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

and

Section 605(d) of the
Foreign Operations, Export Financing, and Related Programs
Appropriations Act, 1999

United States Department of the Treasury
March 2016

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Introduction

This report provides a consolidated response to two legislative provisions that require Treasury to report to Congress on reform efforts and standby arrangements or programs undertaken by the International Monetary Fund (IMF).

IMF Policies Reform Report: Section 1705(a) of the International Financial Institutions Act (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 the policies and reforms described in section 1503 of the IFI Act, 22 U.S.C. § 262o-2(a), and (b) the IMF in implementing the policies set forth in section 801(c)(1)(B) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2001, P.L. 106-429.

Treasury and the Office of the U.S. Executive Director (OUSED) at the IMF consistently endeavor to build support in the IMF's Executive Board and with management for these policies, including through meetings with IMF staff and other Board members on country programs and IMF policies, through formal statements by the USED in the IMF Board, and through USED votes in the Board. Treasury's overarching objective is to support strengthened implementation of IMF country programs and sound policy decisions within the IMF. Also, Treasury's Office of International Monetary Policy undertakes outreach to other Treasury offices to increase awareness among Treasury staff about legislative mandates and to identify opportunities to influence IMF decisions in line with broader U.S. international economic policy objectives.

Standby Arrangements: Section 605(d) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1999, P.L. 105-277, mandates reports on IMF standby or other arrangements with its member countries. Annex I provides the information that responds to that provision.

I. Progress of the OUSED in Promoting Policies at the IMF Described in Section 1503(a)

(1) Exchange rate stability

The United States continues to advocate for further improvements to the IMF's surveillance over exchange rates. In 2012, with strong U.S. support, the IMF produced a pilot External Sector Report (ESR), which represents a substantial enhancement to the IMF's work on external analysis as it includes (a) much greater in-depth coverage of IMF exchange rate assessments, as well as assessments of reserves; (b) the drivers of current account imbalances; and (c) information on capital flows and measures. In response to U.S. pressure, the IMF elevated the ESR in 2015 from a "pilot" to a permanent publication.

The United States encourages countries to pursue more flexible exchange rates, based on underlying fundamentals, including through the following examples:

- In a December 2014 Board statement on the 5th review of Tunisia's Stand-By Arrangement, the OUSED welcomed the authorities' recent shift to greater exchange rate flexibility and encouraged the government to allow the overvalued exchange rate to adjust to bolster reserve buffers and reduce a large current account deficit.

- In a September 2015 Board statement on Australia's Article IV, the OUSED expressed concern over the authorities' public statements on the desired direction of the exchange rate. The OUSED urged the authorities to avoid statements that could be perceived as inconsistent with their international commitment to a market-determined exchange rate.

As part of the G-20 agenda, Treasury has pressed for increased candor, transparency, and even-handedness of IMF exchange rate surveillance. In particular, Treasury continues to advocate that IMF staff make tougher ultimate judgments on members' exchange rate management practices. At the September 2015 G-20 Finance Minister and Central Bank Governors meeting in Ankara, Turkey, members reiterated that they would move more rapidly toward more market-determined exchange rate systems and exchange rate flexibility that reflects underlying fundamentals, and not to target exchange rates for competitive purposes.

(2) Policies to increase the effectiveness of the IMF in promoting market-oriented reform, trade liberalization, economic growth, democratic governance, and social stability through:

(A) Establishment of an independent monetary authority

With the support of the United States, the IMF consistently advocates for greater independence for monetary authorities in member economies. In fact, IMF program conditionality frequently includes measures to strengthen central bank autonomy and accountability; and the institution provides technical assistance to help countries achieve these goals. The United States continues to encourage the IMF to support monetary authority independence in various ways, such as:

- In a June 2015 Board statement on the 7th review of Pakistan's Extended Fund Facility, the OUSED urged the authorities to pass a bill to enhance central bank independence and highlighted the implementation of an improved interest rate corridor.

- In a March 2015 joint Board statement on Malawi's 5th and 6th Extended Credit Facility review, the OUSED noted that a clearly articulated monetary policy communicated by an independent central bank will contribute to stabilizing the economy.

