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

April 14, 2008
(House Rules)

STATEMENT OF ADMINISTRATION POLICY

H.R. 2634 – Jubilee Act for Responsible Lending and Expanded Debt Cancellation of 2008
(Rep. Waters (D) CA and 104 cosponsors)

The Administration has provided strong international leadership on debt relief for the world's most heavily-indebted poor countries. Ongoing debt relief initiatives, including the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), are expected to provide over $100 billion in debt reduction to 32 countries and another eight countries could eventually qualify under these initiatives. To ensure that gains from debt relief are available for the long term, the Administration led efforts in the multilateral development banks to use a debt sustainability framework to determine the appropriate mix of grants and lending. While the Administration believes the goals of this bill are laudable, the Administration does not support H.R. 2634 for the reasons stated below.

The countries to be covered by the bill are managing their debt, and some of the countries that would be covered by this bill are now actively working towards expanded access to international capital markets. Providing debt relief to countries that can service their debt sends the wrong message, and undermines efforts to assist countries in developing sound debt management practices that will allow them to transition gradually toward access to private capital markets.

Any debt relief should be conditioned on the adoption of policies that promote sound economic practices. Policy conditionality is important and often necessary to ensure that debt relief is used in a manner that will promote economic growth and provide real benefits to the poor.

The budget impact of such a program would be significant, and would require trade-offs that could affect key foreign policy priorities. The Treasury Department estimates that the budget cost to forgive the $2.5 billion in nominal debt (including loan guarantees) owed to the United States by countries that do not currently qualify under the HIPC Initiative would be approximately $1 billion. This cost estimate assumes that all potentially eligible International Development Association countries would qualify for debt relief in FY 2008 and would change depending on the year that each country qualifies. These countries also owe the World Bank and IMF over $32 billion in nominal debt, in addition to other bilateral and multilateral debts. While the bill calls for international financial institutions to fund debt relief from internal resources, the availability of such resources is very likely to be limited, as recently demonstrated by the requirements for donor funding of the MDRI. Any additional debt relief from the international financial institutions is therefore likely to require substantial additional contributions from the U.S., in addition to the estimated $1 billion cost of the bilateral debt relief portion of the proposal. Rather than embarking on expanded debt relief, the United States must focus on fulfilling its current commitments.

The Responsible Lending Framework described by the bill could also hinder access by poor countries to private capital. The bill calls for the creation of a binding international legal framework for lending by all multilateral, bilateral, and private creditors. While we recognize the goals underlying such a framework – to encourage sustainable lending and borrowing levels – the prospects for such an agreement are doubtful. Given the wide range of international creditors, creation of such a framework would be very difficult and enforcement would be nearly impossible. Finally, the threat of sanctions based on such a framework would likely discourage legitimate creditors from lending to poor countries, further reducing these countries' access to financial markets.

Finally, H.R. 2634 contains several provisions raising constitutional concerns by purporting to limit the President's ability to conduct the Nation's foreign affairs.

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