Congress of the United States
House of Representatives
Washington, DC 20515–1304

January 10, 2022

The Honorable Janet L. Yellen
Secretary of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

Dear Secretary Yellen,

Global disparities have widened since the COVID-19 pandemic began over 19 months ago, and it's more important than ever to work with our global partners to ensure that the International Monetary Fund (IMF) provides robust financial support for a truly global recovery. We are concerned, however, that IMF surcharges, which require countries that already face debt problems and deep financial distress to pay onerous additional fees to the Fund, undermine this goal. We urge you to support an immediate review of surcharge policy at the IMF and to support the elimination of these unfair and counterproductive fees.

The IMF's surcharge policy is an obstacle to growth and social investment in developing countries and weakens efforts to address the immense challenges the world is facing at this time. The COVID-19 pandemic was both a devastating public health emergency and an economic shock that brought global commerce to a standstill. In 2019, even before the pandemic struck,64 countries spent more resources servicing foreign debts than they did on health care expenditure for their citizens.[1] Nigeria is now using more than half of government revenue to pay off debts rather than fight the virus.[2] But with billions of people still unable to access COVID-19 vaccines and new variants jeopardizing the global recovery, robust public spending is vital for addressing the human and economic toll of the virus. The Fund's pro-cyclical surcharge policy, designed to penalize countries for the size and duration of loans, discourages public health investment by developing countries. This perverse outcome will undermine global economic recovery, and that's why the G-24 group of countries recommended that the Fund suspend, reform, or eliminate surcharges.[3] The United States should join their call.

The mission of the IMF is to mitigate the global economy's deeply unequal recovery from the COVID-19 pandemic, but surcharges are making the situation worse for the countries subject to them, with additional spillover effects. The World Bank expects the pandemic to increase global poverty for the first time in

[1] Jubilee Debt Campaign, "Sixty-four countries spend more on debt payments than health," 4/12/2020, https://jubileedebt.org.uk/press-release/sixty-four-countries-spend-more-on-debt-payments-than-health
[2] Kevin P. Gallagher, "The IMF's surcharges are unfit for purpose" *FT Alphaville,* 3/3/2021, https://www.ft.com/content/cc82f5bf-36c6-454f-b7f0-a4a18576ff2b
[3] Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development Statement, 4/5/2021, https://www.imf.org/en/News/Articles/2021/04/05/g24-communique-april-5-2021

twenty years and push up to 115 million people into extreme poverty. More than 80% of the new poor live in middle income countries like Argentina, Egypt, and Pakistan, many of which are subject to IMF surcharges.[4] By siphoning away limited funds that could be used for public spending, surcharges contribute to this troubling trend. The Center for Economic and Policy Research estimates that Argentina will spend $3.3 billion on surcharges between 2018 and 2023-- nine times the amount it would cost to vaccinate every Argentine against COVID-19.[5] In the current context, surcharges that punish already indebted countries undermine the IMF's mission to promote sustainable growth and reduce poverty.

Finally, the fragility of the sovereign debt system was apparent before the COVID-19 pandemic, but takes on a new urgency now. The IMF's surcharge policy undermines developing country governments' capacity to pay their debt service to private creditors while maintaining the IMF's own unique status as a preferred creditor, relative to others. This arrangement could increase the likelihood of sovereign defaults, while exacerbating the difficulties in reaching a fair settlement with private creditors. This complicates the Fund's key mediating role in sovereign debt resolutions and could undermine future restructurings.[6]

The COVID-19 pandemic has generated a new kind of crisis, threatening both public health and economic stability, and the United States must embrace new tools to fight it. Domestically, Congress and President Biden have pursued a strong, counter-cyclical agenda that has saved our country from collapse. Internationally, the U.S. must push for policies that allow other countries to do the same. The IMF's surcharge policy endangers public health, jeopardizes our global recovery from COVID-19, and destabilizes international structures that are crucial for tackling other major challenges such as climate change. It should be eliminated.

Sincerely,

Jesús G. "Chuy" García
Member of Congress

Alexandria Ocasio-Cortez
Member of Congress

Pramila Jayapal
Member of Congress

/s/
Adriano Espaillat

/s/
Ilhan Omar

/s/
Rashida Tlaib

/s/
Eleanor Holmes Norton

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[4] World Bank, "COVID-19 to Add as Many as 150 Million Extreme Poor by 2021," 10/7/2020 https://www.worldbank.org/en/news/press-release/2020/10/07/covid-19-to-add-as-many-as-150-million-extreme-poor-by-2021

[5] Andrés Arauz, Mark Weisbrot, Christina Laskaridis, and Joe Sammut, "IMF Surcharges: Counterproductive and Unfair" https://cepr.net/report/imf-surcharges-counterproductive-and-unfair/

[6] Joseph E. Stiglitz and Kevin P. Gallagher, "Understanding the Consequences of IMF Surcharges," https://www.bu.edu/gdp/files/2021/10/GEGI_PB_017_FIN.pdf

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