- In a November 2014 Board statement on Turkey's Article IV staff report, the OUSED urged the authorities to safeguard central bank independence. In particular, the OUSED noted with concern recent comments by senior Turkish policymakers about the conduct of monetary policy and stressed that further political interference could undermine the credibility and independence of the central bank.

(B) Fair and open internal competition among domestic enterprises

Although the World Bank leads on this issue, the IMF encourages member countries to pursue policies to improve economic efficiency. These measures may include ending directed lending (or other relationships between government and businesses based on favoritism), improving antitrust enforcement, and establishing a sound and transparent legal system. United States leadership at the IMF encourages fair and open competition globally, including:

- In a December 2014 Board statement on the 5th review of Tunisia's Stand-By Arrangement, the OUSED urged the authorities to advance economic legislation, particularly bills related to bankruptcy, competition, and public-private partnerships, noting that such policies are vital to raising potential growth and improving the political and security environment.

- In a September 2015 Board statement on the Democratic Republic of the Congo's Article IV staff report, the OUSED encouraged the authorities to submit a supplementary budget and urged greater progress with respect to collecting adequate royalties and improving the competitive bidding process in the mining sector.

- In an October 2015 Board statement on Ethiopia's Article IV staff report, the OUSED noted that domestic bank credit was strikingly low and much of it was funneled to state-owned enterprises via a complex system of financial repression, crowding out the private sector and hindering its ability to contribute meaningfully to growth.

(C) Privatization

Often collaborating with the World Bank, the IMF supports competitive and transparent privatization processes to promote economic efficiency and improve member country fiscal positions. Examples of IMF program and surveillance discussions in which the OUSED has advocated privatization include:

- In a June 2015 Board statement on the 7th review of Pakistan's Extended Fund Facility, the OUSED underscored the need for continued progress on the privatization of public sector enterprises.

- In an April 2015 Board statement on The Gambia's request for a Rapid Credit Facility, the OUSED welcomed the authorities' intention to privatize the state telecom company.

(D) Economic deregulation and strong legal frameworks

A lack of strong property rights, fair and open competition, and contract enforcement distorts markets and stifles entrepreneurship. While the World Bank often addresses these issues, IMF staff also provides relevant advice on measures considered critical to macroeconomic performance. The United States continues to advocate at the IMF for improved legal frameworks to protect property rights and promote open competition.

- In an August 2015 Board statement on the United Arab Emirates' Article IV staff report, the OUSED highlighted the importance of structural reforms to diversify the economy and to accelerate private sector-led job creation. The OUSED urged the authorities to open the economy to foreign direct investment and to improve the business environment.

- In a February 2015 Board statement on India's Article IV staff report, the OUSED recommended that the authorities further liberalize the country's capital markets by relaxing caps that restrict foreign investor holdings of government securities.

(E) Social safety nets

Investment in human development and basic social services is important for sustained economic growth. Cost effective social safety nets can be important in garnering popular support for economic reforms and in cushioning the impact of economic downturns on the population. Through Board statements at the IMF, the United States has stressed the importance of protecting social safety net spending, including:

- In a May 2015 Board statement on Korea's Article IV staff report, the OUSED urged the authorities to strengthen the country's social safety nets in the face of growing inequality and weak fiscal redistribution.

- In a June 2015 Board statement on Grenada's Article IV staff report, the OUSED encouraged the authorities to expedite progress on social spending. The OUSED also urged implementation of the country's Growth and Poverty Strategy to complement recent tax and investment regime reforms.

- In a February 2015 Board statement on Liberia's request for a Rapid Credit Facility and Debt Relief under the Catastrophic Containment and Relief (CCR Trust), the OUSED urged the authorities to devote additional resources to strengthen social safety nets, including food programs and non-Ebola related healthcare.

(F) Opening of markets for agricultural goods through reductions in trade barriers

The IMF encourages a multilateral, rules-based approach to trade liberalization across all sectors of the global economy, including the agricultural sector. The IMF is prepared to provide transitional assistance to member countries experiencing agricultural payment imbalances arising from trade reform legislation. Through Board statements at the IMF, the United States has stressed the importance of opening markets for agricultural goods, including:

- In a March 2015 Board statement on Niger's Article IV staff report and 5th and 6th Extended Credit Facility reviews, the OUSED encouraged the authorities to implement the government's food deficit initiative. The OUSED urged the government to boost agricultural production by removing trade and non-trade barriers and by improving farming techniques.

