



The Case for the Complete Removal of IMF Surcharges: Historical Precedents and a Growing Burden

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1. Abstract

This paper argues for the elimination of the surcharge policy of the International Monetary Fund (IMF). It explores the legal history of surcharges and underscores that there are precedents (i.e., in 1974, 1981, and 1992) for their complete removal. The paper also shows that surcharges are a burden on indebted countries and that the Fund's official arguments for retaining them do not hold.

2. Introduction

Given its important role in the global safety net, the International Monetary Fund (IMF) must realign its policies to meet global challenges. The removal of surcharges is a necessary step in the right direction.

The IMF serves as a creditor to prevent or respond to balance of payments crises. Under certain conditions, the IMF applies surcharges, i.e., a higher rate of charge, that add 200–300 basis points to the annual interest on the loans of its most indebted borrowers under the credit facilities of the General Resources Account (GRA), totalling nearly \$2 billion in added payments on IMF loans in 2023.¹ These higher rates can be seen as punitive, as they increase the debt burdens of countries at a time of great vulnerability. In the context of multiple, interconnected global crises, from the catastrophic consequences of climate change to debt distress and development failures, the imposition of surcharges is likely to grow in both size and breadth, exacerbating their negative effects.

Global public debt has reached unprecedented levels, increasing vulnerability to external shocks and the share of revenue allocated to interest payments.² The debt dynamics triggered by the COVID-19 pandemic were compounded by increasing interest rates in advanced economies, followed by rising rates worldwide, low economic growth prospects in developing countries, and heightened global uncertainty.³ By diverting an increasing amount of public resources from health, education, and climate action, the debt burden is becoming a direct obstacle to

¹ Vasic-Lalovic et al. (2024).

² UNCTAD (2004).

³ ECLAC (2023).

promoting sustainable development in the Global South.⁴ The lack of comprehensive institutional mechanisms for effective and timely debt relief and restructuring underscores these concerns.

In this context, several international organizations, civil society organizations and governments of the Global South have called for a reform of the global financial architecture and its governance to adapt to the needs of global development.⁵ Many of these calls for comprehensive reform have specifically called for the discontinuation of the IMF's surcharge policy.

This paper presents a historical overview of this policy and argues for its elimination. Relying on data published by the IMF and calculations made by the Center for Economic and Policy Research (CEPR), the paper discusses the growing burden of surcharges and their negative implications given the multiple crises facing developing countries today. It argues that surcharges are ineffective in achieving their purported goals, are characterized by perverse incentives, and are unjustified from both an economic perspective and a legal perspective. By continuing them, the IMF harms those whom it is supposed to help, worsening the consequences of the concurrent debt, development, and climate crises. This paper further demonstrates precedents for the suspension of surcharges, and it underscores the opportunity for the IMF to eliminate them during its current review of the policy.

3. A Brief History of IMF Surcharges

The IMF has subjected borrowing countries to surcharges on top of regular interest payments in various forms and for several decades, with problematic results that even the IMF has acknowledged. The policy can be traced back to the historical use of graduated charges in IMF lending. From 1945 to 1974, instead of a standard rate of charge such as the one in use today, the Fund employed a system of graduated size- and time-based charges, meaning that countries borrowed at a rate that grew with larger and longer borrowing.⁶ This configuration purportedly served to “encourage the temporary use of Fund resources,” a justification that would be

⁴ Merling et al. (2024).

⁵ G77 (2023).

⁶ IMF (2020).

repeated and debunked with each iteration of this system of charges that eventually gave rise to the current surcharge policy.

In a 2000 review of the Fund's facilities, IMF staff noted in hindsight that instead of discouraging larger and longer borrowing, the policy of graduated charges resulted in "perverse incentives":⁷

Beyond the problem of complexity, this attribution method tended to work against the objective of discouraging large or long use of Fund resources: the system of charges presented members with only a small incentive to repurchase early (as the most costly segments could be extinguished only by eliminating all Fund credit outstanding) or to forgo additional purchases (as the new segments were always the least costly).

While size-based charges were eliminated in favor of a flat rate in 1974, time-based charges were maintained until 1981, and they were referred to as "surcharges." During the 1970s, the system became "unwieldy and nontransparent" due to the creation of new facilities and funding sources,⁸ and the remaining time-based surcharge was eliminated, creating a single rate of charge in 1981.⁹

Five years later, surcharges were reintroduced in a different framework but with a similar line of reasoning. The IMF applied surcharges (called "special charges" at the time) on the interest rate on overdue balances in February 1986, when several developing countries entered arrears and struggled to repay their loans in the wake of the Volcker Shock.¹⁰ According to the official IMF historian, instead of incentivizing repayment, surcharges became a "significant factor causing each country's arrears to rise rapidly."¹¹ Over the following five years, the Fund collected only \$55 million in surcharges of the over \$300 million that it charged to 38 countries. As a result, in 1992, the practice was suspended for all outstanding cases; however, special charges on new arrangements continued to be applied.

