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VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

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MISREPORTING TO IMF HIGHLIGHTS LAPSES
– Effective IMF Implementation of Safeguards Needed –

WASHINGTON, D.C. – Recent accounts of borrower misreporting of information to the International Monetary Fund (IMF) highlights weaknesses in IMF procedures and the need for routine and effective safeguards, Vice Chairman Jim Saxton of the Joint Economic Committee (JEC) said today. Misreporting of financial information by the central banks of Russia, Ukraine, and most recently Pakistan demonstrates the inability of the IMF to independently verify information in a timely way. Saxton introduced IMF reform legislation last February mandating effective IMF accounting controls and anti-corruption standards.

“In recent weeks more information has become available about the provision of false or misleading information to the IMF by borrowers,” Saxton said. “As I pointed out in 1998, 1999, and earlier this year, effective IMF accounting controls and safeguards are needed. The IMF’s ‘hear no evil, see no evil’ approach had led to embarrassing press reports and speculation about the adequacy of IMF anti-corruption controls and public integrity standards. In any event, growing Congressional pressure for reform made an IMF effort to address these problems inevitable.

“According to the IMF, ‘as has been the practice over many years, the Fund must depend primarily on trust in members’ readiness to provide the information needed and to use the Fund’s resources for the purposes envisaged.’ While this issue of trust sums up the basic problem, I was pleased to see the IMF finally acknowledge the need for effective safeguards. The IMF also seems to recognize the inadequacy of its over-reliance on reactive measures.

“The Fund last month moved to establish long overdue procedures to address potential problems in this area before they actually occur. The heavy emphasis on verification through extensive documentation of audited information is as welcome as its absence was remarkable. Many of us in Congress were astonished several years ago by the JEC finding that such procedures were not already established as a matter of routine. The requirement of high-level internal controls in place for the banking, accounting, and foreign exchange departments of central banks is also an eminently sensible measure, as is the disclosure requirement for institutions affiliated with the central banks.

“The Fund’s acknowledgement that effective safeguards and controls should be established before the fact is a major if obvious step forward, and one that is in its own interest. It remains to be seen how well these measures are implemented, and Congressional oversight will be required to ensure that they produce the intended results. It is also interesting to note that the IMF summaries of recent executive board decisions reflect the Congressional transparency reforms contained in the version of the *IMF Transparency and Efficiency Act of 1998* that became law.

“The adoption of safeguards shows that the IMF will reform if put under enough pressure to do so. However, other lending reforms that would limit the perpetual financial growth of the IMF will meet intense resistance. Proposals to end below-market IMF interest rates and loan subsidies, restrict longer term IMF lending, end IMF development lending, or other measures that would limit future IMF growth, will be resisted by the Fund as long as possible,” Saxton concluded.

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