- In an October 2015 Board statement on Ethiopia's Article IV staff report, the OUSED urged the authorities to reduce trade barriers, and noted that structural reforms and greater trade openness could boost competitiveness.

(3) Strengthened financial systems and adoption of sound banking principles and practices

The joint IMF-World Bank Financial Sector Assessment Program (FSAP) is an important instrument for financial sector surveillance and advice. IMF staff uses FSAPs to assess compliance with key financial sector standards, including the Basel Committee's Core Principles for Effective Banking Supervision, the International Organization of Securities Commissions' Objectives and Principles of Securities Regulation, and the IMF's own Code of Good Practices on Transparency in Monetary and Financial Policies.

The IMF also conducts financial sector surveillance through a semi-annual Early Warning Exercise (EWE) and Global Financial Stability Report (GFSR), which identify the most relevant tail risks to the global economy or major regions and provide relevant policy advice. In 2015, the United States underwent an FSAP surveillance process, and the report can be found using the following link: http://www.imf.org/external/pubs/ft/scr/2015/cr15170.pdf. Examples of the United States supporting the strengthening of financial systems include:

- In a June 2015 Board statement on Lebanon's Article IV staff report, the OUSED welcomed the central bank's introduction of new macro-prudential measures aimed at containing risks within the financial sector. The OUSED further noted that the size of the financial sector and the interlinkages with the public sector represent a key vulnerability for Lebanon, and, with this in mind, urged the authorities to align risk-weighting policies with the Basel capital adequacy framework to provide banks with sufficient buffers against potential shocks.

- In a January 2015 Board statement on Ireland's 2nd post-program monitoring review, the OUSED emphasized the need for banks to accelerate resolution of non-performing commercial loans to ensure businesses' access to credit. The OUSED commended Irish authorities for the success of their Mortgage Arrears Resolution Targets program, designed to facilitate faster resolution of home foreclosures through more efficient bankruptcy proceedings, but encouraged the authorities to address remaining legal and administrative impediments to quicker commercial loan resolution.

- In an October 2015 Board statement on Namibia's Article IV staff report, the OUSED commended staff's assessment that the rapid increase in house prices and household credit poses risks to the financial sector that need to be contained.

(4) Internationally acceptable domestic bankruptcy laws and regulations

In coordination with other international financial institutions, including the World Bank, IMF staff provides technical assistance to member economies as they develop efficient insolvency regimes. An example of the OUSED supporting the development of domestic bankruptcy laws and regulations include:

- In a September 2015 Board statement on Cyprus' 5th, 6th, and 7th Extended Fund Facility review, the OUSED welcomed the strengthening of the foreclosures regime and new personal insolvency legislation, and concurred with staff that making these frameworks operational should be an immediate objective. The OUSED noted that having the frameworks in place is a necessary condition for the banks to reduce their portfolios of non-performing loans, which amount to more than 50 percent of gross loans.

(5) Private sector involvement in crisis resolution

A healthy private sector contributes to economic stability and growth. The private sector, therefore, plays an important role in moving countries out of economic and financial crisis. The United States encourages governments to promote private sector activity, including through business climate reforms and privatization of state-owned enterprises. The following examples highlight actions the OUSED has taken to continue to promote private sector growth:

- In a June 2015 Board statement on the Seychelles' Article IV staff report and the 2nd review of its Extended Fund Facility, the OUSED noted that structural reforms to promote private sector activity could strengthen the medium-term outlook and reinforce macroeconomic stability. The USED also suggested that reforms to loss-making state-owned enterprises could increase competitiveness while simultaneously reducing fiscal risks.

- In a July 2015 Board statement on the 1st review of Ukraine's Extended Arrangement, the OUSED urged the authorities to redouble their efforts to tackle corruption and to transform the business climate to support private sector led growth.

(A) Strengthening crisis prevention through improved surveillance of economic policies and financial sector development

The United States encourages the IMF to further strengthen surveillance and crisis prevention capabilities, and to support robust surveillance on monetary and financial issues, including:

- In a February 2015 Board statement on Liberia's request for a Rapid Credit Facility and Debt Relief under the Catastrophic Containment and Relief (CCR) Trust, the OUSED echoed IMF staff concerns about widespread regulatory forbearance and called on staff and the authorities to closely monitor financial sector vulnerabilities.

