THE WHITE HOUSE

WASHINGTON

May 12, 2009

Dear Madam Speaker:

Last month, I asked the Congress to consider changes to the level of borrowing authority for the International Monetary Fund (IMF). Today, I formally transmit this request in the accompanying supplemental budget request. I urge that the Congress expand the resources available to the IMF through its New Arrangements to Borrow (NAB) and approve a set of other proposals to strengthen the IMF, including an increase of about $8 billion in the U.S. quota subscription to the IMF.

The NAB is one mechanism that the IMF utilizes to boost its lending ability when its regular resources are at their limit in the face of circumstances that threaten the stability of the international monetary system. This increase in the NAB by the United States and other countries would provide the necessary resources for the IMF to address financial dangers in markets around the world, especially those in developing countries impacted by the global financial crisis.

To that end, I request that the Congress approve both the U.S. expansion of NAB up to $100 billion and the increase in the U.S. quota subscription.

The size of the NAB is currently $50 billion. This change, and the U.S. quota increase, should carry a minimal budget score as it is equivalent in some respects to credit activity with very small risk. The request provides that the costs of these proposed NAB and quota increases will be reflected on a net present value basis.

This step is crucial for U.S. economic interests. Many of the developing countries that would benefit from the NAB expansion are experiencing severe economic decline and a massive withdrawal of capital. Should the situation become worse, and should the IMF not be in a position to stem the crisis, currencies could collapse. The experience with the Asian financial crisis shows that such a massive failure would be a catalyst for steeper drops in U.S. growth, jobs, and exports.

This proposal, first discussed at the international level at the recent G-20 meetings in London, came after broad consultation with Congress. The U.S. expansion of $100 billion in the NAB would be part of an overall international expansion of $500 billion. We committed to this expansion, and other countries are looking to the United States to deliver on our commitment.

Sincerely,

The Honorable Nancy Pelosi
Speaker of the
House of Representatives
Washington, D.C. 20515

Enclosure

Estimate No. 3
111th Congress, 1st Session

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

May 12, 2009

The President
The White House

Submitted for your consideration is a request for changes related to the International Monetary Fund (IMF), including among others, the U.S. quota subscription to the IMF and U.S. participation in the New Arrangements to Borrow (NAB).

The request for an increase of about $8 billion in the U.S. quota is part of a larger effort to reform the Fund's governance structure to ensure country voting weights reflect the rapid growth and increasing significance of dynamic emerging economies. The United States is working within the G-20 to ensure the IMF has the resources necessary to effectively respond to the current financial crisis and, more generally, boost global confidence by demonstrating cooperative action.

This proposal would also provide an increase in NAB, which is a mechanism through which the IMF can obtain supplemental financial resources for use in its lending operations when existing resources are substantially drawn down in the face of circumstances that threaten the stability of the international monetary system. More specifically, this proposal would increase the U.S. participation in NAB by up to $100 billion as part of an overall increase of $500 billion.

The Administration consulted broadly with the Congress on the NAB proposal before it was raised internationally at the G-20 Summit in London in early April and other countries are looking to the United States to deliver on the U.S. commitment.

Recommendation

I have carefully reviewed these proposals and am satisfied that they are necessary at this time. Therefore, I recommend that you transmit them to the Congress.

Sincerely,

Peter R. Orszag
Director

Enclosure

INTERNATIONAL ASSISTANCE PROGRAMS

INTERNATIONAL MONETARY PROGRAMS

United States Quota, International Monetary Fund

For an increase in the United States quota in the International Monetary Fund, the dollar equivalent of 4,973,100,000 Special Drawing Rights, to remain available until expended: Provided, That the cost of the amounts provided herein shall be determined as provided under the Federal Credit Reform Act of 1990 (2 U.S.C. 661 et. seq.): Provided further, That for purposes of section 502(5) of the Federal Credit Reform Act of 1990, the discount rate in section 502(5)(E) shall be adjusted for market risks: Provided further, That section 504 (b) of the Federal Credit Reform Act of 1990 (2 U.S.C. 661c (b)) shall not apply.

