
**Private Sector Financing for the IMF:
Now Part of an Optimal Funding Mix**

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The views expressed in this study are those of the author and do not necessarily represent the view of The Bretton Woods Committee.

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THE INQUIRY: A QUESTION OF FEASIBILITY

Debate over the future role of the IMF and the employment and extent of its resources continues. This controversy should not be confused with the issue of the optimal means of obtaining financing for the Fund at the lowest possible cost. No recent study has addressed the feasibility of IMF recourse to the capital markets or attempted to quantify answers to basic questions. Can the IMF borrow? How much can it borrow and at what price? What might be the savings and ancillary benefits to creditor members who underwrite the Fund's expanding responsibilities? To view a private sector borrowing program as a near term reality, three constraints were imposed: no alteration in the IMF Articles of Agreement; no currency or interest rate risk for the Fund; no reliance on Fund gold reserves.

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THE FINDINGS: IN SUMMARY

The prospect of private sector participation in IMF funding, long resisted by traditionalists in the international monetary establishment, has now become a real and imperative option.

Today, recourse to the global capital markets could augment IMF capability by a significant 50% with the provision of \$100 billion or more of fresh resources. The low cost of these new funds would match the subsidized rate presently enjoyed by the IMF and the members who benefit from its lending. Substantial savings would accrue to the nations who now finance Fund programs. For the three largest creditor members (the United States, Germany and Japan), a modest \$30-35 billion IMF private sector borrowing would repatriate a collective \$18.5 billion in international reserves and generate average combined savings of \$360 million annually for a total of \$1.8 billion over a five-year time span.* In the foreseeable future, quota increases and the authorization and appropriations processes could be dispensed with and, forever after, materially diminished.

The market's broadened capacity to supply financing is equal to the Fund's expanding demand. During the past decade, the international bond markets have quintupled --- from a volume of \$185 billion in 1988 to \$977 billion in 1998; the past calendar year alone has witnessed 170 bond issues greater than \$1 billion in value. A sophisticated market in currency and interest rate swaps can now accommodate the Fund's unique financial structure, permitting notes issued in any major currency to be translated into obligations denominated in the Special Drawing Rights (SDR) mandated for IMF operations.**

Calls on IMF lending have grown exponentially, as crises have mounted in intensity and frequency in an interdependent global economy. Total Fund credit has accelerated --- rising from SDR3.7 billion in 1968 to SDR29.2 billion in 1993, then

* For the United States alone: \$200 million average annual savings or \$1 billion over five years; \$11 billion of recovered resources.

**The SDR is the IMF's unit of account and is a weighted average of the U.S. dollar, Deutschmark, Japanese Yen, French Franc and Pound Sterling. As of 1/1/99 the Euro replaced the Deutschmark and the French Franc.

doubling to SDR66.8 billion during the past five years. Concurrently, traditional ways and means of IMF financing are being questioned, as creditor nations examine alternate uses for public monies and investment choices for international reserves.

Financings of other multilateral institutions are a measure of market willingness to lend. World Bank issuance of \$32 billion in 1998 and a total debt outstanding of \$115 billion at year-end and European Investment Bank borrowing of \$35 billion in 1998 and total indebtedness of \$145 billion indicate the benchmarks.

Rating agency criteria confirm that the Fund has the ability to issue AAA notes in all major currencies. These would rest on the risk and diversification of a dual base --- the equity of members' quota subscriptions and the assets of the IMF loan portfolio. Currently, AAA equivalent valuations measure \$207 billion in equity and 42% of nominal loan amounts. A conservative estimate of financing cost to the Fund, and hence to its borrowing members, is 0.25% below LIBOR,* equal to the rate now proffered by quotas and official loans.

In sum, the private sector stands ready to supply \$100 billion and more of added resources, at attractive rates, equivalent to a 50% increase in the IMF store of usable quotas which now tally \$195 billion. Access to the financial markets has been substantially strengthened by the recent quota increase of effective \$61 billion;** this enlarged equity base may ultimately support borrowing as high as \$150 billion.

Private capital can play roles which traditional IMF financing cannot perform. For policy makers, it will replace forthcoming quota increases (along with politically sensitive appropriations) and afterward reduce these funding demands by a significant 40-50%. For members, it will enhance the liquidity and safety of international reserves and underwrite the exchange of zero-cost domestic currency promissory notes for excess reserve positions at the Fund. For the IMF's central role in crisis intervention, it will furnish speed and flexibility, when contrasted with the ponderous and lengthy process by which quota increases are now granted and sometimes hampered

* LIBOR: the London Interbank Offered Rate, which major banks in Europe charge one another for loans.

**As with past quotas, the 1999 increase of \$90 billion is approximately 68% effective reflecting the subscriptions by countries whose currencies are not usable for international transactions.

by political factors inside member nations. A prefunded reservoir of emergency financing which, when not in use, is reinvested at a profit to the Fund, would create a platform for action. The very fact of a major, accessible source of alternate funding will moderate the uncertainty that leads to speculation and destabilizes markets.

The reality of a 21st century IMF has little in common with the agency envisioned in 1945 at Bretton Woods. Born in a world of capital controls, the gold standard with its fixed exchange rates and fledgling financial markets, the Fund was established to address trade imbalances among a cooperative group of industrialized nations who were alternately borrowers and lenders.

Today's IMF serves a broad constituency, segmented into distinct factions of providers and users of resources. Attention has been redirected to the needs of developing countries and economies in transition for whom the Fund provides the means to implement medium-term structural reforms and, as lender of last resort, to confront crises. Capital flows, which are much larger, more volatile and more correlated than the trade shortfalls the IMF was founded to finance, are forcing the escalation of funding needs. Quota subscriptions are, in truth, a permanent contribution. The transfer of funds is no longer alternating, but one-way. Lending rates are subsidized and cannot be raised without consent of the borrower group. A new element, exposure to risk, has entered as the credit quality of the loan portfolio has declined. The transformation of the very nature of the Fund demands a critical audit of the way quotas, reserves, costs and financing options should be regarded.

The Fund's narrow reliance on equity based financing has not only sequestered massive international reserves of major creditor members but has a real cost to their taxpayers. This can be measured by the differential between the cost of supplying such funds (via the issuance of government debt or the foregone revenue from investment in alternative reserve assets) and the interest paid by the IMF to creditor members. Medium and long-term money is provided; these funds are remunerated at short-term rates; the net cost is 2-2 1/4% per annum. Exposure to default has been ignored. As the IMF portfolio has shifted from borrowers such as the United States, the United Kingdom, France and Italy to Russia, Indonesia, Mexico, Korea and Brazil, compensation for risk must be added to the measure of effective cost.

Three nations --- the United States, together with Germany and Japan --- contribute 45% of all usable quotas and bear an even greater part of the burden through a 60% share of all excess reserve positions. Under a moderate \$30-35 billion private sector

borrowing program, designed to release all excess national holdings in the Fund to alternate and more profitable use, collective annual savings for these three major creditors would tally \$360 million per annum or \$1.8 billion over five years while \$18.5 billion would be returned to their central banks and treasuries.

If resources from the capital markets later substitute for a future 33 1/3% rise in quotas, total benefits to the group would grow to \$620 million annually or \$3.1 billion over five years, while \$28 billion in international reserves would be recuperated.*

Philosophical protest and hypothetical hazard have long restrained an IMF move to private sector funding. There exists an illusion that the IMF is a central bank which should not borrow in the marketplace it regulates, a job description no longer espoused even by the Fund itself. Disquiet over competition, between IMF note issues and those of its members and other multilateral agencies, ignores the giant scale of the global marketplace with its vast array of investor universes. Alarm about conflict of interest for the Fund in relation to its debtor members is outmoded, as past reliance on relationships with commercial banks has been replaced by the impersonal mechanism of the capital markets. The sale of gold holdings is often advanced as a worthy substitute. Such resources are minuscule, when measured by need; their disposal, over an extended time frame, would raise just \$25 billion, or a one-time stopgap equivalent to a 10-11% quota increase.

Distrust of the unknown leads to a misconception of the markets. Will they demand access to confidential files of IMF borrowers? Only facts already in the public domain are pertinent to the Fund's ability to repay. Will rating agencies intervene in Fund lending programs? Only if borrowings reach the absolute AAA debt capacity (a level far in excess of projected amounts). Will IMF borrowings translate as a signal of crisis? Not if bond issues have an independent timetable and reservoirs exist to meet emergency needs.

A single fear is well-founded. Participation in the global marketplace demands transparency and accountability. Should not the Fund wish to conform to the guidelines it exacts of others?

*For the United States alone: \$290 million savings annually or \$1.4 billion over 5 years; \$13.4 billion in reserves returned.

THE STUDY: IN FULL

I. TRANSFORMATION OF THE IMF'S FUNCTIONS, ENVIRONMENT AND FINANCING OPTIONS

For many close to the Fund, both past and present, there exists a nostalgic attachment to the philosophic principles present at its formation more than fifty years ago. A regard for the spirit of the Bretton Woods Agreement should not be extended to its mechanics. Enlightened as they were, the founding participants at the original conference could not foresee the size, speed and volatility of today's interdependent global economy.

