

Testimony

Before the Joint Economic Committee

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INTERNATIONAL
MONETARY FUND

Current Financial
Situation

Statement of Harold J. Johnson, Associate Director
National Security and International Affairs Division

and

Gary T. Engel, Associate Director, Accounting and
Information Management Division



GAO

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Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss issues related to the International Monetary Fund's (IMF)¹ financial situation. Our remarks will be based on our past work for this Committee² and our ongoing review required by the Omnibus Appropriations Act for fiscal year 1999.³ The information we will present on our ongoing work is preliminary. We expect to complete our work and report to the congressional committees specified in the law by the end of September. As requested, today we will discuss

- the Fund's current situation regarding quota resources that the IMF obtains from its member countries and that is used for most of its financial assistance;
- the level of resources that the Fund has reported as actually available for lending; and
- other resources that the Fund potentially has available for conducting its operations, such as resources obtained through borrowing and the Fund's gold holdings.

As you requested, we will discuss the IMF's financial situation from both a current and historical perspective, highlighting the share of the IMF's financial resources that have been contributed by the Group of Ten (G-10)⁴ countries. Also as requested, we will provide current and historical perspectives on the IMF's gold holdings.

¹ The IMF is an organization of 182 member countries that was established to promote international monetary cooperation and exchange rate stability and to provide short-term lending to member countries that experience balance-of-payments difficulties.

² International Monetary Fund: Observations on Its Financial Condition (GAO/T-NSIAD-98-220, July 23, 1998).

³ The Omnibus Appropriations Act for fiscal year 1999 (P.L. 105-277, Oct. 21, 1998) appropriated about \$18 billion for the IMF and required us to report on seven specific matters. We have divided this mandate into three reports: International Monetary Fund: Approach Used to Establish and Monitor Conditions for Financial Assistance (GAO/GGD/NSIAD-99-168, June 22, 1999); International Monetary Fund: Trade Policies of IMF Borrowers (GAO/NSIAD/GGD/99-174, June 22, 1999); and a report on the IMF's financial operations that will be issued by September 30, 1999. The act requires the latter report to include the IMF's current financial condition and certain current and historical information on its lending.

⁴ The G-10 comprised 10 industrialized countries: Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States. Switzerland became the 11th member in 1984.

Summary

For the financial year ended April 30, 1999, the IMF had about \$287 billion in resources in its General Resources Account (GRA) obtained primarily from members' quota. However, from the GRA IMF could use only about \$195 billion, that is, the amount from members that are sufficiently strong economically to permit their currencies to be used for IMF operations. The remaining \$92 billion was unusable for lending as it consisted of member currencies in weak positions and gold, which the IMF does not consider to be a liquid resource. Of the usable amount, about \$118 billion had been lent, committed, or reserved leaving about \$77 billion available for additional credit to IMF members and to meet members drawing on their reserves held by the IMF.

In addition to these resources, the IMF has several other resources potentially available for lending. The IMF's Articles of Agreement permit the Fund to borrow resources for its operations and transactions. The IMF has borrowed from member governments on multiple occasions and maintains two standing arrangements with groups of countries for use when quota resources are insufficient. These arrangements, the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB), are standing credit lines worth a combined total of about \$46 billion. The IMF drew about \$6 billion under these arrangements in July 1998 and December 1998 to finance lending to Russia and Brazil but repaid these obligations in March 1999.

As of April 30, 1999, the IMF had about 103 million fine ounces of gold holdings with a market value on that date of about \$30 billion.⁵ According to IMF's Executive Board, the gold provides an underlying strength to IMF's financial condition, can be used to replenish currency holdings if IMF does not have enough liquid resources to pay creditors, and is available for contingencies. However, gold is a non-interest-earning asset and is not deemed by the IMF to be a liquid resource. In the past, the IMF sold gold for a variety of purposes, most recently during 1976-80 to raise funds to support lending to poorer IMF member countries. In addition, during that same period, IMF restituted gold, that is, sold gold, to the members that had previously used gold to pay part of their quota. The IMF has determined that ownership rights to the Fund's gold clearly reside with the IMF. However, under the Fund's Articles of Agreement, members may have residual rights to the gold in two instances: if the Fund elects to reconstitute

⁵ As of July 14, 1999, the market value of the Fund's gold holdings had declined to about \$26 billion.

gold to members or if the Fund is liquidated. In the first instance, gold could be restituted to countries that were members on August 31, 1975, based on their relative quotas at that time. In the case of liquidation, gold may be restituted to members on the same basis after the Fund's liabilities have been satisfied.

Background

Before discussing the details of IMF's financial situation, it is useful to give some background on members' quotas, currency purchases and repurchases, and gold holdings.

Members' Quotas

Quotas are the membership dues that countries pay when they join IMF and when there is an approved increase in such dues. Quotas comprise the bulk of the Fund's resources for providing financial assistance. Up to 25 percent of quotas must normally be paid in reserve assets, which are currencies that are freely usable in the principal foreign exchange markets (U.S. dollars, yen, euros, or the pound sterling) or "special drawing rights" (SDR).⁶ The balance may be paid either in a country's domestic currency or with noninterest-bearing promissory notes.⁷ The portion paid in freely usable currency, or SDRs, is referred to as the member's reserve assets or initial reserve tranche position. This portion can be drawn by the member as needed based upon the representation of a balance of payments need. If withdrawn, these amounts are to be replaced with the country's own currency; however, members are not obligated to replenish their reserve tranche positions by, for example, repurchasing their own currency with freely usable currency.

Currency Purchases and Repurchases

When a member needs additional funds other than from its reserve tranche position, the country purchases the currency it needs from IMF with an equivalent amount of its own currency. The member later repurchases its

⁶The SDR is a unit of account that IMF has used since 1969 to denominate all its transactions. Its value comprises a weighted average of the values of four currencies: the U.S. dollar, Japanese yen, euros, and pound sterling. Because the value of the SDR relative to the U.S. dollar changes daily, the dollar value of amounts converted from SDRs also changes daily.

⁷These promissory notes are made payable to IMF, are denominated in the member's domestic currency, and are held by the member's designated central bank or other designated depository. IMF views these notes as fully equivalent to its currency holdings because IMF can cash the notes on demand within 24 hours to receive members' domestic currency. IMF members are obligated to maintain the SDR value of their quotas.

own currency using SDRs or other currency on terms established by IMF. Because IMF's financial assistance is in the form of currency purchases by member countries, it does not reduce the combined total of IMF's currency holdings in terms of SDR equivalents; that is, the funds are not lent out.⁸ Instead, the composition of IMF's currency holdings changes as "borrowers" replace the currency they purchase with their own currency. The relationship of IMF's holding of a member's own currency to the member's quota is an important one because it determines whether the member is a creditor, debtor, or in a neutral position with IMF. With some exceptions, currencies of members who are creditors are considered usable by IMF to finance transactions, while currencies of countries in a neutral borrowing or a debtor position are considered unusable by IMF. Appendix I lists IMF member countries classified as creditor, neutral, or borrower as of April 30, 1999.

Gold Holdings

The IMF holds about 103 million fine ounces of gold at designated depositories in four member countries.⁹ The IMF acquired almost all of its gold prior to January 1, 1974, when its Articles of Agreement required that in most cases 25 percent of members' quota subscriptions be paid in gold and that certain transactions between member countries and the IMF be conducted in gold. In 1978, IMF's Articles of Agreement were amended to reflect the end of the fixed currency exchange rate system that had governed the international financial system up to that time. IMF's Articles specify that based on an 85-percent majority vote of the total voting power of the Executive Board, the IMF may sell its gold on the open market and it may accept gold, at market prices, in discharge of a member's obligations to the Fund.

