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VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

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IMF EXPOSURE IN ARGENTINA UNDERLINES RISK TO TAXPAYERS

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WASHINGTON, D.C. – Argentina's narrow avoidance of a default to the International Monetary Fund (IMF) on March 9 highlights the need to recognize the risk in lending by international financial institutions, Vice Chairman Jim Saxton said today. Saxton has introduced legislation, H.R. 3533, requiring that the real cost of U.S. subsidies to the IMF be disclosed in the federal budget, and made subject to the Congressional appropriations process.

"Since defaulting on its foreign debt to the private sector in December 2002, Argentina also has frequently threatened to default on its loans to international financial institutions, and actually has done so in the past," Saxton said. "Its strategy has been to make repayments to international financial institutions only if assured they would make offsetting loans, so that money going out of Argentina's right hand would be largely offset by money coming in to its left hand. Argentina has great leverage over the IMF because its borrowing from the institution is a major portion of the IMF's highly concentrated loan portfolio.

"Thus, Argentina's strategy has succeeded because a default would expose as fallacious the claims that the IMF and other international financial institutions are justified in lending at artificially low, below-market interest rates, since such loans are supposed to be almost risk-free. However, the IMF policy of lending billions to an insolvent borrower at interest rates currently set at around 2 to 4 percent is financially unsound, and fails to comply with U.S. law.

"In 1998, Congressional approval of the increase in the U.S. contribution to the IMF was conditioned on IMF adoption of sweeping transparency reforms, and its use of risk-adjusted interest rates in IMF emergency lending. Although the IMF has implemented the Congressional transparency reforms in good faith, it has failed to comply with the mandated lending reforms, as the case of Argentina demonstrates.

"For example, much of the IMF's recent lending to insolvent Argentina has been at the IMF's standard subsidized lending rates, currently between 2.21 to 4.21 percent (The bigger the loan, the higher the rate.) Even the IMF's typical interest rate for emergency loans is considerably lower than the rate Argentina would have to pay in world financial markets.

"The risk of default is real, and the United States, as the largest contributor to the IMF, would bear the largest share of any default. I call on the IMF to follow the intent of Congress and its own guidelines in cases such as Argentina, where higher risk to the funds contributed by the taxpayers clearly calls for charging higher interest rates in emergency lending," Saxton concluded.

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

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