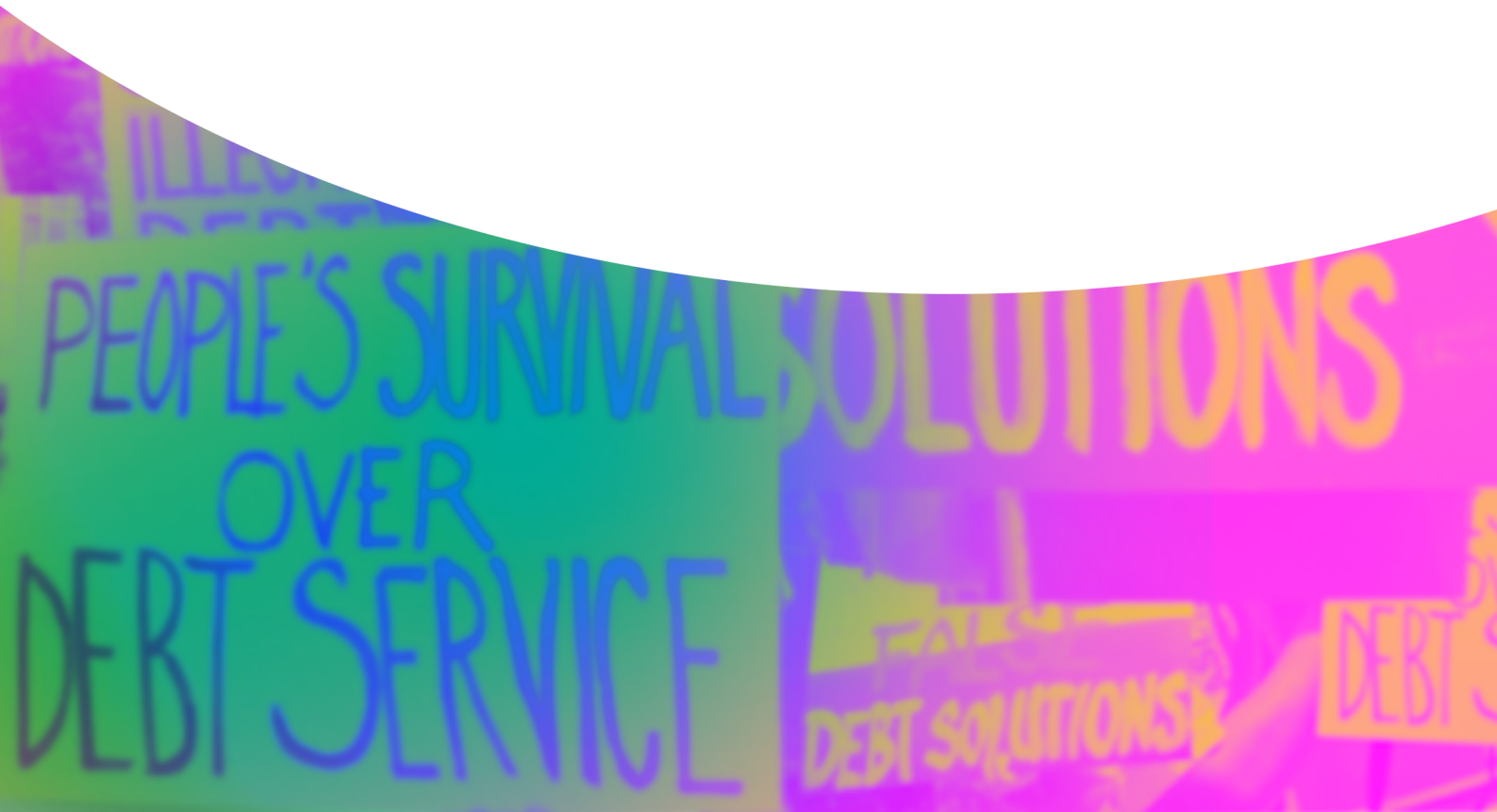
GLOBAL WEEK OF ACTION
FOR JUSTICE AND
DEBT CANCELLATION
10-17 OCTOBER 2022

SURCHARGES



What is Surcharges

The IMF provides financial assistance to countries with balance of payment problems, on the basis of a macroeconomic austerity programme, leading to a host of well-known devastating impacts. Surcharges are a form of additional cost, on top of normal interest payments and other fees, that the IMF levies on its non-concessional lending. Currently, there are two types of surcharges, those that relate to the size of the loan (quota-based surcharges) and those that relate to length of time that the loan is still outstanding (time-based surcharges). For the first, large loans – typically needed by countries in a deep crisis - will be faced with significant extra costs (above 187.5 per cent of the IMF country quota) are subject to a surcharge of 200 basis points. When a large loan is taken out for a long time (36 or 51 months depending on the facility), an additional charge of up to 100 basis points is charged. Thus a country that is in a crisis for a long time, will pay more for borrowing from the Fund. These surcharges are over and above the existing lending rate, and when all costs of borrowing are together constitute a severe punitive cost to borrowing countries. Details of surcharges are opaque and not published by the Fund country by country.

