# INTERNATIONAL BALANCE OF PAYMENTS FINANCING AND THE BUDGET PROCESS

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# INTERNATIONAL BALANCE OF PAYMENTS FINANCING AND THE BUDGET PROCESS

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## PREFACE

This paper was prepared at the request of Senator Daniel K. Inouye, Chairman of the Subcommittee on Foreign Operations of the Senate Appropriations Committee. It discusses the purpose and nature of official balance of payments financing, with special attention to the operations of the International Monetary Fund; the arguments for and against inclusion of transactions with the IMF on the budget; and the nature and status of current proposals for expanded international financing facilities. It is the first product of a larger Congressional Budget Office study of U.S. participation in international balance of payments financing arrangements.

This paper was prepared by C.R. Neu of the National Security and International Affairs Division of the Congressional Budget Office under the general supervision of John E. Koehler. The author wishes to acknowledge the assistance of John H. Green and Randi Novak. The paper's various drafts were typed by Nancy Swope and Linda Moll, and the manuscript was edited by Patricia H. Johnston.

Alice M. Rivlin
Director

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CONTENTS

## TABLES



## APPENDIX TABLES

## SUMMARY


During the fall of 1977, proposals will be submitted to the Congress for U.S. participation in new international arrangements for financing short-term balance of payments deficits. In accordance with current budget procedures, U.S. financial support of these facilities will not appear on the budget and no appropriations will be required. Only Congressional authorization for U.S. participation will be required. The amounts of money involved, however, are quite large--at least $1 billion--and concern with the requirements for balance of payments financing is high. The prospect of such large transactions taking place outside the budget process has led some to question whether the current budget treatment of official balance of payments financing is still appropriate.

The principal institution for international balance of payments financing is the International Monetary Fund (IMF). Its primary function is to promote the stability of international monetary arrangements. To this end, it lends foreign currencies to its members for the purpose of stabilizing exchange rates. In theory, no real resources are transferred as a result of IMF lending.

Other international lenders (governments, multilateral development banks, and private commercial banks) often lend for the specific purpose of affecting the flow of real resources. Such lending is a major source of real capital for developing nations.

IMF lending is only a small part of total international lending, but it is widely spread. At the end of 1976, 64 nations had loans outstanding from the IMF. These loans were spread over all groups of nations, and although the IMF does have a few small facilities primarily intended to aid developing nations, the total pattern of IMF lending shows no marked emphasis on this type of assistance.

While the purposes of the IMF and other lenders may differ, it is not clear that the practical results of IMF lending differ in any important way from those of loans from other sources. This has implications for the continued special budget treatment now afforded the IMF.




94-889 O - 77 - 2

There are three principal reasons why a transaction of the U.S. Government might be included in the budget. These reasons are:

- o That the transaction represents a transfer of real resources and therefore affects the level of aggregate demand in the United States or the allocation of real resources among competing uses.

- o That the transaction will have an effect on U.S. financial markets by resulting in net government lending or borrowing.

- o That Congressional and Executive oversight of the transaction would be facilitated by its inclusion in the budget.

With regard to the first of these, there is some reason to believe that IMF lending may result in transfers of real resources from the United States to other nations. IMF lending policies are intended to minimize such transfers, but it is difficult to determine how effectively they accomplish this goal. Whether or not IMF lending does influence the transfer of goods and services is simply not known. Studies designed to test this have been inconclusive thus far.

At the very least, participation in the IMF imposes a real cost on the United States in that no interest is paid on the U.S. quota in the Fund. For IMF fiscal year 1976, the foregone earnings on the U.S. quota amounted to nearly $400 million.

The second reason is somewhat more compelling. The estimated federal deficit, according to one view, should represent the amount of borrowing in private capital markets that would be required to finance the operations of the federal government. If the United States is required to make payments to increase or maintain the value of the U.S. quota in the IMF, these funds must be borrowed by the government. If these payments are not included in the budget, the deficit will underestimate federal borrowing requirements.

Congressional oversight of the IMF has always been problematic. To preserve the Fund's freedom of operation, its Articles of Agreement effectively exclude member governments from the day-to-day decisionmaking of the Fund. This has the unfortunate effect of reducing the visibility of some Fund activities. Dealing with the IMF in a yearly appropriation might allow more attention to be focused on the Fund and facilitate a better understanding of the Fund. Problems would arise, however, because of the inherently unpredictable nature of Fund operations. Inevitably, budget targets set in advance would prove incorrect, and the integrity of the entire budget process might suffer as a result.

At present there are two candidates for new balance of payments financing facilities. Both would be temporary in nature. The most likely of these to be proposed to Congress is the so-called Witteveen Facility of the IMF. The basic structure of this facility was negotiated in August of 1977. It will have resources of almost $10 billion borrowed by the IMF from developed and oil-producing nations and available to all members of the Fund for balance of payments support. The U.S. share in this facility would be about $1.7 billion, and U.S. contributions would earn a market-related rate of interest and could be withdrawn at any time. No appropriation will be sought for this contribution, and it is difficult to make a strong argument that one should be required.

The other possibility for a new financing facility is the Financial Support Fund of the Organization for Economic Cooperation and Development (OECD)--sometimes called the OECD Safety Net. This was first proposed in 1975, but the United States did not agree to participate. If no agreement is reached on establishing the Witteveen Facility, this proposal might be revived. It originally called for a $25 billion fund borrowed in private credit markets by the OECD on the strength of guarantees by OECD members. The resources of the Safety Net would be available only to OECD members. The U.S. share was to have been $6.9 billion. Because the United States would have supplied only guarantees for OECD borrowing, no appropriation was to have been sought.

# CHAPTER I. INTRODUCTION

For the past several years, the financing of international balance of payments deficits has been an issue of considerable concern. The question has arisen: Are current international financial arrangements adequate to meet the requirements imposed by oil price increases, recession in the industrialized countries, and the new regime of floating exchange rates? To meet these new requirements, new international financing facilities have been proposed, and requests for authorization of U.S. participation in these new financing facilities are likely to be presented to the Congress late in 1977 or early in 1978. The amounts of money involved in these requests are expected to be quite large, and for the most part, transactions with these facilities will be carried on outside the usual budget/appropriations process. (Such activities are commonly referred to as "off budget". Those treated within the budget/appropriations process are called "on budget".) These proposals and the recent increase in the activity and importance of international financial organizations have produced particularly intense interest in what these organizations, how they affect the U.S. budget and economy, and how U.S. transactions with these organizations should be treated for budget purposes.

This paper provides background information on the operations of international financial organizations, particularly on those of the International Monetary Fund (IMF), and on how U.S. dealings with the IMF are treated in the budget process. Chapter II provides a brief description of the function, size, and nature of IMF operations, focusing primarily on how the IMF does or does not differ from other international lenders. Chapter III discusses some issues concerning the budget treatment of U.S. transactions with the IMF and the possibilities for Congressional oversight of its activities. Especially important is the issue of whether U.S. financial support should be on or off budget. Chapter IV is a description of the status of two current proposals to establish new balance of payments financing facilities. An Appendix provides information on which nations have been the largest users of IMF financing.

