BUDGET COMMITTEE
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BUDGET PERSPECTIVE:
A Fact Sheet on the Budgetary Treatment of U.S. Commitments to the IMF

The Administration has asked Congress to authorize several initiatives with respect to United States participation in the International Monetary Fund (IMF). The two that affect the Federal budget are: 1) an increase of about $8 billion in the U.S. quota subscription to the IMF and, 2) a $100 billion expansion of the U.S. commitment to the IMF for its New Arrangements to Borrow (NAB). The Administration made this request first in a letter to Congressional leaders, then as part of its "Estimate #3" for the 2009 Supplemental. The Senate Appropriations Committee included the President's request for the IMF in its reported version of the 2009 Supplemental.

This "Budget Perspective" does not argue the merits or drawbacks of enacting the President's proposal for the IMF. Instead, it provides a brief history of the budgetary treatment of such proposals and explains how the current request would be treated in the federal budget.

Prior to 1980

Even before 1980 – the time of the last change in budgetary treatment of the IMF – the question of how to record the U.S. involvement with the IMF in the federal budget was unsettled. When the U.S. and other nations created and became members of the IMF, the initial U.S. contributions to the IMF were recorded as an outlay of the federal budget. Subsequently, Congress and OMB relied on the President's 1967 Commission on Budget Concepts as the authority for scoring U.S. commitments to the IMF. When the Congress enacted legislation increasing U.S. commitments to the IMF, neither budget authority nor outlays were scored for that legislative event. Both the U.S. quota subscription to the IMF and the U.S. commitment to the General Arrangements to Borrow (predecessor to the NAB) were considered to be an exchange of assets with no effect on the budget. (When Treasury gives money to the IMF it gets "Special Drawing Rights," or SDRs, in return.)
http://budget.senate.gov/republican/analysis/1967/President'sCommissionBudgetConceptsOct1967.pdf

1980 – 2009

In 1980, the Senate and House Budget Committees were only a few years old. The Committees wanted to make sure that the Congressional budget blueprint captured all the financial involvements that the U.S. government was engaged in. Congress and the Administration thought that it was proper to increase the U.S.' commitments to the IMF through appropriations legislation, since the U.S. involvement represented a line of credit (note that this was 10 years before credit reform was enacted, which changed the treatment of federal credit programs from a cash to an accrual basis). However, no one could predict whether there would be any outlays and therefore couldn't predict any effect on the deficit. They decided to score U.S. contributions to the IMF as budget authority (BA) so it would not be invisible in the budget, but <u>not</u> score outlays since the U.S. had never lost any money as a result of its involvement with the IMF (so involvement with the IMF had never increased the deficit).

Scoring BA but no outlays for increased commitments to the IMF represented a compromise rather than the result of a comprehensive analysis of the true budgetary effects. Legislation changing the U.S. commitments to the IMF has only come up once every 10 years or so, so the scoring issue rarely received attention. The last time Congress acted on increasing the U.S. commitment to the IMF was in 1998, to the tune of $18 billion in BA (the total for both the IMF quota increase and the initial U.S. commitment to the NAB). At the time, the Budget Enforcement Act (BEA) statutory caps were in effect for discretionary spending. The BEA gave authority to OMB to adjust the statutory caps if Congress enacted legislation increasing the U.S. commitment by that amount. On a parallel track, the fiscal year 1998 Budget Resolution instructed the Chairman of the Budget Committee to increase the budget resolution cap for BA.

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For the past 29 years, any increase in IMF quota subscriptions or commitments to the GAB/NAB has been scored with BA and no outlays by both CBO and OMB. However, when President Obama sent his budget outline to Congress in February, he argued that this 29-year old practice is wrong and should be replaced by the pre-1980 "exchange of assets" concept. Therefore, his budget showed neither BA nor outlays for the IMF quota increase proposal.

Even though Congress (and OMB) made the conscious decision in 1980 to diverge from the exchange of assets zero-score concept, the Obama Administration argued that it should be readopted. The Administration said that it made no sense to score BA but no outlays, and suggested that the House and Senate Budget Committees immediately direct CBO to adopt OMB's newfound scoring of zero BA and zero outlays.

While the Budget Committees agreed that scoring only BA seemed to make little sense beyond being an artifact of compromise, they did not agree that it made sense to score nothing for the very large additional commitment to the IMF the administration was seeking.

For the past three months the Budget Committees have been learning more about the IMF. They agreed that U.S. participation in the IMF is similar to other loans that the U.S. government is involved in. Further, Congress and OMB now have a tool for recording complex credit programs that often were not accurately reflected in the budget before 1992, when credit reform was first implemented. The Budget Committees, with CBO and OMB agreement, arrived at the conclusion that the increased line of credit to the IMF ought to be treated under credit reform scoring, where CBO estimates the probability of default and estimates the subsidy cost (both BA AND outlays) with that credit instrument.

For the usual quota increases that happen periodically with the IMF, it is true that the risk of default and Treasury loss has been historically low. But for the Administration's request to extend $100 billion of credit to IMF to lend to risky countries during a global economic crisis, the level of exposure is substantially higher than it has historically been and the risk of default going forward is likely to be higher than in the past.

CBO evaluated the recent proposal, and using credit reform scoring adjusted for market risk (as directed by the language in the Senate supplemental), estimated that the $108 billion in new commitments would cost $5 billion in budget authority in 2009 and $5 billion in outlays over the next four years.