Why Surcharges is an Unfair policy

Surcharges raise inequality between countries and violates the International human rights law.

The surcharges increase inequalities between the high income-countries and low and middle income countries. It punish development countries who are already suffering from post covid crisis and places an unfair burden on vulnerable countries that are in need of financial support. This discriminatory policy doesn't treat them equally.

IMF argues that surcharges allow it to play the role of global lender of last resort in times of crisis, strengthening the IMF's financial capacity. This is an admission that middle-income borrowing countries - which are paying the lion's share of surcharges and who have been left out of measures to mitigate debt distress - are de facto financing the IMF's operations to help low-income countries.

Paying extra fees on surcharges, directly affects the potential growth and reduces the public investment in social sectors such as education, public health and development. That means that countries will spend a lot of their resources on paying surcharges and not in reducing inequalities and poverty.

In the Current War/post pandemic context, surcharges aggravate the financial vulnerabilities that precisely lead those same countries to request financial assistance from the IMF. Paying surcharges by diverting hard currency from countries when they most need it, weakens the capacity of those countries to depase crisis and put development and equal policies in place

"IMF surcharges are procyclical and regressive. They jeopardize the recovery of countries facing severe economic difficulties, forcing them to use scarce resources to meet these additional payments, rather than for critical domestic expenditures, such as purchasing vaccines, fighting gender inequality, addressing climate change or funding anti-poverty programs" (IMF surcharges letter to IMF Board of Directors, February 2022)

According to the International Covenant on Economic, Social and Cultural Rights (Art.2), States must generate, adequately allocate and make use of the maximum of their available resources to move as expeditiously and effectively as possible towards the achievement of the full realization of human rights. "International financial institutions should ensure that the terms of their transactions do not undermine the borrower State's ability to respect, protect and fulfil its human rights obligations"

Statistics

⇒ Argentina will spend $3.3 billion on surcharges from 2018 to 2023, equivalent to nine times the

amount it would have to spend to fully vaccinate every Argentine against COVID-19. Surcharges increase IMF borrowing costs by 112.5 per cent.

⇒Egypt is expected to spend around US $1.8 billion on surcharges between 2019 and 2024, which is three times the US $602 million it would cost to fully vaccinate all Egyptians. Surcharges increase IMF borrowing costs by 104.7 per cent.

⇒Tunisia, surcharges add up to roughly a third of their entire health-sector fiscal efforts during the pandemic. Tunisia has to pay more than US 44 million dollars in surcharges between 2021 and 2026. Surcharges increase IMF borrowing costs by 26.9 per cent. Tunisia is negotiating a new program with the IMF with potential application of surcharges on the initial debt.

⇒Jordan has to pay more than US 116 million dollars in surcharges between 2021 and 2023
Surcharges increase IMF borrowing costs by 71.7 per cent.

⇒Ukraine, which will have to bear the human and economic impacts of the Russian aggression for many years, will be required to pay $423 million in surcharges between 2021 and 2023, equivalent to 25% of its entire health-sector fiscal effort during the pandemic. Surcharges increase IMF borrowing costs by 26.9 per cent.

Surcharges Against Sustainability of Debt

Development countries most in need of financial assistance will have to pay more than USD$4 billion in additional surcharges on top of interest payments and other fees from the beginning of the crisis to the end of 2022.

The IMF has imposed significant surcharges on countries that have had to undertake large borrowings and are unable to pay their debts back quickly.

The surcharges policy is opaque and not transparent: The exact surcharges amounts are not published. Surcharges have to be estimated based on implied rates and published charges. **CEPR estimates that surcharges are 45 percent of all non principal debt service (2018–2030) owed to the Fund for the five largest borrowers.**

The number of developing countries facing surcharges has risen from 9 to 16 since the pandemic began. By 2025, the IMP projects that that number will have skyrocketed to 38. (Surcharges letter)

Surcharges are against IMF statement and policies:

- Surcharges violate the IMF principles and the Art 1 of the statement: "To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity." As Nobel laureate economist Joseph Stiglitz observed, "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."

- Surcharges go against the spirit of the IMF **post recovery policies**:
  - "The need broader efforts to fight 'economic long-Covid' countries need to navigate the monetary tightening cycle countries need to shift their focus to fiscal sustainability" (Source: IMF blog)

They penalize countries facing debt distress.

Contribute in Austerity impacts:
Surcharges put financial pressure on countries suffering already to pay their debts. This situation will impose austerity policies: applying budget cuts measures, decreasing public spending and gradual elimination of the social subsidies. ∎