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JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

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IMF REFORM MAY BE MANDATED BY CONGRESS

– New Enforcement Provisions Would Compel Needed IMF Reforms –

WASHINGTON, D.C. – New enforcement measures have been developed to facilitate efforts to legislate reforms of the International Monetary Fund (IMF) and ensure that they would be implemented, Vice Chairman Jim Saxton of the Joint Economic Committee (JEC) said today. These enforcement provisions have been included in the recently introduced *IMF Reform Act of 2000,* H.R. 3750, which mandates several key reforms consistent with the recent Meltzer Commission report.

"I am pleased that new enforcement provisions are now available to Congress to ensure that any legislated IMF reforms actually are implemented," Saxton said. "I expect that these enforcement concepts will become standard features of much future IMF reform legislation. Their flexibility and effectiveness would facilitate their application to a wide variety of circumstances. These measures will give Congress the leverage needed to make IMF reform a reality.

"As anyone working in this area knows, up till now it has been very difficult to legislate IMF reforms without some underlying legislative vehicle such as a quota increase or other funding proposal. However, these new enforcement measures provide a vehicle for IMF reforms, as well as the mechanism for their enforcement. The new enforcement provisions are a product of JEC research on the financial structure of the IMF.

"The key to the new enforcement concept is the distinction between IMF quotas and the reserves actually used by the IMF to conduct its operations. The quotas cannot be withdrawn by members except in extreme circumstances. However, the reserve positions of members held in international reserve assets can be partially or totally withdrawn, and such withdrawals are not subject to challenge, according to the IMF charter. In fact, over half of IMF members currently have withdrawn all, or virtually all, of their reserve positions.

"The new enforcement provisions developed for the *IMF Reform Act* provides a three-year grace period for implementation of key reforms. If these reforms were not implemented before the expiration of the grace period, the U.S. reserve position in the IMF would then fall $5 billion dollars annually for each year of noncompliance. Subsequent IMF compliance would result in the full restoration of the U.S. reserve position. This is a balanced approach providing a disincentive for noncompliance and an incentive for compliance without resort to draconian enforcement measures. I look forward to a vigorous and substantive debate on IMF reform based on facts, evidence, and analysis," Saxton concluded.

IMF REFORM ACT OF 2000

The purpose of this legislation is to expand on the transparency and efficiency reforms enacted in 1998 and 1999 to fundamentally reform the operations and policies of the International Monetary Fund. The IMF was established to make short-term loans for balance of payments problems. The IMF currently makes subsidized, below-market interest rate loans, with much credit extended for several years for developmental purposes. Effective IMF accounting controls and safeguards on such lending have been essentially nonexistent. The reform legislation is designed to refocus the IMF as an emergency lender and away from activities more appropriately conducted by the World Bank. The bill contains seven main reform sections and two enforcement provisions:

Reform Provisions

- IMF interest subsidies would be ended and interest rates would have to be comparable to market interest rates available to borrowers.
- IMF loans would have maturities of less than one year. Longer-term loans that undermine the IMF's liquidity and ability to act as a crisis lender would be discontinued.
- IMF lending would be for currency crises only. IMF development and structural lending would be discontinued.
- The Enhanced Structural Adjustment Facility (ESAF) would be abolished.
- Fund financial statements would have to be restated in an understandable manner consistent with the principles of transparency and accountability.
- Anti-corruption provisions would ban lending to borrowers who falsify loan documents and establish strict accounting controls to monitor funds and curb potential misuse. If these safeguards were insufficient in a particular case, then the loan would not be extended.
- The IMF would be required to exhaust reasonable opportunities for private sector borrowing in the future, as an alternative to quota increases in which most IMF members provide virtually no meaningful support for IMF operations.

Enforcement Provisions

- If, after a three-year grace period, the above reforms were not adopted, the U.S. reserve position in the Fund would be reduced by $5 billion annually until IMF compliance is achieved.
- If, after the grace period, the reforms were not adopted, U.S. credit lines for the IMF would be frozen until compliance is achieved.

For more information on the IMF and international economics, please visit our website at www.house.gov/jec.