- In a January 2015 Board statement on Canada's Article IV staff report, the OUSED encouraged the authorities to continue to implement the over-the-counter derivatives reform committed to at the 2009 G-20 Leaders Summit. The OUSED noted that recent efforts to identify financial sector data gaps by mandating reporting of certain financial transactions to trade repositories are an example of progress in fulling these commitments.

(B) Strengthening of emerging markets' financial systems

The IMF continues to work with other IFIs to promote stronger financial systems in emerging market economies. Beyond carrying out financial system surveillance functions, the IMF provides technical assistance to low- and lower-middle-income countries to promote financial sector sustainability. Examples of the OUSED supporting a strengthening of emerging market financial systems include:

- In a July 2015 Board statement on China's Article IV staff report, the OUSED argued that faster progress on financial liberalization is needed to move to a market-based financial system, which would help address significant vulnerabilities in China from high and still rising credit rates.

- In an April 2014 Board statement on The Gambia's request for a Rapid Credit Facility, the OUSED noted the dangers posed to the financial sector through excessive exposure to government debt, the high levels of non-performing loans, and a significant degree of concentration risk. The OUSED welcomed the Gambian request for IMF technical assistance to improve credit risk testing, and to develop a resolution framework.

(C-H) Strengthened crisis resolution mechanisms

The United States encourages appropriate private sector involvement in financial crisis resolution, including facilitating IMF efforts to strengthen crisis prevention and resolution mechanisms worldwide. Most recently, the United States has worked to improve sovereign debt restructuring processes. In October 2014, the IMF Board endorsed a proposal based on work from a Treasury-facilitated roundtable for a new model of *pari passu* and collective action clauses (CAC). During the Board meeting, the OUSED strongly supported these contract revisions and underscored the IMF's lead role in promoting adoption of the clauses. The IMF reported in September 2015 that 85 percent of new sovereign foreign debt issuances include the new provisions. To reduce the outstanding stock of debt that does not contain the clauses, the IMF plans to consider potential market-based solutions such as accelerated turnover and proactively managing restructurings to minimize holdout risks.

(6) Good governance

The IMF emphasizes good governance when providing policy advice, financial support, and technical assistance to member countries. The IMF supports good governance through an emphasis on transparency, strong fiduciary diagnostics, and promotion of market-based reforms. The IMF's involvement has focused on those governance aspects that are generally considered part of the IMF's core expertise, such as improving public administration, increasing government transparency, enhancing data dissemination, and implementing effective financial sector supervision. Examples of U.S. efforts to encourage good governance include:

- In a September 2015 Board statement on Kenya's Stand-By Arrangement review, the OUSED encouraged the authorities to continue to improve the business climate and put in place procedures and measures to maximize the return on infrastructure investments.

- In a May 2015 Board statement on Haiti's Article IV staff report, the OUSED urged the authorities to quickly establish a Treasury Single Account, which will enable more effective government financial management.

(7) Channeling public funds away from unproductive purposes, including large "showcase" projects and excessive military spending, and toward investment in human and physical capital to protect the neediest and promote social equity

The IMF's Code of Good Practices on Fiscal Transparency identified principles and practices to enhance fiscal policy transparency, promote quality audit and accounting standards, and reduce or eliminate off-budget transactions. The IMF also developed a Guide to Resource Revenue Transparency and a Fiscal Report on Standards and Codes (Fiscal ROSC) for use in resource-rich (oil/gas-mining) countries. Examples of the OUSED promoting improved channeling of public resources include:

- In an August 2015 Board statement on Mozambique's Policy Support Instrument, the OUSED urged the authorities to effectively address the country's large public sector wage bill and achieve a sustainable level of spending to avoid cutting critical infrastructure projects and basic health and education services.

- In a July 2015 Board statement on Morocco's successor Precautionary and Liquidity Line, the OUSED welcomed the authorities' successful reduction of fiscal and current account deficits by reducing energy subsidies. The USED also encouraged the authorities to take advantage of favorable economic conditions to reform the remaining subsidy programs and establish more efficient programs to protect the most vulnerable.

