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ECONOMIC GOVERNANCE AND EMU SCRUTINY UNIT

INTERNATIONAL ECONOMIC DEVELOPMENTS

2024 IMF Annual Meetings: main developments and outcomes

The Annual Meetings of the World Bank Group (WBG) and International Monetary Fund (IMF) convene finance ministers and central bank governors to participate in the highest-level decision-making bodies of the two institutions, as well as in various committees and groups that drive the agenda on issues related to the international monetary system and development policy. The 2024 Annual Meetings took place in Washington, D.C. from 21 to 26 October 2024. This paper summarises the main developments and outcomes, focusing on IMF-related issues.

1. Parliamentary dimension

Seven Members of the European Parliament's Committee on Economic and Monetary Affairs (ECON) attended the Annual Meetings in Washington, D.C. In the margins, the delegation met with IMF and World Bank officials, discussing the global economic outlook, in particular rising public debt. The delegation also met with counterparts in the US House of Representatives, the White House Chair of the Council of Economic Advisers, representatives of leading businesses, think tanks and other stakeholders. The focus was on topical issues at the time, such as the economic programmes of the US Presidential candidates, as well as the impact of the economy on the US Presidential election.

The Global Parliamentary Forum, organised by the Parliamentary Network on the World Bank & IMF, was held on 21 and 22 October. At the occasion of 80 years since the Bretton Woods Agreement, parliamentarians from countries all over the world, together with IMF and World Bank officials, discussed and reflected on the achievements, challenges and the future of multilateralism.

2. Summaries of key IMF publications

During the Annual Meetings 2024, IMF Managing Director Kristalina Georgieva presented the Global Policy Agenda. The Managing Director outlined two key policy priorities: *"a soft landing and break from the low growth-high debt path"*, and *"address other medium-term challenges"*. In particular, the Agenda highlights

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that central banks should make sure inflation is returning to target. Additionally, with global public debt at record high levels, countries should focus on ensuring debt sustainability and rebuilding fiscal buffers. The IMF also notes even when policy space is limited, carefully designed reforms could increase productivity and job prospects and therefore, enhancing growth. Moreover, the IMF stresses the importance of multilateral efforts in supporting debt restructuring in countries with unstainable debt, avoiding geoeconomic fragmentation result in trade wars, accelerating climate action, and harnessing benefits of new technologies (e.g. AI) while mitigating the risks. With the 80th anniversary of the IMF, the IMF highlights it will continue to advocate for multilateralism and economic integration.

World Economic Outlook (WEO)

The global fight against inflation has largely been won and, despite a sharp and synchronised monetary policy tightening, a global recession was avoided, according to the October 2024 World Economic Outlook (WEO)[1]. Growth in 2024 and 2025 is forecasted to remain stable at 3.2%, while headline inflation is expected to decrease from an annual average of 5.8% in 2024 to 4.3% in 2025 (**Table 1**).

The global growth outlook is largely unchanged since the April 2024 WEO and expected to remain broadly flat, hovering around the 3% in the short and medium term. The IMF highlights that, despite the foreseen return to a neutral monetary policy stance by 2025, global growth is expected to be weak over the medium term. Moreover, for many advanced and emerging economies, the five-year-ahead growth forecast is weaker than the one-year-ahead forecast. Structural challenges such as aging population, weak investment, and historically low total factor productivity growth are the main reasons for this stagnant global growth.

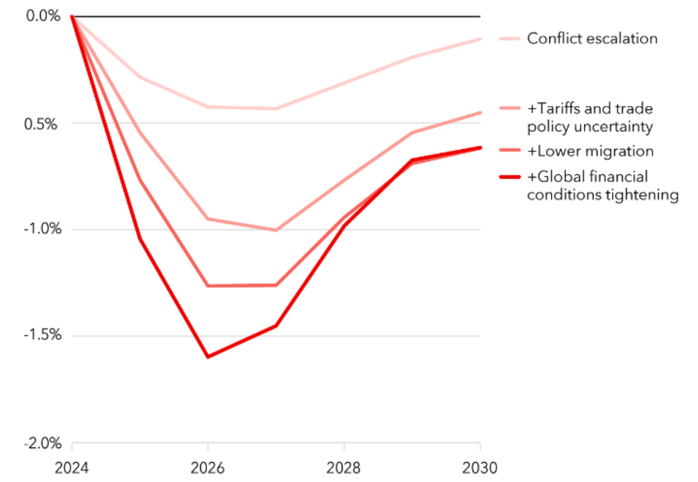
Although risks remain, the IMF expects global headline inflation to continue declining to target. Overall, inflation is expected to return to target by 2025 in most countries. According to the IMF, the decrease in global inflation in 2024 and 2025 is the result of a broad-based decline in core inflation, unlike in 2023 when inflation fell mainly due to lower energy (fuel) prices. The factors contributing to lower core inflation include the delayed effect of tight monetary policies as well as diminishing pass-through effects from earlier declines in prices, especially in those for energy. Additionally, the IMF highlights that the pace of the disinflation process has been faster than expected compared to previous year. Moreover, disinflation is expected to be faster in advanced economies, with a decline of 2 pp. from 2023 to 2024 and a stabilisation around 2% in 2025, than in emerging and developing economies, in which inflation is expected to decline from 8.1% in 2023 to 7.9% in 2024 and then decrease at a faster pace in 2025 to 5.9%. Finally, the expected dispersion of inflation rates across economies has increased.