This proposal would provide an increase in the U.S. quota in the International Monetary Fund (IMF). In April 2008, the IMF's Board of Directors decided on a set of reforms that included a targeted quota increase. As part of these decisions, the United States will need to increase its quota by approximately five billion in Special Drawing Rights (valued at about $8 billion) in order to maintain its current voting share and veto power within the organization. The Special Drawing Right is the IMF unit of account, which is a weighted average of four major currencies including the U.S. dollar. This request for an increase in the U.S. quota is part of a larger effort to reform the Fund's governance structure to ensure country voting weights reflect the rapid growth and increasing significance of dynamic emerging economies. Such reform is essential to maintaining the IMF's effectiveness and credibility going forward, and would contribute to a strong and well-functioning IMF that is better organized to address current critical global financial issues. Because the Fund's overall quota resources would be expanded to facilitate the realignment of country weights, an increase in the U.S. nominal quota is necessary to keep the U.S. voting share constant at 16.7 percent of total voting power in the Fund, and thus maintain U.S. leadership role and ability to shape the future of the institution.

[INTERNATIONAL ASSISTANCE PROGRAMS]

[INTERNATIONAL MONETARY PROGRAMS]

[Loans to International Monetary Fund]

For loans to the International Monetary Fund under section 17(a)(ii) and (b)(ii) of the Bretton Woods Agreements Act (Pub. L. No. 87-490, 22 U.S.C. 286e-2), as amended by this Act pursuant to the New Arrangements to Borrow, the dollar equivalent of up to 75,000,000,000 Special Drawing Rights, to remain available until expended, in addition to any amounts previously appropriated under section 17 of such Act: Provided, That if the United States agrees to an expansion of its credit arrangement in an amount less than the dollar equivalent of 75,000,000,000 Special Drawing Rights, any amount over the United States' agreement shall not be available until further appropriated: Provided further, That the cost of the amounts provided herein shall be determined as provided under the Federal Credit Reform Act of 1990 (2 U.S.C. 661 et. seq.): Provided further, That for purposes of section 502(5) of the Federal Credit Reform Act of 1990, the discount rate in section 502(5)(E) shall be adjusted for market risks: Provided further, That section 504 (b) of the Federal Credit Reform Act of 1990 (2 U.S.C. 661c (b)) shall not apply.

The New Arrangements to Borrow (NAB), which was created in 1998, establishes a set of individual credit lines extended to the International Monetary Fund (IMF) by participating countries. These credit lines serve as a source of additional financing intended to supplement the IMF's resources when responding to financial crises that threaten the stability of the international monetary system.

The United States is working within the G-20 to ensure the IMF has the resources necessary to effectively respond to the current financial crisis and, more generally, boost global confidence by demonstrating cooperative action. The IMF has about $200 billion in resources from quotas to lend (about $50 billion of which has already been committed), $50 billion in a standing line of contingent resources in NAB, and $100 billion from a temporary loan from Japan to which the IMF is trying to add another $150 billion in temporary borrowing. The present crisis demonstrates that, in a world of globalization and substantial international capital flows, the magnitude of crises can be larger than in earlier decades. The IMF does not have sufficient resources to cope with the problems facing member countries in today's world. The G-20 has called for a very substantial increase in NAB – up to an additional $500 billion, for a total of up to $550 billion. The current U.S. share of NAB is currently valued at approximately $10 billion (6.6 billion in Special Drawing Rights or SDRs). The SDR is the IMF unit of account, which is a weighted average of four major currencies including the U.S. dollar. The NAB agreement will be set in SDRs; the United States would negotiate its additional share to be no more than the SDR equivalent of $100 billion on the date of the agreement.

