



Recent Developments On IMF Gold Sales & Debt Cancellation

In a December 7, 2007 interview with the Wall Street Journal, Dominique Strauss-Kahn, the new managing director of the International Monetary Fund (IMF), announced his support for a plan to sell 400 metric tons of gold from the IMF's stock of 3,217 tons to create an endowment, whose earnings would be used to partly fund the IMF's administrative budget.¹ The IMF faces an annual deficit of \$400 million in 2010 and needs new sources of income as the IMF's traditional means of generating income has disappeared with many countries repaying their loans to the institution. The latest news is just the most recent in an ongoing discussion of whether and how the IMF's gold reserves should be used, and for what purpose.

The IMF's gold reserves are the third largest in the world after the United States and Germany. The gold has a value of \$9 billion on IMF balance sheets, but would actually be worth over \$84.1 billion at the current market price.² Between 1976 and 1980, the IMF sold about one-third of its reserves as part of an agreement to reduce the role of gold in the international monetary system. In 1999, it revalued 12.9 million ounces of the gold in off-market transactions as a way to fund the HIPC debt cancellation. Proposals to sell gold in order to invest in income generating assets date back to 1979, though at the time the lack of political support quashed the issue. The Fund needs near universal support — an 85% majority of voting power — from the IMF Executive Board to engage in the sale or use of its gold reserves. The IMF is required under U.S. law to gain support from the U.S. Congress before selling any IMF gold.

NEW IMF PROPOSALS FOR GOLD SALES WITHOUT MARKET DISRUPTION

Previous efforts to sell IMF gold have been met by strong opposition from the gold industry over concerns that IMF gold sales would lower the price of gold. But in the past three years, there have been a number of important developments that should alleviate these concerns.

First, gold is now selling at an historic high. But second and more importantly, both IMF management and a high-level panel of eminent persons chaired by Andrew Crockett have both endorsed a new approach to gold sales that should remove any objections from industry.

In March of 2005, the IMF Board published a report³, which listed gold sales as one possible way to fund debt cancellation under what would become the Multilateral Debt Relief Initiative (MDRI). In the report, the IMF found that gold could be sold in a responsible way in cooperation with the world's central banks — as per the Central Bank Gold Agreement, or CBGA — without negatively affecting the market price. The Fund estimated at that time that it could sell a total of 400 to 500 metric tons of gold phased over a reasonable period, which at could generate up to \$13 billion for investment or other financing. Specifically, the IMF proposed selling its gold within the existing CBGA yearly limit, which allows a predetermined level of official gold sales each year. Under the IMF proposal, CBGA participants would agree to reduce their sales in order to incorporate IMF sales, so the overall flow of gold onto the world market would remain constant, thus significantly limiting the potential for price impact. The IMF would also enact a communications strategy to alert the market to upcoming sales.

The viability of this approach was further affirmed in January 2007 with the release of the Crockett report.⁴ The Crockett

SUPPORT FROM AFRICAN GOLD-PRODUCING COUNTRIES FOR IMF GOLD SALES

I HAVE BEEN ASSURED THAT SELLING [IMF] GOLD WOULD NOT DRASTICALLY AFFECT THE PRICE OF GOLD IN THE WORLD MARKET. SO, I'M IN FAVOR OF IT.
BENJAMIN MKAPA
FORMER PRESIDENT OF TANZANIA
FEBRUARY 2005

¹Bob Davis, "IMF Plans to Cut Jobs, Lift Income," Wall Street Journal, December 7, 2007, p. A3.

²Based on current price of gold on December 16, 2007.

³IMF, "Financing Further Debt Relief for Low-Income Countries – Preliminary Considerations," March 11, 2005.

⁴Final Report of the Committee to Study Sustainable Long-Term Financing of the IMF, January 31, 2007.

ett report was submitted to the IMF Executive Board by a Committee of Eminent Persons chaired by JPMorgan Chase International Chairman Andrew Crockett, with members including Alan Greenspan, former chairman of the U.S. Federal Reserve and others. The Crockett report specifically endorsed the creation of an endowment from limited gold sales under the CBGA similar to the approach favored by the March 2005 report by IMF staff to the Board.

