

**IMPLEMENTATION OF
CERTAIN LEGISLATIVE PROVISIONS
RELATING TO THE
INTERNATIONAL MONETARY FUND**



A Report to Congress

in accordance with

Section 1705(a) of the International Financial Institutions Act, as amended

United States Department of the Treasury
September 2017

Introduction

This report is provided in accordance with a legislative provision that requires Treasury to report to Congress on reform efforts and policy implementation undertaken by the International Monetary Fund (IMF).

IMF Policies Reform Report: Section 1705(a) of the International Financial Institutions Act, as amended (IFI Act), 22 U.S.C. § 262r-4(a), requires the Secretary of the Treasury to submit a report on the progress made by (a) the U.S. Executive Director (USED) in influencing the IMF to adopt various policies and reforms in the manner as described in section 1503(a) of the IFI Act, 22 U.S.C. § 262o-2(a), and (b) the IMF in adopting and implementing the policies described in Section 801(c)(1)(B) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001, P.L. 106-429.

Treasury supports strengthened implementation of IMF country programs and promotes sound policy decisions within the IMF. To achieve these goals, Treasury and the Office of the U.S. Executive Director (OUSED) at the IMF vigorously seek to build support for these policies in the IMF's Executive Board and with IMF management. Treasury and the OUSED discuss these policies with IMF staff and other Board members, and the OUSED advances these reform policies in statements and votes on programs in the IMF Executive Board.

In addition, Treasury's Office of International Monetary Policy and the OUSED communicate with internal Treasury offices and other U.S. Government agencies as appropriate to increase awareness about legislative mandates affecting U.S. participation in the IMF and identify opportunities to influence IMF decisions in line with broader U.S. international economic policy objectives.

Progress of the USED in Promoting at the IMF Policies Described in Section 1503(a)

While the OUSED continues to seek to advance all IMF policies described in Section 1503(a), this report specifically highlights new developments since October 1, 2016.

Exchange rate surveillance

The United States advocates for further improvements to the IMF's surveillance on exchange rates, emphasizing the need for increased candor, transparency, and even-handedness in the IMF's exchange rate analysis. With strong U.S. support, the IMF now produces an annual External Sector Report (ESR), which provides a multilateral assessment of global imbalances and movements in exchange rates for 29 major economies. In 2017, for the first time, the IMF elevated the ESR to a formal Board discussion, with the result that the Executive Board's discussion will be formally recorded. Through OUSED Board statements, the United States also emphasizes the need for greater transparency in exchange rate regimes in the IMF's surveillance efforts of member countries. For example, in the Board statement for China's 2017 Article IV staff report, OUSED noted that considerable scope for further enhancements on the communication of exchange rate policy remain and stressed the importance of allowing China's

currency, the RMB, to fully strengthen during periods of appreciation pressure, consistent with market forces.

Strengthened financial systems, including Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)

In July 2017, the IMF and World Bank conducted a joint review of the Standards and Codes (S&C) Initiative, which was launched in the aftermath of the emerging market crises of the 1990s as part of efforts to strengthen the international financial architecture. The S&C initiative is comprised of 12 policy areas integral to economic and financial policy-making and implementation covering three topic groups: transparency, which covers data dissemination, fiscal transparency, and monetary policy; financial sector stability; and institutional and market infrastructure, which includes AML/CFT surveillance. The specific standards and codes are set by the IMF and/or external standard-setting bodies, depending on the topic area. The IMF works jointly with the World Bank, as well as the Financial Action Task Force on AML/CFT, to assess compliance with the S&Cs.

A core focus of the IMF's work in the S&C Initiative pertains to the financial sector – which covers areas such as banking and insurance supervision and securities regulation – assessments of which are typically conducted in the context of the Financial Sector Assessment Program (FSAP). The IMF and World Bank jointly conduct FSAP assessments for emerging market and developing economies and the IMF conducts FSAPs for advanced economies to analyze the resilience of a country's financial sector, the quality of its regulatory and supervisory framework, and its capacity to manage and resolve a financial crisis. Based on the findings, IMF staff uses the FSAP to produce policy recommendations of a micro- and macro-prudential nature, tailored to country-specific circumstances.

During the Executive Board discussion in July on the S&C Initiative, OUSED highlighted that promoting financial sector stability is a critical core competency of the IMF, and pressed the IMF to remain diligent in preparing Reports on the Observance of Standards and Codes (ROSCs) – or comprehensive assessments under the S&C Initiative – for key financial sector areas in systemically-important countries. The United States continues to support the ongoing work of the IMF to integrate AML/CFT into its programs, including ROSCs, FSAPs, capacity development, and surveillance. In addition, the United States also continues to urge the IMF and other and other international financial institutions to intensify support for technical assistance in this area.

Good governance

IMF policy advice includes a focus on good economic governance, including reducing corruption. Through surveillance, policy advice, and technical assistance across a range of government operations – including public financial management, data quality and dissemination, and financial sector supervision – the IMF works to identify and decrease corruption and increase public sector accountability in member countries. In a July 2017 informal Executive Board discussion of the role of the IMF in governance and corruption issues, OUSED emphasized that the United States views development of a robust and enhanced framework to

advance governance and anti-corruption efforts across the IMF's activities as critical to the institution's work. OUSED pressed for a far more robust and enhanced framework to advance the IMF's governance and anti-corruption efforts across the institution and all its activities. This has been a consistent focus of OUSED, even outside this specific Board discussion. For example, in the Board statement for Madagascar's 2017 Article IV staff report, OUSED praised IMF staff's Selected Issues Paper for Madagascar, which provided a detailed and candid analysis of corruption in the country.

Transparency and accountability

As a result of the strong urging of the OUSED, the Independent Evaluation Office (IEO) has provided objective and independent evaluations of IMF policies and activities since 2000. The IEO operates independently of IMF management and the Board, and has three major objectives: 1) to enhance the learning culture within the IMF, 2) to strengthen the IMF's external credibility, and 3) to support institutional governance and oversight. Evaluations are publicly available on the IEO's website.¹ The IEO recently evaluated the IMF's role in social protection – work that the OUSED strongly supported in its Executive Board statement. The OUSED also continues to press for greater transparency at the IMF, including through pressing for all countries to commit to publishing their Article IV surveillance reports, and reducing the number of informal Board meetings, as transcripts of these are not released to the public.

Progress of the IMF in Implementing Policies Described in Section 801(c) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act

The IMF continues to implement the range of policies described in Section 801(c). However, this report highlights specific developments since October 1, 2016.

Graduation from receiving financing on concessionary terms

The IMF extends concessional credit through the Poverty Reduction and Growth Trust (PRGT), where eligibility is largely based on a country's per capita income and eligibility for financing from the International Development Association (IDA), the World Bank's concessional window. The current operational threshold for IDA eligibility is a per capita gross national income level of below \$1,215. In 2017, no country graduated from access to IMF concessional financing. The next PRGT eligibility review will be in 2019, when the IMF will determine whether any PRGT-eligible countries should graduate from IMF concessional financing based on an assessment of whether they have either raised their income levels enough or obtained significant market access while avoiding high risk of debt distress and other serious short-term macroeconomic vulnerabilities.

¹ <http://www.imf.org/external/np/ieo/index.htm>