In 1997, the IMF reinstated surcharges on countries borrowing from the newly created Supplemental Reserve Facility (SRF), which became the basis for the current application of surcharges. The SRF was created in response to the Asian financial crisis for countries with

⁷ IMF (2000).

⁸ Ibid.

⁹ IMF (1981).

¹⁰ Boughton (2001).

¹¹ Boughton (2012).

“exceptional balance of payments difficulties” due to sudden stops in capital inflows.¹² The facility provided short-term loans above normal access limits at higher-than-market rates to encourage borrowers to return to market lenders. The terms included a surcharge of up to 500 basis points on top of regular interest charges, depending on the length of time it took for a country to regularly repay its obligation. Instead of penalizing borrowing into arrears, these surcharges were applied on debt that was not overdue, mirroring the original system of time-based surcharges eliminated in 1981.

The stated aims of the policy were to disincentivize reliance on the SRF, encourage speedy repayment, and increase revenue to support the IMF’s capital base. However, detractors of the practice in the IMF’s Executive Board of Directors at the time noted that “A substantial surcharge...might not be compatible with the cooperative nature of the Fund and, by adding to members’ balance of payments difficulties, could prove counterproductive.”¹³ The growing burden of surcharges in the following decades has proven this to be the case.

In the 2000s, the IMF expanded the surcharge policy, standardizing it across all GRA facilities in 2009.¹⁴ The Fund, however, maintained an opaque information policy and failed to publish¹⁵ regular, comprehensive data on surcharges for the next fourteen years. The policy did not enter public discourse, and until recently, little to no academic research explored the contemporary impact of surcharges.

¹² IMF (1998).

¹³ IMF (1997).

¹⁴ Arauz et al. (2021).

¹⁵ Timestamped archived versions of the relevant sections of the IMF website before August 2023 show that individual countries’ financial data and the data query tool for past transactions featured only an aggregate “charges” item, and the projected payments data also featured only an aggregate “GRA charges” item. However, after August 2023, the corresponding timestamped archived versions show a detailed decomposition of charges, including surcharges. For example, in the case of Ukraine, see 2015:

<https://web.archive.org/web/20150321102427/http://www.imf.org/external/np/fin/tad/extforth.aspx?memberkey1=993&category=forth&year=2011&trxtype=repchg&overforth=f&schedule=exp&extend=y> (accessed July 20, 2024); 2021:

<https://web.archive.org/web/20210915082745/https://www.imf.org/external/np/fin/tad/extforth.aspx?memberkey1=993&category=forth&year=2011&trxtype=repchg&overforth=f&schedule=exp&extend=y> (accessed July 20, 2024); May 2023:

<https://web.archive.org/web/20230524070218/http://www.imf.org/external/np/fin/tad/extforth.aspx?memberkey1=993&category=forth&year=2011&trxtype=repchg&overforth=f&schedule=exp&extend=y> (accessed July 20, 2024); and December 2023:

<https://web.archive.org/web/20231209160222/http://www.imf.org/external/np/fin/tad/extforth.aspx?memberkey1=993&category=forth&year=2011&trxtype=repchg&overforth=f&schedule=exp&extend=y> (accessed July 20, 2024).

4. Increasing Criticism and Calls for Elimination

In the context of the extensive and continued social and economic consequences of the COVID-19 pandemic, critical research on the policy gained traction among civil society groups and in academia.

Arauz et al.¹⁶ and Munevar¹⁷ present extensive calculated estimates of surcharges, discussing the harmful effects of the procyclical measure and calling for its elimination. Manzanelli¹⁸ provides an estimate of Argentina's surcharges in the context of record-breaking borrowing from the IMF. Stiglitz and Gallagher¹⁹ similarly argue against surcharges, highlighting their “regressive” and “counterproductive” transfer of resources from middle-income countries. Ghosh²⁰ posits that surcharges exhibit “incentive incompatibility” between the stated goals of the policy and its application and represent a failure in the management of the IMF.

The surcharge policy has also raised legal and human rights concerns. Citing international human rights law, a group of independent experts and special rapporteurs at the United Nations expresses grave concerns about the differentiated impact of the IMF's surcharge policy on the ability of low- and middle-income countries to comply with their international obligations to progressively realise the human rights of their populations in key areas such as health, education and social protection.²¹

The group further cites the disproportionate harm of the policy to women and girls, concluding that it “contravenes [the] IMF's own proposal of a gender mainstreaming strategy.” Additionally, Laskaridis²² discusses the role of surcharges in exacerbating gender inequality and the impacts of economic crisis on women's labor, childcare costs, and sanitation, among other issues.

¹⁶ Arauz et al. (2021).

¹⁷ Munevar (2021).

¹⁸ Manzanelli (2022).

¹⁹ Stiglitz and Gallagher (2021).

²⁰ Ghosh (2022).

²¹ Waris et al. (2022).

²² Laskaridis (2022).

Similarly, Bohoslavsky et al.²³ argue that surcharges “are regressive in terms of human rights, including the right to development, as they redirect scarce fiscal resources in favor of payment to a solvent creditor.” Arauz et al.²⁴ presents another legal argument, concluding that surcharges violate the IMF Articles of Agreement, specifically Article 1, which states that IMF lending cannot be “destructive of national or international prosperity.”