In 1945, the IMF was established as a mutual benefit society among major industrialized countries to finance current account imbalances in a world of capital controls. The private sector was not then equipped to finance trade deficits. Composition of the membership has evolved from a cohesive union of nations with similar needs to a broad range of participants, divided into distinct factions of suppliers and users of resources.

The original industrialized countries now have direct access to private sector financing on terms sufficient to meet their potential demands. The Fund's former role of central bank to the central banks of these nations has been assumed by the Bank for International Settlements and the European Central Bank. The IMF's attention and resources have been redirected to the financing of capital account flows which fund reform programs of developing countries and economies in transition and stabilize their capital markets at times of crisis.

In essence, the IMF is an equity-funded financial institution. (See Section III for an analysis of quotas as the equity of the Fund). As recently as ten years ago, this structure was the only viable alternative. Now, it is a costly inefficiency. For within the decade, the financial markets have developed the capability to provide resources on a scale sufficient to play an important role in IMF funding and to accommodate the Special Drawing Right (SDR)* based structure mandated in the Fund's Articles. From 1988 to 1998, international bond issuance rose from \$185 billion to \$977 billion with approximately 250 issues in excess of \$1 billion during the last two years. The evolution of the currency and interest rate swap markets permits notes denominated in any major currency to be transformed into effective SDR liabilities.

*The SDR is the IMF's unit of account and is a weighted average of the U.S. dollar, Deutschmark, Japanese Yen, French Franc and Pound Sterling. As of 1/1/99 the Euro replaced the Deutschmark and the French Franc.

Member potential needs are growing exponentially as capital flows, which are much larger, more volatile and more correlated than current account imbalances, are determining financing requirements. Total IMF credit has risen from SDR3.7 billion in 1968 to SDR29.2 billion in 1993 and more than doubled to SDR66.8 billion in the past five years. Meanwhile, national budgetary concerns are questioning the future provision of traditional Fund resources.

The expanded capabilities of the capital markets and the IMF's new environment demand a shift from a pure member exchange-of-assets funding base to a hybrid financing system. Against the backdrop of global borrowing by virtually all other multilateral institutions, a recourse to private sector funds would not imply a withdrawal of support by IMF members nor lead to a lack of confidence in the marketplace. Rather, the recent quota increase improves the Fund's access to the financial markets.

II. SHORTCOMINGS OF THE IMF'S CURRENT FINANCING MECHANISMS

Resources are provided to the Fund through two channels:

1. quota subscriptions of its 182 members, which now total \$288 billion, are supplied 25% in international reserve assets and 75% in domestic currency* and are determined by relative importance in the world economy; and
2. loans from member governments, principally the New Arrangements to Borrow - emergency credit lines only utilized to forestall or cope with an impairment of the international monetary system. This pool comprises 25 potential lenders and \$46 billion and is cumbersome to access in times of crisis.

Both sources of funds are denominated in SDR and receive interest, when utilized, at the SDR interest rate** except for the portion of the international reserve tranche which receives no remuneration. For members of the SDR group, this unremunerated segment totals \$4.7 billion and averages 10% of their reserve positions.

* The domestic currency subscription may take the form of non-interest bearing promissory notes.

**A weighted average of three month Treasury bill interest rates in the U.S., France and the U.K., the three month interbank deposit rate in Germany and the three month certificate of deposit rate in Japan.

The Fund is a revolving credit institution which must have the ability to:

1. obtain large amounts of resources unconditionally on short notice; and
2. recycle those resources quickly and without penalty.

The current system of quotas and official borrowing does not fulfill these functions. Access to both quotas and borrowed resources is conditional upon the strong balance of payments and reserve positions of the supplying members. Furthermore, these resources can be withheld, and even withdrawn, by unilateral provisions which allow members to draw upon quota reserve positions and to require repayment under the official borrowing arrangements. Because a significant proportion of subscriptions is supplied by countries whose currencies are not "usable" for international transactions, effective resources amount to approximately 68% of quotas and 80% of official credit lines, or \$232 billion which equals 69% of their combined nominal amount. The conditionality and diminished value of resource supply are particularly troublesome in the new environment of highly volatile capital flows which are larger and far less predictable than previously financed current account imbalances.

In contrast, a private sector borrowing program which utilizes a substantial prefunding mechanism will provide 100% usable resources on an unconditional basis which can be accessed on short notice.* (See Section IV. E.) A major benefit will be the stabilization of financial markets in times of crisis particularly during the long periods now required to negotiate quota increases and enact legislation.

III. CAPITAL STRUCTURE OF THE FUND: A MEASURE OF ABILITY TO ACCESS PRIVATE SECTOR RESOURCES

An IMF private sector financing program would be based upon AAA ratings from the bond rating services.

The assets of the Fund stand behind its borrowings and other liabilities and consist of its loans to members** and its gold*** and currency holdings. The Fund's preferred

* The New Arrangements to Borrow will retain the vital function of an emergency backstop of last resort.

** Technically, loans to members take the form of an increase in the Fund's holdings of the member's currency above its quota subscription.

***A private sector borrowing program would respect the priority distribution of the Fund's gold holdings before any payments to private bondholders. See Section VI.

creditor status, which places borrower obligations to the IMF above all other indebtedness, enhances the value of these assets in the view of the marketplace. Interest and principal payments on the loan portfolio would, just as under the current financing system, provide the resources to service and repay the Fund's obligations.

The quotas of members represent the equity of the IMF. Subscriptions are paid in and cannot be repaid except under extraordinary circumstances, such as a liquidation of the Fund or a withdrawal of the member, in which case the member bears its proportionate share of any losses. A member may utilize its international reserves held at the IMF only upon the deposit of an equivalent amount of its own currency. Member borrowing is achieved by exchanges of a member's own currency for an equivalent amount of major international currencies. Subscriptions carry guarantees that the member will maintain the value of its domestic currency positions in SDR terms, provide convertibility and repurchase any excess Fund holdings of its currency as soon as practicable.* Quota subscriptions are not similar to bank deposits. There is no ability to withdraw the funds. Instead there exists only the ability to borrow on a short-term, full recourse basis upon the deposit of collateral whose value must be maintained throughout the life of the loan.

The IMF's debt capacity is determined by the risk and diversification of its members' quota subscriptions and those of its loan portfolio. A review of the quota positions creates a AAA equivalent equity base and provides the following risk analysis. (See Appendix A for the ratings distribution of members.):

AAA:	41-46% of quotas	BBB/Baa:	7-10% of quotas
AA:	15-21%	High Yield:	12-17%
A:	2-3%	Non-rated:	8-17%

To transform a membership of nations which are distributed across a spectrum of credit risks into a structure where all participants are AAA rated, the financial industry utilizes standard over-collateralization techniques. Conservative AAA equivalency adjustment factors would be:

AAA:	100% of nominal value	BBB/Baa:	60% of nominal value
AA:	85%	High Yield:	40%
A:	75%	Non-rated:	0%

*The capital structure analysis assumes that all quotas are supplied by members entirely in domestic currencies because members are able to utilize international reserves held at the IMF at any time.

As an example, the high yield equivalency adjustment factor of 40% is derived from historical analysis which indicates that, over the time horizon contemplated, no more than 3/4 of the credits will default and no less than 20% of defaulted amounts owed will be recovered.

These formulae would generate a AAA risk-adjusted equity structure for the Fund of: 70-74% of quotas or \$202.3-212.3 billion.

The ability to supply incremental resources is a major advantage of a private sector borrowing program. This is derived from the Fund's loan portfolio which, though more highly concentrated than the asset pools of many institutions, provides substantial value to lenders with its preferred creditor status and short durations (1-5 years).* It offers the potential to leverage the Fund's risk-adjusted capital and thereby provide credit significantly in excess of its effective equity base. Applying the same AAA equivalency adjustment factors to the IMF's \$80 billion loan portfolio, with the same assignment of zero value to the unrated portion of \$5.2 billion (6.6% of the total), would generate a conservative AAA equivalent valuation of these assets of 42% of their nominal amount. (See Appendix B for the ratings distribution and maturity profile of the IMF loan portfolio.)

The IMF's capital structure would therefore be able to support the following AAA equivalent balance sheet (See Appendix C for a review of the ability to generate additional resources.):

Assets	Liabilities
Loans to members: \$332.0 billion	Private sector borrowing: \$100.0 billion
Liquid assets: \$ 12.3 billion	Official debt under Arrangements to Borrow: \$ 37.0 billion
	Equity
	AAA risk-adjusted equity base: \$207.3 billion
	of which: \$195.0 bil. extended to debtors \$12.3 bil. remaining available equity
Total Assets \$344.3 billion	Total Liabilities and Equity \$344.3 billion

* Under the lending facilities of the Fund, loans are repaid in equal quarterly or semiannual installments beginning 2-4.5 years from the date of drawing and ending 2.5-10 years from the date of drawing. The average life of the outstanding loan portfolio is less than three years.

