The Case Against IMF Surcharges

What Are Surcharges?

The International Monetary Fund (IMF) is a multilateral financial institution that makes loans to countries experiencing economic difficulties, among other roles. Since 1997, the IMF has imposed surcharges — on top of regular interest payments and other fees — on the debt service payments of countries with high levels of debt to the Fund (exceeding 300 percent of their quota share at the IMF). The surcharge rate increases for these countries if this threshold is exceeded for a certain number of years.

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 other financial challenges. Surcharges can add an additional 2 to 2.75 percentage points to the standard interest rate of a loan above the 300 percent threshold.

Top 5 Countries Impacted by Surcharges Will Pay:

$1.3 Billion

IN 2025

$5 Billion

FROM 2025 TO 2030

$864 Million

THE AMOUNT UKRAINE WILL PAY ALONE FROM 2024 TO 2033

In October 2024, the IMF reviewed its surcharge policy and, despite appeals from economists, governments, and US policymakers calling for its discontinuation, only pursued limited reforms. These included a marginal reduction in surcharge rates, and, through a significant increase in the debt-level threshold for surcharges, a reduction in the number of countries subject to these fees. However, surcharges remain a harmful burden to highly indebted countries.

Surcharges Cause Further Harm to Countries in Crisis

Surcharges extract significant amounts of hard currency from countries already experiencing severe financial stress, 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 noneconomic challenges. Collectively, they will pay $1.3 billion to the IMF in surcharges in 2025. From 2025 to 2030, they will pay an estimated $5 billion. 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.

Even the IMF itself now admits that surcharges are not effective for "borrowers with more prolonged Fund financing needs and more entrenched imbalances" — a perfect description of these five borrowers, which pay over 90 percent of all surcharges. Ukraine — which is in the midst of a war — will pay the IMF $864 million in surcharges from 2025 to 2030. In the same period, Pakistan — a third of which was recently underwater as a result of climate change-driven flooding — will pay $213 million, and Ecuador — which is in the midst of a security crisis — will pay $638 million.

Surcharges conceal high interest rates on IMF loans.

The IMF publishes interest rates charged for country loans, but surcharge fees — which are not made fully public — significantly raise the actual rate that countries pay. For example, while today's published lending rate is less than 4 percent, some countries

face an effective lending rate well over 6 percent as a result of surcharges and other fees.

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The IMF predicts that Kenya, Sri Lanka, and Suriname will be paying surcharges by 2026, while Benin, Côte d'Ivoire, Gabon, and Moldova are also at risk. These surcharges will total over $5 billion from 2025 to 2030.

Countries Currently Paying Surcharges:

Angola	Egypt
Argentina	Jordan
Barbados	Pakistan
Costa Rica	Seychelles
Ecuador	Ukraine

> "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 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 therefore may reduce the probability of timely repayment. Furthermore, 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. 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 itself has discontinued surcharge-like policies in the past, admitting that they can create "perverse incentives."

The IMF does not need the income from surcharges in order to build its precautionary balances.

The IMF has claimed that it requires income from surcharges in order to maintain its precautionary balances — liquid reserves to hedge against potential financial losses. However, the Fund's precautionary balances target has been met, and is projected to continue to grow above target levels even without surcharges. More importantly, it is unfair and absurd to rely on countries facing extreme financial distress to maintain and replenish these reserves, or to compensate for high-income countries' unwillingness to meet their obligations. It is also counterproductive, as these surcharges adversely impact debt sustainability, thereby necessitating larger precautionary balances. The IMF should find other, more fair and rational methods for funding for its precautionary balances — for example, by seeking small contributions from high-income countries, or revaluing or selling a relatively insignificant amount of its substantial gold holdings.

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

Surcharges unnecessarily funnel scarce resources away from countries in financial distress 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."

While the 2024 IMF reforms provided some measure of welcome relief, they amount to tinkering with a broken policy. Surcharges remain an unjustified, procyclical burden, especially for the Fund's most indebted countries. It's past time to end IMF surcharges for good.

Learn More About Surcharges