The policy also found opponents in the US Congress, who urged Secretary of the Treasury Janet Yellen to endorse its elimination.²⁵ Multiple bills and amendments introduced in both chambers, including an amendment that passed the House of Representatives, sought for the IMF to conduct a comprehensive review of the efficacy and impacts of surcharges; during such a review, surcharges would be suspended. These bills and amendments also called for the Fund to publish country-level data on the amounts charged.^{26, 27, 28, 29}

After sustained pressure from civil society groups and members of the US Congress for greater transparency, the IMF began releasing comprehensive historical data and partial estimates of future surcharge payments in the summer of 2023.³⁰ Although the release of such data is a welcome step, the figures grossly underestimate the actual amounts that borrowing countries will owe on top of their interest and principal. The IMF estimates future surcharge payments using only loan amounts that have been disbursed, leaving out surcharges to be applied on scheduled future disbursements. Therefore, researchers continue to calculate more accurate estimates according to information provided in each borrowing country’s IMF Staff Report.^{31, 32} In the following section, this paper provides current estimates per country for the next ten years based on CEPR calculations.³³

²³ Bohoslavsky et al. (2022).

²⁴ Arauz et al. (2021).

²⁵ <https://chuygarcia.house.gov/sites/evo-subsites/chuygarcia-evo.house.gov/files/Yellen%20Surcharge%20Letter%2010%20final.pdf> (accessed July 20, 2024).

²⁶ US Congress (2022).

²⁷ US Congress (2022b).

²⁸ US Congress (2022c).

²⁹ US Congress (2024).

³⁰ Galant and Vasic-Lalovic (2024).

³¹ Munevar (2021).

³² Vasic-Lalovic et al. (2024).

³³ For a detailed methodology, see Vasic-Lalovic et al. (2024).

5. The Growing Burden of Surcharges

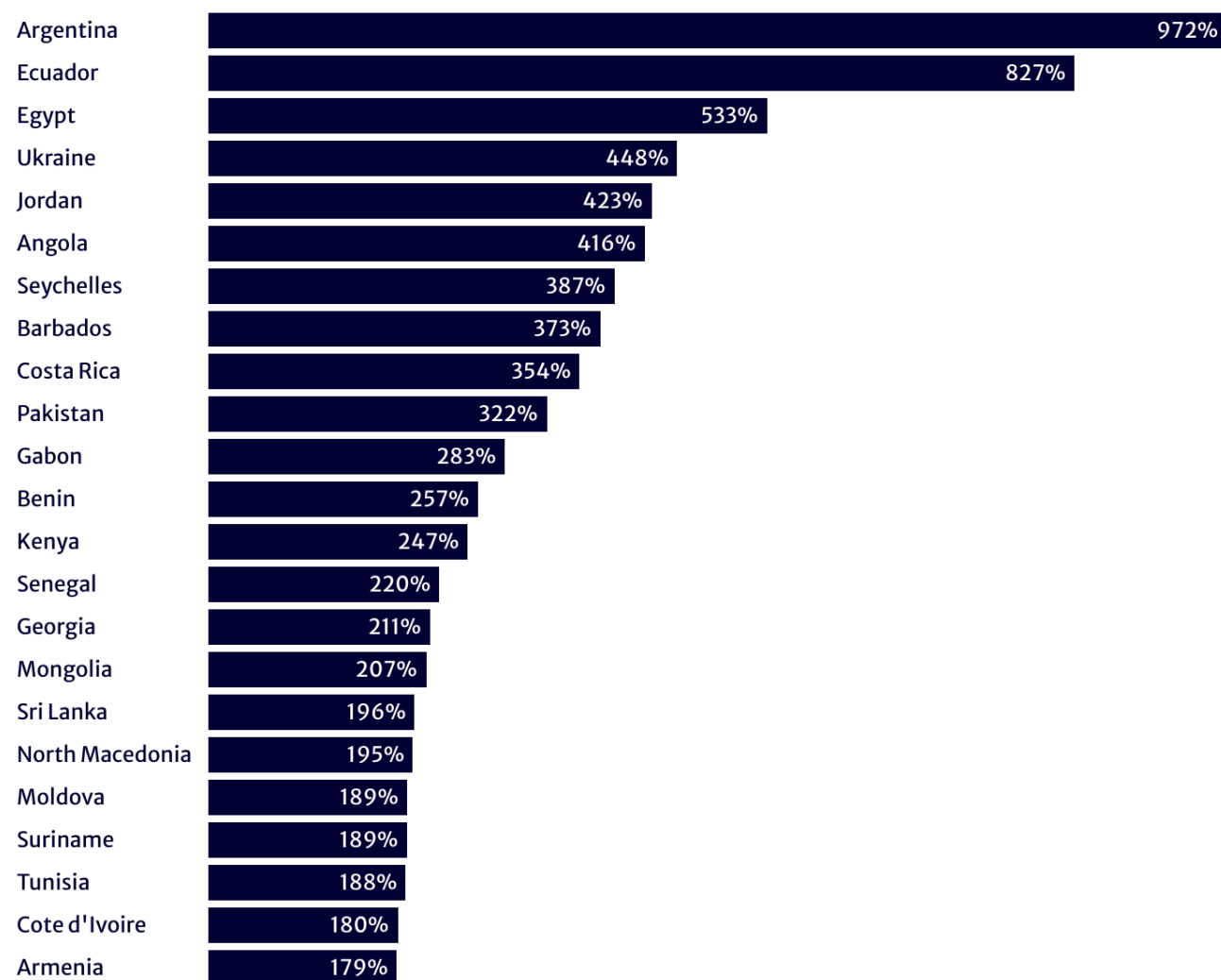
Since the standardization of the surcharge policy across all GRA lending in 2009, 41 countries have been subject to surcharges.³⁴ Largely due to external shocks such as the COVID-19 pandemic, monetary tightening in advanced economies, and increasing climate impacts, the number of countries paying surcharges annually has nearly tripled over the past five years, from eight in 2019 to 23 in 2024. Figure 1 below illustrates surcharge-paying countries as of May 2024. Seven countries are also at risk of paying surcharges in the future as their IMF debt burdens increase.³⁵

