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NEW IMF REFORM ROOTED IN TRANSPARENCY & EFFICIENCY ACT — PROGRESS ACHIEVED TOWARD LONG TERM REFORM —

WASHINGTON, D.C. – The new congressional reform of International Monetary Fund (IMF) operations is rooted in the IMF Transparency and Efficiency Act (H.R. 3331) introduced last March. This Act addressed the issues of IMF secrecy and loan subsidies by forcing more openness (transparency) and the use of market interest rates. The reform package also includes other IMF policy reforms derived elsewhere that are not further mentioned here.

Curbing Subsidized IMF Lending: H.R. 3331 versus New IMF Reform

Under H.R. 3331, all deep IMF loan subsidies were to end along with standard IMF interest rates of about 4.2 percent, with some rates even lower. Instead, IMF interest rates would be comparable to market interest rates, "**adjusted for risk**." The IMF would be encouraged to apply classic economic principles of a lender of last resort which are to lend freely, but at penalty interest rates for short periods backed by good collateral. This bill would have also effectively ended concessionary loan programs, which carry extremely low interest rates of 1 percent and lower. Thus, the Act would pressure the IMF to drop activities more appropriately conducted by the World Bank so the IMF could function more as a lender of last resort.

Under the new reform, the IMF is required to end its virtually universal policy of deep loan subsidies at heavily discounted interest rates. Instead, countries having "balance of payments difficulties" under quite typical circumstances would borrow from the IMF "at an interest rate that reflects an **adjustment for risk**." Congressional negotiators suggested an interest rate floor for the sole purpose of limiting the potential for egregious abuse. The effect of this reform is to subject a high proportion of typical IMF loans to interest rates reflecting risk that will be considerably above the current standard IMF lending rate of 4.2 percent.

The scope of the new reform is a compromise between Congress and the Administration. The IMF may continue to maintain deep subsidies on some of its loans because the application of the reform is narrower than the universal application of the original bill. H.R. 3331 required all IMF loans carry market interest rates while the Administration/IMF position applied higher rates only in "exceptional" circumstances. The compromise means most of the IMF loans of the kind engaged in over the last year would be affected by the reform. A related provision would limit the maturity of such loans to 1 to 2.5 years.

Openness/Transparency

H.R. 3331 provided for public release of edited minutes of IMF executive board meetings and virtually all IMF documents within 3 months, subject to certain redactions. This sweeping reform would have erased the secrecy observed by the IMF for more than half a century.

The scope of the new reform is considerably narrower in providing for public release of important fund documents including letters of intent, memoranda of understanding and policy framework papers that are not currently routinely available to the public as a matter of policy. Although there are loopholes regarding the release of minutes and documents, a good faith effort to implement this reform will significantly change the culture of secrecy at the IMF.

Enforcement

The weakest part of the reforms is their enforcement mechanism. In designing an enforcement mechanism for IMF reform, the means available tend to require a solution that is either rather severe or excessively lax. The reform requires a certification by the Treasury Secretary and Federal Reserve Chairman that the major donor nations have publicly agreed to and will act to implement the reforms before U.S. funds can be provided to the IMF. The enforcement provisions are not nearly as strong as H.R. 3331, but seem likely to be more successful than the usual "voice and vote" approach.