The IMF values its gold at SDR 35 per ounce (about \$47 per ounce as of April 30, 1999), its value at the time of acquisition.¹⁰ Therefore, the IMF's gold holdings are valued on its balance sheet at SDR 3.6 billion (about

⁸ The IMF considers its financing to low-income developing countries on concessional (below-market-interest-rate) terms to be lending. This lending is financed from a trust account, the Enhanced Structural Adjustment Facility (ESAF) Trust that is administered by the IMF outside of its General Department.

⁹ These gold holdings represented about 9 percent of the world's official gold holdings in March 1999.

¹⁰ An exception is a small amount of gold (21,396 ounces) that Cambodia gave to IMF in December 1992 in partial settlement of an overdue loan obligation. The IMF values this amount at SDR 5.1 million (about \$6.8 million currently).

\$5 billion). However, the IMF reports in a footnote to its financial statements the market value of its gold holdings as of its financial year-end. On April 30, 1999, the IMF estimated its gold was worth about \$30 billion. Were the IMF to sell some of its gold, it is unclear how much money could be raised because the world price fluctuates and might be affected as a result of the sale. In addition, the IMF has stated it does not have legal authority to buy, lease, or swap gold.

Availability of IMF Resources

We will now discuss the resources that are available to the IMF to conduct its operations.

Current Size and Historical Growth of IMF's Quota Resources

In January 1998, IMF Board of Governors¹¹ approved a new quota¹² level of SDR 212 billion (\$288 billion), a 45-percent increase from the prior quota level of about SDR 146 billion. The quota became effective in January 1999 when members having 85 percent of the total quotas consented to the quota increase. As of April 30, 1999, about \$5 billion in quotas had not been paid to the IMF by 27 members. Specifically, seven member countries¹³ are currently in protracted arrears to the IMF for overdue obligations and are ineligible to consent to or pay their quota increases until they become current on their obligations. In addition, 20 other members¹⁴ have not individually consented to the quota increase and have until July 30, 1999, to do so.

Since the IMF was created in 1945, total quotas have grown substantially. This growth in IMF's quotas came from increased membership, eight quota increases since 1959, and several special and ad hoc increases in quotas of

¹¹ The Board of Governors is the highest decision-making body of the IMF.

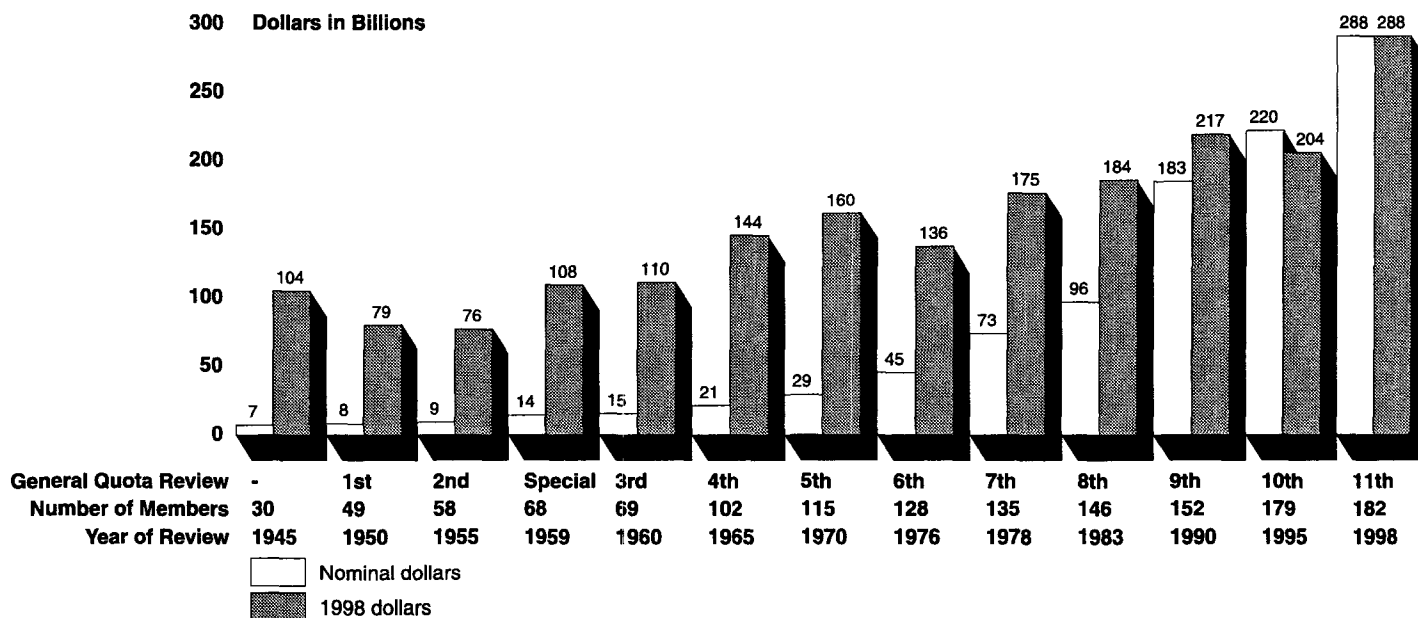
¹² A general quota increase involves all member countries. Quotas of individual members or groups of members may be increased at other times.

¹³ The Islamic State of Afghanistan, the Democratic Republic of Congo, Iraq, Liberia, Somalia, Sudan, and the Federal Republic of Yugoslavia (Serbia and Montenegro). The Federal Republic of Yugoslavia has not yet succeeded to the membership of the Socialist Federal Republic, which ceased to be a member in 1992.

¹⁴ The Bahamas, Belgium, Brunei Darussalam, Estonia, Grenada, Guatemala, Haiti, Lao PDR, Lebanon, Luxembourg, the Marshall Islands, Micronesia, Namibia, Nepal, Qatar, St. Vincent and the Grenadines, San Marino, Turkmenistan, United Arab Emirates, and Uruguay.

individual members.¹⁵ During this period as reported by the IMF, the overall general quota increases ranged from about 34 percent to about 61 percent. The United States has historically contributed the largest amount of quota resources. However, the U.S. share of quotas has fallen, from a high of about 39 percent of total quotas in 1945 to the current level of 17.5 percent. The decrease in the U.S. share of quotas is primarily due to the expansion in IMF membership over the years—152 countries have joined the IMF since its founding. However, the absolute size of the U.S. quota has increased, from about \$2.8 billion in 1945 to the current amount of about \$50 billion.¹⁶ Figure 1 shows the historical growth in IMF quotas in both nominal and inflation-adjusted 1998 dollars. Also shown is the number of IMF members at the time of each quota review.

Figure 1: Approved IMF Quotas at General Reviews, 1945-1998



Note 1: Quota values are expressed in 1998 dollars using the average 1998 dollar/SDR exchange rate and an SDR price deflator. This deflator is constructed from the weighted average inflation rate of

¹⁵ This includes seven general reviews and a 1958/59 special review. The first, second, third, and 10th general reviews resulted in no increases in quotas.