(8) Economic prescriptions appropriate to the economic circumstances of each country

The United States has emphasized the need to focus policy advice on issues critical to growth and macroeconomic stability in each country. We have supported IMF staff efforts to increasingly tailor policy advice to country-specific circumstances. The United States has supported country-relevant economic prescriptions in the following ways:

- In a July 2015 Board statement on the United Kingdom's Article IV staff report, the OUSED noted that due to London's housing inflation rate being far beyond that for the rest of the country, macro prudential policies to prevent a housing price bubble, including lowering loan-to-value ratios on mortgages, should be applied regionally. Since the government's Help-to-Buy program to increase home ownership began in 2013, the number of mortgages with high loan-to-value ratios has increased significantly.

- In a June 2015 Board statement on Portugal's Article IV staff report, the OUSED acknowledged that fiscal adjustment should remain a priority given Portugal's high debt stock. However, the OUSED recognized that Portuguese authorities face setbacks from multiple Constitutional Court rulings nullifying approved reforms. The OUSED welcomed staff efforts to explore growth-friendly measures and further improve the design of fiscal reforms.

(9) Core labor standards ("CLS")

The United States promotes integration of core labor standards into the IMF's analysis, including by encouraging the IMF to cooperate with the International Labor Organization (ILO) to establish best practices on CLS policies. With United States encouragement, the IMF reviews member country labor market policies and practices, often as part of the annual Article IV consultation process.

(10) Discouraging practices that may promote ethnic or social strife

By helping to create the conditions for a sound economy, IMF assistance can help reduce ethnic and social strife. The United States encourages the IMF to highlight the development and improvement of social safety nets in member countries, including those implementing difficult economic reforms. The IMF increasingly consults widely throughout the population of such member countries, including with NGOs, academics, and think tanks, to develop a strong constituency for economic reforms. The United States continues to discourage practices that may promote ethnic or social strife. For example, in a February 2015 Board statement on Niger's Article IV staff report and 5th and 6th Extended Credit Facility reviews, the OUSED welcomed the government's intention to prioritize spending in key sectors, including food, water, health and education, but noted shortfalls in actual spending when compared with the authorities' targets over the past several years.

(11) Link between environmental and macroeconomic conditions and policies

Where environmental issues pose fiscal, financial, and macroeconomic challenges, the IMF provides advice in line with its mandate and expertise. The other IFIs and the IMF work together to assess the magnitude of pollution and other major environmental side effects associated with fossil fuel use. Together, these IFIs provide guidance on energy tax reforms for a broad range of developed and developing countries. The United States supports policies that increase macroeconomic stability while reducing negative environmental impacts, including by encouraging fossil fuel subsidies in member countries as in the following examples:

- In a July 2015 Board statement on Iraq's request for a Rapid Financing Instrument, the OUSED welcomed the authorities' commitment to comprehensive economic reform, which the OUSED noted should include quick implementation of electricity tariff reform and further fuel subsidy reforms.

- In a September 2015 Board statement on the 6th review of Tunisia's Stand-By Arrangement, the OUSED urged the authorities to implement durable energy subsidy reform, including an automatic fuel price adjustment mechanism and full cost-recovery electricity tariffs, to help insulate the budget from energy price fluctuations.

(12) Greater transparency

With strong U.S. support, the IMF emphasizes the need for increased transparency in policy development and implementation. Part of this process includes publication of the Article IV staff report, which the United States urges all member economies to do. The Board completed its latest review of IMF transparency in June 2013, which review continued to favor publication of all Article IV and Use of IMF Resources documents. According to the IMF, in 2014, 92 percent of member countries agreed to publish a press release, providing the IMF Executive Board's assessment of the member's macroeconomic and financial situation, and 92 percent of members agreed to publish the IMF country report.

