



CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

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IMF Bond Sales Would Alleviate Financial Crisis

-- Proposal Offers Constructive Solution To Reducing Taxpayer Risk --

WASHINGTON, DC – International Monetary Fund (IMF) sales of securities in coming months would provide the capital needed to deal with the financial crisis in Asia, **Joint Economic Committee Chairman Jim Saxton (R-NJ) said today**. IMF sales of bonds or notes in financial markets would raise additional funds while limiting the risk to U.S. taxpayers.

Chairman Saxton's statement follows:

"The existing methods of raising IMF capital are too limited and cumbersome, especially considering the size of potential IMF lending," Saxton said. "Given the immensity of international capital flows, huge problems can mushroom suddenly out of control, as in the case of Korea. **A more flexible and broader source of funding for the IMF is needed and would be provided by IMF borrowing in financial markets.** This would tend to limit taxpayer exposure, encourage less subsidized lending, and lessen moral hazard problems through less subsidized lending. Adoption of this proposal in coming months would ensure that the IMF has access to the amount of funds it requires even if the Korean bailout plan fails to work as intended. **The current over-reliance on taxpayer financing is unnecessary and counterproductive.** U.S. taxpayers cannot borrow at a 4.7 percent interest rate, and it's clear that the IMF rates are heavily subsidized at taxpayer expense."

As Saxton has also previously noted, regardless of the source of funds, more transparency in bailout lending is needed. To date, IMF loan conditions for Korea are only summarized in a press release. Even this release suggests that some of the conditions, such as income tax increases and other austerity measures, are not appropriate and may make conditions worse. More specific disclosure of the policy changes required is needed to accurately evaluate the likely effects of the Korean bailout.

The conditions imposed by the IMF should be publicly disclosed except when proprietary information might be compromised. Interest rates and loan terms of backup funding should also be fully disclosed. For example, the United States has committed \$5 billion in backup funding to the Korean bailout, but loan terms and interest rates have not been disclosed. Unfortunately, as Saxton warned a month ago, the likelihood has increased that this so-called "backup" financing will actually be used. The prominent and highly publicized role of the U.S. Treasury in the Asian bailouts only further increases U.S. taxpayer exposure.

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