Frequently Asked Questions on Surcharges

What are surcharges?

Surcharges are designed to discourage large and prolonged use of IMF resources. They are an important part of the Fund's risk management and help the Fund 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 when interest rates are unsustainably high.

Why does the IMF levy surcharges?

- They provide price-based incentives for members to limit the size of IMF borrowing and diversify their sources of financing.
- They encourage timely repayment of IMF credit once members regain market access on favorable terms. Surcharges thus help preserve the revolving nature of IMF resources, which is important given the institution's limited lending capacity.

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). Borrowing by low-income countries from the concessional lending facilities 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 IMF's lending rate (the other component being "the basic rate of charge") and depend on the amount and duration of credit 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 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 of187.5 percent of quota for more than 36 months (51 months in case of borrowings under the Extended Arrangement (EFF)).

Average effective surcharge rates paid by members (on total GRA credit outstanding) are in most cases substantially lower than the marginal rate of 200 basis points (300 basis points if both level-based and time-based surcharges apply) because level-based surcharges only apply to the portion of outstanding GRA credit that exceeds 187.5 percent of a country's quota.

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. Historical data and projections on the amount of surcharge payments by country to the IMF is available at IMF Financial Data Query Tool. The average effective surcharge rate paid by the 16 member countries subject to surcharges ranged between 0.2 and 2.4 percent, with nine 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.

When will the surcharge policy be reviewed?

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. 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. More recently, Executive Directors also discussed on surcharges in the context of the Board meeting on the IMF's income in April 2023. Overall, views on changes to the surcharge policy continued to diverge, including on the merits of a temporary relief of surcharges. It is expected that the dialogue on surcharges among Executive Directors 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 Executive Board.