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JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

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IMF REFORM DRIVE REINFORCED BY RUSSIAN AND INDONESIAN SCANDALS

-- Reforms in Transparency, Lending, Interest Rates and Structure Needed --

WASHINGTON, D.C. — Investigations of misuse of funds by large International Monetary Fund (IMF) borrowers are critically important, but the policy implications for reforming the IMF itself are equally significant, Vice Chairman Jim Saxton of the Joint Economic Committee (JEC) said today. According to Saxton, the investigations of corruption and other related problems of IMF borrowers will reinforce a constructive discussion on IMF reform already underway. In recent months, a number of proposals have been made to reform the IMF, and this reflects a broadening consensus that fundamental changes are needed.

“The concern about the moral hazard inherent in IMF lending has been buttressed by the cases of Russia and Indonesia,” Saxton said. “Clearly, incentives and actions were influenced by the expectation of IMF assistance in both countries. Moral hazard is now impossible to trivialize, given the examples provided in recent IMF lending. Unfortunately, these two nations are among the IMF’s largest borrowers, together accounting for one-third of IMF lending from its main account. Although both borrowers now are under investigation, the IMF needs to identify corruption risks before it lends billions of dollars, not after the corruption stories hit the front page of the newspapers.

“The drift of IMF lending towards development and economic restructuring entails greater exposure to political, economic and social instability. The devolution of the IMF into this kind of development bank should be halted and reversed. As a first step, the Enhanced Structural Adjustment Facility (ESAF) should be closed and its reserves used to finance debt relief. Other IMF lending from central IMF accounts should be re-focused on short-term and specific macroeconomic objectives, as was the case in the past.

“Another important issue relates to taxpayer exposure and cost. Not only has over \$25 billion in taxpayer funds been lent to borrowers with pervasive corruption problems, but the IMF has no effective way of tracking these funds to know whether they were properly used. When a JEC review uncovered this lack of accounting controls last year we were astonished, partly because the taxpayer exposure in several cases appeared to be so large. Perhaps consideration should be given to depositing borrowed funds in a special earmarked account at a borrower’s central bank to help make the sources and uses of funds a bit more transparent. In any event, current IMF procedures are obviously inadequate to prevent large-scale misuse of taxpayer dollars.

“The IMF’s use of deeply subsidized interest rates should be another target for reform. Virtually all of the IMF loans to Russia and Indonesia carry a standard IMF interest charge currently about 3.8 percent. This standard IMF interest rate is far below the cost of funds for the Treasury as well as rates available to high-grade, creditworthy private sector borrowers. These subsidized interest rates are not only economically irrational, they also deepen moral hazard problems.

“The mixture of corrupt borrowers with IMF policies embracing moral hazard, politicized loans, inadequate accounting controls, and subsidized interest rates was bound to be combustible. The resulting mess needs to be thoroughly sorted out by investigators, but policy changes also are needed to prevent these problems from happening again,” Saxton concluded.

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

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