



CONGRESS OF THE UNITED STATES

# *JOINT ECONOMIC COMMITTEE*

CONGRESSMAN JIM SAXTON

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## **PRESS RELEASE**

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For Immediate Release  
March 18, 1999

Press Release #106-17  
Contact: Daniel Guido  
(202) 226-0603

### **IMF REFORM IS AN ALTERNATIVE TO GOLD SALES**

**WASHINGTON, D.C.** – Legislation to enforce Congressional reforms of the International Monetary Fund (IMF) could finance its policy initiatives without gold sales, Congressman Jim Saxton said today. Saxton pointed out that if the IMF discontinued its policy of using heavily subsidized interest rates, additional funds would become available to the IMF that would strengthen its financial structure.

“A key problem with the IMF is its use of deeply subsidized, below-market interest rates on most of its loans,” Saxton said. “The standard IMF interest rate is below 4 percent, and even the alternative higher interest rate sometimes used by the IMF is also subsidized. Interest rates in the range of 4 to 7 percent for deeply distressed borrowers distort price signals, waste taxpayer money and tend to deepen existing moral hazard problems.

“One effect of the gold sales proposal is to help the IMF provide debt relief without having to resort to the use of true market interest rates to increase cash flow. Congress should closely examine this proposal for gold sales in light of the Congressional IMF reform legislation intended to mandate the use of market interest rates in typical IMF bailouts. In the case of the Brazil bailout, for example, the IMF interest rates are still considerably below market interest rates.

“The new IMF bill ready for introduction will pressure the IMF to comply with the reform legislation passed last fall by using true market interest rates in typical IMF bailouts. Unfortunately, there have been indications that the IMF and Treasury may not implement this legislation in line with Congressional intent. In my view, instead of minimizing the interest rate reform, the IMF should apply it much more broadly to all of its lending.

“The issue of gold sales should also be viewed in the context of the IMF’s financial structure. The IMF has very short-term liabilities and much longer-term assets. This maturity mismatch between the liabilities and assets on the IMF balance sheet undermines its liquidity. In addition, IMF loans are heavily concentrated among its 5 largest borrowers, lessening diversification and increasing risks. Furthermore, the IMF’s use of interest rate subsidies promotes moral hazard and undermines its potential reserves, encourages complicated ad hoc measures to finance additional programs such as debt relief, and fosters a reliance on continual quota increases. Unqualified acceptance of the gold sale proposal would be viewed as an endorsement of these current IMF policies,” Saxton concluded.

For more information on the IMF, please visit the JEC website at <http://www.house.gov/jec/>.

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