This paper is the first product of a larger study analyzing the need for new facilities and the strengths and weaknesses of various proposals. As such, it does not address all the important questions regarding these proposals. Among the questions not discussed are the future requirements for balance of payments financing, the effects of this financing on real resource allocations, the role of private banks in providing international finance, and the relationship between official and private international lending. All of these topics will be discussed in a future paper to be published by CBO. Neither is this paper intended to serve as an introduction to the operations of the IMF. The Fund's operations and procedures are described only insofar as they are relevant to questions of how the Fund is to be treated in the budget.

Throughout this paper, CBO has tried to use the most recent data available. The source for much of the data is the Annual Report of the IMF which is published each year in August. The updated information in the 1977 edition was not available for this study. It is not expected, however, that this new information will change the general conclusions of this paper. All uses of fiscal year figures in this paper refer to IMF fiscal years, which run from May 1 to April 30.

## CHAPTER II. THE FUNCTION, SIZE, AND NATURE OF IMF FINANCING

### THE FUNCTION OF IMF FINANCING

The primary function of the IMF is to promote the stability of international monetary relations. The flows of international trade and capital depend on orderly and predictable relationships among the various currencies of the world. Wide fluctuations in the relative values of currencies can disrupt planning and increase the risks inherent in international transactions, and thus discourage international economic undertakings. Varying exchange rates can also affect the domestic economies of individual countries. Rapid fluctuations can lead to erratic price behavior in the import sector and unpredictable movements of monetary assets in or out of a country. National fiscal and monetary authorities may be unable to adjust their policies sufficiently rapidly to keep up with changing international conditions, and their efforts to achieve national economic goals can be rendered ineffective by instability in the international economy.

Over the years, what were thought to be the requirements for a viable international monetary order have changed--the most notable change being from fixed exchange rates to floating rates--but the need was always perceived for an institution to monitor international monetary relations and to intervene, if necessary, to reduce instability. The IMF provides information, advice, and most importantly, loans of foreign currencies to nations that need help in maintaining their international monetary relations in a desirable state.

But the IMF is not the only institution that provides loans of foreign currencies to nations. Governments, multilateral banks, and private commercial banks also make international loans. The IMF makes loans for different purposes and under different conditions than do other lenders, but the fact remains that ultimately all of these institutions do the same thing: they make international loans. There is no doubt that the avowed purposes and announced lending policies of the IMF set it apart from other international lending institutions. What is not so clear, however, is whether these differences in purpose and policy result in a practical distinction between the effects of IMF lending and the effects of other international lending.

The principal function of international lending by commercial banks, multilateral banks, and many governments is to affect the flow of goods and services among nations. Loans are made to a developing nation, say, which in turn uses the financial resources provided to import real resources, perhaps capital equipment for its industrialization program. Eventually the borrower must repay the original loan with financial assets that are ultimately used to purchase real goods, perhaps the products of the borrower's industrialization.

In its purest form, IMF lending would produce no flow of real resources. In this model of "pure" IMF lending, a nation might find itself temporarily subject to pressures to reduce the value of its currency. To insulate its domestic and international economic activities from temporary disruption, the nation might seek financial aid in order to support the value of its currency. By borrowing foreign currencies from the IMF, it might buy back from foreigners some of its own currency, thereby supporting the value of that currency. Eventually, when the original problem had passed and the borrower found that its currency no longer needed such support, it would buy sufficient foreign currencies to repay its loan from the IMF. No real assets would have changed hands; only currencies would have been exchanged.

In recognition of this special character of IMF lending, it has become accepted practice to speak not of IMF "loans," but of "drawings" on the Fund by members or of "purchases" of currencies by members from the Fund. In this paper, the words "loans" and "drawings" will be used interchangeably.

The reservation one must have about this "pure" model is that, for any purpose, financial assets from one source will serve just as well as financial assets from another source. If a developing nation receives both a development loan from the World Bank and a balance of payments support loan from the IMF, there is no way to determine which assets are used for which purpose. Indeed, it is foolish to try; foreign exchange from one source can substitute exactly for foreign exchange from the other. Neither is there any reason that the amount of goods and services transferred to the borrowing country will be exactly equal in value to the loan from the World Bank. The IMF loan may in fact finance some increased imports. The reverse could also be true, of course, with the World Bank loan supporting the value of the borrower's currency. Since there is no way of knowing for sure what would have happened in the absence of either loan, it is impossible to know for sure the effect of either.

The distinction, then, between the operations of the IMF and those of other international lenders is necessarily blurred. In any particular case, the effect of international lending--from any source--will almost surely be a mixture of the two extreme cases: the lending will result in some transfer of real resources and some transfer of financial assets. To the extent that IMF loans result in a transfer of real resources, the IMF ought to be considered as another lender for foreign assistance. To the extent that they do not, there is justification for considering the IMF to be in a separate class of lenders. Unfortunately, there is as yet no consensus among international economists on whether, and in what circumstances, IMF lending results in real resource transfers. To determine what effect these loans do have will require elaborate econometric analysis. Work of this sort has been attempted in the academic community, but as yet, results are not conclusive. In the meantime, some indirect evidence may be obtained by a consideration of the size and nature of IMF lending.

## THE SIZE OF IMF FINANCING

It is not the size of IMF operations that makes the Fund important in the international economy. Indeed, both the requirements for balance of payments financing and the amounts of financing available from other sources are quite large in comparison to the operations of the IMF. In 1976, net new drawings from the IMF by all members amounted to \$6.7 billion. In that same year, the oil-producing nations had a combined current account surplus of \$45 billion in the balance of payments. 1/ Some industrialized countries also ran large surpluses in 1976, principally because recession had weakened demand for imports in those countries. Switzerland, the Netherlands, Japan, and Germany together had a combined current account surplus of \$13 billion. Corresponding to these surpluses were deficits in the non-oil-producing less devel-

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1/ Balance of payments figures from 47th Annual Report of the Bank for International Settlements, June 1977, p. 79.



94-889 O - 77 - 3

oping countries (LDCs) and in the weaker industrial nations. The non-oil-producing LDCs needed financing for a $20 billion current account deficit. Among the developed nations, the United Kingdom, Italy, Canada, and France ran current account deficits totaling $16 billion.

These deficits were financed for the most part from sources other than the IMF. Of these alternative sources, private capital markets were the most important. Private banks in the most advanced industrial countries made net new international loans of $70 billion in 1976, and foreign bond issues added another $25 billion in international credit. Most of this lending was accounted for by banks in one developed nation lending to borrowers in another developed nation, but some $18 billion of the new bank lending went to the non-oil-producing LDCs. 2/

Lending was also provided by individual governments through bilateral foreign aid programs and by the multilateral development banks. Official bilateral development assistance from the industrialized nations in the Development Assistance Committee (DAC) 3/ of the Organization for Economic Cooperation and Development (OECD) totaled $9.8 billion in 1975. 4/ Figures on bilateral assistance are not yet available for 1976, but the amount in that year is expected to have been similar. Among the major sources of international financing, only the multilateral development banks provided fewer resources than did the IMF. The major development banks made net loans of $3.2 billion in 1976. 5/

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2/ Ibid., pp. 98, 114.