DEPARTMENT OF STATE AND OTHER INTERNATIONAL PROGRAMS

GENERAL PROVISIONS

International Monetary Fund

Sec. Section 17 of the Bretton Woods Agreements Act, as added by Pub. L. No. 87-490, June 19, 1962, as amended, 22 U.S.C. 286e-2, is amended –

(a) in subsection 17(a):

(i) by inserting "(i)" before "In order to"; and

(ii) by inserting after new subsection (i) "(ii) In order to carry out the purposes of a decision of the Executive Directors of the International Monetary Fund to expand the resources of and make other amendments to the New Arrangements to Borrow, which was established pursuant to the decision of January 27, 1997 referred to in subsection (i) above, the Secretary of the Treasury is authorized to instruct the United States Executive Director to consent to such amendments, notwithstanding subsection (d) of this section, and to make loans, in an amount not to exceed the dollar equivalent of 75,000,000,000 Special Drawing Rights, in addition to any amounts previously authorized under this section and limited to such amounts as are provided in advance in appropriations Acts, except that prior to activation, the Secretary of the Treasury shall report to Congress as to whether supplementary resources are needed to forestall or cope with an impairment of the international monetary system and whether the Fund has fully explored other means of funding, to the Fund under article VII, section 1(i), of the Articles of Agreement of the Fund. Any loan under the authority granted in this subsection shall be made with due regard to the present and prospective balance of payments and reserve position of the United States.".

(b) in subsection 17(b):

(i) by inserting "(i)" before "In order to"; and

(ii) by inserting "subsection (a)(i) of" after "pursuant to"; and

(iii) by inserting after new subsection (i) "(ii) For the purpose of making loans to the International Monetary Fund pursuant to subsection (a)(ii) of this section, there is hereby authorized to be appropriated not to exceed the dollar equivalent of 75,000,000,000 Special Drawing Rights, in addition to any amounts previously authorized under this section, except that prior to activation, the Secretary of the Treasury shall report to Congress as to whether supplementary resources are needed to forestall or cope with an impairment of the international monetary system and whether the Fund has fully explored other means of funding, to remain available until expended to meet calls by the International Monetary Fund. Any payments made to the United States by the International Monetary Fund as a repayment on account of the principal of a loan made under this section shall continue to be available for loans to the International Monetary Fund.".

Sec. The Bretton Woods Agreements Act, as amended (22 U.S.C. 286 *et seq.*), is amended by adding at the end the following:

"Sec. 64. Acceptance of amendments to the Articles of Agreement of the Fund. The United States Governor of the Fund may agree to and accept the amendments to the Articles of Agreement of the Fund as proposed in the resolutions numbered 63-2 and 63-3 of the

Board of Governors of the Fund which were approved by such Board on April 28, 2008 and May 5, 2008, respectively."

"Sec. 65. Quota Increase.

(a) In general. The United States Governor of the Fund may consent to an increase in the quota of the United States in the Fund equivalent to 4,973,100,000 Special Drawing Rights.

(b) Subject to appropriations. The authority provided by subsection (a) shall be effective only to such extent or in such amounts as are provided in advance in appropriations Acts."

"Sec. 66. Approval to sell a limited amount of the Fund's gold. The Secretary of the Treasury is authorized to instruct the United States Executive Director of the Fund to vote to approve the sale of up to 12,965,649 ounces of the Fund's gold. In addition to agreeing to and accepting the amendments referred to in section 64 of this act relating to the use of proceeds from the sale of such gold, the U.S. Governor is authorized to take such actions as may be necessary, including those referred to in section 5(e) of this act, to also use such proceeds for the purpose of assisting low-income countries."

"Sec. 67. Acceptance of amendment to the Articles of Agreement of the Fund. The United States Governor of the Fund may agree to and accept the amendment to the Articles of Agreement of the Fund as proposed in the resolution numbered 54-4 of the Board of Governors of the Fund which was approved by such Board on October 22, 1997."