³⁴ Authors' calculation according to IMF Finances: <https://www.imf.org/external/np/fin/tad/query.aspx> (accessed July 20, 2024).

³⁵ Vasic-Lalovic et al. (2024).

Figure 1

Countries Currently Paying Surcharges



Source: IMF (2024). Data as of May 31, 2024.

Note: A country is subject to pay surcharges when outstanding GRA (General Resource Account) credit is equal or above 187.5 percent of its quota. Some countries continue to pay surcharges when credit outstanding falls below 187.5 percent of quota.

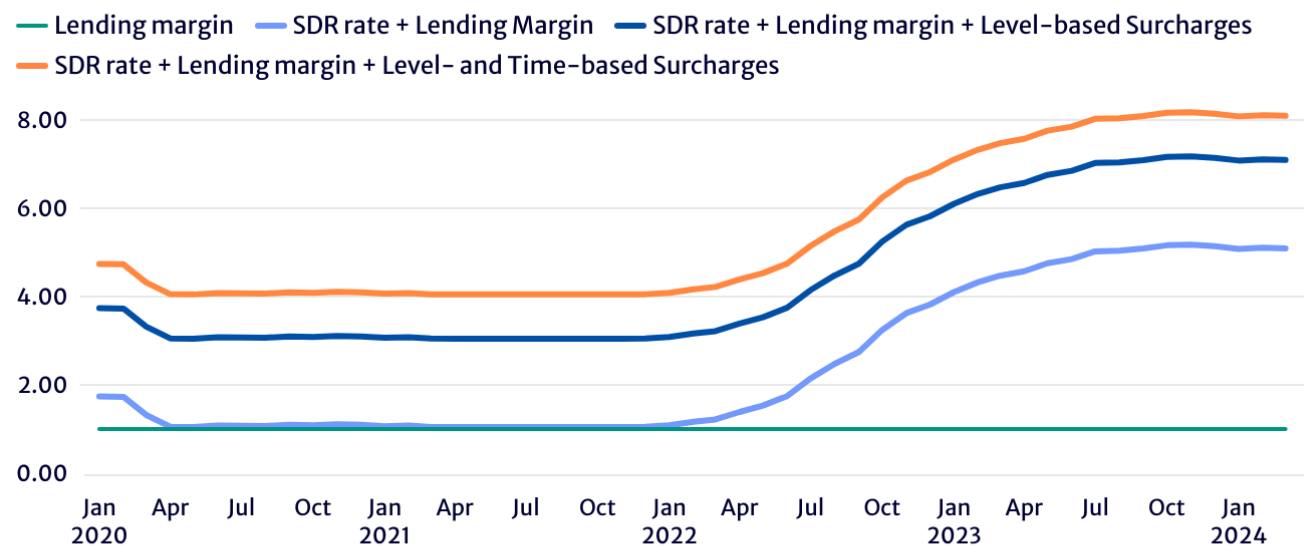
The current application of the policy includes a size- or “level-based” surcharge applied to the magnitude of the outstanding loans and a “time-based” surcharge applied to the length of time it takes to repay. Borrowers begin paying 200 basis points in level-based surcharges when their outstanding credit to the IMF reaches 187.5 percent of their quota.³⁶ A time-based surcharge of 100 basis points is applied when borrowing from a facility exceeds three years (51 months for an

³⁶ IMF (2018).

Extended Fund Facility arrangement). When added to the IMF’s lending and special drawing right (SDR) rate, this effectively means that some countries pay up to 8 percent in interest on their IMF debt, which is a significant increase to the cost of borrowing from the Fund,³⁷ as shown in Figure 2.

Figure 2

Marginal IMF Annual Percentage Rate, Monthly Average



Source: Analysis by the authors based on IMF Finances Data. Reproduced from Vasic-Lalovic et al. (2024).