Nevertheless, despite these positive trends, downside risks to growth are increasing and now dominate the global outlook. **Figure 1** shows the effect of downside risks to world GDP growth relative to IMF's baseline forecast. An escalation in regional conflicts, particularly in the Middle East, could seriously impact commodity markets. Shifts toward undesirable trade and industrial policies may substantially reduce output relative to IMF's baseline forecast. Additionally, monetary policy could remain too tight for too long, and global financial conditions could tighten abruptly with adverse effects on sovereign debt markets. Another downward risk identified by the IMF is a deeper growth slowdown in China as its housing market may be contracting more deeply than expected. However, the IMF also notes that more favourable outcomes for global growth are plausible due to a potential stronger recovery in investment in advanced economies and a potential stronger momentum of structural reforms.

[1] The IMF publishes its World Economic Outlook four times a year. In their April and October publications, the IMF publishes projection updates for all countries, while the January and July publications are only interim and include projection update only for the entire EA (but not for each country individually).

After inflation has been put mostly under control and is nearing the central bank targets, the IMF is now calling for a "policy triple pivot" on monetary policy, fiscal policy and structural reforms. Firstly, the monetary policy pivot is already underway, as major central banks in advanced economies have moved toward a neutral stance. This will support activity while many advanced economies' labour markets are showing rising unemployment rates. However, the IMF notes that the gradual rise in unemployment does not point to a forthcoming slowdown as it is still close to levels of non-recession episodes. Secondly, a pivot on fiscal policy is needed to stabilise debt dynamics and rebuild fiscal buffers, providing the much-needed fiscal space (see section on the Fiscal Monitor below). Lastly, the pivot on structural reforms is the most difficult to achieve. The IMF notes: "*Much more needs to be done to improve growth prospects and lift productivity, as this is the only way we can address the many challenges we face*". However, while they are crucial at the moment, reforms often face social resistance. The IMF highlights that building trust between government and citizens is an important lesson for policymakers to win the support they need for reforms to succeed.

Figure 1: Downside risks to world GDP, deviation from baseline forecast, in %



Source: IMF.

Table 1: Real GDP growth and headline inflation forecasts (year–over–year percent change)

		2023 (actual)	2024	2025	2026	2027
Real GDP growth	**World**	3.3% [↑0.1]	3.2% [=]	3.2% [=]	3.3% [↑0.1]	3.2% [↑0.1]
	European Union	0.6% [=]	1.1% [↓0.4]	1.6% [↓0.2]	1.7% [=]	1.6% [=]
	United States	2.9% [↑0.4]	2.8% [↑0.2]	2.2% [↑0.3]	2.0% [=]	2.1% [=]
	United Kingdom	0.3% [↑0.2]	1.1% [↑0.6]	1.5% [=]	1.5% [↓0.2]	1.5% [↓0.2]
	Japan	1.7% [↓0.2]	0.3% [↓0.6]	1.1% [↑0.1]	0.8% [=]	0.6% [=]
	China	5.3% [↑0.1]	4.8% [↑0.2]	4.5% [↑0.4]	4.1% [↑0.3]	3.6% [=]
	India	8.2% [↑0.4]	7.0% [↑0.2]	6.5% [=]	6.5% [=]	6.5% [=]
	Ukraine	5.3% [↑0.3]	3.0% [↓0.2]	2.5% [↓4.0]	5.3% [↑0.3]	4.5% [=]
	Russia	3.6% [=]	3.6% [↑0.4]	1.3% [↓0.5]	1.2% [=]	1.2% [=]

Inflation	**World**	6.7% [↓0.1]	5.8% [↓0.1]	4.3% [↓0.2]	3.6% [↓0.1]	3.4% [↓0.1]
	European Union	6.3% [=]	2.6% [↓0.1]	2.3% [↓0.1]	2.1% [=]	2.1% [=]
	United States	4.1% [=]	3.0% [↑0.1]	1.9% [↓0.1]	2.1% [=]	2.1% [=]
	United Kingdom	7.3% [=]	2.6% [↑0.1]	2.1% [↑0.1]	2.0% [=]	2.0% [=]
	Japan	3.3% [=]	2.2% [=]	2.0% [↓0.1]	2.0% [=]	2.0% [=]
	China	0.2% [=]	0.4% [↓0.5]	1.7% [↓0.3]	2.0% [=]	2.0% [=]
	India	5.4% [=]	4.4% [↓0.2]	4.1% [↓0.1]	4.1% [=]	4.0% [=]
	Ukraine	12.9% [=]	5.8% [↓0.6]	9.0% [↑1.4]	7.7% [↑1.5]	5.0 [↓0.2]
	Russia	5.9% [=]	7.9% [↑1.0]	5.9% [↑1.4]	4.0% [=]	4.0% [=]

Source: IMF WEO October 2024 and IMF WEO April 2024.

