



June 26, 2023

Ms. Attiya Waris
Independent Expert on Foreign Debt, Other International Financial Obligations,
and Human Rights
Special Procedures Branch
Office of the United Nations High Commissioner for Human Rights
Palais des Nations
1211 Geneva 10, Switzerland

Dear Ms. Waris:

Thank you for your letter to the IMF Managing Director dated August 22, 2022, regarding the topic of IMF surcharges. Our views on the wider issue of how the IMF contributes directly to the necessary preconditions for achieving human rights, and the existing mechanisms for ensuring transparency and accountability in IMF operations, were set out in much more detail in the Managing Director's letter to you of February 4, 2022, in reply to your earlier letter. Here, I would like to provide some additional background information specifically on the issue of surcharges.

What are surcharges?

Surcharges are designed to discourage large and prolonged use of IMF resources. They are an important part of the IMF's risk management framework and help the IMF to continue to play its central role as the global lender of last resort in times of crisis – something we have seen in full display since the onset of the COVID-19 pandemic. Surcharges help strengthen the IMF's balance sheet to the benefit of all members. They are critical to allowing the IMF to continue providing financing at affordable rates to members in need of financial support, often when they are locked out of private debt markets or interest rates are unsustainably high.

To whom do surcharges apply?

Surcharges apply only to high and prolonged borrowing of non-concessional resources from the IMF's General Resources Account (GRA). It's important to note that borrowing by low-income countries from the IMF's concessional resources is not subject to surcharges. This is because most IMF lending to low-income countries is extended under the Poverty Reduction and Growth Trust (PRGT), which is provided on concessional terms, currently at zero interest, and without surcharges.

How are surcharges calculated?

Surcharges are a component of the lending rate payable (the other component being "the basic rate of charge") and depend on the amount and time that credit is outstanding. There are two types:

- Level-based surcharges that depend on the amount of credit outstanding: 200 basis points are applied on the portion of GRA credit outstanding greater than 187.5 percent of the member's quota.
- Time-based surcharges that depend on the length of time credit remains outstanding: 100 basis points are applied on the portion of credit exceeding the threshold (187.5 percent of quota) for more than 36 months (or 51 months in case of borrowings under the Extended Arrangement (EFF)).

How many countries currently pay surcharges?

As of end-December 2022, out of a total of 52 member countries with outstanding credit from the GRA, 16 countries were subject to surcharges. Below is a table showing the surcharges paid by each of these 16 countries. The average effective surcharge rate paid by the 16 member countries subject to surcharges ranged between 0.2 and 2.4 percent, with 9 members paying less than one percent. It is important to note that even with surcharges, the average cost of borrowing from the Fund remains in all cases significantly lower than market rates.

Surcharge payments to the IMF during 2022 (actual, in millions of SDR)

	Level-based	Time based	Total
Argentina	518	225	742
Egypt	199	86	285
Ukraine	72	36	108
Ecuador	79	0	79
Pakistan	34	17	51
Angola	37	0	37
Tunisia	12	6	17
Jordan	10	0	10
Gabon	6	0	6
Barbados	3	0	3
Armenia	2	0	2
Mongolia	2	0.3	2
Costa Rica	2	0	2
Albania	1	1	2
Georgia	2	0	2
Seychelles	1	0	1
Total	979	370	1,349

Is the surcharge policy subject to change?

The current structure of surcharges was agreed by the IMF Executive Board in 2009. The last formal review of the IMF's surcharge policy took place in 2016, when the current thresholds for level-based and time-based surcharges were approved. However, the IMF Executive Board has since then discussed surcharges on numerous occasions, including soon after the outbreak of the Covid-19 pandemic. Most recently, on December 12, 2022, the Executive Board of the IMF completed its regular review of the Fund's precautionary balances, a key element of the IMF's framework to mitigate financial risks. As part of this review, the Board also discussed the role of surcharges, including the merit of potential changes to the policy. Overall, views on changes to the surcharge

policy diverged, including on the merits of a temporary relief of surcharges. It is expected that the dialogue among Executive Directors on the issue of surcharges will continue with the aim of achieving a greater convergence of views. A broad consensus among the IMF's membership is needed to make changes to the surcharge policy, which would require approval by a 70 percent majority of voting power in the IMF's Executive Board.

I hope you find the information provided here to be helpful. Please do not hesitate to contact me (rpowell@imf.org) with any follow up questions you may have.

Sincerely yours,

A handwritten signature in blue ink that reads "Robert Powell". The signature is written in a cursive, flowing style.

Robert Powell
Special Representative to the United Nations