

U.S. DEPARTMENT OF THE TREASURY

May 14, 2009

Talking Points on NAB and IMF Reform

The Request: President Obama and Secretary Geithner secured agreement at the G-20 Leaders' Summit for an expansion of the International Monetary Fund (IMF) New Arrangements to Borrow (NAB) resources by up to \$500 billion in order to respond to the global financial and economic crises. Today, President Obama is seeking Congressional approval for up to \$100 billion for the U.S. increase in the NAB and about \$8 billion increase in the U.S. quota subscription to the IMF as part of the FY 2009 supplemental bill currently under consideration.

The Rationale:

- **These funds will act as an insurance policy for the global economy.** Expanding the NAB will ensure the IMF has adequate resources to play its central role in resolving and preventing the spread of international economic and financial crises. Large and urgent financing needs projected for emerging market and developing countries cannot be met from pre-crisis IMF lending resources
- **These funds are critical to the success of the U.S. economy and prosperity.** 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. Thus, expanding NAB resources is an essential component of our overall strategy to restore the health of the U.S. economy, exports and secure U.S. jobs.
- **U.S. participation leverages other commitments.** The U.S. share of up to \$100 billion could leverage as much as \$400 billion from other countries - four times the U.S. share. The U.S. share is necessary to secure significant additional participation by other countries.
- **These funds will help restore U.S. leadership in the world.** The U.S. commitment to lead with a commitment of up to \$100 billion for an expanded NAB restores the historic American leadership in protecting our economic interests around the world and addressing global challenges.
- **IMF financing is important to national security** as it reduces economic instability in vulnerable states. For example, the Fund has been able to act swiftly to avoid crises in countries like Pakistan, and is lending strong support to key U.S. allies including Mexico, Poland and Colombia.
- **During this crisis the IMF is working to get resources to the poorest and ensure nations have the resources they need to preserve social safety nets.** The IMF is stepping up its crisis lending, including doubling the amount of resources going to the poorest. The IMF is helping governments ring-fence social spending for the most vulnerable and the IMF has overhauled its lending products to provide tailored approaches that suit country needs.

Background: At the G-20 Leaders' Summit in London, President Obama secured agreement on his proposed expansion of the NAB by up to \$500 billion to provide an insurance policy for the global economy. The NAB is a permanent mechanism through which 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 Administration consulted broadly with Congress on our NAB proposal and participation by the United States of up to an additional \$100 billion before we raised it internationally at the G-20 Summit. Other countries are looking to the United States to deliver on our commitment. In the last few weeks, countries such as Canada, Switzerland, China, Australia, the Czech Republic, India and others have offered commitments.

The NAB is a central part of vitally needed IMF reforms the Administration is seeking in this bill. Congressional action is needed also on:

- **SDR Allocation:** To provide immediate liquidity and restore global financial stability, the Administration is seeking congressional authorization for an amendment to the IMF Articles of Agreement (the "4th Amendment") for a one-time special allocation of Special Drawing Rights (SDR). The Administration is also consulting with Congress on a \$250 billion general SDR allocation.
- **IMF Quotas:** Implementing the April 2008 IMF quota reform package will allow the IMF's governance structure to keep pace with the rapid growth and increasing significance of dynamic emerging economies.
- **Gold Sales and Resources for the Poorest:** To implement reform of the IMF's income model to reduce reliance on lending income, congressional authorization is needed for the sale of 12.9 million ounces of IMF gold (about \$11.6 billion worth of gold, at the recent price of about \$900/ounce). To provide further support to low-income countries, we are seeking congressional authorization for actions the IMF U.S. Governor may take to permit some profits from the agreed gold sale to be used to support low-income countries.