Notes: Values in brackets represent differences to the IMF WEO April 2024 projections in percentage points.

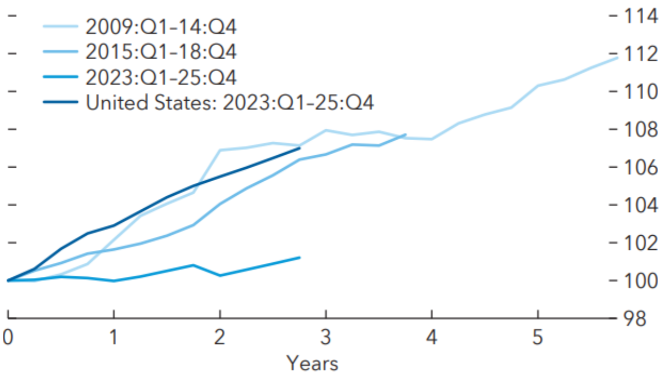
Regional Economic Outlook for Europe[2]

According to the Regional Economic Outlook for Europe, Europe's economy is recovering but not at its full potential. In the short term, uncertainty about persistent core inflation, the results of the elections in the EU and the United States, and geopolitical conflicts are slowing down the recovery. In the longer term, weak productivity growth and the uncertainty of the effects of fragmentation, climate change, and other structural shifts are weighing down potential growth. Private consumption has remained moderate compared with households' income growth. Additionally, low consumer confidence and uncertainty about future shocks are dampening the domestic demand. Therefore, it is important to address key policy uncertainties and to remove structural barriers which would strengthen growth.

The euro area growth projections were revised slightly down compared to April's edition, to 0.8% in 2024 and 1.2% in 2025. Advanced European countries have a projected growth rate of 1% in 2024 and 1.4% in 2025, while the Central Eastern, and South-eastern Europe (CESEE) region has a projected growth of 2.3% in 2024 and 3.1% in 2025. The IMF notes that gradually strengthening private domestic demand, further disinflation, and progressively easing financial conditions is expected to offset the effects of necessary fiscal consolidation. However, the recovery path of Europe is more prolonged compared to the recovery of previous crises (i.e. the global financial crisis and the euro area crisis) as shown in **Figure 2**. Moreover, the IMF highlights that in the absence of a strong reform effort, growth will remain below its full potential. Reasons for Europe's underwhelming growth are the slow labour force growth resulting from acceleration of aging population, low investment rate relative to capital stock due to uncertainties about the effects of global fragmentation and trade policies, and low productivity growth.

2 The IMF report focuses on European countries from a geographical perspective. Therefore, where it is not otherwise indicated, this section refers to "Europe" according to this definition and not the European Union or euro area.

Figure 2: Europe: real GDP acceleration during past recoveries



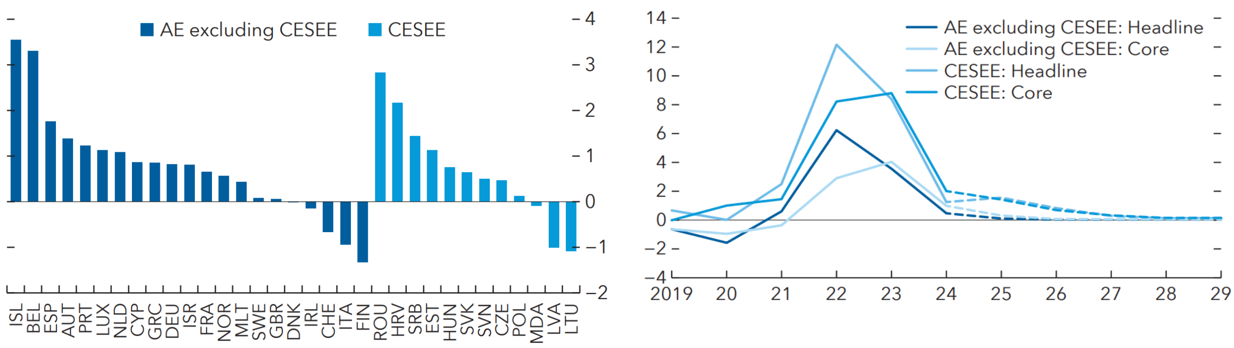
Source: IMF.

Note: Starting quarter of recovery = 100.

In about 60% percent of the advanced European countries, headline inflation has fallen to within 1 p.p. or less of the central banks' targets, compared to only 33% of countries in the CESEE region (**Figure 3, left panel**). The biggest factors in the disinflation process since the peak in 2023 have been the decline in energy and food inflation in the euro area Member States. Additionally, the effects of past monetary tightening have also contributed to this process. However, the IMF notes that the decline of inflation towards the targets has been bumpy in many countries across Europe due to base effects, staggered reversal of support measures, and the increased shipping costs due to the attacks on Red Sea shipping lanes.