Both the 2005 staff report and the Crockett reports recommended against another revaluation of the gold as was done to fund the HIPC initiative in 1999. This off-market transaction was described in a board of governors resolution as “a one-time operation of a highly exceptional nature.” These sales resulted in a loss of income to the IMF, the cost of which is still shared by debtor and creditor members.

GOLD SALES: IMF ADMINISTRATIVE BUDGET OR DEBT RELIEF?

With the publication of the 2005 IMF staff report and the 2007 Crockett report, it now seems clear that the responsible sale of IMF gold is possible and desirable, and that earlier concerns about the impact on the price of gold have been largely addressed. But the question is now: IMF gold sales for what purpose?

The IMF, in both the Crockett report and the December 2007 statements of IMF Managing Director Strauss-Kahn, argues that funds from an endowment created by selling IMF gold should go to support the IMF’s administrative budget. The IMF is facing an income crisis, and it is projecting annual deficits beginning in 2010, primarily because many large debtors that have repaid the institutions and countries are not finding the need to take new loans from the IMF.

The IMF has historically generated most of the income for its administrative budget by taking a portion of interest it charges on its lending.

The IMF is currently in the midst of an internal and global policy debate about its role in the world, given the loss of its main mission and the proliferation of regional and other initiatives. Development groups have raised concerns about the harmful impacts of the IMF’s policies in low-income countries, especially concerns that IMF inflation, reserve, and other macroeconomic targets are limiting countries’ abilities to spend their development assistance and fight poverty.

Jubilee USA Network believes that before IMF shareholders, of which the U.S. is the largest, approve a new income model involving the sale of IMF gold, there must be a robust debate on the impacts of IMF policies in low-income countries and its role in the world. The U.S. Congress and other legislative bodies should be an active part of this debate. The IMF should consider other new income sources beyond the sale of IMF gold, such as quotas or investment of income, to fund its ongoing operations.

As the debate on the role of IMF ensues, IMF gold sales should be mobilized to meet goals and purposes that the international community has already agreed to, such as the Millennium Development Goals. Rather than use gold to fund an ailing bureaucracy, Jubilee USA believes the profits from IMF gold sales would be better used to finance multilateral debt cancellation for all the countries that need it to meet the millennium development goals.

It is also important to note that the Crockett report explicitly rules out IMF gold sales for any purpose other than for use to fund the administrative budget. This is of great concern to Jubilee USA and other development advocates as it could take gold sales for debt relief off the table permanently — an extremely unfortunate outcome.

IMF GOLD SALES SHOULD BE MOBILIZED TO MEET GOALS THAT THE INTERNATIONAL COMMUNITY HAS ALREADY AGREED TO, SUCH AS ACHIEVING THE MILLENNIUM DEVELOPMENT GOALS (MDGS). RATHER THAN USE GOLD TO FUND AN AILING BUREAUCRACY, JUBILEE USA BELIEVES THE PROFITS FROM IMF GOLD SALES WOULD BE BETTER USED TO FINANCE MULTILATERAL DEBT CANCELLATION FOR ALL THE COUNTRIES THAT NEED IT TO MEET THE MDGS.

TWO POSSIBLE APPROACHES FOR IMF GOLD SALES FOR DEBT RELIEF

Trust for Future Debt Relief

Proposals pending in the U.S. Congress (The Jubilee Act: S. 2166 / H.R. 2634) would expand debt relief to all low-income nations that need it. Income from gold sales could be placed into trust to fund future debt cancellation.

*Trust for Clearance of Protracted Arrears by HIPC*s

An alternative approach would see proceeds from IMF gold sales mobilized to address another critical problem — protracted arrears countries. IMF gold sales could be used to help resolve the arrears of countries that are eligible for HIPC but have not qualified for the initiative yet. We recently saw the case of Liberia where it took two years for the IMF to reach an agreement to clear the nation's arrears.

ADDITIONAL RESOURCES

Final Report of the Committee to Study Sustainable Long-Term Financing of the IMF, January 31, 2007.

International Monetary Fund. Fact Sheet: Gold In the IMF. <http://www.imf.org/external/np/exr/facts/gold.htm>

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Kapoor, Sony. "Mobilizing IMF Gold for Multilateral Debt Cancellation," *Development*, 2005, 48(1), (92–100)

Jonathan E. Sanford, "IMF Gold and the World Bank's Unfunded HIPC Deficit," *Development Policy Review*, 2004, 22(1): 31-40.