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SAXTON CALLS FOR IMF BOND ISSUE

WASHINGTON, D.C. -- The International Monetary Fund (IMF) should issue bonds in financial markets if it believes that it needs additional resources, **Joint Economic Committee (JEC) Chairman Jim Saxton (R-N.J.)** said today. The World Bank already raises much of its funds in this manner, he added.

"With the standard IMF loan rate currently floating at about 4.5 percent, there should be no surprise that loan demand is expected to be very high in the future," Saxton said. "These subsidized interest rate loans amplify the moral hazard problem endemic to IMF operations. If the IMF issued bonds, the loan rates to IMF borrowers necessarily would be closer to market levels, and loans would better proximate a commercial basis. In addition, the IMF would become less reliant on taxpayer funding."

The recent financial problems in Asia and Russia have given rise to suggestions that additional IMF lending may be in the pipeline and that the IMF is running out of resources. However, the IMF retains about $40 billion in quota resources and $23 billion in the General Arrangements to Borrow. Even if all of these resources cannot be used, the IMF is far from destitute. However, the IMF can raise additional resources by issuing bonds if needed. Saxton had called on the IMF last winter to prepare for this eventuality.

IMF bond issues might also work to make financial factors the chief consideration in loan decisions and minimize the importance of political factors. Recent discussions of additional IMF lending to various countries appear to have blurred the difference between such lending and foreign aid. For example, such discussions often do not focus on questions of credit-worthiness, loan interest rates, and duration of lending. IMF bond issues would provide a stronger link with the financial markets and might serve as an important reminder that IMF loans should be sharply distinguished from foreign aid.

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