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

Surcharges add to an already heightened cost of borrowing from most creditors, including the IMF, which increased its rates following monetary tightening in the advanced economies whose currencies comprise the SDR basket. The IMF tries to justify this high rate by comparing its lending to implicit rates derived from bond market yields.³⁸ However, it is empirically incorrect to

³⁷ The headline rate, i.e., the main component of regular charges and interest, consists of a lending margin of 100 basis points and the special drawing right (SDR) rate, which varies according to the central bank rates of the states whose currencies comprise the SDR basket and is currently above four percent. For some countries, surcharges increase the cost of borrowing from the IMF from approximately 5.5 percent to 8 percent per year. Surcharges add complexity and opacity to what is supposed to be a uniform rate of charge for all countries according to the Articles of Agreement (V.8.d). Unfortunately, the IMF has interpreted that the uniform rate of charge does not mean a single rate of charge. See IMF (2000).

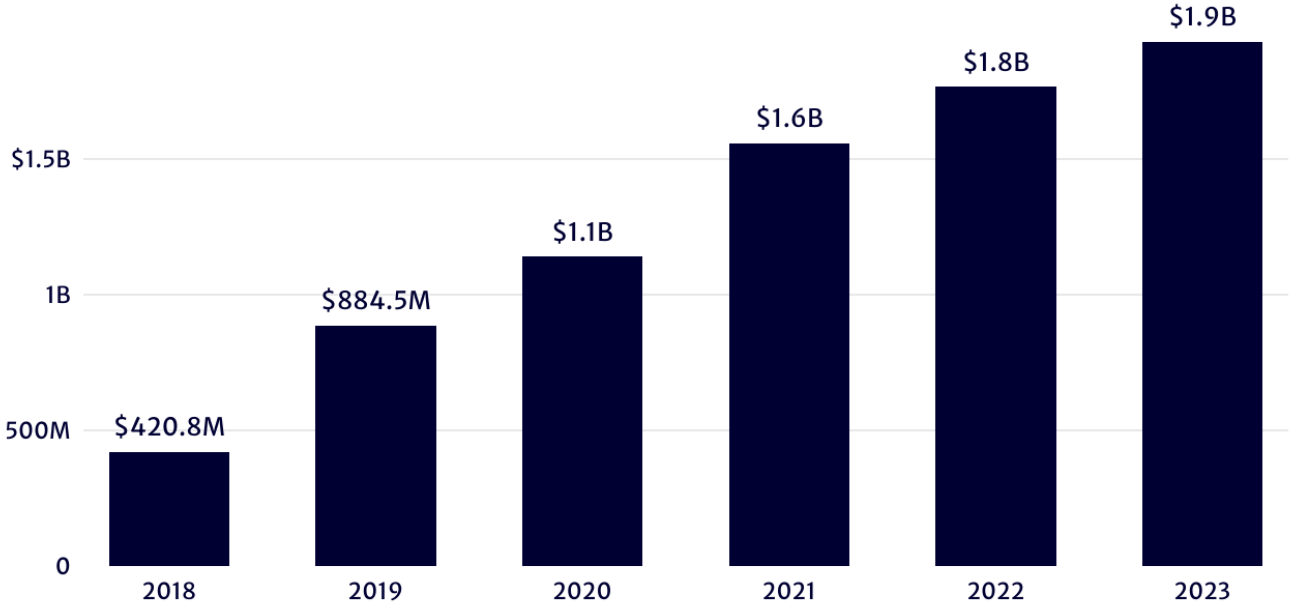
³⁸ IMF (2016).

assume that a country could access unsecured funding from capital markets while engaged in a deep relationship with a super senior creditor and debt market gatekeeper such as the IMF.

As a greater number of countries owe increasing amounts of surcharges, annual total payments have quadrupled since 2018, as shown in Figure 3. Over the past six years, the IMF charged \$7 billion in surcharges.

Figure 3

Total Surcharge Payments in USD (2018-2023)



Source: IMF (2024) and Federal Reserve Bank of St. Louis (2024). Reproduced from Galant and Vasic-Lalovic (2024). Note: Using average monthly SDR-USD exchange rates.

Through 2033, CEPR estimates that the IMF will charge approximately \$13 billion in surcharges, as shown in Figure 4. Argentina alone will owe an estimated \$6 billion, followed by Ukraine, with a debt of nearly \$3 billion. On average, surcharges will represent 26 percent of all charges and interest levied on surcharge-paying countries. For some borrowers, such as Costa Rica and Ecuador, surcharges will represent 36 and 41 percent of their total charges and interest on IMF borrowing, respectively.