3/ The members of the DAC are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States.

4/ OECD, Development Cooperation, 1976 Review, p. 229.

5/ These banks are the International Bank for Reconstruction and Development, the International Development Association, the International Finance Corporation, the Inter-American Development Bank, and the Asian Development Bank. Net loan figures are from their various annual reports.

The implication of all of this is that IMF lending is only a small part of very large flows of international lending. Further, IMF lending goes to a wide variety of nations. At the end of 1976, 64 countries had drawings outstanding from the Fund. Most of these were developing nations that had also received loans from other sources. Among developed nations that had borrowed from the Fund were those, like England and Italy, that had large debts outstanding from other sources. (The Appendix provides a more detailed discussion of the distribution of IMF lending.)

Whatever the purpose of IMF lending, it is inextricably mixed with lending offered by other institutions for different purposes. Whether the supposed special character of IMF lending can be maintained in such an environment is questionable at best. There may be a temptation on the part of borrowers to consider the Fund as just another source of all-purpose lending--and not a very large one at that--with some unusual terms and conditions.

## THE NATURE OF IMF FINANCING

The IMF lends to member nations through a variety of facilities. Most drawings to date have been so-called "tranche" drawings, the principal permanent lending facility of the Fund. The amounts available to members through tranche drawings are determined by each member's contributions to the Fund of gold and reserve currencies (the gold or reserve tranche) and its own currency (credit tranches). There have been variations in the percentage of a country's contributions (known as its quota) that are available through tranche drawings, but in general tranche drawings represent the basic drawing rights a country receives when accepting membership in the IMF.

In recent years, a number of special facilities have been established to aid members in unusual circumstances. These are the compensatory Finance Facility, the Extended Facility, the Buffer Stock Financing Facility, the Oil Facility, and, most recently, the Trust Fund. (More detail on the purpose and operations of these special facilities can be found in the Appendix.)

If anything distinguishes lending through these IMF facilities from other international lending, it is the terms and conditions attached to Fund loans and the circumstances in which these loans are made. The Fund has always sought to restrict the purposes for which its loans are used by making them unavailable or unattractive to borrowers for certain purposes. In particular, the policies of the Fund are intended to discourage the use of IMF drawings to finance economic development or to postpone politically difficult adjustments to permanently changed economic conditions.

The announced lending policies of the Fund are clearly different from those of other international lenders, and they do apparently encourage most borrowers to seek financing for development or for long-term support of domestic economic policies from other lenders before turning to the IMF. It is not clear, though, that these policies guarantee that, once they are made, IMF loans serve different functions than do other loans. A brief review of IMF lending policies will illustrate this point.

Simple poverty of a nation or an attractive opportunity for development investment are not sufficient justifications for Fund lending. IMF credit is given only in cases where the borrowing country faces economic difficulties related to a balance of payments deficit. To be eligible for a Fund loan, a nation must first have made use of all other available sources of financing, including its own reserves of foreign exchange.

In most cases, the Fund requires a borrowing nation to adopt specific policies to eliminate the balance of payments deficit within the maturity of the IMF loan. (This is often spoken of as the "conditionality" of Fund lending.) These policies are usually aimed at restoring the confidence of international investors, lowering inflation rates, improving the trade balance, and generally strengthening the currency of the borrower. They are not aimed at promoting economic development or at stimulating particular sectors of the borrower's economy, although a stronger currency, more foreign investment, and lower inflation rates might be beneficial to overall development.

Finally, the maturity of most IMF loans is thought to be too short to provide anything but temporary assistance for a nation with a temporary problem. Drawings from the credit tranches have a maximum term of five years, and many drawings are for a shorter period. Drawings from some special facilities of the Fund can be for longer terms--up to eight years for the Extended Facility and up to seven years for the Oil Facility.

On closer consideration, however, these conditions may not provide as clear a distinction between IMF lending and other lending as it might at first appear. A balance of payments deficit is a natural characteristic of the development process because developing nations are likely to be net importers of capital. Furthermore, because most LDCs are dependent on a few commodities for foreign exchange earnings, their trade balances are subject to wide variations. Thus, developing nations may be expected to have chronic balance of payments deficits, and it is difficult to determine to what extent the deficit in a particular country is simply a product of the development process and to what extent it is due to some temporary disturbance. By the time such questions are resolved, it can be too late for assistance to be effective. Therefore, one must expect that sometimes--perhaps often--the IMF if in effect providing temporary support for general economic development.

Similarly, developed nations that experience large variations in their balance of payments positions are often those that are faced with the need for major economic adjustments. Uncertainty about the future prospects of these nations may encourage speculation in their currencies, thus producing a need for stabilizing assistance from the IMF. There is no dependable way to determine to what extent these fluctuations in balance of payments positions are due to speculation and how much they are due to attempts by the nations in question to avoid necessary adjustments. Without such knowledge, it is impossible to be sure that IMF lending is not simply postponing inevitable adjustments. It seems, then, that it is exactly those nations to whom the IMF is most likely to lend that are most likely to need foreign exchange for real resource transfers.

The conditions imposed on borrowers by the IMF may also be of questionable effectiveness in distinguishing between IMF and other loans. This will be particularly true in the case of developing nations. A borrowing nation would, of course, prefer not to subordinate its own domestic economic policies to conditions imposed by the IMF, but it may find such conditions less burdensome than those imposed by other lenders. The multilateral development banks generally make loans for specific projects and monitor these projects carefully to ensure that the borrower carries out the project according to agreement. The IMF usually imposes conditions only on the macroeconomic policies of borrowers and leaves sectoral allocations and the setting of priorities to the discretion of the borrower. This additional freedom may sometimes be welcome to a borrower. Similarly, IMF lending may impose fewer burdens than are attached to bilateral loans from other governments, which often carry restrictions on the origin of products bought with this aid and which may raise difficult political issues. Only lending from private banks allows borrowers much greater freedom than do IMF loans.

This is not to argue that the conditions attached to IMF loans are so weak as to make these loans more attractive than more traditional development loans. Rather, it is to point out that other loans involve conditions also, and that the conditions of IMF lending, while not designed specifically to enhance the economic development of borrowing countries, do not preclude the use of fund resources to increase the level of imports, at least temporarily, into a developing nation. Indeed, by throwing the blame for unpopular measures on the IMF, a borrowing government may find itself in a stronger position to advance a development program.

The maturity of IMF lending, usually ranging from three to seven years, is much shorter than that of loans from the multilateral development banks. These loans have maturities ranging from 15 to 50 years. Bilateral loans from the DAC countries also carry long maturities; such loans had an average maturity of 33 years in 1975. 6/ Loans from commercial banks have maturities nearly as short as those of the IMF; most commercial loans to developing countries are for five to seven years.