This proposal would allow for: an increase in U.S. participation in the International Monetary Fund's (IMF) New Arrangements to Borrow (NAB); authorize the United States to support the amendment of several provisions of the Articles of Agreement of the IMF; authorize an increase in the U.S. quota in the IMF; and authorize the sale of gold by the IMF. This set of reforms would further U.S. efforts in the G-20 Leaders' process to stabilize the international financial system and to further reform efforts to prevent future financial crises. Enactment of these provisions by the United States is essential to demonstrate U.S. leadership in the international community's effort to resolve the current global financial crisis.

This proposal, through an increase in U.S. participation in NAB, would ensure the IMF has the resources it needs to effectively respond to this crisis and fulfill its purpose of providing supplemental resources in case of threats to the international monetary system. It would also allow the United States to participate in a significant expansion of the NAB, up to approximately 10 times more than the current U.S. commitment valued at approximately $10 billion, and agree to other amendments to the NAB decision in connection with this expansion. NAB contributions would be set in Special Drawing Rights (SDRs), the United States would negotiate its additional share to be no more than the SDR equivalent of $100 billion on the date of the agreement.

This proposal would also authorize certain reforms, as provided for in resolution 63-2, which are designed to increase the effectiveness and credibility of the IMF's governance structure by reflecting the rapid growth and increasing significance of dynamic emerging economies. These reforms include: (1) a new formula as the basis for determining country quotas, giving significantly more weight to gross domestic product (GDP) and thus better reflecting countries' relative weights in the global economy; (2) a tripling of the basic votes of each member, which will boost the voice of the poorest countries, and an additional Alternate

Executive Director for two sub-Saharan African chairs in the IMF Executive Board to enhance these countries' capacity for more effective representation and voice; and (3) a quota increase targeted at the most under-represented countries. No increase in quota can become effective before the entry into force of the amendments to the Articles on basic votes and additional Alternate Executive Directors.

This proposal would authorize the United States to agree to the sale of almost 13 million ounces of the Fund's gold. The amendments in resolution 63-3 to the IMF Articles of Agreement are necessary to expand the Fund's investment authority. The IMF relies predominantly on income from lending operations, which fluctuate with the global business cycle, to finance not just lending-related activities, but also the much larger share of its expenses associated with its global, regional, and bilateral surveillance and the expenses associated with other activities including the provision of international statistics and technical assistance. This income model requires that the borrowers pay most of the cost of running the institution. On the basis of recommendations from a distinguished panel of experts, in early 2008 the IMF Board agreed on thorough reform of the IMF's income model, including: (1) selling a small amount of its gold holdings to finance an endowment, the return on which would finance a portion of IMF administrative expenses; and (2) modestly expanding the IMF's investment authority (along the lines of what is currently permitted in the World Bank) to enhance its potential investment earnings. Separately, the IMF has begun to consider what additional concessional resources may be needed to support low-income countries in response to the global financial crisis. With higher gold prices than envisaged by the IMF, the Fund again earning income from lending, and the substantial short-term financing needs of low-income countries, the G-20 has called upon the IMF to develop proposals for using additional resources from the agreed gold sale, along with surplus income, to provide support to low-income countries.

Additionally, this proposal would authorize U.S. support for a decision, resolution 54-4, to allow the Fund to make a special one-time allocation of SDRs to all members. In 1997, the United States and other IMF Governors agreed to amend the IMF Articles to permit this special one-time allocation of SDRs, which would enable all IMF members to participate in the SDR system on an equitable basis and correct for the fact that that many IMF member countries have missed some or all of previous SDR allocations. This amendment has already been accepted by 77 percent of the IMF's membership and will enter into force as soon as the United States accepts it. U.S. acceptance would be viewed positively by emerging markets and developing countries and would provide $32 billion in SDRs across the IMF membership, including $5 billion for Eastern Europe.