Talking Points on IMF Funding Request

MYTH:

All IMF members are eligible to apply for funds. That means that Iran, Venezuela, Zimbabwe, and Burma would be among the candidates vying for these taxpayer subsidized loans. In fact, according to the New York Times the IMF recently sat down with Hezbollah to discuss the possibility of loans for Lebanon should they win the election. Hezbollah, regardless of whether or not it is democratically elected, still remains a terrorist organization and should not be the beneficiary of taxpayer dollars.

FACT:

- As reported in the Wall Street Journal on May 27, the IMF has plainly stated that it has not negotiated with Hezbollah on a possible future lending program.

- U.S. participation in the IMF is key to making us more, not less, secure. The Director of National Intelligence, Dennis Blair, stated in Congressional testimony that the "primary near term security concern of the United States is global economic crisis and its geopolitical implications." Admiral Blair specifically noted the role of the IMF in helping address this threat.

- Iran, Venezuela, Zimbabwe and Burma do not currently borrow from the IMF, nor have they recently. Zimbabwe has had its voting rights in the IMF suspended.

MYTH:

Since the U.S. is currently running a massive deficit, any funds provided to the IMF would first have to be borrowed. Given the United States' reliance on China to finance debt, it is quite likely that any additional borrowing to fund the IMF would come from countries like China.

Taxpayers, of course, will have to pay interest on the borrowed funds made available to the IMF. And while proponents of the funding contend that we will also receive interest returns from the IMF, we must analyze whether the interest will exceed the finance charges on the money the U.S. has borrowed. According to a report from the Center for Economic and Policy research the U.S. will likely borrow at a higher interest rate than IMF would pay the American taxpayer in return, resulting in a net cost to taxpayers.

FACT:

- The lending facility will be used only to supplement IMF resources temporarily during times when IMF lending capacity is low.   The lending facility is an insurance policy for the global economy. Through the facility, the IMF can obtain supplemental financial resources for temporary use in its lending operations when the IMF's existing resources are substantially drawn down in the face of circumstances that threaten the stability of the international monetary system.

- The U.S. is proposing to make available a line of credit to the IMF. Only if this credit line is drawn upon will the U.S. provide resources to the IMF. Any such drawings will be a claim on the IMF, and therefore a reserve asset of the United States and we will receive interest from the IMF on this asset.

- The interest earned and the change in value of the assets we receive when the United States makes IMF contributions has historically exceeded the cost of borrowing the money. During the period FY2000 - FY2008, the cumulative net interest income effect (of US participation in the General and Special Drawing Rights (SDR) Departments) and change in the value of our assets was $2.79 billion.

- The increased resources will ensure the IMF has the ability to play its central role in resolving and preventing the spread of international economic and financial crises. Failure to prevent financial crisis from spreading would undermine the efforts we have taken in the U.S. thus far to stimulate and revive our economy. The costs on the U.S. economy of not taking these steps could be substantial.

- The United States benefits from significant cost-savings because of the IMF's ability to pool international foreign exchange resources. Without the IMF, the United States would have to borrow to finance substantially larger U.S. foreign exchange holdings to address international financial stability bilaterally,

MYTH:
President Obama announced his proposal for additional support for the IMF at the recent G-20 Summit. The announcement was supposed to be part of an international effort to increase support for the IMF. But to date, some of the world's emerging economies such as China, Brazil, Russia and India have announced that rather than join the U.S. in providing the IMF additional credit lines or quotas, they would purchase newly issued IMF bonds. Unlike the U.S.'s investment in the IMF, these new bonds could be sold and converted into hard currency in the future. In addition, unlike the U.S.'s investment, these bonds could be counted as international reserves.

FACT:
- In response to President Obama's proposal, these emerging market countries began mobilizing support to bolster the IMF's resources, reflecting their willingness to step up and assume responsibility for helping to manage the global financial system. This is a positive development.

- These countries are choosing to offer their support by purchasing IMF bonds, rather than making loans, because they expect to provide credit to the IMF from their respective central banks, which hold bonds as a standard reserve management tool.

- Any IMF bonds issued to official sector lenders to the IMF will not be eligible to be traded to the private sector in the secondary market, and like loans to the Fund, will be counted as reserve assets. The U.S. reserve position at the IMF and any temporary loans by the United States to the IMF through the NAB count as part of U.S. foreign exchange reserves.

MYTH:
In the mid to late 1990s, many Republicans raised significant concerns about IMF management and practices. While the IMF has cleaned up many of its operations, some are concerned that providing the IMF with an endowment from which it can fund its operations and potentially even expand into grant-making will result in less accountability and a return to the worst practices of the IMF.

Furthermore, the gold held by the IMF strengthens its balance sheet providing a reserve against potential future losses and a cushion for unforeseen contingencies. Depleting part of the IMF’s capital reserves while at the same time pushing them to expand their loan operations could weaken the institution and increase the risk of default.

FACT:

- The IMF has taken strong action to improve its fiscal discipline. Among the reforms undertaken by the IMF, it just cut its staff by 10 percent in order to slash its costs by $100 million per year.

- The IMF's gold holdings are a valuable source of strength to the IMF's financial position. Even after the limited sale of 12.9 million ounces of the IMF’s gold, the IMF’s balance sheet will hold 90 million ounces of undervalued gold (valued at about $4.5 billion based on its historical price, but worth about $81 billion at a market price of $900/ounce).

- A portion of the profits from the gold sales, along with other internal IMF resources, will allow the IMF to offer concessional financing to poor countries affected by the global crisis. The crisis has created a large financing gap in some poor countries.

- Traditionally the IMF has relied predominantly on income from lending operations, which fluctuate with the global business cycle, to finance not just lending-related activities, but also its expenses associated with surveillance and other activities including the provision of international statistics and technical assistance. In effect this has meant that borrowers finance most of the cost of running the institution and these global public goods.