

INTERNATIONAL MONETARY FUND

IMF Surcharges: Punishing Countries in Crisis

What are surcharges?

Surcharges are additional payments on top of regular interest charges and other lending fees that the International Monetary Fund (IMF) levies on countries when loans meet certain conditions. Since 2009, the IMF has levied two types of surcharges, [quota- and time-based surcharges](#), on loans from the General Resources Account (GRA) — the primary account of the IMF. Quota-based surcharges apply to outstanding credit relative to the size of the loan. When a country's outstanding credit is above 187.5 percent of a country's assigned IMF quota, this triggers a quota-based surcharge of 200 basis points, or an additional two percent interest fee. If a GRA loan has been outstanding for more than 36 to 51 months, depending on the fund facility used, then borrowers incur a time-based surcharge of 100 basis points, or an additional one percent interest fee. Borrowers are subject to a three percent interest fee if both quota and time thresholds are surpassed. The IMF uses the revenue generated from surcharges to cover a portion of the institution's operating costs.

The IMF's rationale behind the surcharges is to limit the demand for borrowing from the IMF, encourage borrowers to pay back loans ahead of schedule or on time, and cushion the IMF's precautionary balances. However, [growing evidence](#) suggests that

surcharges do not effectively mitigate credit risk nor incentivize countries to limit IMF borrowing. In fact, they are not even needed to sufficiently buffer against loss or support the Fund's operation. Rather, as countries turn to the IMF as a lender of last resort, these additional fees significantly raise the cost of borrowing for countries already facing economic hardship and further restrain liquidity. BIC

“The additional budget constraints surcharges generate have undeniable impacts on the citizens of affected countries.”

along with several other [civil society organizations](#) (CSOs) around the world, [prominent economists](#), and [lawmakers](#) are calling on the IMF to eliminate surcharges so that middle-income countries can recover from the pandemic faster, boosting a more equitable global recovery.

What countries are impacted by surcharges?

Surcharges largely affect middle-income countries as low-income countries can receive loans through the Poverty Reduction and Growth Trust on highly concessional terms. But unlike general interest rates charged on loans, the IMF does not publish what countries are subject to surcharges or how much countries owe in surcharges, even in IMF country reports. As of April 2022, there are currently 16 countries with loans that are subject to surcharges, including: Albania, Angola, Argentina, Armenia, Barbados, Costa Rica, Ecuador, Egypt, Gabon, Georgia, Jordan, Mongolia, Pakistan, Seychelles, Tunisia, and Ukraine. With increased borrowing during the pandemic, the IMF's latest [review of its precautionary balances](#) estimates as many as 38 countries will pay surcharges by 2024.

How are countries impacted by surcharges?

Proponents of surcharges contend that the additional fees impact a limited number of countries, and that even with the extra fees, the borrowing costs are still very competitive relative to what countries could borrow from the market. But, the burden created by surcharges should not be considered trivial. In fact, surcharges increase the IMF borrowing cost on average by [64.1 percent](#), and surcharge payments alone are expected to reach [US\\$ 7.9 billion](#) between 2021 and 2028. Particularly in the context of the COVID-19 crisis when increased investment in healthcare and social safety nets is direly needed, the additional budget constraints surcharges generate have undeniable impacts on the citizens of affected countries. BIC worked with partners in-country to look at the impacts of surcharges on the ground in three countries.

ANGOLA

As part of Angola's significant debt service, the country will pay the IMF [US\\$ 268 million](#) in surcharges alone between 2021 and 2030, representing nearly 45 percent of its IMF borrowing costs. While this figure may seem relatively small in comparison to the \$4.5 billion loan the country took from the IMF, these funds would be better used to support Angola's pandemic response. AJUDECA, an Angolan CSO focusing on debt justice, found that what the country will pay in surcharges would have covered in full the estimated cost (US\$263 million) to vaccinate

the entire population against COVID-19. Instead, lacking the liquidity to finance the program itself, the government has taken loans from the World Bank, European Investment Bank, and GAVI, thereby increasing its debt. Similarly, the funds could have paid for two general hospitals, equal to the recently inaugurated General Hospital of Cabinda (\$165 million), which has a 200 bed capacity and employs over 770 people. These two hospitals would have an immense impact on the availability of health services and employment, but remain unrealized as the government cannot fund such a project without accruing more debt.