The short term of IMF loans does mean that a borrowing nation probably could not complete a major development project within the maturity of the loan, but a growing reliance on relatively short-term bank commercial lending has forced developing nations to move away from borrowing strictly tied to specific projects. Many nations, particularly the more advanced LDCs, have adopted the approach of financing an entire program of development from whatever sources are available. If this means that borrowers must accept shorter-term financing than might be desired, the borrowers simply "roll over," or refinance, their loans when they reach maturity. In fact, a large part of LDCs' requirements for foreign exchange arise from the need to service already

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6/ Development Cooperation, 1976 Review, p. 158.

The World Bank estimates that, in 1976, nearly $16 billion of the borrowing by LDCs was required to make interest and amortization payments on existing loans. 7/

Other aspects of IMF lending blur the distinction between IMF lending and development assistance. Of particular interest are the interest charges on IMF loans. Except for drawings from the Oil Facility, the interest rates charged on IMF loans are below those charged by many other lenders. Drawings from the gold tranche of the IMF (the first drawings available to a borrower) carry no interest charges. Subsequent drawings from the credit tranches have variable interest rates depending on how long the drawing is outstanding. These rates begin at 4-3/8 percent and go up to 6-3/8 percent. Interest charges on some other facilities are slightly higher, reaching 7-7/8 percent for drawings under the Oil Facility in 1975. All drawings are subject to a one-time service charge of 0.5 percent. Table 1 shows interest

TABLE 1. SCHEDULE OF IMF CHARGES ON TRANSACTIONS (Percent payable per year on Fund holdings in excess of quota)

| Maturity Term | Tranche, Compensatory, and Buffer Stock Drawings | Extended Facility Drawings | 1974 Oil Facility Drawings | 1975 Oil Facility Drawings |
|---|---|---|---|---|
| Service Charge a/ | 0.5 | 0.5 | 0.5 | 0.5 |
| Up to 1 Year | 4.375 | 4.375 | 6.875 | 7.625 |
| 1 to 2 Years | 4.875 | 4.875 | 6.875 | 7.625 |
| 2 to 3 Years | 5.375 | 5.375 | 6.875 | 7.625 |
| 3 to 4 Years | 5.875 | 5.875 | 7.000 | 7.750 |
| 4 to 5 Years | 6.375 | 6.375 | 7.125 | 7.875 |
| 5 to 6 Years | --- | 6.875 | 7.125 | 7.875 |
| 6 to 7 Years | --- | 6.875 | 7.125 | 7.875 |
| 7 to 8 Years | --- | 6.875 | --- | --- |

a/ Payable only once.

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7/ World Bank Annual Report, 1976, p. 106.

charges for the various types of IMF lending. In IMF fiscal year 1976 (May 1, 1975 to April 30, 1976), the average interest charged on loans outstanding, other than from the Oil Facility, was 3.9 percent. The average interest rate on all Fund drawings was slightly under 6 percent. Both of these rates have been rising, and by the last quarter of fiscal year 1976 had reached 4.5 percent and 6.25 percent, respectively. 8/

By way of contrast, the World Bank is now charging 8.5 percent on its new loans. (Some loans of the multilateral development banks are made at concessionary rates well below prevailing market rates. For example, the International Development Association charged 0.75 percent for loans made in fiscal year 1976.) Commercial banks usually charge a variable interest rate that is determined by adding a fixed percentage "spread" to the prevailing London interbank offer rate (LIBOR) on six-month eurodollar deposits. Throughout 1976, LIBOR fluctuated between 7.25 percent and 5.25 percent, averaging a bit more than 6 percent for the year. 9/ Typical spreads in 1976 were 1.5 to 1.75 percent. This means that commercial banks were charging interest rates in the range of 6.75 percent to 8 percent on foreign loans.

Thus, IMF lending, other than through the Oil Facility, is at interest rates well below those charged by the other sources of financing and must be viewed as having some grant element. Oil Facility lending (which ended in mid-1976) had near market rates of interest at the end of its life, but had rates well below the market rates for private lending when it was initiated in 1974.

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8/ IMF Annual Report, 1976, p. 57. Average rates are lower than current rates because some earlier drawings were made at lower rates. For a brief description of changes in the IMF charges, see IMF Survey, June 6, 1976, pp. 167-168.

9/ As reported monthly in World Financial Markets, published by Morgan Guaranty Trust Co.

## CHAPTER III. BUDGET TREATMENT OF THE IMF

In 1967, the President's Commission on Budget Concepts recommended that "subscriptions, drawings, and other transactions reflecting net changes in the U.S. position with the International Monetary Fund should be excluded from budget receipts and expenditures." 1/ The view of the Commission was that transactions with the IMF were exchanges of assets with no budgetary impact. The IMF, the Commission noted, was "like a bank in which funds are deposited and from which funds in the form of needed foreign currencies may be withdrawn." 2/

In 1968, the U.S. Treasury adopted this exchange of assets approach to transactions with the IMF. As a result payments to increase the size of the U.S. quota in the Fund and transactions to maintain the value of the U.S. quota no longer appear on the budget. (Payments to maintain the value of the quota are required whenever the value of the dollar falls. When the value of the dollar rises, the Fund makes payments to the United States.) Also excluded from the budget are loans made by the United States to the IMF under the so-called General Arrangements to Borrow. Such loans have been made recently to help the Fund finance a large loan to the United Kingdom. If the United States should ever be compelled to borrow from the IMF to support the value of the dollar, this transaction would also be off budget.

Two kinds of transactions with the IMF do appear on budget, but not within the International Affairs budget function. These are the remunerations paid to the United States by the IMF whenever the Fund lends dollars to other members and the service charges paid by the United States if it were to borrow from the Fund.

Appropriations were sought in 1970 for an increase in the U.S. quota in the IMF and in 1972 and 1973 for U.S. payments to

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1/ Report of the President's Commission on Budget Concepts, October 1967, p. 31.

2/ Ibid.

the Fund to maintain the value of the U.S. quota. In none of these cases did appropriations result in any actual outlays, since, for accounting purposes, these transactions were considered simply exchanges of assets. In 1975, the United States again made a maintenance of value payment to the IMF, but this time no appropriation was sought. In every case, Congressional authorization was required before the payments could be made.

Because dealings with the IMF involve large amounts, questions periodically arise as to the most desirable budget treatment of these transactions. It is clear that U.S. dealings with the IMF are, in some respects, different from other financial transactions, but it is not immediately clear that these differences should qualify the IMF for special treatment within the U.S. budget or that the current special treatment is appropriate. Arguments for and against the current treatment of IMF transactions may be advanced, but they are not conclusive. Ultimately a decision on these matters must rest on a weighing of the arguments on each side. The major points of these arguments will be spelled out briefly in this chapter.