¹⁶ Other countries with large quotas include Japan and Germany (about \$18 billion each, or 6 percent of quotas), and France and the United Kingdom (\$14.5 billion each, or 5 percent of quotas).

those countries that comprise the SDR basket of currencies. For nominal dollars, we used the annual average dollar/SDR exchange rate. For the period prior to the creation of the SDR in 1969, we used the inflation rate of the United States because the IMF used the U.S. dollar as its unit of account. This methodology is preliminary and will be further developed in our subsequent report.

Note 2: For the 1995 10th General Review, the nominal dollars exceeded 1998 dollars due to a historically high SDR exchange rate.

Source: GAO analysis of IMF data.

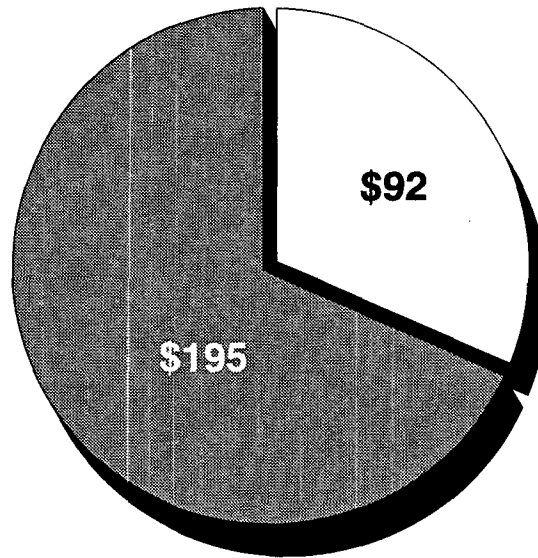
The Fund relies primarily on quota resources to meet credit demands from its members. However, during some periods of great demand for IMF financing, the IMF has borrowed funds from member countries to use for its operations. In December 1978, 62 percent of IMF credit outstanding was funded from resources that IMF had borrowed.

Resources Currently Available for Lending

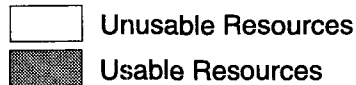
In July 1998, we testified that about \$43 billion of the \$201 billion in total resources were available at that time for lending. As of April 30, 1999, about \$77 billion of the \$287 billion of the IMF's total resources were available for lending. Today, using these updated figures, we will explain the step-by-step process that the IMF uses for making its estimate of resources available for lending.

As before, the IMF begins with its total amount of resources, about \$287 billion as of April 30, 1999. Before considering IMF extended credit, about \$195 billion, or 68 percent, is usable as indicated in figure 2.

Figure 2: IMF Estimated Usable and Unusable Resources, April 30, 1999



Total - \$287 billion



Note: The SDR/U.S. dollar exchange rate was SDR 1= \$1.35123.

Source: GAO analysis of IMF data.

These usable resources consist of (1) holdings of currencies of members considered by the Executive Board to have sufficiently strong balance of payments and reserve positions for their currencies to be used in IMF operations and (2) IMF's holdings of SDRs. The remaining \$92 billion of resources is considered unusable. These resources cannot be used to finance IMF transactions because they are

- currencies of members that are using IMF resources and are therefore in a weak balance-of-payment or reserve position;
- currencies of members with relatively weak external positions who have drawn on their reserve position but have not borrowed;
- gold holdings of the Fund which require an 85-percent vote by the Executive Board to be used and are not considered by the IMF as liquid assets; or
- other non-liquid assets, such as buildings and facilities.

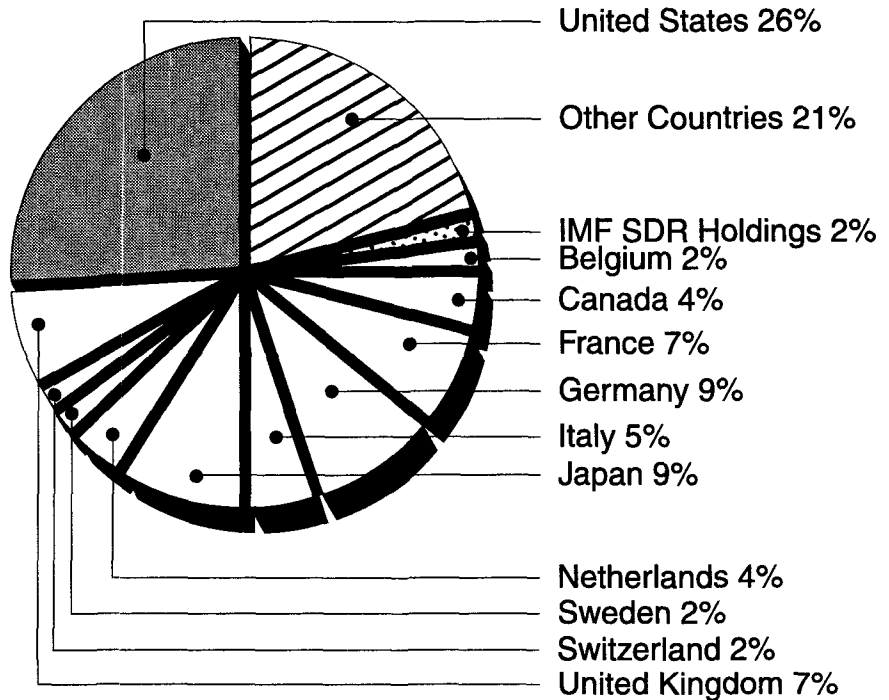
The use of IMF credit by a member generally increases the IMF's unusable resources and reduces its usable resources by equivalent amounts. From December 31, 1988, through April 30, 1999, a minimum of 29 members had currency that the IMF identified as sufficiently strong to be used in IMF operations.¹⁷ The maximum number of countries in this situation during this time period was 39.

**Usable Resources of the
G-10 and Other IMF
Members**

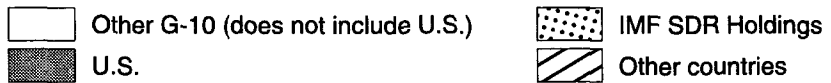
Figure 3 shows the percentage of usable resources provided by the G-10 and other IMF members as of April 30, 1999.

¹⁷The level of usable currencies fluctuates as certain currencies strengthen over time and become part of the operational budget or as countries experience difficulties and thus are no longer included as part of the operational budget. In that instance, the entire stock of that country's currency becomes unusable.

Figure 3: G-10 and Other IMF Members' Usable Resources as of April 30, 1999



Total - \$195 Billion



Source: GAO analysis of IMF data.

As of April 30, 1999, about 77 percent of the resources the IMF deemed usable were contributions made by the G-10. The United States is the single largest contributor of usable resources with 26 percent of the total. In addition, IMF's holdings of SDRs amounted to about \$5 billion that comprised about 2 percent of its usable currencies.¹⁸

¹⁸ SDRs can be held by, but not allocated to, the General Resources Account of the IMF. The GRA receives SDRs in partial payment of quotas, from charges on the use of IMF resources, and from repurchases.

Available and Uncommitted IMF Resources

As of April 30, 1999, the IMF had \$195 billion of usable resources to meet requests for funds and requests for use of creditor members' reserve assets. The IMF takes several steps to calculate its available and uncommitted resources, referred to as liquid resources, as indicated in table 1.