Inflation is expected to return to target in 2025 in advanced European economies and in 2026 in most CESEE countries (Figure 3, right panel). The delay for the CESEE region can be attributed to the persistence of the wage and services inflation. The IMF refers to this as service inflation remaining sticky, especially in the CESEE region. The IMF notes that as of August, services inflation in the euro area is still 2 p.p. above its pre-pandemic levels (i.e. 2015-19 average), whereas in CESEE countries, it is 5 p.p. higher. However, services inflation is expected to steadily decline as: *"labour markets and wage growth cools amid a cyclical uptick in labour productivity and a decline in profit margins"*.

Figure 3: Deviation of headline inflation from target (left) and inflation forecasts (right), in %



Source: IMF.

Note: Left panel: Percentage points, as of 2024:Q2. Right panel: percentage point, deviation from target. AE = advanced Europe; CESEE = Central, Eastern, and Southeastern Europe; AE = advanced economies

However, risks to the near-term outlook are biased downwards. Demand could be lower than expected due to various reasons such as consumers remaining more cautious and retaining more of their savings, stronger effects of previous monetary policy tightening, greater persistence of core inflation or renewed spikes in shipping costs and commodity prices. Additionally, when these risks materialise, financial institutions could amplify them as they adjust to rising risk premia, further declines in property prices, or crowded trades (i.e. when a large number of investors have taken a similar position in a particular asset or strategy, for example, carry trades funded by short positions in low yielding currencies). On the other hand, demand could pick up sooner or by a larger amount, if for example uncertainty about trade tensions decreases and financial conditions improve faster than expected. Additionally, inflation could plausibly exceed or fall below the baseline forecasts. Furthermore, climate change, geopolitical tensions, and an intensification of protectionist policies could negatively impact potential growth.

The IMF highlights the need for steady macroeconomic policies to help firms and households navigate a more uncertain environment. This means transitioning to a neutral monetary policy stance while reducing private sector deficits without jeopardising a smooth landing. According to the IMF, in advanced European economies, the path of monetary loosening should continue steadily because the policy rates are closer to targets compared and the effects of monetary policy are easier to predict compared to the CESEE region. In the CESEE region, the central banks should pursue a more data-dependent and meeting-by-meeting approach to avoid premature or too rapid easing. Additionally, fiscal policy should focus on the rebuilding of buffers and securing debt sustainability. The IMF notes that the new European fiscal governance framework is crucial to reduce debt and strengthen sustainability and should therefore, be implemented as planned.

The IMF invites policymakers to keep *"a watchful eye on downside pressures"* in the European financial sector. Even though banks have substantial capital buffers, vulnerabilities such as exposure to commercial real estate could be worsened by a potential downturn. Therefore, the IMF highlights the importance of rebuilding macroprudential buffers. Additionally, the spillover of risks to non-bank financial intermediaries (NBFIs) should be prevented (see below section on GFSR).

Lastly, the IMF notes that stalled structural reforms have hampered productivity growth in Europe. The IMF agrees with the studies of Draghi (2024) and Letta (2024) that Europe's lack of competitiveness is linked with the incomplete single market. There are still substantial remaining barriers, resulting in low growth and productivity levels. Structural policies should focus on creating a larger and more integrated European single market, especially for goods, services, and capital. According to the IMF, this will provide room for firms and entrepreneurs to innovate and sustainably raise growth. Additionally, it will facilitate structural reforms and raise investment incentives in converging countries. Moreover, a deepening of European integration (e.g. with a more complete single market) would strengthen economic resilience in a shock-prone world.

Global Financial Stability Report

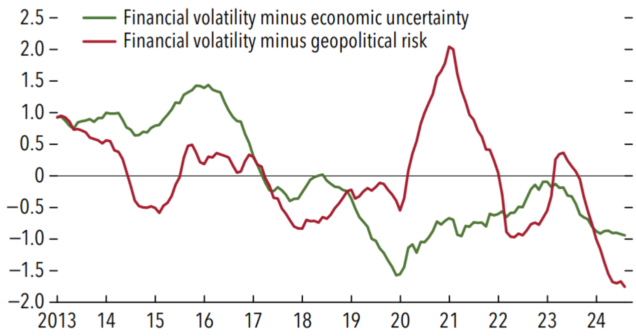
According to the Global Financial Stability Report (GFSR), global economic activity has slowed down and inflation has continued to decrease since the last GFSR edition. The IMF notes that central banks are slowly easing their monetary policy, financial conditions remained favourable, emerging markets have stayed resilient, volatility of asset prices remained low, and short-term financial stability risk remained manageable. However, risks to financial stability are increasing, especially in the medium-term, due to unusually high asset valuations, high private and government debt, and high leverage of NBFIs.