With U.S. support, the IMF continues to urge countries to provide additional economic and financial information to the public by regularly releasing data consistent with the IMF's Special Data Dissemination Standards (SDDS). Over 90 percent of Fund members subscribe to either the General Data Dissemination Standards or SDDS. In 2015, the IMF announced the first group of adherents, including the United States, to the SDDS Plus initiative, which includes nine additional data categories. The OUSED continues to urge greater transparency of IMF member countries, including:

- In a July 2015 Board statement on China's Article IV staff report, the OUSED urged the Chinese authorities to increase transparency of reserve holdings and exchange market intervention, through reporting to the Currency Composition of Official Foreign Exchange Reserves (COFER) and through disclosure, ex post, of actual intervention amounts, and to dedicate resources to improve data quality.

- In a May 2015 Board statement on Switzerland's Article IV staff report, the OUSED commended the authorities for taking steps to bring bank secrecy laws in line with international standards. The OUSED called on the government to heighten bank disclosure requirements and noted that such measures are crucial to protect the integrity of the country as an international financial center, to prevent money laundering, and to counter tax base erosion in Switzerland's partners.

- In a June 2015 Board statement on Lebanon's Article IV staff report, the OUSED highlighted several references to the deteriorating apparatus for collecting, sharing, and disseminating data. The OUSED expressed concern about capacity constraints related to the country's data production and asked IMF staff about the provision of technical assistance.

(13) Greater IMF accountability and enhanced self-evaluation

In 2000, with the strong urging of the OUSED, the Executive Board established an Independent Evaluation Office (IEO) to supplement existing internal and external evaluation activities. The IEO provides objective and independent evaluation of IMF policies and activities, and operates independently of IMF management and at arm's length from the IMF Board. The IEO has three key mission 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. On average, the IEO concludes two or three evaluations per year, and each evaluation normally takes about

18 months to complete. Recent evaluations include the following, which are publicly available on the IEO's website:[1]

- Self-Evaluation at the IMF, an IEO Assessment (October 2015)
- IMF Response to the Financial and Economic Crisis: an IEO Evaluation (October 2014)
- Revisiting the 2004 IEO Evaluation of the IMF's Role in PRSPs and the PRGF and the 2007 IEO Evaluation of the IMF and Aid to Sub-Saharan Africa (August 2014)

The IEO is currently working on two other evaluations: The IMF and the Euro Area Crisis and Statistics for Global Economic and Financial Stability: the Role of the IMF. These reports should be available soon.

In addition to supporting the IEO's work, the United States encourages the IMF to continuously take stock of its policies and lending/policy support instruments, including:

- In a January 2015 Board statement on the 2nd review of Poland's Flexible Credit Line, the OUSED raised concerns about the prolonged use of the IMF's precautionary credit lines, including for Poland. The OUSED urged greater discussion on the conditions under which a country's exit from the facility would be appropriate.

- In a July 2015 Board statement on Japan's Article IV staff report, the OUSED questioned the ideal level of fiscal consolidation, noting that the proposed 2015 level is the same as in 2014 – a level which considerably dampened growth. The OUSED asked staff to comment on the differences between recent work by the IMF Research Department indicating that fiscal multipliers are quite high at the zero lower bound (about 1.0) and OUSED-calculated implied multipliers that were comparatively lower (0.2 for 2015 and 0.6 for 2016 based on IMF staff's projection of the growth impact of Japan's near-term fiscal consolidation).

(14) Structural reforms which facilitate the provision of credit to small businesses, including microenterprise lending

Boosting financial services access to poor households in developing countries will positively impact economic growth. Through the IMF, the United States promotes structural reforms that encourage credit provision to small and micro enterprises, including:

- In an August 2015 Board statement on the United Arab Emirates' Article IV staff report, the OUSED highlighted the importance of structural reforms aimed at further diversifying the economy and accelerating private sector-led job creation for nationals, including through continued opening up of foreign direct investment, improving selected areas of business environment, transitioning toward a knowledge-based economy, easing access to finance for start-ups and SMEs, and creating the right incentives for entrepreneurship and job creation.

[1] http://www.imf.org/external/np/ieo/index.htm

- In a July 2015 Board statement on Spain's Article IV staff report, the OUSED questioned IMF staff's call to reduce the share of GDP contributed by small and micro firms relative to larger firms. IMF staff pointed to the GDP share of small and micro firms in Germany as a target, but the OUSED warned that this would be counterproductive at a time when two-thirds of Spanish workers are employed by small and micro firms. The OUSED encouraged greater focus on legal and regulatory obstacles to entrepreneurship and company growth.