The \$332 billion level of potential loans compares to the Fund's current limit of effectively usable resources of approximately 68% of quotas (\$195 billion) and 80% of official credit lines (\$37 billion) or a total of \$232 billion. A private sector borrowing program would therefore have the capacity to generate an additional \$100 billion or effective resources equal to a 50% quota increase from the new 1999 levels.* Debt capacity would rise proportionally with future increases in the Fund's quota subscriptions. (See Appendix D for a pro forma balance sheet based upon a private sector financing structure.)

Management of the Fund may set internal guidelines which specify minimum levels of liquid assets to meet calls from creditor members on their international reserve positions and other liquid liabilities. A target liquidity ratio, such as the proportion of usable currencies to reserve positions of creditors and current liabilities, limits the size of the IMF loan portfolio for any given level of resources from all sources. This procedure would increase, not reduce, the amount of financing the private sector would be willing to supply because the asset quality of the Fund's portfolio would improve by restricting a percentage to liquid high quality investments as opposed to loans to debtor members. In fact, private sector funds could provide a portion of the desired liquid resources at no cost and even yield a profit through the reinvestment of such funds as outlined in Section IV. E.

IV. PROGRAM FOR CAPITAL MARKETS FUNDING

A. Authorization

Nothing proposed in this study would require a change in the Articles of Agreement. The Fund already has the authority to borrow from the capital markets under Article VII. In addition, the IMF has the ability to enter into the swap arrangements and interim reinvestment programs outlined below.

B. Size and Pace of the Borrowing Program

Obligations would be issued in the financial markets over the entire one month discount note to ten year maturity spectrum in all international currencies. Newness to the marketplace will increase the demand of investors with limits on individual credit exposures. During the last two years, the international capital markets have witnessed approximately 250 issues in excess of \$1 billion and benchmark issues of \$2-5 billion by sovereign borrowers are now commonplace. Major banks and borrowers concur that a conservative estimate of the amounts raised would be

*The \$100 billion level of private borrowing compares with the World Bank's debt outstanding of approximately \$115 billion and that of the European Investment Bank of approximately \$145 billion as of 12/31/98.

\$20-25 billion per annum. This compares to the World Bank's debt issuance of \$32 billion and the European Investment Bank's borrowing of \$35 billion during 1998. Total outstandings of \$100 billion would be reached in four-five years. (World Bank and European Investment Bank outstandings as of 12/31/98 were approximately \$115 billion and \$145 billion respectively.)

C. Effective SDR Denomination

By its Articles, the Fund is restricted to lending resources in SDR form and its loans carry a floating interest rate based upon the SDR rate. Because the IMF should not assume any currency or interest rate risk, its private sector borrowings must carry an effective SDR denomination and floating interest rate.

The absence of a market in SDR denominated bonds has frequently been advanced as an obstacle to Fund private borrowing. The large scale development of the currency and interest rate swap markets over the past ten years now offers the IMF the opportunity to issue bonds in any major market and to exchange these obligations into SDR liabilities with a floating short-term interest rate matching that of its assets.

An example, based upon market conditions prevailing in mid-1996 for the World Bank, would be:

IMF issues the following notes in the U.S. dollar market to private sector investors:

Amount:	U.S. \$1 billion
Maturity:	5 years
Interest rate:	6 3/8%
Issue price:	99.742 per cent
Net proceeds after fees and expenses:	99.482 per cent
All-in cost:	6.50% p.a. (0.11% above 5 yr. U.S. Treasury note)

Simultaneously with the U.S. dollar note issue, the interest rate and currency swap markets would allow the Fund to convert the fixed-interest rate U.S. dollar payment liabilities under the bonds into liabilities of the same maturity with short-term floating interest rates in the following currencies and amounts:*

*Alternately, the IMF has the flexibility to maintain the entire liability in floating rate U.S. dollars and swap into the other currencies at any time prior to disbursement to Fund debtors without incurring currency or interest rate risk.

Amount

Interest Rate

(Based upon the issue date exchange rate of SDR1 = \$1.4461)

U.S. \$	402.5 million	3 month U.S. dollar LIBOR - 0.25%*
DM	308.4 million	3 month DM LIBOR - 0.25%
Yen	18.81 billion	3 month Yen LIBOR - 0.25%
French franc	562.2 million	3 month French franc LIBOR - 0.25%
Pound Sterling	72.6 million	3 month Pound Sterling LIBOR - 0.25%

This creates a synthetic five year SDR 691.5 million borrowing with a floating SDR interest rate. The only previous alternatives, those of direct issuance of floating rate notes or bank loans in the individual currencies, carry substantially higher costs. This is one of the reasons that private funding has been rejected in the past.

Under the swap arrangements, prime international financial institutions and major sovereign and multilateral entities would assume the liabilities of the Fund under the U.S. dollar note issue in exchange for the Fund's assumption of the above floating rate obligations.

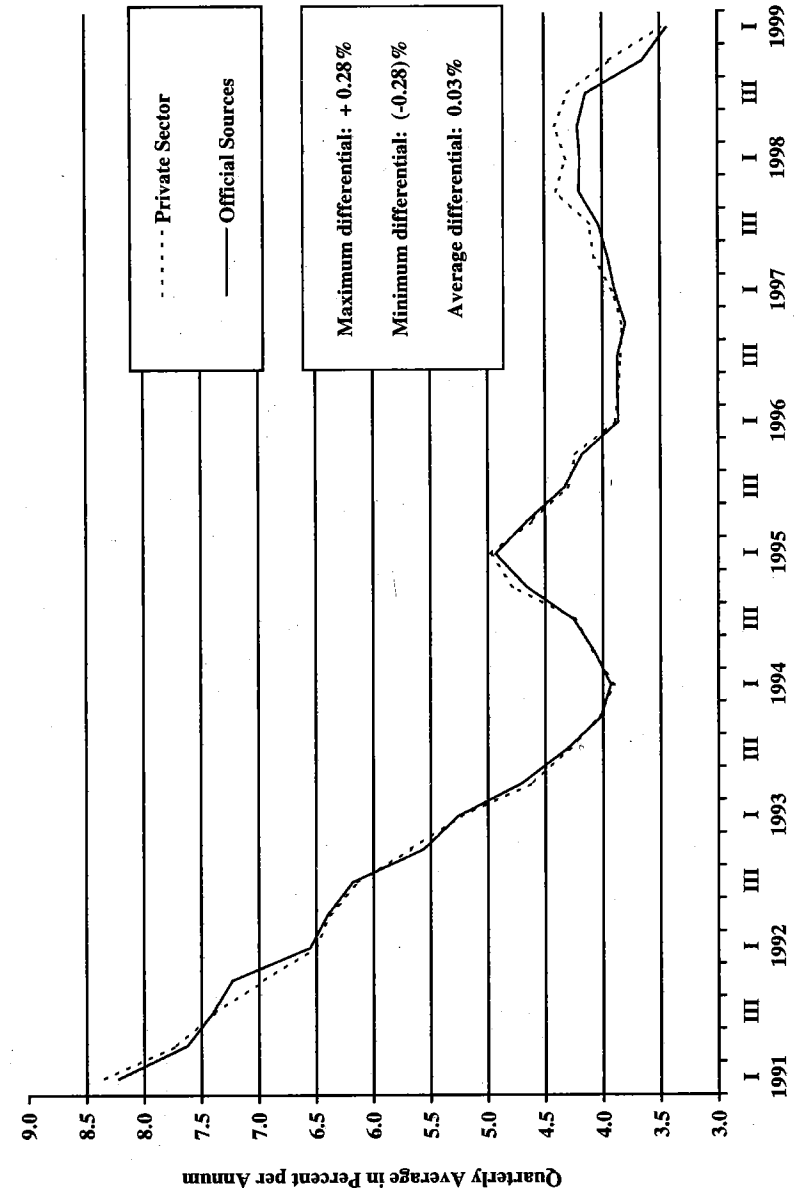
The IMF would adjust the currency composition of its debt portfolio periodically through swaps to eliminate the foreign exchange risk generated by changes in the composition of the SDR.

D. Private and Official Funding: Equal Cost

Conditions historically offered to the World Bank, other multilateral agencies and prime sovereign borrowers, combined with rates projected for their future financing, provide a pro forma effective cost of resources to the Fund from private sector lenders. A review of this benchmark indicates that over the past eight years (the period from the last revision of the SDR component interest rates), the private sector would have provided SDR-based financing at a cost virtually identical to that of quota subscriptions and official loans. The average annual cost differential varied within a range of (-0.05)% to +0.18% per annum and averaged 0.03% per annum. (See Appendix E for a comparative cost analysis in the SDR component currencies.)

*LIBOR: the London Interbank Offered Rate, which major banks in Europe charge one another for loans, is the most widely used financing index.

