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CHAIRMAN JIM SAXTON

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ARGENTINE DEFAULT SHOWS NEED FOR IMF REFORM

-- IMF Compliance With Mandated Lending Reforms Sought --

WASHINGTON, D.C. – The International Monetary Fund (IMF) subsidization of Argentina’s faulty economic policies over many years illustrates the need for IMF lending reforms, Chairman Jim Saxton of the Joint Economic Committee (JEC) said today. Although the key policy decisions were the responsibility of Argentine political leaders, for many years the IMF enabled the continuation of destructive policies through its subsidized loans. In 1998, the U.S. Congress mandated several IMF reforms as a condition of the U.S. appropriation to the IMF, including the use of risk-adjusted interest rates in IMF bailouts and increased transparency.

“The Argentine situation illustrates the need for full IMF compliance with Congressionally mandated lending reforms,” Saxton said. “For years the Argentine government has received low interest IMF loans to subsidize its failed economic policies. A portion of its loans carries an interest charge of only 2.6 percent, a level that is economically irrational given the risks involved. Recently, the financial press has even included discussion of whether the Argentine government will default on the IMF itself.

“The IMF deserves credit for its recent decision to halt further lending to Argentina as pointless, guided by a new policy direction at the U.S. Treasury Department. However, its continued lending over many years had sustained and subsidized a bankrupt Argentine economic policy whose collapse is now all the more serious. The IMF’s generous subsidized bailouts led to moral hazard problems, and enabled shaky governments to pressure the IMF for even more funding or risk disaster.

“As I have pointed out for many years, the pervasive IMF credit subsidies make no economic or financial sense. In addition, the lack of IMF loan safeguards also contributed to a ‘hear no evil, see no evil’ approach to IMF lending in support of questionable or corrupt regimes. Although IMF operations have become more transparent and some lending reforms have been implemented, the IMF is still not in full compliance with the requirement that its bailout loans carry risk-adjusted interest rates. Moreover, currently standard IMF loan rates provide subsidized credit to the least credit-worthy nations in the world at interest rates below those available to the U.S. Treasury Department.

“Lastly, although IMF operations have become much more transparent since the 1998 legislation, its finances are not as transparent. JEC research has noted that IMF financial concepts are obscure and the financial statements of the IMF are organized in a way that are virtually unintelligible, even now that they are publicly available. As a former IMF research director has said, ‘the Fund’s jerry-built structure of financial provisions has meant that almost nobody outside, and indeed, few inside, the Fund understand how the organization works...’ Before the IMF becomes too satisfied with its steps towards transparency, its financial concepts and statements should be clarified and reorganized,” Saxton concluded.

For more information on IMF reform please visit our website at www.house.gov/jec.

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