## THE PURPOSE OF THE BUDGET

There are three principal reasons why a particular transaction of the U.S. Government might be included in the budget. If all of these reasons apply to a particular transaction, then the case is presumably strong for including it in the budget. If one or more do not apply, the case is weakened. These three reasons are:

- That the transaction represents a transfer of real resources and, therefore, affects the level of aggregate demand in the United States or the allocation of real resources among competing uses.

- That the transaction will have an effect on U.S. financial markets by resulting in net government lending or borrowing.

- That Congressional and Executive oversight of the transaction would be facilitated by its inclusion in the budget.

The remainder of this chapter will treat each of these reasons in turn.

THE TRANSFER OF REAL RESOURCES

As was pointed out in the last chapter, there is some reason to think that IMF lending results in the transfer of real resources, even though in theory it should not. To the extent that U.S. dollars lent to other nations through the IMF result in claims on real resources of the United States, aggregate demand in the U.S is increased and resources are diverted from domestic uses. If this were the case, U.S. payments to the IMF would have much the same effect as payments to the World Bank, say, and there would be strong reasons for including these payments in the budget. If, on the other hand, only financial assets are exchanged, then operations of the IMF have little effect on the real resources of the United States, and there is correspondingly little reason to include these transactions in the budget. As indicated above, a conclusive analysis of the real effects of IMF lending has not been performed, and no firm answers can be given on this score. There is, however, another way in which participation in the IMF involves real costs for the United States.

The IMF is not just like a bank, contrary to the assertion of the President's Commission on Budget Concepts. Unlike bank deposits, a portion of U.S. quotas in the Fund earns no interest. When U.S. dollars are lent to other members, the Fund pays remuneration to the United States, but generally at rates below the market rate. In fiscal year 1976, the Fund paid an average rate of remuneration of 3.6 percent. 3/ No remuneration is paid on that portion of the quota which is not lent out to other members.

In order to participate in the Fund, the United States is required to supply sufficient dollars to meet its quota obligations. These dollars must be borrowed in domestic money markets, and the government must pay the interest costs of this borrowing. How much is foregone in earnings because the Fund pays no or low interest depends on the rate at which the U.S. Government can borrow funds. In April 1976, U.S. Treasury bills were paying approximately 5 percent. The U.S. quota is SDR 6.7 billion (about $7.8 billion), and during fiscal year 1976, only a small portion of that was lent to other members. Thus, maintaining its quota in the Fund cost the United States nearly $400 million. This cost is only implicit in that it does not appear on any

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3/ IMF Annual Report, 1976, p. 58.

account, but it is nonetheless real. In this way, it is similar to a tax expenditure. If either a tax expenditure or foregone interest is omitted from its appropriate functional budget category, a misleading picture of the allocation of federal spending will result.

An interesting aspect of U.S. dealings with the IMF is that some transactions do show up on the budget. When the IMF pays remuneration to the United States because the Fund has lent U.S. dollars to other members, these remunerations are included in the budget under miscellaneous receipts. Similarly, charges paid by the United States to the Fund for the use of other members' currencies would be included in the budget.

## EFFECTS ON DOMESTIC FINANCIAL MARKETS

The projected budget deficit in any given year is an estimate of how much borrowing the federal government will seek in the private financial markets that year. The amount of this borrowing has important implications for interest rates and the desired growth of the money supply. It would be desirable for the budget deficit to show total federal borrowing in private markets for each year.

The funds borrowed by the Treasury to pay the U.S. quota in the IMF must come out of private financial markets just as the funds to finance the federal deficit do. In years when the United States is required to make payments to the IMF to increase or maintain the value of the U.S. quota, the budget deficit as it is now computed will underestimate federal borrowing by the amount of the payments. To the extent that the budget is supposed to reflect federal financing requirements, quota transactions with the IMF should presumably be included.

## CONGRESSIONAL OVERSIGHT

Oversight of an institution like the IMF has always been problematic. There is general recognition that within the limits of its Articles of Agreement the Fund should be allowed to pursue its activities unhindered by the demands of member governments. It is, after all, an international organization that was established to serve international interests, not those of particular nations. To allow the Fund the freedom it needs to operate, the governments of member nations are effectively excluded from control over day-to-day activities.

It is also clear, however, that the level of understanding of what the Fund is and how it operates is in many cases quite low. This is due in part to the sometimes complex nature of Fund operations, but it can also be argued that, because the Fund's operations are not reviewed regularly as part of the budget process, less attention is focused on it than on other agencies and institutions that must undergo this scrutiny. The result of this can be that on those occasions when member governments do become involved in Fund activities--for example, when the Articles of Agreement are to be amended or when a new facility is to be organized--these governments find themselves lacking the information and understanding required to make considered decisions.

The United States finds itself in such a position at the moment. Major commitments to new balance of payments financing facilities are being considered. Although large amounts of money are involved, appropriations will probably not be required. Some observers feel that a more careful consideration of the options available would result if the well-established procedures of the budget process were exercised in this regard.

While this idea may initially seem appealing, there are some difficulties inherent in it. The principal problem arises from the unpredictability of IMF operations. The budget process is designed principally to give the Congress control over the costs of carrying out programs in any year. Unfortunately, no reliable estimate of the costs of U.S. participation in the Fund can be given in advance. If the dollar depreciates in value, the United States will be required to make payments to the Fund to maintain the value of the U.S. quota; if the dollar appreciates, the Fund will pay the United States. If many countries borrow dollars from the Fund, the Fund will pay remunerations to the United States; if they do not, the Fund pays no remuneration. (Variations in the amount of dollars lent to other members can be quite large; from the first quarter of 1976 to the first quarter of 1977, the net creditor position of the United States in the IMF increased by $1.76 billion.) Finally, if one views IMF lending as giving rise to real resource transfers, the amount of resources transferred depends on the level of IMF lending--something that is impossible to predict.

Thus, while it may be desirable for the Congress to keep close watch over IMF activities, it is not clear that the budget process is the correct mechanism for this oversight. Inevitably, budget targets set in advance will prove incorrect, and the integrity of the entire process may suffer as a result. The fact that the budget process is not the perfect mechanism for IMF oversight does not mean, however, that treating the IMF in an annual appropriation would not provide useful information for major decisions. It might. But whether this information is worth the difficulties of obtaining it is finally a matter of judgment.

## CHAPTER IV. CURRENT PROPOSALS

There has been a growing recognition that the resources of the IMF might prove to be inadequate to meet the requirements for balance of payments financing over the next few years. The solution to this problem is usually thought to lie in a permanent increase in Fund resources brought about by a review of and increase in quotas. Unfortunately, this is expected to be a time-consuming process. The next quota review will begin in 1978, and new quotas are not expected to be agreed to until late 1979 or 1980. In the meantime, it is felt that some temporary supplementary facility is required to make increased resources available immediately.