Figure 4**Accumulated Charges and Interest Payments and Estimates of Surcharges in 2024–2033, in USD millions**

Country	▼ Charges and Interest (IMF projections)	Surcharges (CEPR estimates)	Surcharges, as a percentage
All Selected Countries	49,813	12,976	26.0%
Argentina*	22,464	6,082	27.1%
Ukraine	10,052	2,911	29.0%
Pakistan	2,538	445	17.5%
Egypt	2,169	699	32.2%
Ecuador	2,064	847	41.1%
Sri Lanka	1,944	308	15.8%
Kenya	1,598	174	10.9%
Jordan	1,346	244	18.2%
Cote d'Ivoire	1,324	395	29.8%
Angola	1,118	215	19.2%
Costa Rica	1,082	391	36.1%
Senegal	645	71	10.9%
Moldova	448	39	8.7%
Barbados	291	43	14.9%
North Macedonia	231	36	15.6%
Armenia	136	7	5.4%
Georgia	120	21	17.2%
Gabon	105	27	25.7%
Seychelles	82	12	14.8%
Mongolia	30	5	16.8%
Tunisia	27	3	11.4%

Source: Calculations by the authors based on IMF Staff Reports for selected countries. Reproduced from Vasic–Lalovic et al. (2024). Excludes Suriname.

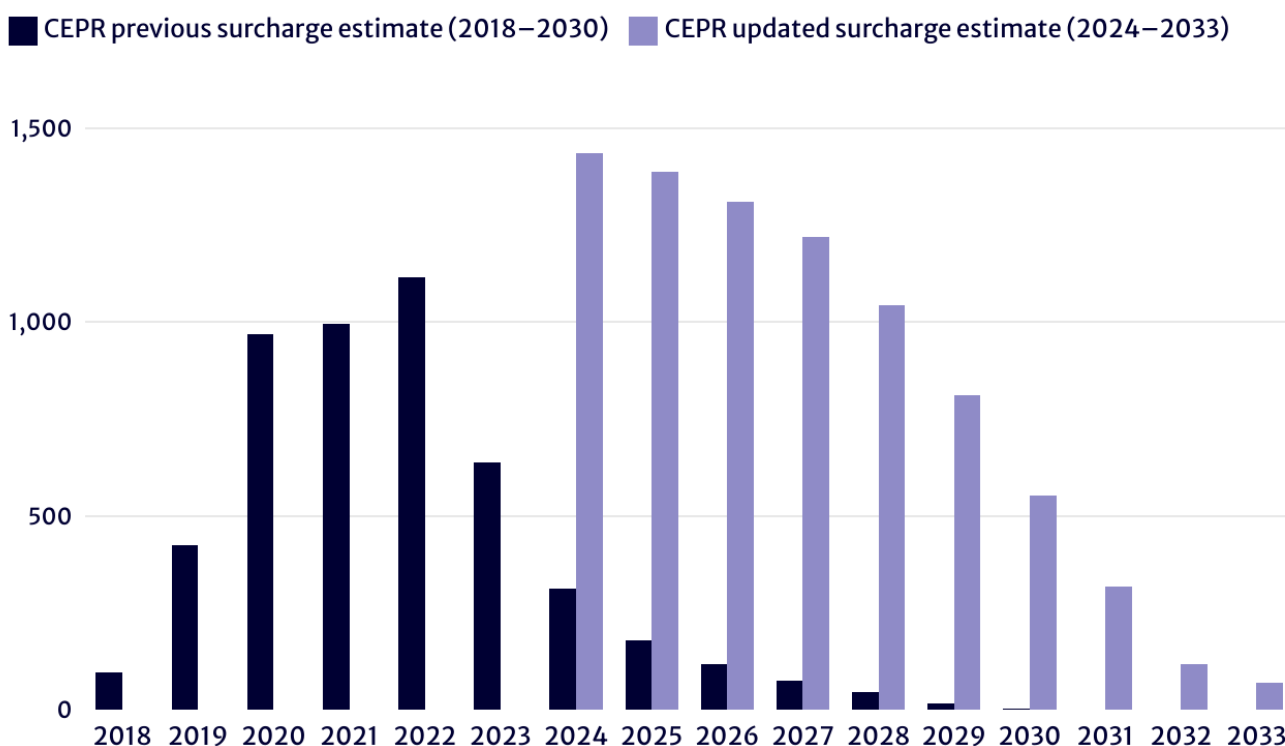
Note: SDR to USD exchange rate as of March 6, 2024;(*) For Argentina, we take surcharge projections from the IMF, as included in the latest Staff Report.

The evolution of surcharge obligations over time suggests that this policy is not a temporary measure for incentivizing countries to make early repayments. Rather, it is an additional burden on affected countries that is likely to grow and persist over time. Thus, for countries, it is an additional obstacle to recovering from crises.

6. The Harmful Consequences of Surcharges

Figure 5

2021 and 2024 Estimates of Surcharges Expected Annual Payments for the Five Most Indebted Countries, in SDR millions



Source: Reproduced from Arauz et al. (2021) and Vasic-Lalovic et al. (2024).

Figure 5 compares CEPR's projections of surcharge payments from 2021 and 2024, which include both existing and prospective Fund lending at the time of measurement for the same set of countries. The difference between the estimates reflects the change in the amount of surcharges that the institution expected to collect three years ago versus what it currently expects to collect

from the same five largest borrowers (i.e., Argentina, Ecuador, Egypt, Pakistan, and Ukraine) in terms of their credit-to-quota ratio.

