CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

PRESS RELEASE

For Immediate Release
November 18, 2002

Press Release #107-113
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IMF FAILS TO COMPLY WITH U.S. LENDING REFORMS

--Taxpayers Continue to Subsidize IMF Emergency Loans --

WASHINGTON, D.C. – A new study on International Monetary Fund (IMF) loan subsidies documents the IMF's failure to fully utilize risk-adjusted interest rates in its emergency lending, Joint Economic Committee (JEC) Chairman Jim Saxton said today. The study, *The Subsidy in IMF Lending*, compares the interest rates borrowers paid the IMF to the typically much higher rates their governments faced when tapping the private sector. In 1998, Congress required the IMF to charge interest rates adjusted for risk in its crisis lending, a reform attached along with a transparency mandate to the IMF appropriation enacted at that time.

"The evidence clearly shows that the IMF is not charging risk-adjusted interest rates in its crisis lending as required under the 1998 reforms," Saxton said. "Not only are the emergency loans still heavily subsidized in most cases, but these are often supplemented with other IMF credits offered at even lower interest rates. However, the intent of Congress in framing the 1998 reforms was that all IMF crisis lending should be at interest rates reflecting the risk posed by individual borrowers. Although some progress has been made in curtailing some of the most extreme IMF lending subsidies, the IMF still is not in compliance with the Congressional reforms.

"Since the Mexican peso crisis of 1994-95, the IMF has made larger and larger loans to developing countries experiencing currency crises," Saxton noted. "The latest and largest such loan is the $30 billion package approved for Brazil on September 6.

"The desire to help countries overcome currency problems is praiseworthy, but it needs to be accomplished in a way that does not, in effect, make U.S. taxpayers systematically subsidize mistakes that developing countries make in their monetary policies. At present, despite efforts by myself and other members of Congress to make IMF lending more nearly reflect market conditions, the typical IMF loan package is still highly subsidized, exacerbating moral hazard."

The JEC study finds that among countries sufficiently active in international bond markets to generate good quality data about interest rates, none of those that borrowed from the IMF in recent years paid market rates. Rather, they paid anywhere from 1 percentage point to a maximum of almost 30 percentage points less than market interest rates.

The United States is the largest single provider of resources to the IMF, with a quota subscription of 37 billion Special Drawing Rights (about $50 billion). This amount is 17.5 percent of the total for the IMF, but because the currencies of many IMF member countries are not readily usable outside their own borders, the United States provides an even higher proportion of the IMF's usable quota resources—about 24 percent. The low IMF interest rates countries pay on their loans result in a low return on the resources U.S. taxpayers contribute.

Saxton concluded, "Among the practices to which this study draws renewed attention is 'blending' loans from the IMF's Supplemental Reserve Facility (SRF) with Stand-By loans, which reduces the average interest rate borrowers pay. SRF loans carry higher interest rates and are supposed to be the loan of choice for emergency situations, so as to discourage countries from borrowing from the IMF if they can avoid it. However, loans to Argentina, Brazil, Russia, and Uruguay during emergency situations over the last few years have been a mixture of Stand-By and SRF financing, with Stand-By financing predominating."

For a copy of the new JEC study, please visit our website at www.house.gov/jec.

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