IMF Cost of Funds: Private Sector Borrowing vs. Official Financing



SDR Cost of Funds

	1991	1992	1993	1994	1995	1996	1997	1998	1991-1998 Average
Private Sector*	7.60%	6.16%	4.53%	4.26%	4.53%	3.86%	4.12%	4.23%	4.91%
Quotas and Official Borrowing	7.62%	6.17%	4.58%	4.23%	4.52%	3.85%	4.02%	4.05%	4.88%
Incremental Private Sector Cost	(-0.02)%	(-0.01)%	(-0.05)%	0.03%	0.01%	0.01%	0.10%	0.18%**	0.03%

A private sector program would therefore provide resources to the Fund and hence its debtor members at the same cost as quota subscriptions and official loans. Furthermore, private sector funds would be provided on a fully-committed long-term basis, in contrast to quotas and official borrowing which carry early repayment provisions at the option of the lender.

E. Prefunding and Interim Reinvestment: Liquidity and Net Profit to the Fund

Scheduled needs can be foreseen by the Fund three-four months in advance. To meet crisis situations, the IMF would prefund and create a stockpile of unconditional resources of approximately \$30 billion. Prefunding eliminates the Fund's exposure to timing and market conditions and allows it to take advantage of attractive financing opportunities. During the period prior to disbursement, the prefunded resources would be invested in the short-term interbank and government securities repurchase agreement markets in the SDR component currencies. Amounts reinvested would create synthetic SDR assets matching the effective SDR liabilities of the Fund. These resources would be available on short notice. Utilizing the example in Section C above, the proceeds of the note issue would be reinvested in the following amounts prior to disbursement:

U.S. \$	402.5 million
DM	308.4 million
Yen	18.81 billion
French franc	562.2 million
Pounds Sterling	72.6 million

* Funding at 3 month LIBOR - 0.25%. Because LIBOR represents the highest commercial bank liability interest rate, this level is considered conservative and is utilized by the World Bank as its benchmark rate.

**The relatively high differential in 1998 was due to the extremely difficult market conditions. It has since fallen to 0.05% in the first quarter of 1999.

Any repayments of IMF loans would be returned to the interim reinvestment program until needed for additional lending or repayment of debt. This allows the Fund to recycle its borrowed resources at no cost and even at a profit.

The interim reinvestment program will generate a net profit to the Fund because the IMF's cost of financing will be substantially below interbank rates. Based upon an average cost of funds of LIBOR - 0.25%, an average reinvestment rate of LIBOR - 0.125% (which is that utilized by the World Bank) and a liquidity program of \$30 billion, a net income of approximately \$35-40 million per annum will accrue from these activities.

F. Integrated Asset/Liability Approach and Counterparty Risk

An integrated approach to asset/liability management will minimize counterparty risk on both the interim reinvestment (asset) side and swap (liability) side of the balance sheet. A strict control program of individual credit risk and diversification across counterparties would be instituted.

G. Regulatory and Securities Law Considerations

A proactive strategy to achieve the most favorable regulatory treatment possible of the Fund's obligations in the principal markets would be accomplished over time. Following the example of the World Bank, this process would be executed contemporaneously with the borrowing program.

The exemption of IMF obligations from registration under U.S. Federal securities law should be included in legislation to conform with the treatment of the World Bank and other multilateral agencies. Even without such an exemption, the Fund could issue bonds to major U.S. institutional investors under Rule 144A of the Securities Act of 1933 as well as short-term obligations under other available exemptions. Over time, the IMF would seek the necessary qualifications for investment by important categories of state-regulated investors in the United States. Tax rulings similar to those accorded other multilateral entities would be sought from U.S. and other sovereign authorities.

H. Time and Personnel Requirements

Following a board decision to proceed, four-six months would be required to structure a private sector borrowing program. The steps undertaken would include the production of the legal documentation, the rating process and the creation of an appropriate asset/liability management and financial accounting framework. To establish and operate the program, four professionals (including one legal counsel) and a support staff of two would be required.

V. SAVINGS TO MAJOR CREDITOR MEMBERS OF A PRIVATE SECTOR BORROWING PROGRAM

Recourse to the private sector leverages public funds (generating a total of approximately \$1.80 for every \$1 of effective public contributions) and reduces both the quantity of resources supplied by creditor members and their cost as well.

Cost of capital to the IMF must be distinguished from the cost to the shareholders which supply the capital. To provide funding for quota reserve asset subscriptions, additional drawings of U.S. dollars and loans under the Arrangements to Borrow, the U.S. government issues Federal debt or reduces cash positions. The United States receives, in exchange for these resources, a reserve position in the Fund. For this reason, these transfers are treated as "exchanges of assets" by the U.S. Treasury in accordance with the 1967 President's Commission on Budget Concepts. Interest is paid by the IMF to the United States on the remunerated reserve position and official loans at the SDR rate. This is a weighted average of the yields on specified short-term instruments in the money markets of the five countries whose currencies compose the SDR. The U.S. dollar component is the three month U.S. Treasury bill.

The President's Commission defines the budget cost of an "exchange of assets" program as the difference between the Treasury's cost of funds for the term of the provision of resources and its rate of remuneration. With the goal of matching the maturity of the government's assets and liabilities, long-term assets must be financed through long-term debt, short-term assets with short-term liabilities.

In the case of IMF resources, the rate of remuneration to the United States is the three month U.S. Treasury bill rate.* The fiscal cost of providing IMF resources is determined by assigning:

*Although the IMF pays interest based upon the SDR rate and reserve positions are denominated in SDR, it is not appropriate to include foreign exchange gains or losses on the SDR denomination of U.S. reserve positions or the differential between U.S. and SDR interest rates in costs of providing financing to the IMF. This would imply that the IMF plays a determining role in the international reserve policy of the United States. U.S. assets held at the Fund are an integral part of the nation's international reserves. Their level and composition are determined by the Treasury and the Federal Reserve as part of the country's exchange rate and international economic policy. Therefore, any significant change in the level of U.S. assets held at the IMF, which does not coincide with U.S. government international policy, will be automatically sterilized by an offsetting movement in the nation's other international reserves. In addition, it is not reasonable to base an analysis of the cost of resources on an assumption that a continuous depreciation of the U.S. dollar and/or higher interest rates abroad than in the United States will recompense the actual costs.

1. a 30 year cost of funds to the component of the U.S. reserve position which is, in essence, a permanent paid-in equity contribution. This portion includes the 25% reserve asset subscription plus the portion in excess of this level which is not subject to variation;
2. a medium-term (7 year) cost of funds for the component which is committed for the foreseeable future;
3. a 3 year cost of funds for the component which is expected to vary in the medium-term; and
4. a 3 month-1 year interest rate on the portion of the U.S. reserve position subject to short-term fluctuation.

The methodology of the President's Commission matches the term of provision of resources to the term of Treasury funding of such resources. A study of the U.S. reserve position at the Fund over the 1991-98 period indicates that the appropriate terms are:

the first 32% of the quota subscription: 30 year

the next 4% of the quota subscription: 7 year

the next 2% of the quota subscription: 3 year

the remainder of the reserve position: 1 year

1% of the quota subscription working
balance: 3 month

The United States is financing a predominantly long-term asset (its reserve position at the IMF) and receiving a short-term rate of remuneration. (See Appendix F for an historical analysis of U.S. Treasury interest rates and reserve positions.)

	1991	1992	1993	1994	1995	1996	1997	1998	1991-1998 Average
U.S. Reserve Position at IMF (as % of quota)	36.8	36.2	32.5	31.7	34.9	39.7	38.2	40.0	36.3
	(period average)								
President's Commission Interest Cost of IMF Resources	8.02	7.46	6.49	7.28	6.82	6.57	6.52	5.49	6.83
	(% per annum)								
3 month U.S. Treasury Bill Rate of Remuneration	5.58	3.52	3.08	4.39	5.70	5.18	5.23	4.94	4.70
President's Commission Budget Cost of IMF Resources	2.44	3.94	3.41	2.89	1.12	1.39	1.29	0.55*	2.13

Based upon the analysis of the 1991-98 period and the guidelines of the President's Commission on Budget Concepts, the cost to the U.S. government of providing resources to the IMF averages 2.13% per annum above its rate of remuneration. The Fund receives long-term financing from its major creditor member at a concessionary short-term rate. This results in an effective cash subsidy to IMF borrowers, a cost not separately identified but incorporated in the government budget under the general interest cost of the Federal debt. As the President's Commission outlines, specific accounting is important in order to assist policy makers in decisions on the relative merits and costs of competing uses of public monies.

The United States, Germany and Japan are the largest suppliers of resources to the IMF. Together, these nations provide approximately 45% of usable quotas and 60% of drawings in excess of the 25% reserve asset subscriptions. For almost two decades, their reserve positions have been maintained in excess of 30% of assigned quotas.

A review of the German and Japanese IMF reserve positions reveals:

* The low fiscal cost in 1998 reflects the unusually small differential between short-term and long-term interest rates. This differential has doubled from 0.5% in December 1998 to 1.0% in March 1999.