ARGENTINA

The [economic situation](#) in Argentina is quite complex, with an ongoing recession entering its fourth year, inflation rates estimated to reach 60 percent, and poverty rates hovering around 37 percent. Argentina is the IMF's largest debtor and has a [historically fraught relationship](#) with the IMF. Between 2021 and 2026, the country will pay [US\\$ 4.1 billion in surcharges](#), increasing IMF borrowing costs by 133 percent. To put the size of this figure in perspective, by 2023 Argentina will have spent [nine times](#) the amount needed to fully vaccinate the entire country against COVID-19 solely on surcharges. The country's sovereign debt to the IMF has had [intense impacts on social spending](#) including cuts to pensions, public salaries, and the elimination of the Emergency Family Income. As the Argentine population faces the acute suffering brought about by the country's economic distress and the COVID-19 pandemic, the additional surcharge fees only serve to exacerbate this situation, forcing the government to prioritize further budget cuts over the public interest.

UKRAINE

Facing overlapping crises — Russia's invasion, economic instability, and the pandemic — Ukraine will pay the IMF [US\\$ 483 million](#) between 2021 and 2027. Every month, [millions of dollars](#) will be transferred to the IMF even as [the US](#) and [international financial institutions](#) increase assistance to support Ukraine's defense against Russia and address the associated impacts of the war. Siphoning these much-needed funds away from the country in the midst of these crises is counterproductive and incongruent with international efforts to aid Ukraine.

Why should the IMF eliminate surcharges?

SURCHARGES ARE UNFAIR

By imposing surcharges on countries already facing extreme debt distress, the IMF is in essence extracting rents from countries that are the least able to pay. The procyclical nature of the fees undermines international efforts for an equitable global economic recovery because cash-strapped countries are forced to divert hard currency to the IMF rather than using it to finance critical domestic expenditures such as health, social protection, climate resilience, and food security. Considering the context of the COVID-19 crisis, surcharges are especially cruel and violate [Article 1 of the IMF Articles of Agreement](#), which requires the IMF to provide temporary funding for member countries “without resorting to measures destructive of national or international prosperity.” In contrast to the IMF’s debt cancellation efforts, middle-income countries will transfer nearly ten times the amount of money to the IMF than the debt cancellation provided to low-income countries at the onset of the pandemic through its [Catastrophe Containment Relief Trust](#).

SURCHARGES ARE COUNTERPRODUCTIVE

[Several prominent economists](#) contend that surcharges are counterproductive. Rather than mitigating credit risk as the IMF claims, the additional fees significantly increase sovereign debt burdens, in turn decreasing the probability of timely repayment. This combination of a high-interest rate and low probability of repayment is a [bad outcome for both creditor and borrower](#), and is especially concerning during a global pandemic where several countries have accumulated higher than normal debt burdens.

SURCHARGES ARE UNNECESSARY

Maintaining its precautionary balances, the liquid reserves the IMF keeps to buffer against potential losses is a key reason the IMF imposes surcharges. Yet, the Fund’s [\\$1 trillion lending capacity](#) suggests that the IMF does not actually require the revenue generated by surcharges to hedge against losses or to support the IMF’s operation. Currently, the IMF’s outstanding loan portfolio is [the largest it has ever been](#), meaning revenue from regular lending fees will be equally substantial. In this context, surcharges become unnecessary, with a recent analysis confirming that the [IMF’s income will continue to grow if surcharges are eliminated](#). Likewise,

surcharges are not necessary to prevent overreliance on the Fund. The often [stringent conditionalities](#) tied to IMF loans already act as a powerful incentive for countries to approach the IMF as a lender of last resort.

IMF Surcharges

AT A GLANCE

Types of surcharges

The IMF applies quota- and time-based surcharges to loans from the General Resources Account when certain conditions are met. Borrowers can incur an additional interest fee from one to three percent on top of regular interest charges and fees.

Increased cost of borrowing

On average, the extra fees raise the cost of borrowing from the IMF by 64.1 percent. Surcharge payments from 2021 to 2028 are estimated to reach US\$ 7.9 billion.

Countries impacted

16 countries are currently paying surcharges, but the IMF estimates this number could increase to 38 by 2024. The additional fees constrain liquidity in countries already facing great economic hardship, hampering national efforts to respond to the pandemic and other compounding crises.

Conclusion

As the world is “[on the brink of a global debt crisis](#),” compounded by COVID-19, climate change, and Russia’s war on Ukraine, the IMF should seek to support countries in crisis, not punish them for having nowhere else to turn. Eliminating surcharges is a simple step the IMF can take to relieve pressure on cash-strapped countries and help fulfill its core mission to discourage policies that harm prosperity.