International Monetary Fund

Eminent Persons Group Outlines Long-Term Revenue Plan to Finance IMF Activities

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Managing Director Rodrigo de Rato of the International Monetary Fund (IMF) today submitted to the IMF Executive Board a report by a Committee of Eminent Persons which recommends an income model for the IMF "that would be more appropriate for the various activities undertaken by the Fund, and would be more responsive to evolving conditions in the world economy and in the role of the Fund itself."

The Committee was chaired by Andrew Crockett, former Director General of the Bank for International Settlements (BIS) and currently President of JPMorgan Chase International, and included Mohamed A. El-Erian, President and CEO of Harvard Management Company; Alan Greenspan, former Chairman of the U.S. Federal Reserve Board of Governors; Tito Mboweni, Governor of the South African Reserve Bank; Guillermo Ortiz, Governor of the Bank of Mexico; Hamad Al-Sayari, Governor of the Saudi Arabian Monetary Agency; Jean-Claude Trichet, President of the European Central Bank; and Zhou Xiaochuan, Governor of the People's Bank of China. Mr. de Rato stated that Fund members, management, and staff were grateful that such an eminent group was willing to devote their time and energy to this issue. Their involvement underlines their regard for the Fund and its mandate.

The Committee's report concludes that the IMF's current income model—which relies primarily on the income generated from lending to member countries—is not appropriate and it recommends a new set of revenue measures. Mr. Crockett said: "This package of measures, which is unanimously supported by the Committee, is designed to align better the Fund's income model with the variety of functions the Fund currently performs. If adopted, the measures would set the Fund's finances on a sustainable basis, and ensure a solid financial foundation for the Fund's important role in the international community."

Mr. de Rato welcomed the Committee's finding that the IMF needs an appropriate income model and stressed the importance of addressing this issue expeditiously. "The process of discussion and consultation with the Executive Board and, more generally, with the IMF's membership on the report's recommendations already began this morning," he said. "I am looking forward to our discussions in the Executive Board and to building a consensus on this important issue." A set of formal proposals will be submitted for consideration to the Executive Board in the next months and a progress report will be provided to the International Monetary and Financial Committee during its meeting in April 2007.

Mr. de Rato appointed the Committee in May 2006 as part of the IMF's Medium-Term Strategy (MTS) and broader efforts to adapt to the evolving needs of its 185 member countries (see Press Release No. 06/100). "The report represents a key milestone in our work and is an important step in developing an appropriate new income model," he said. In parallel with the income review, the IMF continues to pursue cost effectiveness and firm expenditure restraint as a core element of the MTS.

The Committee's key recommendations involve the following package of measures:

Expanding investment operations. The IMF should expand its investment operations in order to use its balance sheet to generate income by

- ***broadening its investment mandate***, along the lines of the multilateral development banks. For existing reserves, this could produce additional income of SDR 30 million (US$45 million) a year.

- ***investing part of the quota resources*** subscribed by members. If these resources could be invested using the same broadened investment mandate recommended for existing reserves, an investment of SDR 20 billion (US$30 billion) could yield some SDR 200 million (US$300 million) a year.

Creating an endowment from limited IMF gold sales. The limited sale of Fund gold should be ring-fenced to exclude further sales and subject to strong safeguards to limit their market impact. Of its total stock of 3,217 metric tons of gold, the IMF could sell the gold sold and repurchased in the 1999-2000 off-market operations. This gold, which amounts to about 400 metric tons, has an approximate current market value of SDR 4.4 billion (US$6.6 billion). Investment of profits from its sale could yield a real return of some SDR 130 million (US$195 million) a year. The Committee emphasizes that these limited gold sales should be handled in a way to avoid causing disturbances to the functioning of the gold market and, accordingly, should be coordinated with current and future central bank gold agreements so as not to add to the volume of sales from official sources.

Charging for services to member countries. The Committee recognizes that capacity building represents a fundamental contribution of the Fund to the well-being of many of its member countries and that there may be public policy reasons for not discouraging the use of capacity-building services. However, the Committee supports charging for services in principle, not so much for the revenue that would be generated, but to enhance IMF transparency and accountability in the provision of such services and to ensure that the providers and beneficiaries take a disciplined approach to its costs and benefits. The Committee also proposes the resumption of reimbursing the IMF for the administrative costs of managing the program of financial assistance to low-income members, which could yield SDR 60 million (US$90 million) a year.

The Committee's report also recognizes the possibility that renewed lending activity in the future could generate substantial surpluses. While this scenario is not currently foreseen, the Committee urges the IMF to explore ways in which such excess resources could be redistributed to members after taking into account necessary reserve accumulations to protect against potential credit losses.

IMF EXTERNAL RELATIONS DEPARTMENT

Public Affairs		Media Relations	
Phone:	202-623-7300	Phone:	202-623-7100
Fax:	202-623-6278	Fax:	202-623-6772