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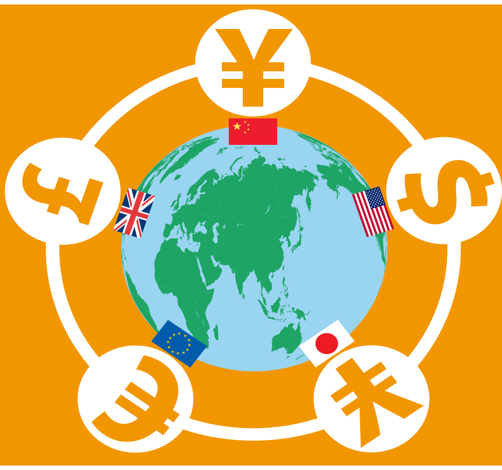
Press release



The IMF should introduce a temporary cap on its surging lending costs, proposes the Centre for European Reform

The International Monetary Fund (IMF/Fund) risks losing traction as the multilateral provider of bailouts to countries in debt distress and needs urgent reform to manage the current financial and geopolitical reality. In a new CER policy brief '[Has the IMF's lending become too expensive for its own good? The case for a lending rate cap]', Sander Tordoir and Tobias Krahnke evaluate how the IMF could reduce its rocketing lending costs.

To tackle the inflation surge that followed the pandemic and Russia's war against Ukraine, major central banks have swiftly hiked interest rates. This has sharply increased the cost of borrowing from the IMF – up to 8 per cent currently – as it already faces competition from bilateral creditors and struggles to facilitate debt write-downs because of intransigent Chinese creditors. The IMF's own lending activities are now at risk of becoming a drag on debtor countries, as the burden of repaying high interest rates to the IMF worsen countries prospects of economic recovery.

The Fund should not reduce its surcharges, as some member countries have called for, as this would only benefit a handful of the largest borrowers. Instead, the IMF should introduce a temporary cap on its main lending rate. A cap would prevent IMF lending activities from becoming prohibitively expensive at a time of multiple shocks to the global economy. It would reduce a regressive redistribution of resources from poorer debtor countries to richer creditor countries. And a cap would discourage debtor countries from relying on opaque funding from bilateral creditors which, unlike the IMF's programmes, is often about gaining political leverage, not restoring economic stability.

The US, the EU and Japan should take the initiative to get the IMF to lower its lending cost if they want to maintain the multilateral order. Doing so protects the IMF's role as the only global lender of last resort which, while still dominated by the West, is owned by the entire world.

Commenting, one of the report's authors, Sander Tordoir, said: "A*s policy-makers from the US and the EU travel to Marrakech this October for the World-Bank IMF Annual Meetings, they should take the initiative to keep IMF lending programmes viable and counter Chinese competition for global influence.*"

"Over the past fifty years, large volumes of IMF financial assistance have coincided with a loosening of global monetary conditions," said Tobias Krahnke. *"Now, for the first time, many countries need the IMF's financing while its main lending rate is shooting up".*

Notes for editors:
For further information on the new research and to request an interview with Sander Tordoir @SanderTordoir and Tobias Krahnke, please contact Octavia Hughes in the CER press office on pressoffice@cer.eu or +44 (0) 20 7233 1199.

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