Table 1: IMF Available and Uncommitted (Liquid) Resources as of April 30, 1999

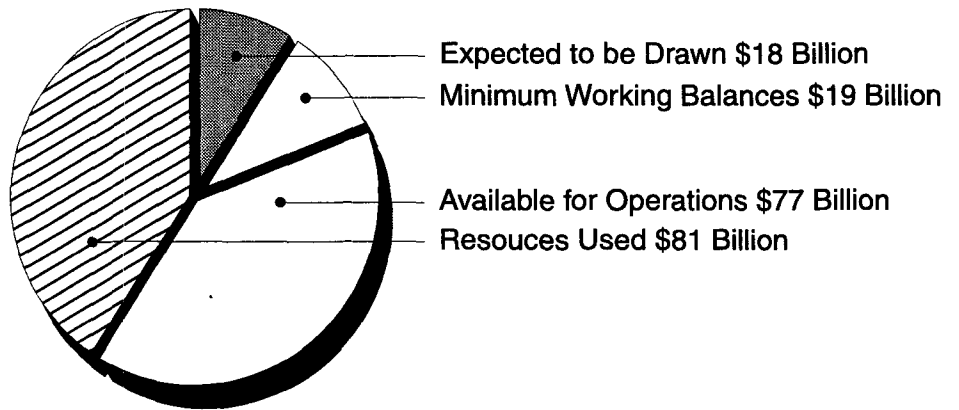
U.S. dollars in billions	
Total usable resources (before IMF extends credit)	\$195
Less: Resources used (credit extended)	(81)
Available and usable resources	\$114
Less: Commitments	(18)
Less: Minimum working balances	(19)
Available and uncommitted resources	\$77

Note: SDR conversion rate = \$1.35123.



Source: GAO analysis and IMF data.

First, the IMF reduces its total usable resources of \$195 billion by about \$81 billion, which is the amount of outstanding credit extended as of April 30, 1999. The IMF then reduces its available and usable resources of \$114 billion as of April 30, 1999, by (1) \$18 billion of commitments made to countries needing assistance and (2) a minimum working balances reserve of \$19 billion, which is the amount IMF officials believe is needed to make payments in specified currencies. IMF's Executive Board set the minimum working balances at 10 percent of the quotas of members in a strong external and reserve position. This leaves about \$77 billion available for additional credit to IMF members and to meet members drawing on their reserves held by the IMF. Figure 4 shows a breakdown of IMF's liquid resources as of April 30, 1999.

Figure 4: IMF Liquid Resources as of April 30, 1999



Total - \$195 Billion

-  Resources used
-  Expected to be drawn

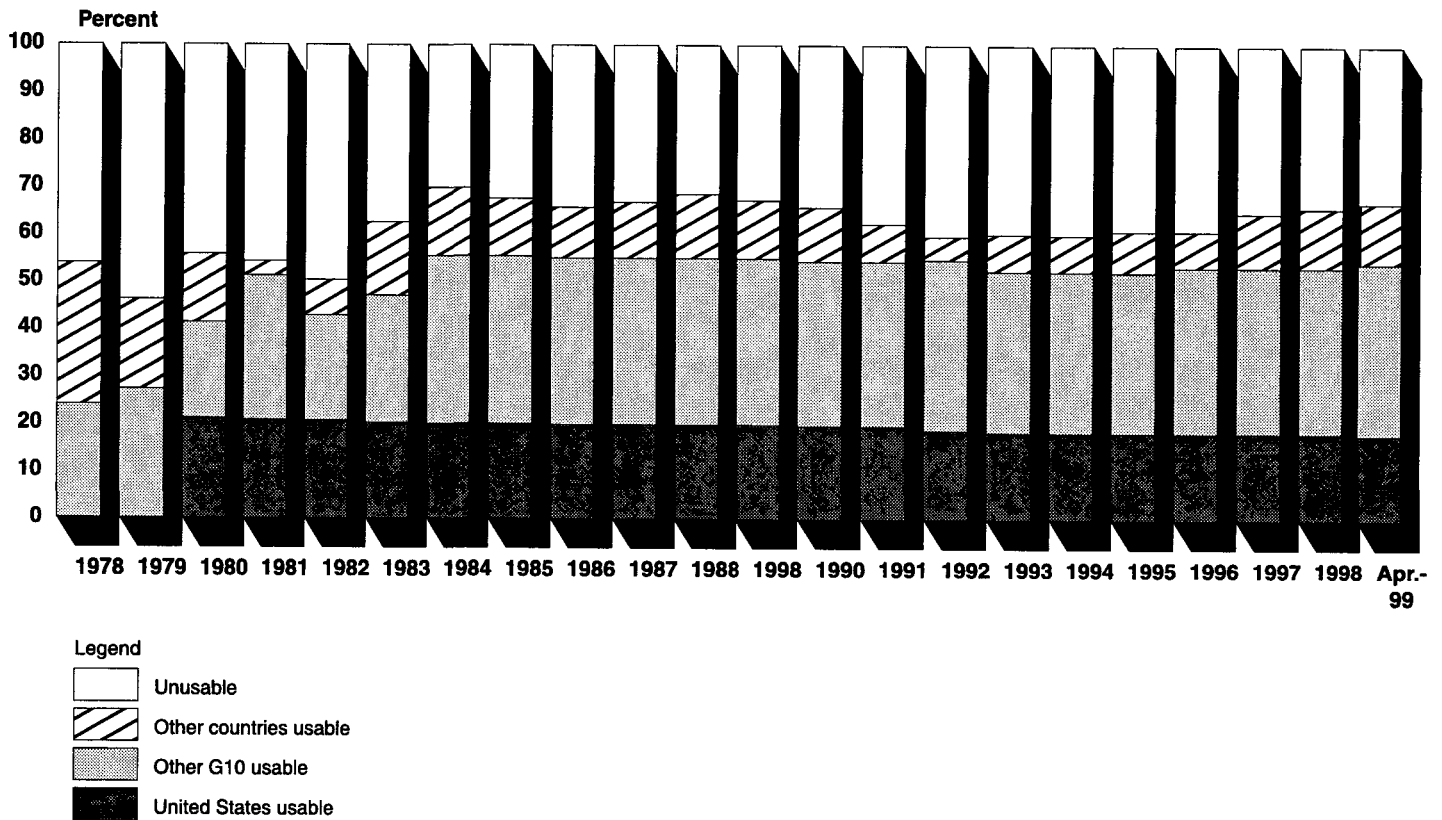
Note: The SDR/U.S. dollar exchange rate was SDR 1= \$1.35123.

Source: GAO analysis of IMF data.

Over the past 20 years the amounts of usable and unusable resources have varied. Usable resources over the period averaged about 60 percent of total resources, with a significant portion coming from the G-10. As figure 5 shows, during this period, the United States was the major contributor of usable resources, except during 1978 and 1979 when it was deemed insufficiently strong and was excluded from IMF's operational budgets.¹⁹

¹⁹ Following the depreciation of the U.S. dollar in the fall of 1978 the United States mobilized resources including \$5 billion from the Fund to defend the dollar.

Figure 5: Usable and Unusable Quota Resources, End of Calendar Years 1978-98, and April 30, 1999



Source: GAO analysis of IMF data.

IMF Borrowing

Historically, IMF has borrowed only from official sources to supplement its resources obtained from members' quotas. This includes member countries and their central banks, one country that was not a member at the time the funds were borrowed and its central bank, and the Bank for International Settlements.²⁰ The Fund has not borrowed from private capital markets, although IMF's Articles of Agreement permit it to do so. According to IMF, the preference for borrowing from official rather than private sources reflects the nature of the Fund as a cooperative,

²⁰ The Bank for International Settlements is an organization of central banks that is based in Basle, Switzerland. It is the principal forum for consultation, cooperation, and information exchange among central bankers.

intergovernmental institution whose basic purpose is to facilitate the overall adjustment process by using surpluses to assist countries in deficit positions.

