

Congress of the United States

Washington, DC 20510

October 3, 2024

The Honorable Janet Yellen
Secretary, U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Dear Secretary Yellen:

This summer, the International Monetary Fund (IMF) initiated a review of its surcharges policy,¹ thanks in part to the support of the Biden administration and the leadership of the Fund's Managing Director Kristalina Georgieva.² This is an encouraging development, and we commend the Treasury Department and IMF leadership for their willingness to engage with Members of Congress and address this critical issue. With substantive reforms under consideration at this month's Annual Meetings, we write to urge you to use the United States' voice and vote at the Fund to support discontinuation of this harmful policy.

As you know, surcharges are additional fees that the IMF imposes, on top of regular interest payments and service charges, on countries whose debts to the IMF exceed a certain threshold. For heavily indebted countries, these surcharges significantly increase the cost of borrowing, can undermine efforts to reduce debt burdens to sustainable levels, and may divert valuable public resources away from other potential uses such as health, education, and climate adaptation. Twenty-two countries now pay surcharges, nearly triple the figure prior to the COVID-19 pandemic,³ and the five countries most impacted—Argentina, Ecuador, Egypt, Pakistan, and Ukraine—paid the IMF \$7 billion in the last five years.

According to recent estimates, Ukraine alone is expected to pay the IMF nearly \$3 billion in surcharges over the coming decade.⁴ These exorbitant fees are being levied in the midst of Ukraine's effort to defeat the Russian invasion, and as the country is receiving significant financial assistance from the United States to do so. Pakistan will pay the IMF hundreds of millions of dollars in surcharges over the coming years while attempting to rebuild from 2022's catastrophic flooding that left one third of the country underwater. And Egypt and Jordan, which both share borders with Israel, are having to bear the additional financial strain of surcharge payments at a time of perilous instability in the Middle East.

In addition, the IMF has not offered evidence that surcharges are effective in their goal of disincentivizing reliance on the Fund. In fact, surcharges significantly increase countries' debt burdens, and the Fund's own analyses demonstrate that the likelihood of timely repayment and sustainable financing tend to decrease as debt burdens rise. Moreover, IMF lending already comes with great political and economic

¹ Jorgelina Do Rosario & Eric Martin, *IMF to Consider Options to Lower Penalties on Big Borrowers*, Bloomberg (July 8, 2024)

² *Remarks at the Center for Global Development on the IMF and Support for Developing Countries by Under Secretary for International Affairs Jay Shambaugh*, U.S. Dept of the Treasury (Sept. 7, 2023).

³ Ivana Vasic-Lalovic, et al., *A Broader Impact Than Ever Before: An Updated Estimate of the IMF's Surcharges*, Center for Economic and Policy Research (Apr. 11, 2024).

⁴ *Id.*

costs. Particularly at a time of major exogenous shocks, reliance on IMF funds is often not the result of insufficient negative incentives.

We acknowledge that Treasury's approach to surcharge reform endeavors to find a balance between alleviating countries' debt burdens and maintaining IMF reserves. However, in our estimation, elimination of surcharge fees would not unduly harm the Fund's balance sheets. The IMF's precautionary balances target was recently met and will continue to grow above targeted levels even in the absence of surcharges.⁵ Proposals to use the income generated by surcharges to instead cover funding shortfalls in the Fund's Poverty Reduction and Growth Trust (PRGT) are deeply concerning.⁶ While the IMF's concessional lending arm performs a critical function and should receive all necessary support, crisis-stricken countries like Ukraine should not be made to compensate for high-income countries' unwillingness to meet their commitments. Moreover, the IMF has other funding options available that do not come at the expense of the economic welfare of the very countries it is meant to help.

There is growing support for an end to the surcharge policy. Leading United Nations human rights experts,⁷ the UN Global Crisis Response Group on Food, Energy, and Finance,⁸ UN Secretary-General António Guterres,⁹ the G-77,¹⁰ which represents nearly every developing country, leading economists, including at the Atlantic Council¹¹ and Peterson Institute for International Economics,¹² and dozens of former heads of state and government¹³ have all called for long-term suspension or complete discontinuation of the policy. Hundreds of civil society organizations from around the world, including over 50 groups from across the Caribbean¹⁴—a region that is acutely vulnerable to the accelerating climate crisis—have also called for the elimination of surcharge fees.

We are grateful for the administration's willingness to reconsider this onerous, counterproductive policy, and hope to count on your leadership to ensure that it is ultimately discontinued, unless the IMF's review uncovers ample evidence that the policy's benefits significantly outweigh its substantial costs.

Sincerely,

⁵ Andrés Arauz & Ivana Vasic-Lalovic, *No More Excuse for Surcharges: The Target for Precautionary Balances Has Been Reached*, Center for Economic Policy and Research (Feb. 15, 2024).

⁶ Review of the Adequacy of the Fund's Precautionary Balances, International Monetary Fund (Apr. 4, 2024).

⁷ Attiya Waris et al., Letter to IMF Managing Director Kristalina Georgieva (Aug. 26, 2022).

⁸ UN Global Response Crisis Response Group on Food, Energy, and Finance, *Global Impact of the War in Ukraine: Billions of People Face the Greatest Cost-of-Living Crisis in a Generation* (June 8, 2022).

⁹ *Caribbean 'Ground Zero' for Global Climate Emergency, Says Secretary-General, Addressing Government Heads at Regional Conference*, United Nations (July 3, 2022).

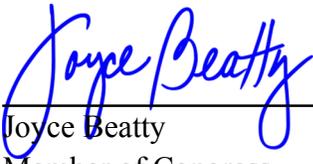
¹⁰ Group of 77, *Third South Summit Outcome Document* (Jan. 22, 2024).

¹¹ Hung Tran, *The Problems with the IMF Surcharge System*, Atlantic Council (Sept. 6, 2024).

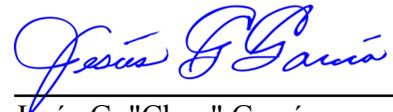
¹² Patrick Honohan, *The IMF Should Suspend Interest Rate Surcharges on Debt-Burdened Countries*, Peterson Institute for International Economics (Jan. 19, 2022).

¹³ José Ramos-Horta et al., *Managing the Megacrisis of 2022*, Project Syndicate (July 19, 2022).

¹⁴ AKWATIX, Regional et al., Letter to President Joe Biden and Secretary Janet Yellen (Sept. 5, 2023).



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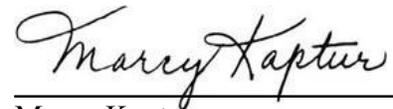
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