Main findings of the report are the following:

- **Short-term risks** have remained under control since April 2024 although uncertainty and vulnerabilities are rising. Potential shocks are more probable due to heightened economic and geopolitical uncertainty and uncertainty on future policy of newly elected governments.
- **Macro-financial stability** is threatened due to high macroeconomic uncertainty since this leads to downside risks to GDP growth, asset prices, and credit supply.
- **The potential accelerated adoption of AI** in capital market activities could lead to higher volatility during market stress, reducing transparency, challenges for policymakers in monitoring AI adaptation, and increased risks of cyber and market manipulation.

The IMF highlights the growing disconnect between heightened economic and geopolitical uncertainty and low financial market volatility as a threat to short-term financial stability. **Figure 4** shows that the increased gap between volatility and economic and geopolitical uncertainty. This disconnect raises the risk of sudden spikes in market volatility if a shock or correction occurs. Moreover, this can be magnified by vulnerabilities such as lofty asset valuations and high leverage of NBFIs.

Figure 4: Standardised measures of financial volatility, economic uncertainty and geopolitical risk



Source: IMF.
Notes: Left panel shows 12-month moving average values of the differences in z-scores.

According to the IMF, the increasingly high levels of public and private debt remain a vulnerability. The IMF notes that with the quantitative tightening of central banks in advanced economies, price-sensitive buyers will need to absorb more of the government debt which could in return lead to higher volatility in the bond markets and add additional pressure on already destabilised markets. In the case of emerging markets and frontier economies, sovereign bond spreads and credit default swaps spreads are rising more compared to advanced economies due to weak and worsening fiscal buffers. Additionally, private debt is rising due to mid-sized firms borrowing at high interest rates in private credit markets and will potentially rise more due to trade restrictions and geopolitical events.

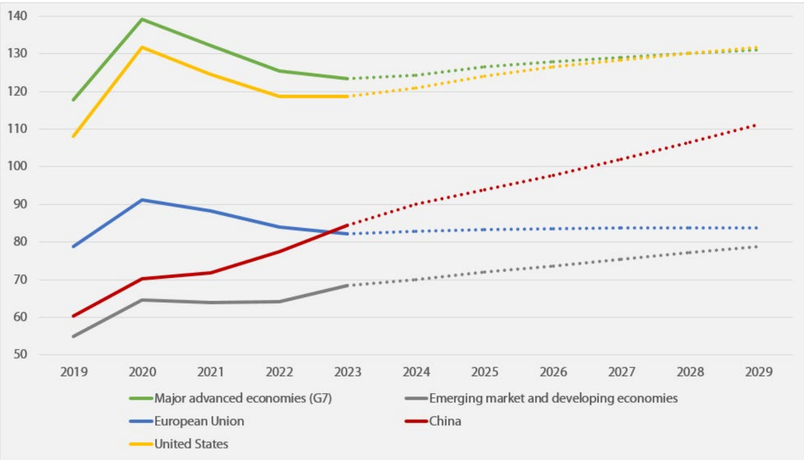
Misalignment between the prices and fundamentals in the commercial real estate sector results in acute pressures on this sector, especially the embattled office sector. According to the IMF, corrections in prices could lead to funding being withdrawn which would reduce prices and therefore, increase pressure on financial institutions. Banks with high concentrations in the commercial real estate sector and nonbank investors (e.g. real estate investment trusts) could experience strains.

The IMF also stresses the risks related to the growth of NBFIs. Firstly, the increasing use of leverage is a risk to the financial stability in the medium term. According to the IMF, a key challenge is the lack of data to assess the risks associated with the high leverage levels of NBFIs. Secondly, the increasing use of AI in capital markets could further support the growth of NBFIs. The IMF notes that although the adoption of AI technologies brings some advantages (e.g. efficiency gains and cost savings), it could also worsen financial stability in the future trough higher volatility during market stress, reducing transparency, and increased risks of cyber and market manipulation. It could also lead to challenges in monitoring how AI is used and by whom.

Fiscal Monitor: need for a strategic pivot on fiscal policy?

Global public debt is expected to exceed USD 100 trillion (93% of global GDP) in 2024, and to continue rising and approach 100% until 2030. The rise in global public debt is mainly driven by China and the US. The Chinese public debt-to-GDP ratio will almost double over the span of one decade, between 2019 and 2029, with sizeable deficits expected between 7.4% and 8.2% of GDP in the 2024-2029 period. In the US, the incoming Trump Administration will face an already challenging fiscal situation, with some estimates suggesting a further increase of public debt should the proposed policies be implemented.[3] Public debt in Europe is expected to stabilise, but remains above pre-pandemic levels (**Figure 5**).

Figure 5: General government gross debt, 2019-2029, % of GDP



Source: Own elaboration based on IMF, WEO October 2024.
Note: Dotted lines represent forecasts.