	IMF Reserve Position as % of Quota (period average)								
	1991	1992	1993	1994	1995	1996	1997	1998	1991-1998 Average
Germany:	45.2	45.2	35.6	34.0	39.1	45.9	43.6*	41.3*	41.2*
Japan:**	57.6	54.1	37.6	36.0	44.0	55.7	55.4*	53.3*	49.2*

The matching of the term of provision of IMF resources to the appropriate market yield would create the following portfolios:

Germany

the first 35% of the quota subscription: 30 year interest rate
the next 4% of the quota subscription: 7 year interest rate
the next 4% of the quota subscription: 3 year interest rate
the remainder of the reserve position: 1 year interest rate
1% of the quota subscription working
balance: 3 month interest rate

Japan

the first 42% of the quota subscription: 30 year interest rate
the next 4% of the quota subscription: 7 year interest rate
the next 4% of the quota subscription: 3 year interest rate
the remainder of the reserve position: 1 year interest rate
1% of the quota subscription working
balance: 3 month interest rate

International reserves are a national asset whose value and associated revenue stream should be maximized subject to a given level of risk and maturity structure. The cost to these creditor members is the forgone additional income which would be received if the resources held at the IMF were invested in equivalent international reserve assets: notes and bonds of the U.S. Treasury; the European Investment Bank; the World Bank and other sovereign and supranational entities. Yields on such assets would average approximately 2-2.25% per annum above the short-term rates of return received under the existing system.

* Adjusted for quota increase announced Dec. 1997. Utilizing actual quota levels would generate 1991-98 averages of 44.4% and 53.7% for Germany and Japan respectively.

** Excluding bilateral borrowing arrangement which raised the avg. reserve position to: 110% in 1991, 108% in 1992, 74% in 1993, 72% in 1994 and 66% in 1995.

Under current quotas, a modest private borrowing program would allow all creditor members to return to a 25% reserve position level and supply 75% of quotas in the form of zero cost promissory notes. In the case of the United States, approximately \$11 billion of excess drawings would be recovered, thereby permitting a reduction in U.S. Treasury debt across the maturity spectrum. A \$30-35 billion private sector funding would produce a savings to the U.S. taxpayer of approximately \$200 million per annum or \$1 billion over a five year period. A combined \$7.3 billion in reserves would be returned to Germany and Japan while the additional revenue from alternative investments would generate approximately \$160 million per annum or \$0.8 billion over a five year period.

Future quota increases will entail a similar cost to the United States. Additional reserve subscriptions and excess drawings will be financed through the issuance of Federal debt or reflected in reduced cash positions of the Treasury. When a private sector borrowing program acts as a substitute for a 33 1/3% traditional quota increase, total benefits mount. A fiscal appropriation of \$17.2 billion would be eliminated; approximately \$13.5 billion of U.S. Government funds would be liberated; total savings would rise to approximately \$290 million per annum or \$1.4 billion over a five year period. (See Appendix G for a review of fiscal savings to the United States.) The capital markets would replace a combined \$14.5 billion of German and Japanese government funds and raise their total additional revenue to approximately \$330 million per annum or \$1.7 billion over a five year period. (See Appendix H for a review of savings to the United States, Germany and Japan.)

In addition to the cash subsidy, a further subsidy is incorporated into IMF traditional funding through the default risk of IMF loans assumed indirectly by creditor members. As the IMF lending portfolio has shifted from the U.S., U.K., France and Italy to Russia, Indonesia, Korea, Mexico and Brazil, a risk premium or allowance for credit losses should be included in the cost of providing resources. This would follow private sector practice and the recommendations of the President's Commission which states that, when the risk exceeds that of U.S. Treasury borrowings, allowances for losses on exchange of asset programs should be created and incorporated into the expenditure account of the budget.

In summary, the provision of resources to the Fund is not costless to major creditor member taxpayers because the rate of remuneration received reflects neither the long-term nature of the financing supplied nor the credit risk assumed.

Fiscal Savings to the United States from Private Sector Borrowing

(amounts in billions)

	<u>33 1/3% future quota increase</u>	<u>0% quota increase</u>
Traditional quota increase:	\$97.9	\$0.0
Alternative private sector borrowing program: (*)	\$99.6	\$33.2
Private sector borrowing as % of 1999 quotas:	33.9%	11.3%
Increase in effective resources:	\$66.4	\$0.0
Repayment of existing drawings in excess of 25% reserve asset subscriptions:	\$33.2	\$33.2
U.S. quota increase:	\$17.2	\$0.0
Combined reduction in U.S. assets with budget cost:	\$13.5	\$11.3
Annual budget savings from private sector borrowing:	\$0.29	\$0.17-0.24
Five year budget savings from private sector borrowing:	\$1.4	\$0.9-1.2

(*) \$33.2 billion of the proceeds of the borrowing program are utilized for the repayment of existing drawings in excess of the 1999 quota 25% reserve asset subscriptions. However, these funds remain available providing effective additional resources equal to the full amount of the borrowing program or a 50% traditional quota increase.

Savings to Germany and Japan from Private Sector Borrowing

(amounts in billions)

	33 1/3% future quota increase		0% quota increase	
	Germany	Japan	Germany	Japan
IMF quota:	\$23.7	\$24.4	\$17.8	\$18.3
IMF reserve position matching historical levels:	\$10.5	\$13.1	\$7.8	\$8.6
25% reserve asset subscription of 1999 quota:	\$4.5	\$4.6	\$4.5	\$4.6
Excess over 25% reserve asset subscription of 1999 quota:	\$6.0	\$8.5	\$3.3	\$4.0
Annual savings from private sector borrowing:	\$0.14	\$0.19	\$0.07	\$0.09
Five year savings from private sector borrowing:	\$0.7	\$1.0	\$0.4	\$0.4

VI. ENHANCING THE SAFETY AND LIQUIDITY OF INTERNATIONAL RESERVE POSITIONS

Many members hold a substantial portion of their international reserves in the form of reserve positions in the Fund. Private sector borrowing would reduce the risk of these positions. For any given level of IMF lending, private sector creditors would absorb their share of potential losses incurred on the Fund's loan portfolio thereby diminishing the exposure of official creditors.

The subordination of the claims of the private sector bondholders to the international reserve positions of members should be one of the terms and conditions of a borrowing program. In the event of an IMF bankruptcy, members would be permitted to withdraw their international reserve positions upon the deposit of an equivalent amount of their own currencies. The resultant preferred status will enhance the safety and liquidity of member international reserve claims on the Fund. The voluntary agreement by the bondholders would be executed through the bond trust indentures. No amendment to the IMF's articles is required because the provision grants increased protection for the reserve creditors, additional resources for the Fund and its debtors and is not to the detriment of any IMF constituency.

The preferred status of the international reserve creditors would not affect the marketability or the cost of private borrowing at any level of indebtedness envisaged. The probability of IMF bankruptcy is so remote as to be considered negligible by the financial markets and the withdrawal by a member of its international reserve position requires the deposit of an equivalent amount of its own currency with the guarantee to maintain its value in SDR terms and provide convertibility. The debt capacity analysis of Section III is based upon a valuation of the quota system which assumes that subscriptions are supplied entirely in domestic currencies.

Such a subordination already exists in reality since members can withdraw international reserves, in exchange for the deposit of domestic currency assets, unconditionally on very short notice. In addition, due to their status as international reserves, Fund reserve positions are afforded substantial protection from attachment by other IMF creditors under U.S., U.K., and European Convention laws. The bond issues of the Fund would be governed by these laws. Under the U.S. Foreign Sovereign Immunities Act of 1976, the State Immunity Act of 1978 of the United Kingdom and by international agreement in the European Convention on State Immunity, international reserves are immune from attachment.

Utilizing the same mechanism of voluntary agreement through the bond trust indentures, the priority distribution of the Fund's gold holdings to pre-August 31, 1975 members would be respected in the event of liquidation. A subordination provision would permit this distribution of gold holdings, in exchange for a deposit of the member's own currency based upon the book value of SDR 35/oz., before any payments to private sector bondholders. This official gold creditor protection would not affect the IMF's cost of funds or its debt capacity at any level of borrowing envisaged and has been included in the capital structure analysis of Section III.

VII. RETAINING THE COOPERATIVE QUOTA-BASED NATURE OF THE FUND

The quota-based nature of the IMF is not altered by private sector financing. Quotas will continue to:

1. determine voting power;
2. determine member access to Fund resources;
3. determine SDR allocations;
4. provide the vast majority of IMF resources; and
5. determine total IMF resources by establishing equity and consequent debt capacity.

The cooperative culture of the institution will be maintained by continuing to extend the same schedule of below-market interest rates to all borrowers without distinguishing among member credit risks.

General quota increases have previously fulfilled auxiliary functions which can be addressed within a new resource mix. Most important is the reallocation of relative quotas to reflect changes in the importance of members in the world economy. A reduction in the size of general quota increases, as a result of private sector borrowing, will require the use of selective quota increases to maintain the correct relative allocation. This should include a mechanism which affords aspiring countries the same leverage in negotiations present under the current system of voting consents. One possible proposal would be to continue the five year quota review process while precluding increases in total resources (quotas plus borrowings) without the consent of the existing requisite voting majorities.