The IMF first activated its General Arrangements to Borrow (GAB)²¹ credit lines in 1964. In the 1970s during periods of large payment imbalances, borrowed resources financed some 45 to 62 percent of IMF credit between 1974 and 1979 and 40 to 50 percent between 1980 and 1985. According to a U.S. Treasury official, some of the borrowings were necessary to satisfy Reserve Tranche drawings by industrial countries, including the United States. Since 1985, the IMF decreased its borrowing substantially and between 1992 and 1997 did no borrowing.

The IMF resumed borrowing in July 1998, when it borrowed about \$2 billion under the GAB to finance credit assistance to Russia. Also, in December 1998, the IMF borrowed about \$4 billion from its recently established credit line, the New Arrangements to Borrow (NAB),²² in connection with a 3-year credit arrangement with Brazil. Both of these amounts were repaid in March 1999, shortly after the IMF received funds from the recent quota increase.

IMF Gold Holdings

IMF policy stresses the importance of gold as a reserve asset for the Fund. In 1995, the IMF's Executive Board reviewed the Fund's position on holding gold as a reserve asset and established several governing principles for managing its gold reserves. These principles state that

- gold provides a “fundamental strength” to the IMF;
- gold provides operational maneuverability in the IMF's use of its resources and adds credibility to its precautionary balances;
- gold should be held to meet unforeseen contingencies;
- the IMF has a responsibility to avoid disruption to the functioning of the gold market; and
- profits from gold sales should be retained and invested and only the income from such investments should be used for agreed upon purposes.

²¹ The GAB is an arrangement of credit lines that the IMF maintains with G-10 countries for use in emergencies.

²² The NAB is an enlarged version of the GAB with 25 members. Together, GAB and NAB had a combined total about \$46 billion as of April 30, 1999.

These governing principles reaffirm a long-held belief by the Fund that gold forms a key part of the organization's reserve structure.²³

IMF Has Sold and Restituted Gold

From 1976 through 1980, the IMF reduced its gold holdings by one-third but has not disposed of any gold since then. Sales of gold on the open market or restitution of gold to the members who contributed it have been used for a variety of purposes

- Sales for replenishments: On several occasions in the late 1950s and in the 1960s, the IMF sold gold to replenish its holdings of usable currencies.
- Sales to offset operating deficits: To generate income to offset operational deficits, the IMF sold gold to the United States and invested the proceeds in U.S. government securities. A significant buildup of reserves through income from charges to members prompted the IMF to reacquire the gold from the U.S. government in the early 1970s.
- Gold auctions: Between April 1976 and May 1980, the IMF disposed of 25 million ounces of gold to finance an IMF trust fund, which was created in 1976 to support concessional lending to low-income countries.
- Restitution of gold to members: Between 1977 and 1980, the IMF restituted a total of 25 million ounces of gold, in four annual installments, to members in proportion to their quota shares as of August 31, 1975. For the United States, this translated into the acquisition of 5.74 million ounces of gold.

According to IMF officials, the proposal for an IMF trust fund to provide balance of payment support to developing countries originated with U.S. officials in late 1974. This proposal coincided with Treasury's desire to diminish gold's role in the international monetary system. As a result, according to the IMF, U.S. Treasury officials proposed the sale of 25 million ounces of the Fund's gold to establish a trust fund to finance balance of payment support to low-income countries. The restitution of an additional 25 million ounces of gold to members was viewed as a necessary incentive for industrialized members to approve the sale of 25 million ounces to

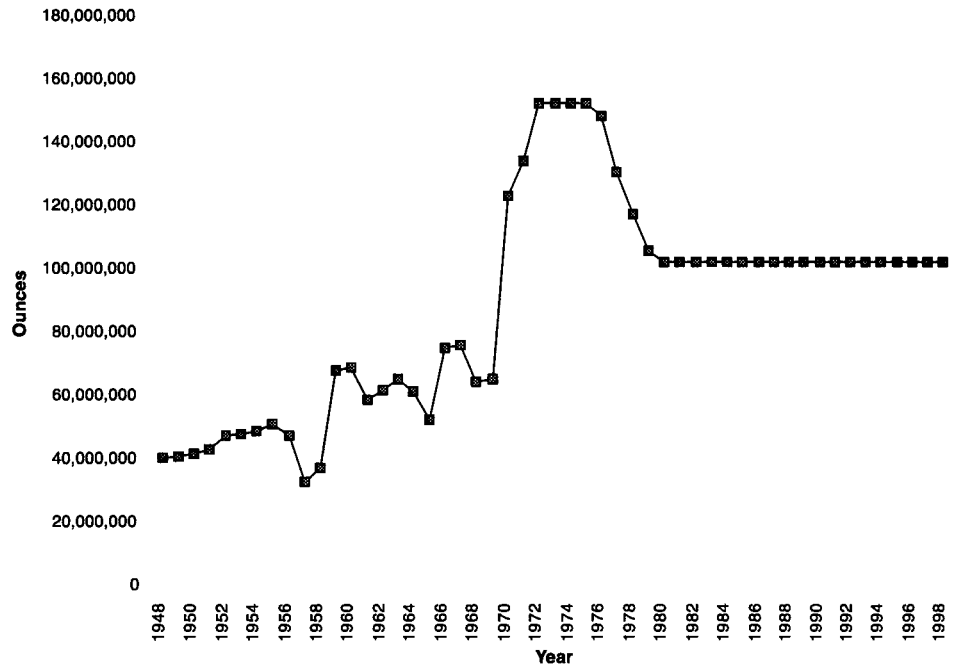
²³ The analytical support for these governing principles is contained in a 1995 nonpublic IMF report. Significantly, this study cites the U.S. Gold Commission report of 1982 as partial justification for the Fund's approach to holding gold as a reserve asset. U.S. Treasury officials confirmed that this 1982 study remains the basis for U.S. gold policy and is similar in many respects to the Fund's policies on gold.

establish the trust fund. The gold sold on the open market netted \$5.7 billion in proceeds, of which \$1.1 billion was deposited in the GRA as capital value (that is, the value at the price of SDR 35 per ounce). The remaining \$4.6 billion was placed in the IMF trust fund for the benefit of developing countries. From this amount, \$1.3 billion was distributed to developing countries in proportion to their IMF quotas, and the remaining \$3.3 billion was made available for IMF trust fund concessionary lending.²⁴

Figure 6 shows changes to the IMF's gold holdings since its inception. The steep rise in gold holdings in the early 1970s was due to the relatively large fifth general quota increase and the reacquisition of gold previously sold to the United States. Under this and earlier quota increases, member countries were generally required to pay up to 25 percent of their quota increase in gold.

²⁴ As explained by an IMF official, the Executive Board made a key policy decision in 1980 to retain all trust fund repayments for future concessional lending programs. As a result, no loan repayments have been directed to the General Resource Account and no repayments have been forgiven. Subsequent repayments of trust fund loans have been used in different ways. They were used to establish a subsidy account for the Supplementary Financing Facility, to finance all Structural Adjustment Facility operations, and to finance the ESAF reserve account and a small amount of the ESAF subsidy account.

Figure 6: IMF Gold Holdings Since Inception



Source: IMF International Financial Statistics.