The risks to the global public debt outlook are elevated and heavily tilted to the upside. Larger fiscal adjustments are needed to get debt under control, in the order of 3-4.5% of GDP cumulative over the medium term on average. It should be noted that this is higher than most countries' historical performance (2.5%) and what most countries are currently planning. There is a strong likelihood that fiscal risks are underestimated. According to the IMF's new debt-at-risk framework, that assesses the role of economic, financial, and political factors in driving debt dynamics, global debt at risk is estimated to be 20 p.p. of GDP higher three years ahead than what is currently accounted for in the baseline projections. In a recent speech, IMF First Deputy Managing Director Gita Gopinath called for a strategic pivot in global fiscal policy. This would entail i) growth-friendly fiscal adjustment, ii) guardrails in form of medium-term fiscal rules and independent fiscal institutions, and iii) ensuring close engagement and buy-in from all stakeholders, including civil society.

The Fiscal Monitor reiterates the fiscal policy trilemma that policymakers face. It includes: i) pressures to spend[4] in a wide range of priority areas (e.g. defence, climate change, competitiveness, growth, education, health, and infrastructure), ii) political resistance to taxation, and iii) the need to ensure macroeconomic stability (public debt sustainability, monetary and financial stability). As a complement to fiscal adjustments, governments are called to implement structural reforms that aim to increase fiscal revenues and lower borrowing costs, such as such as *"business deregulation, enhancing social protection systems, and reducing labor and product market distortions and barriers to trade in goods and services."*

3. IMF institutional and policy issues

The International Monetary and Financial Committee (IMFC) has failed to agree on a joint communiqué following its 50th meeting - for the sixth consecutive time. The Board of Governors of the IMF and the WBG are advised by two committees: i) the IMFC, and ii) the Development Committee. See **Figure 7** in the Annex for an overview the IMF's governance structure. The IMFC[5] typically strives to adopt and issue a joint communiqué during the Spring and Annual Meetings that reflects a consensus opinion among member countries and that provides guidance to the work of the IMF and the WBG. Since the start

[3] See Committee for a Responsible Federal Budget. (2024). "The Fiscal Impact of the Harris and Trump Campaign Plans", US Budget Watch 2024, 28 October; Penn Wharton, University of Pennsylvania. (2024). "The 2024 Trump Campaign Policy Proposals: Budgetary, Economic and Distributional Effects". 26 August. Tax Foundation. (2024). "Donald Trump Tax Plan Ideas: Details and Analysis", 14 October.

[4] Recent IMF research has found that, over the past decades, political parties both left and right have embraced more expansionary fiscal policy. See Cao, Y., Dabla-Norris, E. and Di Gregorio, E. (2024). "Fiscal Discourse and Fiscal Policy", IMF Working Papers WP/24/194, September.

[5] Composed of 24 members, mirroring the composition of the IMF's Executive Board. Current members include representatives from: Algeria, Australia, Austria, Brazil, Canada, Chile, China, Colombia, Djibouti, Finland, France, Germany, India, Italy, Japan, Netherlands, Nigeria, Russia, Saudi Arabia (current Chair), Singapore, Switzerland, United Arab Emirates, United Kingdom and United States.

of the Russian invasion of Ukraine, the IMFC has not been able to adopt a communiqué, now for the fifth consecutive meeting. Instead, the current IMFC Chair, Mr. Mohammed Aljadaan, Minister for Finance of Saudi Arabia, summarised views expressed in a Chair's Statement.

16th general quota review: in process of ratification

Quotas are a central element in the governance structure of the IMF, defining the decision-making power of member countries, their financial commitments and access to financing. Periodically (at least every five years), the IMF's highest decision-making body, the Board of Governors, undertakes a general review of quotas in order to make sure that: i) the IMF has sufficient resources (*overall size of quotas*), and ii) that the allocation of quotas among member countries reflects their relative positions in the world economy (*distribution among members*).

Quota-based financing is considered by the IMF as a first line of defence, and its lending capacity has historically been mainly derived by quota subscriptions. Besides quotas, the IMF also relies on backstops in the form of two supplementary temporary arrangements: the new arrangements to borrow (NAB) as a second, and bilateral borrowing agreements (BBAs) as a third line of defence.

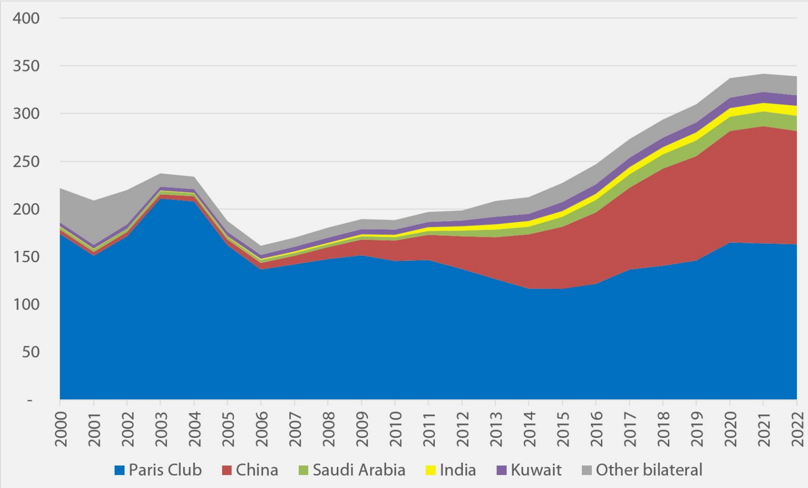
The 16th general quota review was approved by the Board of Governors in December 2023, with the aim to increase by the overall quota size by 50%, while maintaining the status quo on the distribution of quota shares. For this decision to be effective, however, member countries still need to ratify their respective quota increases. Member countries have committed to conclude national ratification procedures by mid-November 2024.