To guarantee expanding availability for IMF borrowers, member access limits must be adjusted to include debt financing as a part of total IMF resources. Because total Fund indebtedness would be set as a percentage of quotas, quotas would continue to determine access to resources. As an example, if total indebtedness is set at 50% of quota subscriptions, resource access by members would be equal to:

$$\begin{aligned} 100\% \text{ of (quotas + borrowings)} &= 100\% \text{ of (quotas + 0.50 x quotas)} \\ &= 150\% \text{ of quotas} \end{aligned}$$

VIII. CONTROLS ON IMF USE OF RESOURCES

Members have traditionally used quota increase decisions as an indirect means of controlling the Fund's lending activities. Due to the absence of adequate restraints on the Fund's use of resources (asset side of balance sheet), severe and arbitrary restrictions have been instituted on the Fund's access to both quota and borrowed resources (liability side of balance sheet). If resources are obtained directly, there exists a fear that the IMF staff might act even more independently of its members as opposed to acting as their agent.

The present method which regulates the supply of funds in order to manage IMF credit policies is highly inefficient and costly. Protracted negotiations of large discreet quota increases and of the necessary legislation require significant time and resources. There exists minimal restraining effect on lending once the increases are enacted. If management's independence is a concern, effective controls on the use of resources should be instituted, while allowing the Fund to obtain the agreed level of resources in the optimal, lowest cost manner. A system of committees, as in any major financial institution, with appropriate requisite voting majorities and shareholder representation should be established to approve non-standard lending and amounts in excess of normal access limits.

IX. RESPONSES TO STANDARD OBJECTIONS

The concept of IMF borrowing in the private markets has raised a number of objections. Most have been addressed in the core of this study, among them the necessity to retain the quota-based cooperative nature of the institution, the relative cost of private versus official resources and the need for members to maintain control of the Fund's operations. A few remain outstanding:

The IMF is a central bank and should not be a participant in its markets

The IMF is not a central bank. It is not a regulator; it cannot create money; it cannot borrow in any market without the relevant member's concurrence; it plays no role, not even that of lender of last resort, in the principal markets in which it would borrow. The Bank for International Settlements and the European Central Bank now are the coordinating mechanisms for central bank action.

The Fund will compete with its members and other multilateral borrowers

The IMF will not be competing with its borrowing members in the capital markets. These are developing countries and economies in transition with a potential private sector audience that is distinct from that which would purchase the Fund's low risk obligations. Because of the difference in investor universes as well as the preference by most countries for the lower conditionality of private resources, even at a higher cost, Fund borrowing will neither delay nor interfere with direct access to the financial markets by its members.

The capital markets are now of such size and scope that the Fund's borrowing activities will have an insignificant effect on the terms and conditions available to industrialized members and other supranational agencies such as the World Bank. For institutional investors with limits on individual credit exposures, the Fund would be a new borrower, allowing incremental investment without a reduction in lending to other prime sovereign entities.

Fund borrowing will destabilize the financial markets

There exists concern that IMF borrowing operations will signal imminent crisis and destabilize the financial markets. The private sector prefunding mechanism and the ability to draw upon traditional official sources provide reservoirs to meet emergency needs. Consequently, the timing of issuance will not convey any information of value.

Private sector borrowing would create a conflict of interest for the Fund

The IMF would be a matched lender, assuming neither currency nor interest rate risk, and therefore would derive neither benefit nor cost from interest rate or currency movements. Because the Fund's costs will remain the same, and hence its lending rates, IMF debtors benefit from low interest rate levels whether financing is obtained from private or official sources.

The interaction of private sector borrowing with the Fund's policy of refusing to reschedule its own loans, while exerting pressure upon private sector lenders to reschedule their obligations from Fund debtors, has been of concern. In the past, when commercial banks were considered a significant potential source of private resources for the IMF, the possible overlap between lenders to the Fund and lenders to its debtors could have been a source of controversy. No conflict of interest will now be created by Fund private financing because:

1. the IMF's bonds would be distributed over a broad spectrum of investors through the impersonal mechanism of the capital markets; and
2. the IMF does not regulate its potential private sector lenders or those of its borrowers.

Confidential information of IMF borrowers will be disclosed

Investors understand that the Fund uses resources to intervene at times of market crisis and to promote structural adjustment programs. Only information which could have a material impact on the Fund's ability to repay its obligations requires disclosure. Principal country exposures, which are already in the public domain, are of significance; details, such as the situation in the banking system of a particular IMF debtor, are not substantive.

The financial markets will influence Fund activities

Some groups believe that private sector participants, in particular the bond rating agencies, would inappropriately influence IMF lending activities. Only if the Fund has reached its absolute AAA debt capacity, a level of borrowing far in excess of any envisaged, could this be a factor. The Fund retains the ability to utilize its traditional quota-based financing (pure equity) for activities which the market views as carrying excessive risk. This usage would be short-lived; as the crisis passes, the market penalty will evaporate, allowing the IMF borrowing program to leverage up its capital quickly and increase the revolving nature of its resources.

The Fund should monetize its gold holdings in place of borrowing

It has been argued that the IMF should not borrow in the capital markets but instead utilize its gold to generate additional resources. The potential value of any monetization of the gold holdings, either through outright sale or their use as collateral for borrowing, is minimal. The excess of market value over the balance sheet valuation amounts to approximately \$25 billion. A complete sale of gold reserves, requiring a significant time period and assuming a minimal 10-15% discount to market value, would only generate usable funds equivalent to a one-time quota increase of 10-11%.

X. APPENDICES

Appendix A

1999 IMF Quotas by Moody's Rating Category
(millions of SDRs)

<u>Aaa</u>	<u>Aa</u>	<u>A</u>	<u>Baa</u>	<u>Ba/B/Caa</u>
1,872.3 Austria	3,236.4 Australia	130.3 Bahamas	856.1 Chile	2,117.1 Argentina
1,263.8 Finland	4605.2 Belgium	4,687.2 China	774.0 Colombia	135.0 Bahrain
10,738.5 France	6,369.2 Canada	139.6 Cyprus	365.1 Croatia	67.5 Barbados
13,008.2 Germany	1,642.8 Denmark	928.2 Israel	819.3 Czech Rep.	18.8 Belize
838.4 Ireland	117.6 Iceland	102.0 Malta	171.3 El Salvador	171.5 Bolivia
279.1 Luxem.	7,055.5 Italy	231.7 Slovenia	65.2 Estonia	3,036.1 Brazil
5,162.4 Nether.	13,312.8 Japan	611.7 U.A.E.	823.0 Greece	640.2 Bulgaria
1,671.7 Norway	894.6 New Zealand		1,038.4 Hungary	164.1 Costa Rica
3,458.5 Switzer.	867.4 Portugal		1,633.6 Korea	218.9 Domin. Rep.
10,738.5 U.K.	17.0 San Marino		1,381.1 Kuwait	302.3 Ecuador
37,149.3 U.S.	862.5 Singapore		126.8 Latvia	943.7 Egypt
	3048.9 Spain		1,486.6 Malaysia	210.2 Guatemala
	2,395.5 Sweden		101.6 Mauritius	129.5 Honduras
			194.0 Oman	4,158.2 India
			1,369.0 Poland	2,079.3 Indonesia
			263.8 Qatar	273.5 Jamaica
			6,985.5 S. Arabia	170.5 Jordan
			1,868.5 S. Africa	365.7 Kazakhstan
			286.5 Tunisia	203.0 Lebanon
			306.5 Uruguay	144.2 Lithuania
				2,585.8 Mexico
				123.2 Moldova
				588.2 Morocco
				130.0 Nicaragua
				1,033.7 Pakistan
				206.6 Panama
				131.6 Papua N.G.
				99.9 Paraguay
				638.4 Peru
				879.9 Philippines
				1,030.2 Romania
				5,945.4 Russia
				357.5 Slovak Rep.
				1,081.9 Thailand
				335.6 Trin. & Tob.
				964.0 Turkey
				75.2 Turkmenistan
				1,372.0 Ukraine
				2,659.1 Venezuela
				329.1 Vietnam
86,180.7	44,425.4	6,830.7	20,915.9	36,116.6
40.7%	21.0%	3.2%	9.9%	17.1%
Total all members: 211,561.3				
Aaa:	40.7%	Investment Grade:	74.8%	
Aaa/Aa:	61.7%	High Yield:	17.1%	
Aaa/Aa/A:	65.0%	NR:	8.1%	

