May 16, 2022

Ukraine and International Financial Institutions

Russia's war against Ukraine has devastated the Ukrainian economy and is having widespread repercussions in Europe and around the world. While the economic impact is largest in Ukraine, neighboring countries are suffering from trade disruptions; higher food, energy, and commodity prices; and an influx of refugees. The World Bank, the International Monetary Fund (IMF), and other international financial institutions (IFIs) are providing emergency assistance to Ukraine and neighboring countries and are developing short- and medium-term assistance strategies. The United States government is supporting these efforts through U.S. leadership at the IFIs and through additional bilateral contributions. On April 28, the Biden Administration requested new FY2022 funding for IFIs as part of an emergency supplemental budget request for Ukraine, which was incorporated in H.R. 7691, which passed the House on May 10.

Background: Economic Outlook in Ukraine

According to the World Bank, Ukraine's economy is expected to shrink by an estimated 45.1% this year (**Table 1**). The IMF estimates that Ukraine needs around $4.8 billion by the end of 2022. Economic reconstruction, once the war ends, will require substantially more funds over the next several years. Also of concern is Ukraine's external debt, which stood at $57 billion at the end of 2021. This included $13.4 billion owed to the IMF, $6.5 billion to bilateral official creditors (including $41.5 million to the United States), and $22.7 million in Eurobonds.

Table 1. Ukraine: Selected Economic Indicators

Annual percentage change, unless noted

	2020	2021e	2022f
Real GDP Growth	-3.8	3.4	-45.1
Inflation	5.0	10.0	15.0
Debt (% of GDP)	60.4	50.7	90.7
Exports (Goods and Services)	-5.8	-10.4	-80.0
Imports (Goods and Services)	-6.4	12.7	-70.0
Upper Middle Income Poverty Rate ($5.5 a day in 2011)	2.5	1.8	19.8

Source: World Bank, Europe and Central Asia Economic Update, Spring 2022.

Notes: e = expected, f = forecast.

Selected IMF Activities

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 countries during economic crisis, whether induced (e.g., poor management, inappropriate policies) or the result of external shocks. Ukraine has been the recipient of IMF programs since 2015. Prior to Russia's 2022 invasion, the IMF had a $5 billion loan in place for Ukraine, which had been 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 February 2022 invasion, Ukraine cancelled its preexisting program and sought rapid IMF emergency 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 utilizing its allocation of Special Drawing Rights (SDRs), international reserve assets created by the IMF to supplement Ukrainian official foreign exchange 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.

At the request of Canada, and with the support of the United States, the IMF established on April 8 a special account to allow individual countries to donate resources (either as grants or loans) that would be disbursed into Ukraine's account at the IMF. The so-called "administered account" is designed to allow interested countries to pool and channel resources to help Ukraine meet balance-of-payments and budget needs arising from the war and support macroeconomic stability, while taking advantage of the IMF's expertise and capacity. Canada has indicated that it will offer up to CA$1 billion ($795 million) in loan resources for Ukraine, which would be disbursed through the account in its current federal budget.

Another IMF option to support Ukraine and economies affected by the crisis is the new Resilience and Sustainability Trust (RST). The RST was created in spring 2021 in order to "help low-income and vulnerable middle-income countries address longer-term structural challenges that pose macroeconomic risks, including climate change and pandemics."

In August 2021, IMF members approved a $650 billion allocation of SDRs that were allocated to member states based on their quota in the institution. The United States and other advanced economies have the option to reallocate their SDRs to trust funds such as the RST or the Poverty Reduction and Growth Trust (PRGT, another IMF fund focused on grants and low-interest loans to the poorest countries), where they can be utilized to fund assistance for low-income or crisis-afflicted countries. The RST, which the IMF hopes will reach $50 billion, was created explicitly as a vehicle to channel unused SDRs.