Two proposals for this temporary facility have been advanced. The most likely candidate is a special facility to be set up by the IMF to utilize resources supplied by the stronger developed nations and the oil-producing nations. This facility is commonly called the Witteveen Facility--after the IMF's Executive Director, Johannes Witteveen. The exact nature of this facility is still being negotiated. Nonetheless, the broad outlines of the facility have emerged.

It would operate in a manner similar to the Oil Facility: the Fund would borrow from contributing nations and then lend to the ultimate borrowers. Use of the facility would be open to all Fund members for the purpose of general balance of payments support. The maturity of loans made under the facility would be from three to seven years. The borrowing members would pay a "market-related" rate of interest--significantly higher than the rate on tranche drawings and close to the rates charged by commercial banks--and the Fund would pay a similar rate to the suppliers of the resources. The amounts lent to the Fund would be highly liquid; that is, the lending nation could demand the return of its contributions at any time. No details have been announced yet on the conditions to be imposed on borrowers from the new facility. It is generally assumed, though, that these conditions will represent no relaxation of the IMF's insistence on economic adjustment. If anything, borrowers will be forced into faster adjustment than is required by current Fund lending. It is expected that this facility would be available for drawings for two or two and a half years after beginning operations.

On August 6 the representatives of 14 potential lending nations met in Paris. They agreed in principal to the establishment of a new facility and 12 of the nations made commitments of resources (subject to legislative approval in some cases) totaling almost $10 billion. Oil-producing nations will provide about half of the total funds committed and industrialized nations will supply the rest. The U.S. contribution will be about $1.7 billion. The conferees agreed that initially the IMF would pay lenders at an interest rate of 7 percent until June 30, 1978. After that the interest rate will be the average rate for five-year U.S. Treasury notes. It is expected that legislation authorizing U.S. partici-tion in this facility will be presented to the Congress in late September. Because the additional resources available through the Witteveen Facility would derive from borrowing by the Fund rather than from quota increases, the Witteveen Facility will have the effect of making available more of the surpluses of the oil-producing nations without increasing the quotas and, therefore, the voting power within the Fund of these nations.

No appropriations will be sought for the U.S. contribution to the Witteveen Facility, and, because of the nature of the facility, the case for requiring an appropriation seems weak. Because U.S. lending to the IMF to support this facility will earn a market-related rate of return and because U.S. contributions to the facility may be withdrawn at any time, the analogy to a bank deposit seems particularly appropriate. Because the United States will be required to provide only a commitment to lend funds when requested, there is no way of knowing when U.S. resources would be drawn. Thus, there is no way of knowing when or to what degree U.S. commitments to this facility would have any impact on the U.S. economy. (The United States has participated in a similar arrangement with the IMF, the General Arangements to Borrow, since 1962. U.S. resources were not drawn until 1977, when they were needed to provide a loan for England.)

The other possible method for providing a temporary increase in resources available for balance of payments financing is the Financial Support Fund, more commonly called the OECD Safety Net. U.S. participation in this facility was first proposed to the Congress by President Ford in 1975. Hearings were held before the Banking Committee and the International Relations Committee of the House and before the Senate Foreign Relations Committee. This last committee reported the authorizing legislation favorably, but no further action was taken. At the moment, it seems unlikely that the Safety Net proposal will be revived, but failure to reach agreement on establishing the Witteveen Facility could lead to renewed interest in the Safety Net.

As originally proposed, the Safety Net would have been operated by the OECD for the use of its members only; developing nations would have had no access to the Safety Net. The Safety Net was to have resources totaling $25 billion. These would have been raised principally from borrowing by the OECD in private capital markets. Each participating nation would have had the option either of lending directly to the Safety Net or of furnishing guarantees for OECD borrowing. The United States would have chosen the guarantee approach to furnishing its $6.9 billion share of the Safety Net's resources. Actual outlays from the United States would be required only in the event of default by some borrower from the Safety Net which made it impossible for the Safety Net to meet its obligations to its own private creditors. No oil-producing nations would have supplied funds for the Safety Net.

Because no outlays were expected to result from U.S. participation in the Safety Net, no appropriations were sought. In the event that the United States did have to outlay funds to meet its guarantees, it is likely that the Exchange Stabilization Fund (an off-budget agency of the Treasury) would make the necessary payments. Subsequent appropriations might then be sought to replenish the Exchange Stabilization Fund.

Safety Net lending would carry market-related interest rates, and the maximum term of the loans would be seven years. In order to be eligible for a loan, a nation must have made "fullest appropriate" use of other sources of finance (the IMF, private banks, and its own reserves) and must adopt specific economic policies to relieve its financing problems. Borrowers would be required not only to adjust their domestic and international economic policies, but also to join in cooperative efforts with other nations to promote energy conservation and production.

Voting power within the Safety Net would have been determined by the size of each nation's commitment. Loan decisions would require votes of a 2/3 majority up to unanimous consent, depending on the size of the loan.

Since the Safety Net was first negotiated in 1975, a sufficient number of other OECD nations have approved participation to initiate operations. The OECD has not done so, however--apparently for lack of U.S. support. The presumption is that an agreement to participate on the part of the United States would be all that would be required for the Safety Net to begin operations.

APPENDIX

## APPENDIX. THE DISTRIBUTION OF IMF FINANCING 1/

Some indirect evidence about the effects of IMF lending on real resource transfers arises from a consideration of which countries make the most use of IMF lending facilities. Because developing nations are generally net importers of capital, they usually run significant balance of payment deficits. These deficits are a natural result of the development process and are financed for the most part by lending from commercial banks, multilateral development banks, and foreign governments. If IMF loans are also present, there is a possibility that these loans, too, will, in part at least, have the effect of increasing the flow of development capital. If, on the other hand, the principal users of IMF lending are developed nations, who are in general net exporters of capital, there would be less reason to think that this lending is serving any function besides that of stabilizing exchange rates. Aside from this indirect evidence on the flow of real resources, there is some intrinsic interest in the question of which nations have been using Fund facilities.

The most comprehensive measure of the use of IMF facilities is found in the net drawings outstanding from the Fund. Table A-1 presents net drawings outstanding at the end of each year from 1948 through 1976 by major groups of countries. A negative entry indicates that a country is a net creditor of the Fund--that the Fund has lent some of that nation's currency to other nations. Until the late 1960s, the industrialized nations were net creditors to the Fund, with the rest of the world being net borrowers. This situation has changed, however, and now the oil-producing nations have become the major creditors of the Fund. The net drawings outstanding of all LDCs have grown rapidly--as have those of the industrialized nations--in the face of dramatically increased oil prices. Since the early 1970s, the outstanding net drawings of developing nations have far exceeded those of the industrialized nations. In 1976, the outstanding net drawings of the industrialized nations fell significantly, while those of the LDCs continued to rise.

1/ A list of the groupings of IMF members used in the tables in this Appendix are found at the end of the Appendix.

