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VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

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IMF AND WORLD BANK LENDING SHOULD NOT BAIL OUT IRAQ'S CREDITORS

**-- New study discusses role of IMF and World
Bank in postwar Iraq --**

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WASHINGTON, D.C. – Loans from the International Monetary Fund (IMF) and World Bank should not be used to bail out Iraq's creditors, said Joint Economic Committee Vice Chairman Jim Saxton. Saxton made his remarks in connection with the release of a new Joint Economic Committee (JEC) report, *The Role of the IMF and World Bank in Reconstructing Iraq*. Saxton has also introduced H.R. 2080, a bill that would block the use of IMF loans to bail out Iraq's creditors, and thereby encourage a write-down of Iraq's foreign debt.

"Loans by international financial institutions promote 'moral hazard' if they are used to bail out creditors who have made bad decisions," Saxton remarked. "In recent years, after scrutiny by Congress, the IMF and World Bank have become more alert to this danger. The United States needs to see that they remain alert."

Iraq's foreign debt has been estimated to be \$127 billion, while its economy is estimated to be in the range of \$20 billion to \$35 billion. Given these numbers, Saxton said, it is unrealistic to expect that Iraq will be able to repay the foreign debt in full; a restructuring will be necessary. Iraq also has other foreign obligations, to wit, pending contracts estimated at \$57 billion and reparations of \$199 billion remaining from the Gulf War of 1990-1991.

Saxton also commented more generally on the potential role of the IMF and World Bank in Iraq. "Iraq's situation today is much like that of former communist countries in Eastern Europe soon after the Berlin Wall fell," he said. "Although there is short-term economic hardship in Iraq, the infrastructure is largely intact. Although work remains to be done in those areas, reconstruction efforts can move quickly to the next stage: establishing good policies and institutions to promote sustained economic growth."

Saxton noted that among important tasks for economic policy in Iraq in the near term are giving the country a sound currency; re-establishing a functioning financial system; determining what tax system would be desirable; restructuring Iraq's heavy foreign debt; setting trade policy; deciding what structure of ownership of companies currently owned by the Iraqi government would best promote economic growth; promoting true rule of law to replace arbitrary practices of the deposed dictatorship; and rebuilding or modernizing infrastructure. The IMF and World Bank could offer technical advice in those areas. In Iraq's circumstances, there may also be a case for them to make modest short-term loans for narrowly targeted purposes, such as currency reform. But Saxton remarked that securing large-scale debt forgiveness would achieve much the same results as obtaining new loans from international financial institutions. Debt forgiveness is in fact preferable because it would not impose a further burden of repayment on Iraq's newly free people.

For more information on the IMF, World Bank, and international economic policy, please visit our website at www.house.gov/jec.

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