CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 18, 2008

S. 2166

Jubilee Act for Responsible Lending and Expanded Debt Cancellation of 2008

As ordered reported by the Senate Committee on Foreign Relations on June 24, 2008

SUMMARY

S. 2166 would require the Secretary of the Treasury to cancel all debts owed by certain low-income countries to the United States and to work toward cancelling debt owed by those countries to international financial institutions (IFIs). Countries that received debt relief under this proposal would be required to use their savings to fund programs to reduce poverty.

CBO estimates that implementing S. 2166 would result in discretionary outlays of $625 million over the 2009-2013 period, assuming appropriation of the estimated amounts. (Additional amounts would be spent after 2013.) In addition, enacting S. 2166 would increase direct spending by the amount of the subsidy cost of loan modifications, as defined by the Federal Credit Reform Act. CBO estimates that forgiving direct loans and loan guarantees made to other countries would cost $1.1 billion over the 2009-2018 period. Enacting S. 2166 would have no effect on revenues.

S. 2166 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 2166 is shown in the following table. The costs of this legislation fall within budget function 150 (international affairs).

	By Fiscal Year, in Millions of Dollars					
	2009	2010	2011	2012	2013	2009-2013
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	0	250	250	250	250	1,000
Estimated Outlays	0	63	125	188	250	625
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	367	367	367	0	0	1,100
Estimated Outlays	367	367	367	0	0	1,100

Note: Components may not sum to totals because of rounding.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted near the start of fiscal year 2009, that the necessary amounts will be appropriated (over a 40-year period beginning in 2010), and that outlays will follow historical spending patterns for similar programs.

Spending Subject to Appropriation

Section 4 would require the Secretary of the Treasury to work with IFIs to cancel debt owed to them by certain low-income countries and to absorb the related costs within their existing resources. According to the Department of Treasury, those countries owe a total of $50 billion to the World Bank, the International Monetary Fund, the African Development Bank, and the Asian Development Bank.

In recent negotiations regarding the Multilateral Debt Relief Initiative (MDRI)—an effort to provide debt relief to certain poor, heavily indebted nations—the United States was unable to achieve its goal of funding debt relief from the resources of the IFIs. The United States is now responsible for 20 percent of the costs of MDRI debt relief at the World Bank, to be paid over about 40 years to match the loan repayments that would otherwise have been made. Assuming negotiations for the debt relief that would be authorized by S. 2166 would lead to a similar result, CBO expects that negotiations would take about a year, that the United States would contribute about 20 percent (or $10 billion) of the costs of debt cancellation, and that those contributions would be made over a 40-year period. Therefore, CBO estimates that the United States would contribute $250 million a year or about $10 billion in total to replenish

IFIs and that implementing this provision would cost about $625 million over the 2009-2013 period, assuming appropriation of $1 billion over that period. The remaining $9 billion would be provided and spent after 2013.

Direct Spending

In addition to cancelling multilateral debt, section 4 would require the Secretary to cancel all debt owed to the United States by low-income countries that meet certain qualifications. Recent data from the Department of Treasury on direct loans and loan guarantees made to those countries indicate that their outstanding loans total about $2.5 billion. Cancelling those loans would constitute loan modifications (as defined by the Federal Credit Reform Act) and would require the federal government to write off the net present value of the expected stream of loan repayments, which would reflect the current likelihood of each country repaying its loans.

CBO estimates that such countries would become eligible for debt cancellation over the 2009-2011 period and assumes the costs would be spread evenly across that period. Based on information from the department, CBO further estimates that roughly 45 percent of the outstanding loan amounts will be repaid (with interest) under current law and that enacting the bill would increase direct spending by about $1.1 billion over both the 2009-2013 and 2009-2018 periods. That estimate is an estimated subsidy cost—calculated as a net present value of forgone principal and interest payments—for the debt forgiveness.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 2166 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

PREVIOUS CBO ESTIMATE

On April 9, 2008, CBO transmitted a cost estimate for H.R. 2634, an identically titled act that was ordered reported by the House Committee on Financial Services on April 3, 2008. The House legislation would require the Secretary to begin negotiations to cancel debt, but agreements to cancel debt could not be finalized without further authorization from the Congress. CBO estimated that enacting H.R. 2634, by itself, would have no budgetary impact.

ESTIMATE PREPARED BY:

Federal Costs: Sunita D'Monte
Impact on State, Local, and Tribal Governments: Neil Hood
Impact on the Private Sector: Jacob Kuipers

ESTIMATE APPROVED BY:

Peter H. Fontaine
Assistant Director for Budget Analysis