Recent Proposals to Sell Some of IMF's Gold

Several proposals have been made in recent years to sell some of the IMF's gold. However, the U.S. Congress must approve a U.S. Executive Director vote in favor of the Fund's sale of gold in certain circumstances.²⁵ In 1993, the IMF's Board of Governors agreed to, following the approval of the U.S. Congress, the contingent sale of up to 3 million fine ounces of gold to cover ESAF potential loan defaults. The gold would be sold if it were determined that the resources in the ESAF Trust Reserve Account (plus other available means of financing) were insufficient to meet payments to be made from that account to ESAF lenders. The IMF has since deemed it unlikely that

²⁵ Under U.S. law, the executive branch may not approve IMF dispositions of gold over 25 million ounces benefiting individual IMF member countries or particular segments of the IMF membership unless the Congress by law authorizes the disposition (22 U.S.C. 286c). According to a U.S. Treasury official, because 25 million ounces of gold were sold between 1976 and 1980 for the benefit of a particular segment of IMF membership, any further sale of gold for the benefit of a particular segment of IMF membership requires statutory approval. According to Treasury, congressional approval would not be required if the sale of gold were for restitution or to replenish IMF resources.

such a gold sale will be needed because sufficient balances exist in the ESAF Trust Reserve Account.²⁶

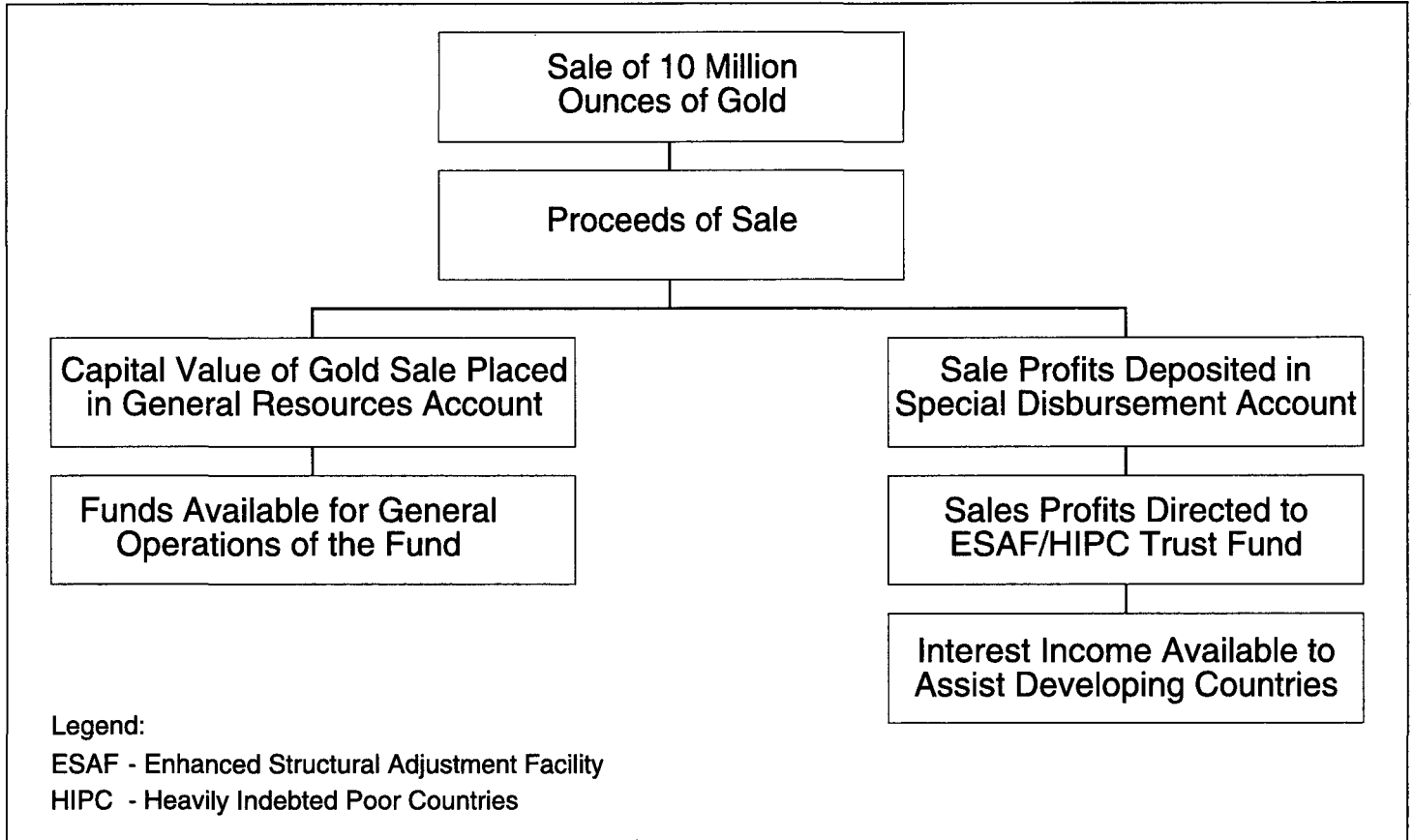
In late 1996, the IMF proposed that if a financing gap remained in the ESAF and Heavily Indebted Poor Countries (HIPC) Debt Initiatives after all efforts had been made to obtain maximum bilateral contributions, the Fund would sell up to 5 million ounces of gold to make up the funding shortfall. According to an October 1996 Congressional Research Service report, the IMF had the requisite votes to adopt this proposal; however, reported opposition by Germany, Switzerland, and Italy led to an indefinite delay.

More recently, the IMF proposed to sell up to 10 million ounces of gold that was endorsed by the G-7²⁷ at Cologne, Germany, in response to growth in the level of debt relief anticipated for ESAF and HIPC. Figure 7 illustrates the proposed distribution of the gold sales.

²⁶ Under 22 U.S.C. 286e-1, the Secretary of the Treasury is authorized to instruct the U. S. Executive Director of the IMF to vote to approve the Fund's pledge to sell, if needed, up to 3,000,000 ounces of the Fund's gold, to restore the resources of the reserve account of the ESAF Trust to a level that would be sufficient to meet ESAF obligations.

²⁷ The G-7 consists of seven major industrialized countries (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States) that consult on general, economic, and financial matters.

Figure 7: Proposed Distribution of Gold Sales



Source: IMF and the Treasury.

In contrast to the earlier sale of 25 million ounces of gold, the more recent proposals to sell gold earmark the interest on the investment of gold sale profits to help fund the IMF's share of debt relief for poor countries. This approach is consistent with the IMF's 1995 governing policy on gold that capital profits from gold sales should be retained and only the income resulting from the investment of these profits should be used for agreed-upon purposes.

