CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

JIM SAXTON, CHAIRMAN

CHRISTOPHER FRENZE
EXECUTIVE DIRECTOR

PRESS RELEASE

For Immediate Release
October 16, 1998

Press Release #105-186
Contact: Daniel Guido
(202) 224-0379

IMF LOAN SUBSIDIES CURBED UNDER NEW REFORM

"EXCEPTIONAL" DEPARTURE FROM HEAVY SUBSIDIES NOW TO BE ROUTINE

WASHINGTON, D.C. –The proportion of loans with deeply subsidized interest rates should decline significantly in the future if the new reforms of the International Monetary Fund (IMF) are implemented in good faith, **Joint Economic Committee (JEC) Chairman Jim Saxton (R-N.J.)** said today.

The IMF/Treasury policy of using heavily subsidized interest rates in all but "exceptional" cases has ended under the reform. As a practical matter, the IMF has hardly ever lent on anything but a deeply subsidized basis. Saxton suggested analysts and others read the actual language and review its roots in the IMF Transparency and Efficiency Act before making premature conclusions about how to interpret the reforms in light of congressional intent.

"IMF and Treasury policy has been to use heavily subsidized IMF interest rates in all but 'exceptional' cases," Saxton said. "This policy has now ended. As a practical matter, what was the exception before will become routine. The language in the reform applies broadly to typical IMF bailouts, requiring interest rates adjusted for risk. This language on risk adjustment is rooted in the IMF Transparency and Efficiency Act with the purpose of setting market interest rates. As the author of that legislation, I'm in a pretty good position to know what the congressional intent was in framing that approach.

"What I intended in my bill was to use a basic reference market interest rate, with an adjustment for risk added, so as to approximate the market interest rate a particular borrower would face. This would be at least equal to the market interest rates available to a borrower just prior to a crisis.

"For the sole purpose of limiting the potential for egregious abuse, the staff of the JEC devised a formula setting an interest rate floor for use by congressional negotiators. In terms of congressional intent, it is essential to realize the purpose of this floor is a practical one that in no way limits the risk adjustment, and that it originated for this purpose in the legislative branch. In the course of negotiations, a change in this mechanism substituted an IMF interest rate for LIBOR. This floor was never designed or intended to function like the peg of the IMF's supplementary reserve facility under 'exceptional' balance of payments difficulties and other circumstances.

"I'm still disappointed that the interest rate reform doesn't apply to all IMF loans. The earlier bill would have effectively ended IMF concessionary and structural adjustment lending and refocused the IMF on becoming more like a true lender of last resort, rather than as another World Bank. Realistically, the new reform package has to be viewed as only the first step in a complete overhaul of the IMF. I have advocated a comprehensive and specific proposal to accomplish this, essentially based on the path-breaking work of Professor Charles Calomiris of Columbia University," Saxton said.

To read the Calomiris report, check under the "JEC Reports" section of the JEC webpage at www.house.gov/jec/.

###