TABLE A-1. NET DRAWINGS OUTSTANDING FROM ALL IMF FACILITIES: BY MAJOR GROUPS OF LENDERS, IN MILLIONS OF U.S. DOLLARS

| Year | Industrialized Nations | Higher-Income LDCs | Middle-Income LDCs | Lower-Income LDCs | Oil-Producing Nations | Other Nations |
|---|---|---|---|---|---|---|
| 1948 | -499 | 33 | 0 | 69 | 0 | 10 |
| 1949 | -279 | 78 | 3 | 101 | 0 | 10 |
| 1950 | -278 | 78 | 0 | 100 | 0 | 10 |
| 1951 | -291 | 80 | 0 | 100 | 7 | 0 |
| 1952 | -283 | 49 | 0 | 100 | 9 | 0 |
| 1953 | -268 | 88 | 3 | 100 | 9 | 0 |
| 1954 | -244 | 135 | 3 | 53 | 24 | 0 |
| 1955 | -256 | 113 | 13 | 13 | 33 | 0 |
| 1956 | -315 | 88 | 38 | 15 | 80 | 0 |
| 1957 | -202 | 215 | 55 | 216 | 85 | 4 |
| 1958 | -316 | 300 | 54 | 221 | 72 | 36 |
| 1959 | -417 | 324 | 56 | 220 | 51 | 0 |
| 1960 | -532 | 417 | 90 | 154 | 77 | 12 |
| 1961 | -451 | 735 | 81 | 280 | 113 | 37 |
| 1962 | -536 | 668 | 172 | 315 | 94 | 0 |
| 1963 | -697 | 801 | 195 | 286 | 111 | 0 |
| 1964 | -318 | 730 | 217 | 258 | 122 | 0 |
| 1965 | -28 | 732 | 177 | 483 | 89 | 0 |
| 1966 | 9 | 663 | 210 | 642 | 95 | 0 |
| 1967 | -199 | 637 | 252 | 776 | 97 | -10 |
| 1968 | 499 | 562 | 386 | 731 | 94 | -10 |
| 1969 | 705 | 499 | 354 | 604 | 144 | -58 |
| 1970 | 1,077 | 283 | 346 | 359 | 222 | 45 |
| 1971 | 639 | 494 | 396 | 353 | 226 | 71 |
| 1972 | 231 | 899 | 304 | 520 | 169 | 35 |
| 1973 | 371 | 844 | 335 | 605 | 4 | 0 |
| 1974 | 933 | 1,023 | 683 | 1,722 | -1,920 | 75 |
| 1975 | 2,285 | 1,486 | 979 | 2,362 | -4,590 | 367 |
| 1976 | 1,490 | 2,832 | 1,706 | 2,468 | -5,774 | 826 |

Net drawings outstanding provide only a highly aggregate picture of Fund activities. The IMF maintains a number of facilities that lend for different purposes and on different terms. The establishment of some of these facilities in recent years has been cited by some observers as evidence that the Fund is becoming more oriented toward resource transfers in general and toward aid to developing nations in particular.

The original and, until recently, most used facilities of the IMF are the gold (or reserve) tranche and the credit tranches. Members may draw from these facilities amounts of foreign exchange equal in value to 125 percent of the member's quota in the Fund. 2/ Tranche drawings are available for general balance of payments support. The gold tranche may be drawn on the strength of a statement by the borrower that it faces a balance of payments need. Successive drawings from the credit tranches require the acceptance of increasingly demanding conditions by the borrower. Table A-2 shows outstanding tranche drawings for the major groups of members.

A very different picture of which countries have been using IMF lending emerges when only tranche drawings are considered. The industrialized nations accounted for 57 percent of the tranche drawings outstanding at the end of 1976. Since that time, a new loan to England of $3.9 billion has been approved. As this loan is disbursed, the share of the developed countries in total tranche drawing will increase significantly. By no measure can tranche lending by the IMF be said to favor strongly the developing world.

The best known of the special facilities established by the IMF is the Oil Facility. From mid-1974 through mid-1976, the Oil Facility used contributions from oil-producing countries and some industrialized countries to provide temporary assistance to nations for whom the rapid increase in oil prices caused serious balance of payments problems. Oil-producing countries supplied 71 percent of the resources of the Oil Facility drawings. The United States did not participate in the Oil Facility either as a supplier or user of facility resources.

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2/ As a temporary measure between January 1976 and the entry into force of the Second Amendment to the Articles of Agreement of the IMF (now being ratified by members), the maximum drawing was raised to 170 percent of quota.

TABLE A-2. IMF TRANCHE DRAWINGS OUTSTANDING: BY MAJOR GROUPS OF MEMBERS, IN MILLIONS OF U.S. DOLLARS

| Year | Industrialized Nations | Higher-Income LDCs | Middle-Income LDCs | Lower-Income LDCs | Oil-Producing Nations | Other Nations |
|---|---|---|---|---|---|---|
| 1948 | 465 | 33 | 0 | 69 | 0 | 10 |
| 1949 | 484 | 78 | 3 | 101 | 0 | 10 |
| 1950 | 464 | 78 | 0 | 100 | 0 | 10 |
| 1951 | 426 | 80 | 0 | 100 | 7 | 0 |
| 1952 | 466 | 49 | 0 | 100 | 9 | 0 |
| 1953 | 382 | 88 | 3 | 100 | 9 | 0 |
| 1954 | 219 | 135 | 3 | 53 | 24 | 0 |
| 1955 | 60 | 113 | 13 | 13 | 33 | 0 |
| 1956 | 577 | 88 | 38 | 15 | 80 | 0 |
| 1957 | 1,055 | 215 | 55 | 216 | 85 | 4 |
| 1958 | 986 | 300 | 54 | 221 | 72 | 36 |
| 1959 | 590 | 324 | 56 | 220 | 51 | 0 |
| 1960 | 89 | 417 | 90 | 154 | 78 | 12 |
| 1961 | 1,261 | 735 | 81 | 280 | 113 | 37 |
| 1962 | 327 | 668 | 172 | 315 | 94 | 0 |
| 1963 | 249 | 800 | 179 | 286 | 111 | 0 |
| 1964 | 1,284 | 730 | 201 | 258 | 122 | 0 |
| 1965 | 2,856 | 742 | 161 | 472 | 89 | 0 |
| 1966 | 3,447 | 675 | 177 | 630 | 95 | 0 |
| 1967 | 2,643 | 648 | 219 | 650 | 107 | 0 |
| 1968 | 3,206 | 610 | 346 | 585 | 112 | 0 |
| 1969 | 3,619 | 548 | 308 | 490 | 164 | 45 |
| 1970 | 3,536 | 335 | 300 | 297 | 258 | 45 |
| 1971 | 2,374 | 433 | 362 | 316 | 261 | 71 |
| 1972 | 2,028 | 647 | 289 | 391 | 204 | 35 |
| 1973 | 2,242 | 586 | 229 | 441 | 42 | 0 |
| 1974 | 2,210 | 441 | 361 | 900 | 0 | 80 |
| 1975 | 2,338 | 435 | 324 | 1,005 | 76 | 208 |
| 1976 | 3,481 | 943 | 280 | 949 | 85 | 400 |

During the period of its operation, the Oil Facility was the largest source of IMF financing. This was due in large part to the fact that many oil-consuming nations faced sudden deterioration in their balance of payments positions in 1974 and 1975 and to the relatively mild conditions attached to the Oil Facility drawings. Fifty-five members made drawings totaling SDR 6.9 billion (about $8.1 billion). Of these drawings, 63 percent went to developed countries, with just two countries--the United Kingdom and Italy--accounting for 35 percent of total Oil Facility drawings. Although the Oil Facility provided much needed assistance to a large number of developing countries, it would be difficult to interpret its operations as being aimed principally at these developing countries. Rather, it seems clear that the facility served as a financial intermediary between oil producers and the stronger developed nations on the one hand and LDCs and weaker developed countries on the other. The Oil Facility helped to cushion the impact of oil price increases and allowed oil consuming nations to adjust gradually to higher prices by recycling at least a part of the balance of payments surplus resulting from the new higher prices.