Provisions in IMF's Articles of Agreement Affecting the Sale or Management of Gold

The IMF's Articles of Agreement detail how the IMF may sell gold and use the proceeds from such sales. The Articles specify that based on an 85-percent majority vote of the total voting power of the Executive Board, the IMF may sell gold on the open market and may accept gold, at market

prices, in discharge of a member's obligations to the Fund. According to an IMF official, the IMF is not authorized to engage in any other gold transactions—including loans, leases, or use of gold as collateral—because they are not expressly allowed under the IMF's Articles of Agreement. More specifically, IMF documents state that the Articles of Agreement permit only the transfer of ownership rights to the gold for a price. According to IMF officials, because loans, leases, swaps, or the use of gold as collateral do not require a permanent transfer of ownership rights, they are not permitted by the Articles of Agreement. Some central banks have increasingly decided to manage their gold reserves by loaning, leasing, or swapping their gold to earn a small profit. The World Gold Council estimates that 70 central banks currently manage their gold reserves in this manner. Although U.S. law does not preclude the loaning, leasing or swapping of its gold holdings, the United States has chosen only to monetize its gold.²⁸

When gold is sold by the IMF, the original capital value of the gold of SDR 35 per fine ounce is deposited in the GRA and becomes immediately available for the general operations of the Fund. Gold sale profits (that is, the sale price above the capital value of the gold) are generally deposited in a separate account called the Special Disbursement Account (SDA), which provides the primary financial framework for handling such profits. Gold sale profits in the SDA may be transferred to specialized accounts (such as the ESAF/HIPC Reserve Trust Account) or they may be transferred to the GRA for use in the Fund's general operations.²⁹

Specifically, the Articles of Agreement state that based on majority votes by the Executive Board that assets held in the SDA may be used

- to make transfers to the GRA for immediate use in the Fund's operations (70 percent of total voting power);
- for operations and transactions that are not authorized by other provisions of the articles but are consistent with the purposes of the Fund including balance of payments assistance to developing members (85 percent of total voting power);

²⁸ The Secretary of the Treasury is authorized to issue gold certificates to the Federal Reserve which issues an equivalent credit (at the official price of gold) to a Treasury deposit account. The 1998 Financial Report of the United States Government notes that \$11 billion of the U.S. gold reserve has been monetized in this fashion.

²⁹ Gold sale profits would be returned to the SDA when the specialized account is closed.

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- for proportionate distribution of resources authorized for the purpose of providing balance of payments assistance to those developing members that were members on August 31, 1975, based on their respective quotas on that date (85 percent of total voting power); and
 - to transfer SDA resources to the investment account (85 percent of total voting power).³⁰

The IMF has determined that ownership rights to the Fund's gold clearly reside with the IMF.³¹ Under the Fund's Articles of Agreement, members may have residual rights to the gold in two instances: if the Fund elects to reconstitute gold to members or if it elects to liquidate the Fund. In the first instance, gold could be restituted to all countries that were members on August 31, 1975, based on their quotas at that time.³² In the latter case, gold may be restituted to members on the same basis after the Fund's liabilities have been satisfied. If the IMF elected to reconstitute its current stock of over 100 million ounces of gold, the United States would receive almost 24 million ounces of gold based on the formula described in the Articles.

Mr. Chairman, that concludes our prepared remarks. We would be happy to respond to any questions you or other members of the Committee may have.

Contacts and Acknowledgments

For future contacts regarding this testimony please contact Mr. Harold J. Johnson at (202) 512-4128 or Gary T. Engel at (202) 512-8815. Individuals making key contributions to this testimony included Phyllis L. Anderson, Thomas Melito, Roger R. Stoltz, Bruce Kutnick, David T. Genser, Charles E. Norfleet, Barbara R. Shields, Michael Tenkate, Norman T. Thorpe, and Kate Woodward.

³⁰ The IMF has never activated the investment account because, according to IMF officials, the Fund has not had the available excess liquidity allowing for the transfer of such resources to the investment account.

³¹ On May 20, 1947, an IMF Executive Board Decision No. 170-3 stated that "gold and currency subscribed to the Fund are clearly within its unrestricted ownership. They do not belong in any way to the subscriber."

³² Art. V, sect. 12 (e).

IMF Members' Reserve Tranche Positions

Each member of the IMF is assigned a quota. Twenty-five percent of the member's quota subscription is normally payable in reserve assets (originally in gold, and since the second amendment of the Articles of Agreement in 1978, in SDRs or currencies of other members considered strong by the IMF), and the remainder is payable in the member's own currency. These reserve assets are considered to be part of the member's international reserves and can be withdrawn by the member upon representation of a balance of payments need. If withdrawn, members do not have to replenish their reserve asset drawings, but they must replace the withdrawn amount with their currency.

Reserve tranche positions are liquid claims of members on the IMF that arise in part from members' reserve asset payments. In addition, reserve tranche positions arise from the sale by the IMF of the currencies of members considered to be in strong external positions. We reviewed each member's reserve tranche position based upon data in IMF's International Financial Statistics as of April 30, 1999, and separated IMF members into three categories: creditors, neutral, and borrowers

- Creditors have the highest reserve tranche positions that exceed 25 percent of their quota. With a reserve tranche position of \$23 billion and a quota of \$50 billion, the United States had the largest reserve tranche position. Other G-10 members' reserve tranche positions and quotas approximate \$42 billion and \$102 billion, respectively. During the past 20 years, the IMF has considered most of the G-10 members' currency to be strong enough for use in IMF's operations. As of April 30, 1999, the reserve tranche positions and quotas of members considered in a strong position totaled about \$81 billion and \$189 billion, respectively. (see table I.1)
- Neutral members are those who may have drawn on all or part of their own reserve tranche positions but did not have IMF borrowings outstanding. The reserve tranche positions of these members are between zero to 25 percent of their quotas. About 60 percent of these members actually had zero reserve tranche positions, while those with partial reserve tranches balances totaled about \$3 billion as of April 30, 1999. Neutral members had quotas of \$31 billion as of April 30, 1999. (see table I.2)
- Borrowing members are users of IMF credit. Most of these members do not have any reserve tranche positions, and all of these members have withdrawn at least part of their reserve assets. As of April 30, 1999, the reserve tranche positions and quotas of these members totaled \$2 billion and \$61 billion, respectively. (see table I.3)

Appendix I
IMF Members' Reserve Tranche Positions

Table I.1: Creditor Members' Reserve Tranche Positions and Quotas as of April 30, 1999

In billions of dollars

Creditor Countries^a	Reserve Tranche Position	Quota	Reserve Tranche Position as Percent of Quota
United States	\$23.05	\$50.20	46
Japan	8.26	17.99	46
Germany	7.72	17.58	44
France	5.39	14.51	37
United Kingdom	5.30	14.51	37
Italy	3.99	9.53	42
China	3.38	6.33	53
Canada	3.00	8.61	35
Netherlands	2.94	6.98	42
Switzerland	2.10	4.67	45
Spain	1.90	4.12	46
Belgium	1.72	4.19	41
Australia	1.56	4.37	36
Sweden	1.30	3.24	40
Austria	1.09	2.53	43
Norway	1.03	2.26	46
Denmark	0.96	2.22	43
Malaysia	0.82	2.01	41
Finland	0.73	1.71	43
Colombia	0.57	1.05	55
Chile	0.55	1.16	48
Libya	0.53	1.52	35
Portugal	0.53	1.17	45
Ireland	0.48	1.13	43
Singapore	0.44	1.17	38
New Zealand	0.44	1.21	36
Greece	0.34	1.11	30
United Arab Emirates	0.26	0.53	48
Slovenia	0.09	0.31	30
Bahrain	0.08	0.18	45
Oman	0.07	0.26	26
Malta	0.05	0.14	39

(continued)

Appendix I
IMF Members' Reserve Tranche Positions

Creditor Countries^a	Reserve Tranche Position	Quota	Reserve Tranche Position as Percent of Quota
Botswana	0.04	0.09	44
Total	\$80.70	\$188.57	

^aGAO defines creditor countries as those members whose reserve tranche position in the Fund exceeds 25 percent according to IMF's publicly available International Financial Statistics.