The quota increase will not increase the Fund's overall lending capacity, but it will make it more stable and permanent. The Board of Governors have decided that the quota increase will be accompanied by a commensurate NAB decrease and BBA phasing out, thus maintaining the overall lending capacity.

The more contentious decision on distribution of quota shares between member countries was pushed to the 17th quota review. The Executive Board is to develop, by June 2025, possible approaches as a guide for further quota realignment, including through a new quota formula.

Sovereign debt restructuring initiatives

Figure 6: External bilateral debt, low and lower-middle income countries, by creditor, USD billion



Source: EGOV elaboration based on World Bank, International Debt Statistics.

Notes: Includes public and publicly-guaranteed debt of countries classified as low and lower-middle income economies (World Bank country classification by income). Paris Club includes 22 permanent member countries.

China has emerged to become the world's largest official creditor. In response to this changing landscape, the G20 Common Framework was established to bring together "traditional" Paris Club and "emerging" non-Paris Club major creditors to find solutions for distressed low-income countries' debt.

In April, the IMF's Executive Board made an important policy change in a step towards resolving the recurring deadlocks and delays induced by uncooperative creditors. The Fund's general policy prevents it from lending to sovereigns that are in arrears to official creditors or international financial institutions. However, under certain conditions, the IMF could activate its Lending Into Official Arrears (LIOA) policy, by which it can provide financing despite arrears. On 16 April 2024, the Executive Board endorsed a set of reforms that aim to modify some elements underpinning debt restructuring processes.

As part of the reform, an additional (fourth) strand was added to the LIOA policy. The new strand provides an additional option for the IMF to activate the LIOA policy when major creditor(s) consent is missing. The basis for the activation of the fourth strand would be "additional safeguards" for IMF financing that would include, for instance, phasing programme access and disbursements and specific conditionality to ensure that non-participating creditor cannot extract payments from the debtor on more favourable terms that are not in line with the IMF programme parameters.

In addition, a further change was endorsed concerning the financing assurances policy, to cater for institutional specificities of "emerging" creditors that sometimes hinder debt restructurings. According to this, IMF staff will engage in an assessment of the credibility of the creditors' financing assurances, e.g. the steps in the creditors' internal processes, the decision-makers involved and related information provided to them, and the timeframe for the decision. This departs from previous practice of relying on creditors' statements that debt relief will be delivered within the programme parameters.

Finally, the Global Sovereign Debt Roundtable (GSDR) was set up as a forum to discuss debt treatment issues. Meetings at principals level[6] are scheduled during Spring and Annual Meetings of the IMF and the World Bank. The discussions as part of the October 2024 meeting were summarised in a progress report produced by the co-chairs.

[6] IMF Managing Director, President of the World Bank, Finance Minister of the G20 Presidency, representatives of the official bilateral creditors from and outside the Paris Club, private sector creditors and borrowing countries.

IMF access limits and surcharge policy

In March 2024, the Executive Board decided to extend the temporary increase of normal access limits under its main non-concessional lending operations until end-2024. As a general rule, IMF member countries' normal access to credit under the main General Resources Account (GRA) is subject to two limits: i) the annual limit of 145% of quota, and ii) the cumulative limit of 435% of quota. Beyond these limits, the countries are subject to the Fund's "exceptional access framework", adopted in 2002. Due to high uncertainty and challenging economic environment, in March 2023, normal access limits have been raised to 200% and 600%, respectively, for a period of 12 months. In fact, this temporarily brought access limits back to standard levels in place before the implementation of the 14th general quota review. The temporary increase has now been extended to the end of 2024.

Access limits, together with the surcharge policy explained below, constitute the essential elements of the IMF's risk management framework. The decision to increase quotas by 50% as part of the 16th general review (see above) will result in an automatic increase in access limits in absolute (SDR) terms, thus eroding the Fund's risk management framework. The Executive Board is expected to proceed with a comprehensive review, taking the quota increase into account, by end-2024.

The IMF applies surcharges on outstanding debt under its main non-concessional lending mechanism, the General Resources Account (GRA). They are designed to dis-incentivise over-borrowing and incentivise early repayment. Notably, surcharges affect countries such as Argentina and Ukraine, as they face a heavy debt burden arising from large outstanding credit.