The Biden Administration is requesting legislative authority to lend up to $21 billion of U.S. SDRs to the RST and the PRGT. The Administration had requested the necessary authorizations last year, but they were not included in the FY2022 Consolidated Appropriations Act (P.L. 117-103), although $102 million was appropriated for the PRGT.

Selected World Bank Activities

The World Bank focuses on poverty alleviation and economic development. On March 7, 2022, it approved a $489 million supplemental budget support package for Ukraine, called Financing of Recovery from Economic Emergency in Ukraine (FREE Ukraine). The package comprises 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 the 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, in areas such as energy, education, and transportation networks.

The World Bank also established a multidonor trust fund (MDTF) in March 2022 to facilitate channeling grant resources from donors to Ukraine, with contributions from Denmark, Iceland, Latvia, Lithuania, and the United Kingdom. On April 20, the Biden Administration announced that through the U.S. Agency for International Development (USAID), the U.S. government is set to contribute $500 million to the MDTF. In addition, Japan is linking $100 million in parallel, bilateral financing to the World Bank support package.

At the World Bank's spring 2022 meetings, the Bank outlined a two-pronged short- and medium-term crisis response measure related to Ukraine. Between April and July 2022, the Bank intends to prioritize an initial crisis response with total commitments of around $50 billion. The response will include "increasing support to (1) Ukraine, (2) countries hosting refugees from Ukraine, and (3) the wider developing world to address crisis impacts on the poor and vulnerable." The Bank is also considering a 15-month loan package of around $170 billion (through June 2023). In addition to addressing the impacts of the war, the Bank is responding to the food and fuel price shocks, and disruptions to trade, supply chains, and foreign direct investment (FDI); the COVID-19 pandemic; and climate.

Selected European Bank for Reconstruction and Development Activities

The European Bank for Reconstruction and Development (EBRD) was founded in 1991 to support the transition of the former Soviet and eastern European economies to market-based economies. The EBRD announced a €2 billion (about $2.2 billion) support package for the Ukrainian private sector on March 9. According the Bank, funding will be made available to support Ukrainian companies through several mechanisms, such as 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 war ends.

Ukraine is one of the EBRD's largest borrowers, with cumulative lending of more than €16 billion ($17.58 billion) in 511 projects since 1996, including more than €1 billion ($1.2 billion) in 2021. The Biden Administration is requesting $500 million for the EBRD in the FY2022 supplemental request (H.R. 7691).

Issues for Congress

Members of Congress have considered legislation related to Ukraine and IFIs in recent months. For example, H.R. 7081, the Ukraine Comprehensive Debt Relief Act, would direct (1) U.S. representatives at the IFIs to support the immediate suspension of Ukraine's debt payments; (2) the Secretaries of the Treasury and State to help coordinate comprehensive debt relief for Ukraine from government and commercial creditors; and (3) U.S. representatives to support concessional financial assistance for Ukraine at the IFIs.

Looking ahead, some Members might also seek legislation to shield Ukraine from holdout creditors; this approach was used for Iraq in 2003 under an executive order. Members might also consider supporting greater financial assistance for neighboring countries to help with the refugee inflows and to mitigate the economic contagion from the conflict.

Members may also debate efforts to isolate Russia at the IFIs. For example, H.R. 6891, the Isolate Russian Government Officials Act of 2022, if passed, would require the United States to lead efforts to exclude Russian government officials from IFI meetings. On March 1, EBRD directors began procedures to suspend Russia's and Belarus's access to EBRD finance, and on April 4, EBRD members approved an operational suspension of Russia's access to EBRD resources. This required approval of members holding three-quarters of EBRD voting power and two-thirds of all members. Going further, a senior European official, for example, told Reuters that "there is on ongoing discussion to kick Russia out of all international financial institutions." Such actions, some argue, would have little benefit to Ukraine and could undermine the institutions' ability to operate constructively in Russia if there is a change of government in the future.

Martin A. Weiss, Specialist in International Trade and Finance

IF12107

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.