In 2021, the five most indebted countries were expected to pay surcharges through 2030, with a peak in 2022 and declining payments thereafter. However, based on current projections, not only are these countries expected to make systematically larger surcharge payments, but their additional debt service burden to the IMF is also extended over a longer period. This increase and extension is an indication of the ineffectiveness of the surcharge policy in encouraging rapid repayment. That is, surcharges are actually increasing the debt burden for middle-income countries that are facing the most acute balance of payments problems.

As predominantly middle-income countries in an unfair international financial architecture, surcharge-paying countries face unique macroeconomic and fiscal challenges. Highly indebted middle-income countries tend to face harsher borrowing terms than their low-income counterparts, and they have few options for comprehensive debt resolution.³⁹ Because they are largely ineligible for concessional financing like their low-income counterparts, middle-income countries mostly borrow from private creditors, which charge higher rates and have shorter maturities on repayment. Unlike wealthy countries, middle-income countries do not have access to swap lines in times of crisis. Like most developing countries, they are vulnerable to external shocks, such as the US Federal Reserve's interest rate hikes from 2022, which caused central banks worldwide and multilateral lenders such as the IMF to follow suit.

All of these factors significantly increase the debt burdens of surcharge-paying countries. In fact, more than half of all surcharge-paying countries (i.e., 13) are currently in or at risk of debt distress, meaning that they are unable to meet financial obligations or are at risk thereof.⁴⁰ In this context, the surcharge policy punishes highly indebted countries at their most vulnerable state, when they are approaching or facing crisis and have reached the point of turning to the so-called lender of last resort.

By exacerbating existing debt challenges, surcharges cut into foreign currency reserves and reduce states' ability to pay for crucial imports such as food and medicine. Increased debt burdens present a direct obstacle to financing basic public services and long-term public

³⁹ Merling et al. (2024).

⁴⁰ Ibid.

investments for development and climate preparedness.⁴¹ Ukraine, for example, will owe more in surcharges than it needs to rebuild its emergency response and civilian protection capacities.⁴² Furthermore, 11 surcharge-paying countries are highly climate vulnerable.⁴³ In the context of the climate crisis, developing countries could utilize scarce resources for adaptation and disaster preparedness instead of being forced to deliver them to creditors, thereby increasing their vulnerability.

7. False Incentives and Justifications

In today's context, the IMF's surcharge policy is anachronistic, fails to fulfill its stated purpose, and aggravates the precarious economic and balance of payments situations in indebted countries. When the current policy was instituted in 1997, the targeted borrowing countries had characteristics and macroeconomic conditions that were very different from those of the borrowers subject to surcharges today. The countries affected by the Asian financial crisis generally faced a liquidity problem caused by a sudden stop in short-term capital inflows. They were mainly export-led economies with strong balance of payments positions.⁴⁴ Furthermore, they were not recovering from a catastrophic global pandemic, and the climate crisis in 1997 was not yet as consequential or costly as it is today.

Today, highly indebted surcharge-paying countries face structural balance of payments issues and have histories of defaults. For these countries, engulfed in simultaneous debt, development, and climate crises, sustainable recovery requires an overhaul of the international financial architecture, not punitive rates. The IMF's surcharge policy substantially increases already unsustainable debt burdens, and it lessens the prospects for recovery.

Furthermore, surcharges create a set of perverse incentives, i.e., "incentive incompatibility" between the stated objectives of the policy and its implementation.^{45, 46} The IMF's main rationale for surcharges is to incentivize borrowers to service obligations ahead of schedule and to discourage reliance on the Fund. The Fund also uses surcharges as a source of income, and it

⁴¹ UNDP (2024).

⁴² World Bank (2023).

⁴³ <https://www.v-20.org/members> (accessed July 20, 2024).

⁴⁴ Sachs and Radelet (1998).

⁴⁵ IMF (2000).

⁴⁶ Ghosh (2022).

claims to rely on surcharge revenue to maintain precautionary balances, i.e., its capital base. In practice, however, the IMF incentivizes countries to seek large loans but penalizes them for doing so while generating revenue for itself.

There is little evidence to support faster repayment and lower borrowing amounts among the highest surcharge-paying countries. This fact is demonstrated by a pattern in which the top five surcharge-paying countries repeatedly refinance⁴⁷ IMF loans nearing maturity with new IMF programs, thereby extending repayment and continuing to owe surcharges for years to come. In this sense, the Fund operates more like a commercial bank that is more interested in accumulating income through longer maturities than in customers paying off their credit card debt quickly. The policy features an additional perverse incentive: surcharges act as a penalty rate for borrowers even though they have not incurred a penalty. In other words, it is illogical that the IMF applies punitive measures on large borrowing that it approves and controls.

Moreover, the IMF does not require surcharges as a source of revenue. It already reached its target for precautionary balances in April 2024.⁴⁸ According to its own estimates, even if surcharges are completely eliminated, the Fund would remain above target in future years.⁴⁹ Furthermore, the Fund holds significant and undervalued gold reserves, which, if accounted for properly, obviate the need for additional revenue sources.⁵⁰ As of April 2023, the IMF had \$179 billion worth of gold (at \$1,983 per ounce) that is still recorded and valued at 1960s prices (35 SDR per ounce), according to the IMF's latest annual financial statements.⁵¹ Additionally, the gold would not need to be sold to increase precautionary balances, averting potential legal issues.

