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INSIGHT

Russia, Ukraine, and the International Financial Institutions

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On March 1, in the wake of Russia's invasion of Ukraine, the International Monetary Fund (IMF) and the World Bank issued a joint statement, noting that both institutions are working to "assess the economic and financial impact of the conflict and refugees on other countries in the region and the world," and "provide enhanced policy, technical, and financial support to neighboring countries as needed." In addition to efforts to support Ukraine, the conflict raises questions about Russia's continued participation in the international financial institutions (IFIs). A senior European official, for example, told Reuters that, "there is on ongoing discussion to kick Russia out of all international financial institutions." Legislation has been introduced in the House (H.R. 6899) that would restrict Russia's and Belarus's abilities to exchange into hard currency any of their foreign reserves held at the IMF.

Congress may consider examining the effects of these efforts, as well as other policy options, including bilateral and/or multilateral debt relief for Ukraine and financial assistance for neighboring countries to help with the refugee inflows and mitigate the economic contagion from the conflict.

Support for Ukraine

The IMF is the major intergovernmental organization dedicated to international monetary cooperation and stability. A primary activity of the IMF is providing financial assistance to crisis-impacted countries. Prior to Russia's invasion of Ukraine, the IMF had a $5 billion loan in place for Ukraine, which was extended through June 2022. The lending program was approved in June 2020 to help Ukrainian authorities address the Coronavirus Disease 2019 (COVID-19) pandemic and implement various economic reforms. Following the invasion, Ukraine cancelled its preexisting program and sought immediate assistance. On March 8, 2022, the IMF approved a $1.4 billion assistance package to help Ukraine cope with the economic shock of the Russian attack. In contrast to the IMF's traditional lending, the March 2022 funding is through an IMF Rapid Financing Instrument (RFI), which provides faster assistance at lower interest rates to meet an urgent crisis. The IMF's executive board statement on the new funding expressed the board's "strong support for the Ukrainian people."

In addition to IMF lending, Ukraine is able to utilize its allocation of so-called Special Drawing Rights (SDRs), international reserve assets created by the IMF, to supplement its official foreign exchange

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reserves. As part of a $650 billion global allocation of SDRs in August 2021, Ukraine received $2.7 billion; Ukraine largely depleted these funds between August and December 2021. Discussions are ongoing to create a mechanism for the United States and other advanced economies to create a trust fund at the IMF to transfer SDRs to Ukraine to buttress its financial position. Legislation was also introduced (H.R. 6979) that would seek a review of IMF surcharges imposed on large borrowers. Ukraine's earlier lending package was large enough to be subject to these charges; they will not apply to the new emergency support.

On March 7, the World Bank approved a $489 million supplemental budget support package for Ukraine, called Financing of Recovery from Economic Emergency in Ukraine or FREE Ukraine. The package approved by the board consists of a supplemental loan for $350 million and guarantees in the amount of $139 million; the board is also mobilizing grant financing of $134 million and parallel financing of $100 million, resulting in total mobilized support of $723 million. According to the World Bank, the funds will help the government provide critical services to Ukrainian people, including wages for hospital workers, pensions for the elderly, and social programs for the vulnerable. This package is in addition to the 11 ongoing World Bank projects in Ukraine, totaling $3.3 billion. The World Bank also set up a multidonor trust fund (MDTF) in March 2022 to facilitate channeling grant resources from donors to Ukraine, with contributions from the UK, Denmark, Latvia, Lithuania, and Iceland, currently in the amount of $134 million. In addition, Japan is linking $100 million in parallel, bilateral financing to the World Bank support package.

Other IFIs that have come forward to support Ukraine include the European Bank for Reconstruction and Development (EBRD), which announced a €2 billion ($2.2 billion) support package for the Ukrainian private sector. According to the bank, funding will be made available to support Ukrainian companies—for example, with deferred loans, liquidity support, and trade finance. Additional assistance is expected to follow, including assistance for relocating Ukrainian companies and rebuilding the Ukrainian economy once the conflict has ended. Ukraine is one of the EBRD's largest borrowers, with cumulative lending of more than €16 billion ($17.58 billion) in 511 projects since the EBRD started work, including more than €1 billion ($1.2 billion) in 2021.

Russia

Since Russia first invaded parts of Ukraine in 2014, the EBRD and World Bank have not approved any new loans for Russia. However, Russia remains one of the EBRD's largest borrowers with a current portfolio of projects worth €940 million ($1 billion). On March 1, EBRD directors began procedures to suspend Russia's and Belarus's access to EBRD finance. The China-based Asian Infrastructure Investment Bank has suspended operations in Russia, as has the New Development Bank (whose members include Russia, China, Brazil, India, and South Africa).

IMF resources that supplement central bank reserves remain one of the few multilateral options technically available to Russia. The Ukrainian Central Bank has asked the IMF and the G-7 major economies to limit the participation of Russian (and Belarusian) representatives in their activities. On March 10, IMF Managing Director Kristoleva Georgieva said that it is "highly improbable" that Russia would be able to access any of the $17 billion of its SDRs held at the fund.

Author Information

Martin A. Weiss
Specialist in International Trade and Finance

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