(15) Anti-Money Laundering and Combating the Financing of Terrorism ("AML/CFT")

The United States supports the ongoing work of the IMF to integrate AML/CFT into its programs, including Reports on the Observance of Standards and Codes, the Financial Sector Assessment Program (FSAP), capacity development, and surveillance. In 2014 the IMF Board endorsed the revised Financial Action Task Force (FATF) AML/CFT Recommendations and reaffirmed the IMF commitment to keep AML/CFT as a component of the FSAP. The United States FSAP completed in 2015 included an AML/CFT Technical Note published in July.

The United States supports the active role the IMF plays in the global AML/CFT network administered by the FATF and the FATF-style regional bodies. The IMF has had a direct role in nine of the 11 FATF compliance assessments under the new Recommendations that have been completed or are underway, and has led two assessments. The IMF co-chaired a FATF project team in 2015 developing guidance to countries on the collection and analysis of AML/CFT data and statistics.

Examples of OUSED support for improved AML/CFT frameworks include the following:

- In a June 2015 Board statement on the Bahamas' Article IV staff report, the OUSED urged the authorities to undergo and complete an AML/CFT assessment in a timely fashion.

- In a September 2015 Board statement on Ecuador's Article IV staff report, the OUSED noted concern about banks' weakened asset quality and liquidity, and encouraged the authorities to continue efforts to improve financial sector supervision and strengthen the AML/CFT framework.

II. IMF Implementation of Six Reform Policies Described in Section 801(c)(1)(B)

(I) Suspension of IMF financing if funds are being diverted for purposes other than the purposes for which the financing was intended

With strong U.S. support, the IMF works to ensure that IMF resources are used solely for the purposes for which they are intended. One of the IMF's most effective tools against corruption is the Safeguards Assessment used to prevent possible misuse of IMF resources and misreporting of information. All countries that request IMF resources must agree to undergo a Safeguards Assessment, to identify vulnerabilities in a central bank's control systems. IMF staff carry out this diagnostic exercise to consider the adequacy of five key areas of control and governance within a central bank: (i) the external audit mechanism; (ii) the legal structure and independence; (iii) the financial reporting framework; (iv) the internal audit mechanism; and (v) the internal controls system. To date the IMF has completed 275 assessments covering 94 central banks. The IMF most recently reviewed the framework in October 2015. The review noted that there have been no serious reports of misuse of IMF funds, or misreporting, and that the implementation of recommendations remains high.

(II) IMF financing as a catalyst for private sector financing

The IMF recognizes that, if structured effectively, official financing can complement and attract private sector flows. The IMF promotes policy reforms that catalyze private financing and, in cases of financial crisis, allow countries to regain access to international private capital markets as quickly as possible. (See Section 5 above for a more in-depth discussion of private sector involvement.)

(III) Financing must be disbursed (i) on the basis of specific prior reforms; or (ii) incrementally upon implementation of specific reforms after initial disbursement

IMF disbursements are made in tranches based on a country's performance against specified criteria and policy actions, both prior to and during the program. Together with the rest of the IMF's Executive Board, the OUSED plays a strong oversight role in encouraging IMF management to bring forward new programs or requests for disbursements only after requesting countries have completed required policy actions.

(IV) Open markets and liberalization of trade in goods and services

The IMF has advocated consistently for open markets and trade liberalization. The Fund also recognizes that trade adjustments can cause temporary balance of payments problems and has developed the Trade Integration Mechanism (TIM) to provide transitional financial assistance to countries if needed. The IMF also has a key responsibility in dealing with the revenue implications of trade liberalization, such as sequencing domestic tax reforms with the trade liberalization process. Throughout the financial crisis the IMF consistently advised countries that protectionism is not a path to economic recovery.

The IMF has developed an implementation plan for international trade policy issues that calls for reviews of IMF work on trade policy every five years. The plan calls for more frequent coverage of cross-cutting trade policy issues in the IMF's multilateral and regional surveillance vehicles (such as the World Economic Outlook and the Regional Economic Outlooks), as well as closer cooperation with the WTO and World Bank on trade matters. The first review of IMF work on trade policy was completed in 2015 and emphasized the need to adapt the IMF's trade-related work to the changing global trade policy landscape, while keeping this work selectively focused on issues relevant to macroeconomic performance. A work agenda to operationalize this objective is now being developed.