Table I.2: Neutral Members' Reserve Tranche Positions and Quotas as of April 30, 1999

In billions of dollars

Countries in Neutral Position^a	Reserve Tranche Position	Quota	Reserve Tranche Position as Percent of Quota
Saudi Arabia	\$1.33	\$9.44	14
Kuwait	0.45	1.87	24
Poland	0.23	1.85	13
Hungary	0.17	1.40	12
Egypt	0.16	1.28	13
Morocco	0.10	0.79	12
Israel	0.09	1.25	7
Cyprus	0.05	0.19	25
Brunei Darussalam	0.05	0.20	24
Qatar	0.04	0.26	14
Paraguay	0.03	0.13	21
Costa Rica	0.03	0.22	12
Lebanon	0.03	0.20	13
Iceland	0.03	0.16	16
Luxembourg	0.02	0.18	12
Fiji	0.02	0.09	21
Mauritius	0.02	0.14	14
Swaziland	0.01	0.07	13
Bahamas, The	0.01	0.13	7
Suriname	0.01	0.12	7
Afghanistan, I.S. of	0.01	0.16	4
Barbados	0.01	0.09	7
Belize	0.01	0.03	23
Vanuatu	0.00	0.02	15
San Marino	0.00	0.01	24

(continued)

Appendix I
IMF Members' Reserve Tranche Positions

Countries in Neutral Position^a	Reserve Tranche Position	Quota	Reserve Tranche Position as Percent of Quota
Tonga	0.00	0.01	25
Maldives	0.00	0.01	19
Bhutan	0.00	0.01	16
Samoa	0.00	0.02	6
Solomon Islands	0.00	0.01	5
St. Vincent and Grenadines	0.00	0.01	8
South Africa	0.00	2.52	0
Nigeria	0.00	2.37	0
Namibia	0.00	0.13	0
Trinidad and Tobago	0.00	0.45	0
Dominica	0.00	0.01	0
Syrian Arab Republic	0.00	0.40	0
Eritrea	0.00	0.02	0
Turkmenistan	0.00	0.06	0
Czech Republic	0.00	1.11	0
Antigua and Barbuda	0.00	0.02	0
Cape Verde	0.00	0.01	0
Palau	0.00	0.00	0
St. Lucia	0.00	0.02	0
Marshall Islands	0.00	0.00	0
Micronesia, Federated States of	0.00	0.00	0
Angola	0.00	0.39	0
El Salvador	0.00	0.23	0
Grenada	0.00	0.01	0
Guatemala	0.00	0.21	0
Iran, I.R. of	0.00	2.02	0
Iraq	0.00	0.68	0
Kiribati	0.00	0.01	0
Myanmar	0.00	0.35	0
Seychelles	0.00	0.01	0
Total	\$2.89	\$31.42	

^aGAO defines countries in neutral positions as those members whose reserve tranche position in the Fund is 25 percent or less but did not have IMF borrowings outstanding according to IMF's publicly available International Financial Statistics.

Appendix I
IMF Members' Reserve Tranche Positions

Table I.3: Borrower Members' Reserve Tranche Positions and Quotas as of April 30, 1999

In billions of dollars

Borrower Countries^a	Reserve Tranche Position	Quota	Reserve Tranche Position as Percent of Quota
India	\$0.66	\$5.62	12
Venezuela	0.43	3.59	12
Korea	0.28	2.21	13
Indonesia	0.20	2.81	7
Turkey	0.15	1.30	12
Philippines	0.12	1.19	10
Algeria	0.11	1.70	7
Sri Lanka	0.06	0.56	12
Ghana	0.06	0.50	11
Bulgaria	0.04	0.87	5
Tunisia	0.03	0.39	7
Ecuador	0.02	0.41	6
Uruguay	0.02	0.30	7
Kenya	0.02	0.37	5
Panama	0.02	0.28	6
Tanzania	0.01	0.27	5
Bolivia	0.01	0.23	5
Mali	0.01	0.13	9
Honduras	0.01	0.17	7
Niger	0.01	0.09	13
Burkina Faso	0.01	0.08	12
Ethiopia	0.01	0.18	5
Armenia	0.01	0.12	7
Burundi	0.01	0.10	8
Nepal	0.01	0.10	8
Lesotho	0.00	0.05	10
Albania	0.00	0.07	7
Malawi	0.00	0.09	3
Benin	0.00	0.08	4
Gambia, The	0.00	0.04	5
Senegal	0.00	0.22	1

(continued)

Appendix I
IMF Members' Reserve Tranche Positions

Borrower Countries^a	Reserve Tranche Position	Quota	Reserve Tranche Position as Percent of Quota
Djibouti	0.00	0.02	7
Russian Federation	0.00	8.03	0
Comoros	0.00	0.01	6
Congo, Republic of	0.00	0.11	1
Cameroon	0.00	0.25	0
Chad	0.00	0.08	1
Togo	0.00	0.10	0
Zimbabwe	0.00	0.48	0
Mexico	0.00	3.49	0
Cote d'Ivoire	0.00	0.44	0
Bangladesh	0.00	0.72	0
Croatia	0.00	0.49	0
Central African Republic	0.00	0.08	0
Guinea	0.00	0.14	0
Pakistan	0.00	1.40	0
St. Kitts and Nevis	0.00	0.01	1
Gabon	0.00	0.21	0
Papua New Guinea	0.00	0.18	0
Haiti	0.00	0.08	0
Liberia	0.00	0.10	0
Madagascar	0.00	0.17	0
Sierra Leone	0.00	0.14	0
Thailand	0.00	1.46	0
Belarus	0.00	0.52	0
Zambia	0.00	0.66	0
Lithuania	0.00	0.19	0
Yemen, Republic of	0.00	0.33	0
Sudan	0.00	0.23	0
Georgia	0.00	0.20	0
Azerbaijan	0.00	0.22	0
Ukraine	0.00	1.85	0
Mozambique	0.00	0.15	0
Estonia	0.00	0.06	0
Vietnam	0.00	0.44	0
Kazakhstan	0.00	0.49	0
Latvia	0.00	0.17	0

(continued)

Appendix I
IMF Members' Reserve Tranche Positions

Borrower Countries^a	Reserve Tranche Position	Quota	Reserve Tranche Position as Percent of Quota
Moldova	0.00	0.17	0
Uzbekistan	0.00	0.37	0
Kyrgyz Republic	0.00	0.12	0
Mongolia	0.00	0.07	0
Dominican Republic	0.00	0.30	0
Jordan	0.00	0.23	0
Tajikistan	0.00	0.12	0
Guinea-Bissau	0.00	0.02	0
Argentina	0.00	2.86	0
Bosnia & Herzegovina	0.00	0.23	0
Brazil	0.00	4.10	0
Cambodia	0.00	0.12	0
Congo, Dem. Rep.	0.00	0.39	0
Equatorial Guinea	0.00	0.04	0
Guyana	0.00	0.12	0
Jamaica	0.00	0.37	0
Lao P.D.R.	0.00	0.05	0
Macedonia, fmr. Yug. Rep.	0.00	0.09	0
Mauritania	0.00	0.09	0
Nicaragua	0.00	0.18	0
Peru	0.00	0.86	0
Romania	0.00	1.39	0
Rwanda	0.00	0.11	0
Sao Tomé and Príncipe	0.00	0.01	0
Slovak Republic	0.00	0.48	0
Somalia	0.00	0.06	0
Uganda	0.00	0.24	0
Total	\$2.36	\$61.04	

^aGAO defines borrower countries as those members whose reserve tranche position in the Fund is 25 percent or less and had IMF borrowings outstanding according to IMF's publicly available International Financial Statistics.