Sources: Moody's Investors Service 3/29/99
External Relations Dept. of IMF

1999 IMF Quotas by Standard & Poor's Rating Category
(millions of SDRs)

AAA	AA	A	BBB	BB/B/CCC
1,872.3 Austria	3,236.4 Australia	856.1 Chile	4,687.2 China	2,117.1 Argentina
10,738.5 France	4,605.2 Belgium	139.6 Cyprus	774.0 Colombia	171.5 Bolivia
13,008.2 Germany	6,369.2 Canada	819.3 Czech Rep.	365.1 Croatia	3,036.1 Brazil
13,312.8 Japan	1,642.8 Denmark	117.6 Iceland	943.7 Egypt	640.2 Bulgaria
279.1 Luxem.	1,263.8 Finland	928.2 Isreal	65.2 Estonia	164.1 Costa Rica
5,162.4 Nether.	838.4 Ireland	1,381.1 Kuwait	823.0 Greece	218.9 Domin. Rep.
1,671.7 Norway	7,055.5 Italy	102.0 Malta	1,038.4 Hungary	171.3 El Salvador
862.5 Singapore	894.6 New Zealand	231.7 Slovenia	1,633.6 Korea	4,158.2 India
3,458.5 Switzer.	867.4 Portugal		126.8 Latvia	2,079.3 Indonesia
10,738.5 U.K.	3,048.9 Spain		144.2 Lithuania	170.5 Jordan
37,149.3 U.S.	2,395.5 Sweden		1,486.6 Malaysia	365.7 Kazakhstan
			194.0 Oman	203.0 Lebanon
			1,369.0 Poland	2,585.8 Mexico
			263.8 Qatar	588.2 Morocco
			1,081.9 Thailand	206.6 Panama
			286.5 Tunisia	131.6 Papua N.G.
			306.5 Uruguay	99.9 Paraguay
				638.4 Peru
				879.9 Philippines
				1,030.2 Romania
				357.5 Slovak Rep.
				1,868.5 S. Africa
				335.6 Trin. & Tob.
				964.0 Turkey
				2,659.1 Venezuela
98,253.8	32,217.7	4,575.6	15,589.5	25,841.2
46.4%	15.2%	2.2%	7.4%	12.2%
Total all members: 211,561.3				
AAA:	46.4%	Investment Grade:	71.2%	
AAA/AA:	61.7%	High Yield:	12.2%	
AAA/AA/A:	63.8%	NR:	16.6%	

Sources: Standard & Poor's 4/1/99
External Relations Dept. of IMF

Appendix B

IMF Loan Portfolio by Rating Category

General Resources Account

(Amounts outstanding in SDR millions as of 2/28/99)

Baa/BBB	Ba/BB	B/B	Caa/CCC
Croatia 164.5	Argentina 3,740.6	Brazil 3,419.0	Pakistan 836.5
Estonia 21.3	India 211.8	Bulgaria 832.6	
Korea 10,500.0	Jamaica 74.7	Dom. Rep. 39.7	
Latvia 42.3	Jordan 331.2	Ecuador 37.1	
Lithuania* 179.8	Mexico 5,649.6	Honduras 47.5	
Thailand* 2,300.0	Panama 125.5	Indonesia* 6,455.8	
Tunisia 86.4	Peru 642.5	Kazakhstan 451.8	
Uruguay 114.2	Philippines 1,114.0	Moldova 150.6	
	Slovak Rep. 119.9	Papua N.G. 29.4	
		Romania 373.6	
		Russia* 13,327.6	
		Turkey 237.0	
		Ukraine 1,946.4	
		Venezuela 856.2	
		Vietnam 36.3	
	13,408.5	12,009.8	28,240.6
	23.0%	20.6%	48.4%
			1.4%
Total loan portfolio	58,329.1		
Non-rated	3,833.7 or 6.6%		

*Split-rated, listed under higher rating category.

Sources: International Financial
Statistics of IMF
Moody's Investors
Service 3/29/99
Standard & Poor's 4/1/99

IMF Loan Portfolio including Undrawn Commitments by Rating Category

General Resources Account

(Amounts outstanding and undrawn commitments in SDR millions as of 2/28/99)

<u>Baa/BBB</u>	<u>Ba/BB</u>	<u>B/B</u>	<u>Caa/CCC</u>
Croatia 488.9	Argentina 5,820.6	Brazil 13,024.8	Pakistan 1,215.6
Estonia 37.4	India 211.8	Bulgaria 1,303.3	
Korea 11,950.0	Jamaica 74.7	Dom. Rep. 39.7	
Latvia 75.3	Jordan 331.2	Ecuador 37.1	
Lithuania* 179.8	Mexico 5,649.6	Honduras 47.5	
Thailand* 2,900.0	Panama 205.5	Indonesia* 8,338.2	
Tunisia 86.4	Peru 782.2	Kazakhstan 606.5	
Uruguay 125.0	Philippines 1,842.4	Moldova 223.1	
	Slovak Rep. 119.9	Papua N.G. 29.4	
		Romania 373.6	
		Russia* 20,754.5	
		Turkey 237.0	
		Ukraine 3,346.4	
		Venezuela 856.2	
		Vietnam 36.3	
<hr/>	<hr/>	<hr/>	<hr/>
15,842.8	15,037.9	49,253.6	1,215.6
18.5%	17.6%	57.6%	1.4%

Total loan portfolio 85,505.5
Non-rated 4,155.6 or 4.9%

*Split-rated, listed under higher rating category.

Sources: International Financial
Statistics of IMF
Moody's Investors
Service 3/29/99
Standard & Poor's 4/1/99

IMF Loan Portfolio: Maturity Profile

General Resources Account

(Amounts outstanding in SDR millions as of 1/31/99)

<u>Due during Financial Year Ending April 30</u>	<u>Amount</u>
1999	SDR 2,560.5
2000	18,401.6
2001	8,599.2
2002	8,985.0
2003	8,647.8
2004	3,872.1
2005	2,311.6
2006	1,961.6
2007	1,598.7
2008	1,109.5
2009	535.6
Overdue	998.3
<hr/>	<hr/>
Total	SDR59,581.5

Source: Treasurer's Department
of IMF

Appendix C

Financial Structure of the Fund and the Ability to Generate Additional Resources

Loans to members:	\$332.0 billion
AAA equivalent value:	\$332.0 x 0.42 = \$139.4 billion*
Private sector borrowing:	\$100.0 billion
Official debt under Arrangements to Borrow:	<u>\$ 37.0 billion</u>
Total IMF debt:	\$137.0 billion
AAA risk-adjusted equity extended to debtor members:	<u>\$195.0 billion</u>
Total loans extended to debtor members:	\$332.0 billion
Total AAA risk-adjusted equity:	\$202.3 - 212.3 billion
AAA risk-adjusted equity extended to debtor members:	<u>\$195.0 billion</u>
Remaining available AAA risk-adjusted equity:	\$7.3 - 17.3 billion

*The AAA equivalent value of the loan portfolio exceeds the level of total borrowing. Therefore, no capital must be allocated to support the Fund's debt.

Appendix D

Pro Forma Balance Sheet of the Fund based upon a Private Sector Financing Structure in place of 1999 Quota Increase

(amounts in billions as of January 31, 1999)

Based upon an increase in effective resources equal to the 1999 45% quota addition (1)

General Resources Account

	1999 Traditional Quota Increase	Private Sector Borrowing Program	1999 Traditional Quota Increase	Private Sector Borrowing Program
Assets				
Currencies and securities	SDR215.43	SDR194.19		
SDR holdings	0.93	0.93		
Gold holdings	3.62	3.62		
Other assets	<u>1.98</u>	<u>1.98</u>		
Total Assets	SDR221.96	SDR200.72		
Liabilities				
Private sector borrowing			SDR0.00	SDR45.00
Official borrowing			4.32	4.32
Other liabilities			<u>0.65</u>	<u>0.65</u>
Total Liabilities			SDR4.97	SDR49.97
Equity				
Quotas			SDR211.62	SDR145.38
Reserves			2.46	2.46
Special Contingent Accounts			1.96	1.96
Deferred income from charges			<u>0.95</u>	<u>0.95</u>
Total Equity			SDR216.99	SDR150.75
Total Liabilities and Equity			SDR221.96	SDR200.72

(1) The increase in effectively usable resources amounts to approximately 68% of the quota increase while private sector borrowing provides 100% usable funds. The 1999 quota augmentation of 45% (SDR66.24 billion) corresponds to an SDR45 billion increase in usable resources.