⁴⁷ Argentina: <https://www.imf.org/external/np/fin/tad/extarr2.aspx?memberkey1=30&date1Key=2024-06-30> (accessed July 20, 2024); Ukraine: <https://www.imf.org/external/np/fin/tad/extarr2.aspx?memberkey1=993&date1Key=2024-06-30> (accessed July 20, 2024); Ecuador: <https://www.imf.org/external/np/fin/tad/extarr2.aspx?memberkey1=270&date1Key=2024-06-30> (accessed July 20, 2024); Pakistan: <https://www.imf.org/external/np/fin/tad/extarr2.aspx?memberkey1=760&date1Key=2024-06-30> (accessed July 20, 2024); and Egypt: <https://www.imf.org/external/np/fin/tad/extarr2.aspx?memberkey1=275&date1Key=2024-06-30> (accessed July 20, 2024).

⁴⁸ IMF (2024).

⁴⁹ Arauz and Vasic-Lalovic (2024).

⁵⁰ Arauz and Hanssen (2022).

⁵¹ Using an SDR to USD exchange rate of 1.35. <https://www.imf.org/-/media/Files/Data/IMF-Finance/Quarterly-Financial-Statements/2023/fy23-audited-financial-statements-web.ashx>. As of April 2024, it is \$211 billion.

Simply accounting for even a small portion of the reserves according to market prices would suffice to boost the Fund’s balance sheet.

The same argument can be made against using surcharges to subsidize the Poverty Relief and Growth Trust (PRGT, an IMF–managed trust fund for concessional loans to low–income countries currently subsidized by donations from rich countries) — an idea reportedly gaining support in the US government and other advanced economies.⁵² Linking GRA income, which itself is derived from surcharges, to the PRGT would effectively make much–needed concessional finance for low–income countries dependent on taxing highly indebted and crisis–prone middle–income countries. Not only would this linkage be harmful for surcharge–paying countries, but it would also create additional risks for PRGT recipients, particularly when other sources of funding, including contributions⁵³ from high–income countries, are available.

8. Conclusion

The growing number of borrowers subject to surcharges and the expanding debt crisis suggest that this policy will remain an active barrier to sustainable recovery in developing countries for years to come. Historically, there are precedents for the elimination of the surcharge policy. Size–based surcharges were rescinded in 1974, and the graduated system of surcharges was altogether eliminated in 1981, after it failed to prevent larger and longer borrowing. Surcharges on arrears introduced during the debt crisis of the 1980s proved counterproductive and unnecessarily burdensome. When highly indebted countries in arrears failed to service these surcharges, the IMF suspended them in 1992 for all outstanding cases. It can do so again, permanently.

As the burden of IMF surcharges has grown and as their profound harms have come to light, there is widespread agreement that these surcharges should be eliminated. Calls to do so have come from leading economists;⁵⁴ the UN Global Crisis Response Group on Food, Energy, and Finance;⁵⁵ UN Secretary–General António Guterres;⁵⁶ UN human rights experts;⁵⁷ dozens of former heads of

⁵² Galant and Main (2024).

⁵³ PRGT rules allow rich countries to donate SDRs; they have SDRs in excess of their allocation.

⁵⁴ Stiglitz and Gallagher (2021).

⁵⁵ UN Global Crisis Response Group (2022).

⁵⁶ UN (2022).

⁵⁷ Waris et al. (2022).

state and government;⁵⁸ members of the US Congress,⁵⁹ the G77,⁶⁰ and the G24,⁶¹ which represent the interests of nearly every developing country; and numerous leaders of Global South countries, including Barbadian Prime Minister Mia Mottley⁶² and Brazilian president and G20 Chair Lula da Silva.⁶³ Hundreds of civil society organizations worldwide, including Oxfam International, ActionAid International, Partners In Health, and the International Trade Union Confederation, have also urged the IMF to discontinue the surcharge policy.⁶⁴

In response to this sustained pressure from international organizations, world leaders, and civil society groups, the IMF began to review the surcharge policy in the summer of 2024.⁶⁵ The Fund should take this opportunity to end the harmful surcharge policy once and for all.

⁵⁸ Ramos-Horta et al. (2022).

⁵⁹ <https://chuygarcia.house.gov/media/press-releases/representatives-garcia-ocasio-cortez-and-jayapal-urge-secretary-yellen-to-oppose-imf-surcharge-policy> (accessed July 20, 2024).

⁶⁰ G77 (2024).

⁶¹ G24 (2021).

⁶² Kofi Annan Foundation (2022).

⁶³ <https://www.youtube.com/watch?t=534&v=KIAes3qh36A&feature=youtu.be> (accessed July 20, 2024).

⁶⁴ <https://menafemmovement.org/end-surcharges-campaign/> (accessed July 20, 2024).

⁶⁵ Do Rosario and Eric Martin (2024).

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