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CHAIRMAN JIM SAXTON

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IMF SOVEREIGN BANKRUPTCY SUPERVISION IS UNNECESSARY

-- New Analysis Rejects More IMF Mission Creep --

WASHINGTON, D.C. – A new role for the International Monetary Fund (IMF) in supervising sovereign bankruptcies was rejected today by Joint Economic Committee (JEC) Chairman Jim Saxton. Saxton made his comments in releasing a new report, *Sovereign Default: The Private Sector Can Resolve Bankruptcy without a Formal Court.* The study, authored by Adam Lerrick and Allan Meltzer, explains how available measures could address this issue without a new centralized mission for the IMF.

"The IMF has made a good faith effort to address the problems of sovereign default, but its proposal goes much further than is necessary," Saxton said. "I can't help thinking that its default supervision proposal would have the effect of compensating the IMF for the reduction in its influence arising from a more restricted policy towards international bailouts. However, we need a more focused IMF to provide appropriate assistance in liquidity crises.

"If bailouts are no longer liberally offered, market incentives can be used to foster a decentralized approach to debt restructuring when necessary. As Under Secretary John Taylor testified before the JEC recently, majority action clauses could be included in contracts to limit the leverage of free riders and their ability to disrupt orderly restructuring and write-downs of sovereign debt."

However, some have pointed out that most of the existing stock of outstanding debt does not contain such clauses. The report released today shows that exchange offers could be used to swap old debt for new debt containing majority action clauses, before a potential crisis might occur. A series of auctions would be used to execute the exchange offers. These exchanges would be in the interest of long term investors.

As the new report explains, exit consent amendments could be used to encourage participation in the exchange offers. As the exchanges proceed, bondholders would amend the non-payment terms of the old bonds, reducing the value of these bonds held by holdouts. Once a sufficient majority had accepted the amendments, their terms would then be applied to all remaining outstanding bonds. The report notes that "exit consents allowed Ecuador to achieve 99 percent participation in its debt exchange in 2000."

"A decentralized, market-oriented approach is workable. A broad application of this approach, not a greatly expanded role for the IMF, is most consistent with current U.S. international economic policy," Saxton concluded.

For a copy of the report and information on IMF reform, please visit the JEC website at www.house.gov/jec.

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