The Compensatory Finance Facility was established in 1963 for the purpose of financing balance of payments deficits caused by fluctuations in export earnings. The facility is available to all members of the IMF, but it is intended primarily to provide assistance to those nations which are dependent on one or two principal export commodities for most of their foreign exchange earnings. In many cases, the quotas of commodity exporting countries are too small to allow them to finance temporary shortfalls in export earnings brought about by fluctuations in the demand for or the price of their principal exports. The Compensatory Finance Facility makes available additional resources to these countries with conditions attached that are less demanding than those imposed with credit tranche drawings. Since large, diversified economies will seldom suffer extreme variations in foreign exchange earnings, the largest users of this facility might be expected to be the LDCs. Table A-3 shows this to be the case, although the weaker developed nations accounted for 24 percent of Compensatory Finance Facility drawings outstanding at the end of 1976.

Two other Fund facilities, the Extended Facility and the Buffer Stock Facility, have provided very small amounts of lending (about $264 million), all to LDCs.

Two special activities of the IMF have been clearly directed at providing aid to developing countries. The first of these, the Subsidy Account, constituted a direct grant from developed

TABLE A-3. COMPENSATORY FINANCE FACILITY DRAWINGS OUTSTANDING: BY MAJOR GROUPS OF MEMBERS, IN MILLIONS OF U.S. DOLLARS)

| Year | Industrialized Nations | Higher-Income LDCs | Middle-Income LDCs | Lower-Income LDCs | Oil-Producing Nations | Other Nations |
|---|---|---|---|---|---|---|
| 1963 | -- | -- | 16 | -- | -- | -- |
| 1964 | -- | -- | 16 | -- | -- | -- |
| 1965 | -- | -- | 16 | 11 | -- | -- |
| 1966 | -- | 7 | 33 | 11 | -- | -- |
| 1967 | 33 | 16 | 33 | 131 | -- | -- |
| 1968 | 8 | 26 | 40 | 151 | -- | -- |
| 1969 | 8 | 26 | 46 | 118 | 6 | -- |
| 1970 | -- | 17 | 46 | 66 | 3 | -- |
| 1971 | -- | 55 | 34 | 36 | -- | -- |
| 1972 | -- | 222 | 15 | 128 | -- | -- |
| 1973 | -- | 225 | 105 | 163 | -- | -- |
| 1974 | -- | 225 | 93 | 267 | -- | -- |
| 1975 | 103 | 319 | 90 | 263 | -- | -- |
| 1976 | 799 | 919 | 533 | 425 | -- | 261 |

and oil-producing nations to the LDCs most serious affected by the increase in oil prices. No IMF resources are involved in this aid. In essence, the Fund is serving only as a manager of a program through which 24 nations pledged $186 million to subsidize interest payments of the most seriously affected countries under the 1975 oil facility. The United States did not contribute to the Subsidy Account.

The second aid-producing activity is the IMF Trust Fund, established in 1976 for the purpose of providing special balance of payments assistance on concessional terms to developing members of the Fund. Loans from the Trust Fund bear an interest rate of 0.5 percent per year and have maturities of 10 years. To obtain a Trust Fund loan, a member must satisfy conditions laid down by the Fund in connection with a credit tranche or Extended Facility loan. The resources for the Trust Fund have come from the profits of the Fund's sale of a portion of its gold holdings. Through May 1977, the Trust Fund had disbursed $37 million in loans.

To summarize, then, there are special facilities of the Fund which provide special aid to developing nations. The operations of these facilities, however, are relatively small. The great bulk of IMF drawings have been through the tranches, the Oil Facility, and the Compensatory Finance Facility, all of which lend large amounts to developed nations. Because the stronger industrial nations provide currencies for the Fund to lend, the net drawings outstanding of this group is much smaller than net drawings of the LDCs as a group. This comes about, however, not so much through the lending policies of the Fund, but because it is the currencies of the stronger developed nations that are most in demand by borrowers.

## MAJOR GROUPS OF IMF MEMBERS

### Industrialized Countries

Australia
Austria
Belgium
Canada
Denmark
Finland
France
Germany (West)
Greece
Iceland
Ireland
Italy
Japan
Luxembourg
Netherlands
New Zealand
Norway
Portugal
Spain
Sweden
Turkey
United Kimgdom
United States

### Higher-Income LDCs

Argentina
Barbados
Brazil
Chile
Republic of China
Colombia
Costa Rica
Cyprus
Domincan Republic
Fiji
Gabon
Guatemala
Guyana
Jamaica
Lebanon
Malaysia
Malta
Mauritious
Mexico
Nicaragua
Panama
Paraguay
Peru
Romania
Singapore
Syria
Trinidad & Tobago
Tunisia
Uruguay
Yugoslavia
Zambia

### Middle-Income LDCs

Bolivia
Botswana
Cameroon
Central African Republic
Congo (People's Republic of)
Egypt
El Salvador
Equatorial Guinea
Ghana
Grenada
Guinea-Bissau
Honduras
Ivory Coast
Jordan
Kenya
Korea (Republic of)
Liberia
Mauritania
Morocco
Papua New Guinea
Philippines
Senegal
Swaziland
Thailand
Togo
Uganda
Western Samoa

## Lower-Income LDCs

Afghanistan
Bangladesh
Benin
Burma
Burundi
Cambodia
Chad
Ethiopia
Gambia
Guinea
Haiti

India
Laos
Lesotho
Madagascar
Malawi
Mali
Nepal
Niger
Pakistan
Rowanda
Sierra Leone

Somalia
Vietnam
Sri Lanka
Sudan
Tanzania
Upper Volta
Yemen (Arab Republic)
Yemen (People's Republic)
Zaire

## Oil-Producing Countries

Algeria
Ecuador
Indonesia
Iran
Iraq

Kuwait
Libya
Nigeria
Oman
Qatar

Saudia Arabia
United Arab Emirates
Venezuela

## Other

Bahamas
Bahrain

Israel

South Africa