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IMF REFORMS URGENTLY NEEDED

— Near-Term Reforms Lay Groundwork for Long-Term IMF Reform —

WASHINGTON, D.C. – The near-term reforms of the International Monetary Fund (IMF) under negotiation between Congress and the Administration will lay the foundation for further IMF reform in the longer run, **Joint Economic Committee (JEC) Chairman Jim Saxton (R-N.J.)** said today. In recent months a consensus has developed among major donor nations and private experts that extensive reform of the IMF is necessary.

Both near-term and longer-term reforms envisaged by the JEC apply the classic economic principles for a lender of last resort set forth by Walter Bagehot, a 19th century British economist. A partial application of these principles was the basis for the *IMF Transparency and Efficiency Act* (H.R. 3331), introduced by Saxton last winter.

“I view the IMF reforms under discussion as the first stage of a longer process of needed IMF reform,” Saxton said. “The Joint Economic Committee has identified the reforms that are achievable now. These include an end to subsidized interest rates, a one-year limit on IMF loans, and increased transparency. These are completely consistent with future reforms that would restructure the IMF to focus it on lending for liquidity emergencies.”

One major item in the current negotiations is based on slightly modified language on market interest rates from H.R. 3331: “The interest rate at which the International Monetary Fund charges interest on loans made after the date of the enactment of this section shall be comparable to the rates of interest in the financial markets, adjusted for risk. It is assumed that the resulting interest rate will be at least 300 basis points in excess of the monthly LIBOR rate on dollar denominated loans.”

This provision would end the IMF’s practice of lending at deeply subsidized, below-market standard interest rates. These low interest rates are economically inefficient and exacerbate the moral hazard problem. Instead, the IMF would be required to lend at rates comparable to market rates, meaning the rate at which the borrower could borrow shortly before the onset of a financial emergency, plus an adjustment for risk. A floor is provided to ensure that the practice of deep interest rate subsidies is not resumed.

Another item in the negotiations is the stipulation that the duration of loans made by the IMF shall be no longer than one year. This would encourage the IMF to focus on liquidity needs instead of diverting funds to insolvent entities or overly ambitious, multi-year programs to restructure entire economies. One of the main factors reducing the liquidity of the IMF is longer-term loans are being made despite the reliance of the IMF on short-term liabilities. This provision would require that loans be repaid much more rapidly. If these loaned funds flowed back to the IMF more quickly, the IMF would be more liquid and better able to cope with short-term demands on its resources.

The transparency reform would require the IMF to become more open and less secretive by broadening the types of IMF documents that would be publicly released. This transparency provision would facilitate congressional evaluation of the performance and results of IMF activities, and associated moral hazard problems. The broadening of this transparency provision had been resisted by the Administration in negotiations.

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