nearly seven times over.

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 actual rate that countries pay. For example, in December 2022, Ecuador had a 3.6 percent published interest rate. However, its true cost of borrowing is, on average, 6.6 percent; this is 3 percentage points above the headline rate, mainly due to surcharges.

57% The **increased** cost of borrowing for the top 5 surcharge-paying countries.

Surcharges Currently Affect 16 Countries, with Several Others Close to Being Impacted

Albania	Gabon
Angola	Georgia
Argentina	Jordan
Armenia	Mongolia
Barbados	Pakistan
Costa Rica	Sychelles
Ecuador	Tunisia
Egypt	Ukraine

Countries paying surcharges as of 2023.

These surcharges will total over $14.3 billion from 2023 to 2033, and will increase the cost of borrowing for these countries by 57 percent. The amount that these countrie will pay in surcharges in this period is about 15 times what the IMF's Catastrophe Containment Relief Trust disbursed for debt relief during the COVID-19 pandemic.

> "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."
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> — **Joseph E. Stiglitz, Nobel Laureate in Economics**

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, the probability of timely repayment and sustainable financing tend to decrease as debt burdens rise. 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 in an environment of profound exogenous shocks that impact all countries: from Covid-19 to the war in Ukraine to the climate crisis.

The IMF does not need the income from surcharges in order to build 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 nonrepayment 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
- Understanding the Consequences of IMF Surcharges: The Need for Reform
  BU Global Development Policy Center
- A guide to IMF surcharges
  EURODAD
- The Growing Burden of IMF Surcharges: An Updated Estimate
  Center for Economic and Policy Research