(V) IMF financing to concentrate chiefly on short-term balance of payments financing

With strong U.S. support, the IMF has continued to innovate, creating new facilities to respond to member countries facing short-term balance of payments concerns. In 2009, for instance, the IMF created the Flexible Credit Line (FCL), the Precautionary and Liquidity Line (PLL) and the Rapid Credit Facility (RCF) to provide members with shorter-term liquidity to meet temporary balance of payments needs. The IMF Board completed a review of these arrangements in 2014, resulting in a modification of PLL assessment criteria, adoption of institutional capacity indicators for assessing qualification, and creation of an external risk index that will help guide discussions about country exit from these credit line arrangements.

(VI) Graduation from receiving financing on concessionary terms

The United States supports comprehensive growth strategies to help countries graduate from concessional to market-based lending. The United States works closely with the IMF and World Bank to promote a growth-oriented agenda in developing countries based on strong macroeconomic and structural policies. The IMF extends concessional credit through the PRGT. Eligibility is based principally 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 cutoff point for IDA eligibility is a per capita GNI level of $1,215. A member will graduate and be removed from the PRGT-eligibility list if the following apply: (1) its annual per capita GNI has been above the IDA cutoff point for the past five years with an increasing trend, and is currently at least twice the operational IDA cutoff for most states (three times the cutoff for small states and six times the cutoff for microstates); and/or (2) the member has the ability to durably and substantially access international financial markets and has a per capita GNI above 80 percent of the IDA cutoff, with GNI per capita on an increasing trend for the past five years; and, (3) the member country faces a low risk of a sharp decline in income or market access and limited debt vulnerabilities, as determined by the IMF's quantitative analysis.

In 2015, Bolivia, Nigeria, Vietnam, and Mongolia graduated from access to concessionary financing.

ANNEX 1 Report to Congress on International Monetary Fund Lending
October 1, 2014 – September 30, 2015

October 1 – December 31, 2014

Board Approval Date	Country	Amount	Type	U.S. Position
11/3/14	Guinea-Bissau	$5.24 million	RCF	Abstain
11/26/14	Mexico	$70 billion	FCL	Support
12/3/14	Honduras	$188.6 million	SBA /SCF	Support

January 1 – March 31, 2015

Board Approval Date	Country	Amount	Type	U.S. Position
1/14/15	Poland (Republic of)	$23 billion	FCL	Support
2/2/15	Kenya	$688.3 million	SBA / SCF	Support
2/23/15	Liberia	$45.6 million $36.5 million	RCF	Support
3/11/15	Ukraine	$17.5 billion	EFF	Support
3/18/15	Central African Republic	$7.62 million	RCF	Support

April 1 – June 30, 2015

Board Approval Date	Country	Amount	Type	U.S. Position
4/2/15	The Gambia	$10.8 million	RCF	Support
4/3/15	Ghana	$918 million	ECF	Support
4/8/15	Kyrgyz Republic	$92.4 million	ECF	Support
6/5/15	Vanuatu	$11.9 million	RCF	Support
6/17/15	Colombia	$5.45 billion	FCL	Support
6/24/15	Senegal	No Financing	PSI	Support

July 1 – September 30, 2015

Board Approval Date	Country	Amount	Type	U.S. Position
7/10/15	Guinea-Bissau	$23.9 million	ECF	Abstain
7/13/15	Sao Tome & Principe	$6.2 million	ECF	Support
7/29/15	Iraq	$1.24 billion	RFI	Support
7/29/15	Kosovo	$206.4 million	SBA	Support
7/31/15	Nepal	$49.7 million	RCF	Support
9/14/15	Central African Republic	$11.8 million	RCF	Support

Notes:

1. FCL: Flexible Credit Line; RCF: Rapid Credit Facility; RFI: Rapid Financing Instrument; PLL: Precautionary and Liquidity Line; ECF: Extended Credit Facility; SBA: Stand-By Arrangement: PSI: Policy Support Instrument; EFF: Extended Fund Facility;

2. The policies described in section 601(4) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act 1999 did not apply to any of the programs above.