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VICE CHAIRMAN JIM SAXTON

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IMF SUCCESSION BATTLE HIGHLIGHTS NEED FOR CONGRESSIONAL REFORMS

– Comprehensive IMF Reform Legislation Introduced in Congress –

WASHINGTON, D.C. – The succession struggle over the managing director position at the International Monetary Fund (IMF) demonstrates the need for strong and continuous Congressional pressure for IMF reform, Vice Chairman Jim Saxton of the Joint Economic Committee said today. Yesterday Saxton introduced the most comprehensive IMF reform legislation to be considered in Congress with tough new enforcement provisions to compel IMF compliance.

“Unfortunately, there is no one such as Hans Tietmeyer under consideration for managing director. None of the candidates put forth to date would significantly reform the IMF,” Saxton said. “All would essentially maintain the current drift of the IMF away from its proper focus on crisis lending. This means that if there is to be significant reform of the IMF, it can come only from strong and steady pressure from Congress on the Administration and IMF. It is clear that there is no real interest at the IMF in fundamentally changing its current mode of operation. For example, it took me two years of constant pressure even to gain a commitment for public release of the IMF budget, a positive but modest step in light of needed IMF reforms.

“Fortunately, the newly introduced *IMF Reform Act of 2000* provides both necessary reforms and the enforcement mechanism to make them work. Congress, which has provided over one-quarter of IMF resources, now has the tools to obtain needed operational reforms and anti-corruption measures to protect taxpayers’ money,” Saxton concluded.

IMF REFORM ACT OF 2000

The purpose of this legislation is to expand on the transparency and efficiency reforms enacted in 1998 and 1999 to fundamentally reform the operations and policies of the International Monetary Fund. The IMF was established to make short-term loans for balance of payments problems. The IMF currently makes subsidized, below-market interest rate loans, with much credit extended for several years for developmental purposes. Effective IMF accounting controls and safeguards on such lending have been essentially nonexistent. The reform legislation is designed to refocus the IMF as an emergency lender and away from activities more appropriately conducted by the World Bank. The bill contains seven main reform sections and two enforcement provisions:

Reform Provisions

- IMF interest subsidies would be ended and interest rates would have to be comparable to market interest rates available to borrowers.
- IMF loans would have maturities of less than one year. Longer-term loans that undermine the IMF’s liquidity and ability to act as a crisis lender would be discontinued.
- IMF lending would be for currency crises only. IMF development and structural lending would be discontinued.
- The Enhanced Structural Adjustment Facility (ESAF) would be abolished.
- Fund financial statements would have to be restated in an understandable manner consistent with the principles of transparency and accountability.
- Anti-corruption provisions banning lending to borrowers who falsify loan documents and establishment of strict accounting controls to monitor funds and curb potential misuse. If these safeguards were insufficient in a particular case, then the loan would not be extended.
- Requires the IMF to exhaust reasonable opportunities for private sector borrowing in the future, as an alternative to quota increases in which most IMF members provide virtually no meaningful support for IMF operations.

Enforcement Provisions

- If, after a three-year grace period, the above reforms were not adopted, the U.S. reserve position in the Fund would be reduced by \$5 billion annually until IMF compliance is achieved.
- If, after the grace period, the reforms were not adopted, U.S. credit lines for the IMF would be frozen until compliance is achieved.

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