The review of the charges and the surcharge policy was completed in October 2024. The review will alleviate the debt service burden for many member countries. The IMF estimates that these approved measures will reduce borrowing costs by 36% for all member countries (about USD 1.2 billion annually) and that the expected number of countries subject to surcharges will fall from 19 to 11.

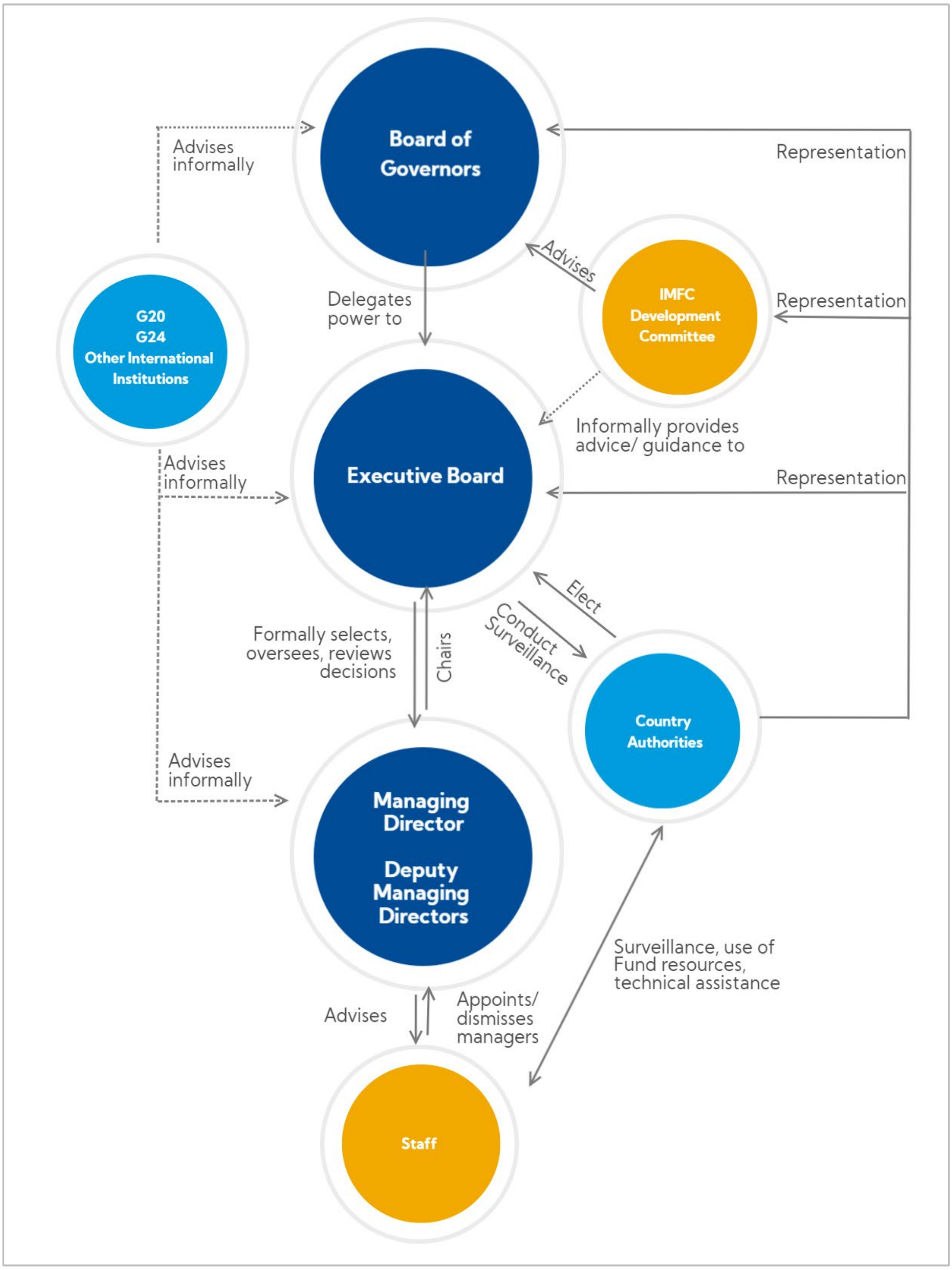
Table 2: Review of the IMF's charges and surcharges policy

	Current SDR rate	Margin	Basic rate of charge	Level-based surcharge	Time-based surcharge	Interest rate with surcharges	Service charge (one-time)	Commitment fees (on undisbursed part of loan)
Pre-review system	3.5%	+100 bps	4.5%	>187.5% of quota: +200 bps	+100 bps	7.5%	+50 bps	<115% of quota: +15 bps >115% and >575%: +30 bps >575%: +60 bps
New system (from 1 Nov 2024)	3.5%	+60 bps	4.1%	>300% of quota: +200 bps	+75 bps	6.85%	+50 bps	<200% of quota: +15 bps >200% and <600%: +30 bps >600%: +60 bps

Source: Own elaboration based on IMF.

ANNEX

Figure 7: The governance structure of the IMF



Source: *IMF*.

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