



CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

JIM SAXTON, CHAIRMAN

Contact: Chris Frenze
 Phone: 202-225-3923
 Fax: 202-226-3950

CHRISTOPHER FRENZE
 EXECUTIVE DIRECTOR

PRESS ADVISORY

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IMF Interest Rate Subsidies Draw Congressional Criticism

-- IMF Loans Funds at Far Below Market Interest Rates --

WASHINGTON, DC – Today **Joint Economic Committee (JEC) Chairman Jim Saxton** criticized as inefficient the subsidized interest rates used by the International Monetary Fund (IMF). The issue of IMF interest subsidies is expected to become a major issue in future House consideration of IMF legislation. Despite their importance, the issue of IMF interest subsidies has gone virtually unmentioned by advocates of the IMF.

Chairman Saxton's statement follows:

"The IMF loans at interest rates far below those available in the market. This heavy IMF interest subsidy promotes investment mistakes and encourages excessive risk. Investors that expect their risky investments to be bailed out are further encouraged by below-market interest rates. Furthermore, the mere existence of this subsidy shatters the myth that IMF contributions don't cost taxpayers a dime.

"A typical American pays 7 percent on home mortgages, 9 percent on car loans, and more than 15 percent on credit cards. How do we explain to them the transfer of U.S. taxpayer money to foreign nations by the IMF at 4.7 percent, or even lower? The standard IMF loan rate does not differentiate between the least and most credit-worthy borrowers. Under my legislation, IMF interest rates would be set at market levels. IMF loan subsidies would be ended."

Under [H.R. 3331, the IMF Transparency and Efficiency Act](#), U.S. funds could not be used for subsidized loans. To access U.S. funds, the IMF would be required to set its loan rates at market levels. Hypothetically, the market rate would be that rate which the borrower would pay for loans denominated in the currency ultimately borrowed. A standard international market rate could also be used and adjusted for risk. In any event, the heavy IMF loan subsidies would cease to be such a critical factor in IMF operations. The legislation also would require transparency in disclosure of IMF meeting minutes, loan documents, and staff studies.

Ending IMF interest subsidies would lessen moral hazard problems, stabilize financial markets, reduce costs, and curb IMF loan growth in the future. Economically inefficient or wasteful investment would be made more costly and thus less attractive to borrowers. The use of market interest rates would promote investments that would be expected to be productive enough to cover costs, minimize waste, and discourage excessive risk taking.

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G-01 Dirksen Senate Office Building • Washington, DC 20510 • (202) 224-5171 Fax (202) 224-0240 • www.house.gov/jec/



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