Sources: Annual Report of IMF - 1998
External Relations Dept. of IMF
Treasurer's Dept. of IMF

Appendix E

IMF Cost of Funds:

Private Sector Borrowing vs. Official Financing

(period averages in % per annum)

	1991	1992	1993	1994	1995	1996	1997	1998	1991-1998 Average
<u>U.S. Dollar</u>									
Private Sector (1)	5.74	3.61	3.04	4.49	5.79	5.26	5.51	5.34	4.85
Quotas and Official Borrowing	5.46	3.46	3.02	4.31	5.58	5.07	5.13	4.84	4.61
Incremental Private Sector Cost	0.28	0.15	0.02	0.18	0.21	0.19	0.38	0.50	0.24
<u>Deutschmark</u>									
Private Sector (1)	9.06	9.27	7.05	5.11	4.28	3.06	3.12	3.35	5.54
Quotas and Official Borrowing	9.05	9.33	7.14	5.24	4.42	3.23	3.25	3.47	5.64
Incremental Private Sector Cost	0.01	(-0.06)	(-0.09)	(-0.13)	(-0.14)	(-0.17)	(-0.13)	(-0.12)	(-0.10)
<u>Yen</u>									
Private Sector (1)	7.13	4.21	2.75	2.06	1.02	0.38	0.38	0.46	2.30
Quotas and Official Borrowing	7.21	4.34	2.93	2.21	1.20	0.58	0.61	0.71	2.47
Incremental Private Sector Cost	(-0.08)	(-0.13)	(-0.18)	(-0.15)	(-0.18)	(-0.20)	(-0.23)	(-0.25)	(-0.17)

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	1991	1992	1993	1994	1995	1996	1997	1998	1991-1998 Average
<u>French Franc</u>									
Private Sector (1)	9.36	10.12	8.32	5.63	6.43	3.69	3.23	3.39	6.27
Quotas and Official Borrowing	9.56	10.35	8.29	5.71	6.49	3.79	3.30	3.40	6.36
Incremental Private Sector Cost	(-0.20)	(-0.23)	0.03	(-0.08)	(-0.06)	(-0.10)	(-0.07)	(-0.01)	(-0.09)
<u>Pound Sterling</u>									
Private Sector (1)	11.26	9.32	5.72	5.22	6.39	5.76	6.56	7.04	7.16
Quotas and Official Borrowing	10.98	9.02	5.22	5.10	6.31	5.78	6.48	6.83	6.97
Incremental Private Sector Cost	0.28	0.30	0.50	0.12	0.08	(-0.02)	0.08	0.21	0.19
<u>SDR</u>									
Private Sector	7.60	6.16	4.53	4.26	4.53	3.86	4.12	4.23	4.91
Quotas and Official Borrowing	7.62	6.17	4.58	4.23	4.52	3.85	4.02	4.05	4.88
Incremental Private Sector Cost	(-0.02)	(-0.01)	(-0.05)	0.03	0.01	0.01	0.10	0.18	0.03

Notes:

- (1) Private sector funding at 3 month LIBOR - 0.25 %
- (2) All rates quoted on Actual/360 day basis

Sources: Treasury Bulletin
International Financial Statistics
of IMF
Treasurer's Dept. of IMF
Federal Reserve Statistical Release

Appendix F

Historical Analysis of U.S. Treasury Interest Rates and U.S. Reserve Positions at the IMF

	1991	1992	1993	1994	1995	1996	1997	1998	1991-1998 Average
	(period average)								
U.S. Reserve Position at IMF	% of quota								
Average	36.8	36.2*	32.5	31.7	34.9	39.7	38.2**	40.0**	36.3**
Maximum	37.6	37.2	32.9	32.5	37.1	40.4	40.3**	46.1**	38.0**
Minimum	36.2	32.2*	32.0	31.0	31.0	37.2	36.0**	36.1**	34.0**
	% per annum								
U.S. Treasury Interest Rates									
3 month	5.54	3.51	3.07	4.37	5.66	5.15	5.20	4.91	4.68
1 year	5.86	3.89	3.43	5.31	5.95	5.51	5.63	5.05	5.08
3 year	6.81	5.31	4.44	6.26	6.26	5.99	6.10	5.14	5.79
7 year	7.68	6.63	5.55	6.90	6.50	6.34	6.32	5.28	6.40
30 year	8.14	7.67	6.60	7.37	6.88	6.70	6.61	5.58	6.94
President's Commission Interest Cost of IMF Resources	8.02	7.46	6.49	7.28	6.82	6.57	6.52	5.49	6.83
3 month U.S. Treasury Bill Rate of Remuneration***	5.58	3.52	3.08	4.39	5.70	5.18	5.23	4.94	4.70
President's Commission Budget Cost of IMF Resources	2.44	3.94	3.41	2.89	1.12	1.39	1.29	0.55	2.13

* Quota increase in December 1992. Excluding December the minimum would be 35.5% and the average 36.6%.

**Adjusted for quota increase announced December 1997. Utilizing the actual quota would generate the following figures:

1997 average: 39.4%
maximum: 50.5% (Dec 1997)
minimum: 37.5%

1991-98 average:
average: 38.4%
maximum: 41.6%
minimum: 35.9%

1998 average: 56.0%
maximum: 64.5%
minimum: 50.5%

***Adjusted to semiannual payment basis.

Sources: Treasury Bulletin
International Financial
Statistics of IMF

Appendix G

Fiscal Savings to the United States derived from Private Sector Funding

(amounts in billions)

	33 1/3% future quota increase	0% quota increase
Quotas	\$391.5	\$293.6
Traditional quota increase	\$97.9	\$0.0
Increase in effective resources (1)	\$66.4	\$0.0
Alternative private sector borrowing program (2)	\$99.6	\$33.2
Private sector borrowing as % of 1999 quotas	33.9%	11.3%
<u>Utilization of Borrowed Funds</u>		
New resources	\$66.4	\$0.0
Repayment of existing drawings in excess of 25% reserve asset subscriptions (3)	\$33.2	\$33.2
U.S. quota	\$68.8	\$51.6
U.S. quota increase	\$17.2	\$0.0
U.S. reserve position matching historical levels	\$26.4	\$24.2
25% reserve asset subscription of 1999 quota	\$12.9	\$12.9

	<u>33 1/3 % future quota increase</u>	<u>0% quota increase</u>
Reduction in U.S. 25% reserve asset subscription	\$4.3	\$0.0
Reduction in additional U.S. \$ drawings in excess of 25% reserve asset subscription matching historical levels	\$2.3	\$0.0
Reduction in existing U.S. \$ drawings in excess of 25% reserve asset subscription	\$6.9	\$11.3
Combined reduction in U.S. assets with budget cost	\$13.5	\$11.3
Annual budget savings from private sector borrowing	\$0.29	\$0.17-0.24 (4)
Five year budget savings from private sector borrowing	\$1.4	\$0.9-1.2 (4)

- (1) Quota increases are assumed to provide approximately 68% effectively usable resources.
- (2) \$33.2 billion of the proceeds of the borrowing program are utilized for the repayment of existing drawings in excess of the 1999 quota 25% reserve asset subscriptions. However, these funds remain available providing effective additional resources equal to the full amount of the borrowing program or a 50% traditional quota increase.
- (3) Total drawings of all creditor members in excess of their 25% reserve asset subscriptions under the 1999 quotas averaged \$33.2 billion over the December 1998 - February 1999 quarter. The U.S. reserve position averaged \$24.2 billion. The average exchange rate on the balance sheet dates over the period was \$1.3878 per SDR.
- (4) If the current level of U.S. \$ drawings is temporary, the savings would be approximately \$175 million per annum or \$0.9 billion over a five year period. If it is indicative of a long-term IMF resource requirement, the savings would be approximately \$240 million per annum or \$1.2 billion over a five year period.

Sources: Annual Report of IMF - 1998
External Relations Dept. of IMF
International Financial Statistics of IMF
Treasury Bulletin

Appendix H

Savings to the United States, Germany and Japan derived from Private Sector Borrowing under 1999 Quota Levels

(amounts in billions)

	<u>U.S.</u>	<u>Germany</u>	<u>Japan</u>	<u>Total</u>
IMF quota	\$50.9	\$17.8	\$18.3	\$87.0
IMF reserve position (1)	\$23.9	\$7.8	\$8.6	\$40.3
25% reserve asset subscription	\$12.7	\$4.5	\$4.6	\$21.8
Excess over 25% reserve asset subscription	\$11.2	\$3.3	\$4.0	\$18.5
Annual savings from private sector borrowing	\$0.20	\$0.07	\$0.09	\$0.36
Five year savings from private sector borrowing	\$1.00	\$0.4	\$0.4	\$1.8

- (1) Average level of first quarter 1999 balance sheet dates.

Sources: International Financial
Statistics of IMF
Treasurer's Department
of IMF

**Savings to the United States, Germany and Japan derived
from Private Sector Borrowing under a 33 1/3% Quota Increase**

(amounts in billions (1))

	<u>U.S.</u>	<u>Germany</u>	<u>Japan</u>	<u>Total</u>
IMF quota after 33 1/3% increase	\$67.9	\$23.7	\$24.4	\$116.0
IMF reserve position matching historical levels	\$26.1	\$10.5	\$13.1	\$49.7
25% reserve asset subscription of 1999 quota	\$12.7	\$4.5	\$4.6	\$21.8
Excess over 25% reserve asset subscription of 1999 quota	\$13.4	\$6.0	\$8.5	\$27.9
Annual savings from private sector borrowing	\$0.29	\$0.14	\$0.19	\$0.62
Five year savings from private sector borrowing	\$1.4	\$0.7	\$1.0	\$3.1

(1) Based upon average of exchange rates on first quarter 1999 balance sheet dates
SDR1 = \$1.3711

Sources: International Financial
Statistics of IMF
Treasurer's Department
of IMF



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