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CHAIRMAN JIM SAXTON

PRESS RELEASE

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IMF BUDGET PRESSURES WORSENER BY FAILURE TO REFORM

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WASHINGTON, D.C. – Budget problems faced by the International Monetary Fund (IMF) have been exacerbated by excessive IMF interest rate subsidies, Chairman Jim Saxton said today. Regardless of whether IMF lending is trending up or down, the IMF charges artificially low interest rates, and this practice reduces the income available to cover its costs. Recently, IMF lending has been falling, eroding the IMF’s budget situation.

As a senior IMF official noted last month, the “recent drop in credit, and the associated drop in income, has raised the issue of the long-term sustainability of the Fund’s finances.” While noting strength in the IMF balance sheet, this official also stated that the IMF “must have a new business model, based on a stable source of long-term income.”

Saxton has long called for reform of the IMF and an end to IMF loan subsidies. “The IMF offers loans with below-market interest rates conditioned upon policy changes required of borrowing countries. These conditions are often avoided or resisted by borrowers,” Saxton said. “If the IMF raised interest rates and relaxed additional conditions that are often problematic, perhaps it could better support itself over time.

“Over the long run, the IMF might improve its budget situation by halting its practice of lending at very low, subsidized interest rates. Since the IMF has resisted reforming its lending policies so as to increase its income over the long-term, it is not surprising that it now faces budget pressures.

“If the IMF can’t make loans on an economically sound basis, then it should heed the advice of the former IMF research director who said, ‘the IMF would serve better if it made no loans,’” Saxton concluded.

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