

INTERNATIONAL MONETARY FUND

Secretary's Journal of Executive Board
Informal Session 88/12

11:30 a.m., September 19, 1988

M. Cardessus, Chairman

Executive Directors

Alternate Executive Directors

A. Abdallah

- Shao Z., Temporary
- C. S. Warner
- J. Prader
- E. C. Demaestri, Temporary
- A. M. Othman
- R. Wenzel, Temporary
- D. V. Nhien, Temporary
- L. M. Piantini, Temporary
- C. Enoch
- D. McCormack
- N. Toé, Temporary
- I. A. Al-Assaf
- C. Noriega, Temporary
- M. Fogelholm
- G. Pineau, Temporary
- G. P. J. Hogeweg
- F. E. R. Alfiler, Temporary
- S. Rouai, Temporary
- L. E. N. Fernando
- S. Yoshikuni
- S. Appetiti, Temporary

K. Yamazaki

C. Brachet, Acting Secretary
C. E. Wahlstrom, Assistant

1. Lending in Parallel with Fund Arrangements -
Proposal by Japan Page 3

Also Present

Exchange and Trade Relations Department: L. A. Whittome, Counsellor and Director; H. Hino, R. L. Sheehy. Secretary's Department: B. J. Owen. Personal Assistant to the Managing Director: H. G. O. Simpson. Advisors to Executive Directors: N. Adachi, W. N. Engert. Assistants to Executive Directors: D. W., B. K. Fuleihan, M. A. Kyhlberg, J. A. K. Munthali.

1. LENDING IN PARALLEL WITH FUND ARRANGEMENTS - PROPOSAL BY JAPAN

Mr. Yamazaki made the following statement:

I am pleased to announce that Japan is prepared to extend additional financing in the form of untied loans in parallel with Fund arrangements. The loans will be provided by the Export-Import Bank of Japan on a case-by-case basis, and mainly to middle-income countries in support of medium-term structural adjustment.

As I have indicated during previous discussions on the management of the debt situation, my authorities are willing to help strengthen the debt strategy centered on the Fund. Accordingly, we strongly hope that our new initiative will contribute to promoting growth in developing countries and will give further impetus to finding a solution to the international debt problem. We have discussed this issue with the staff and have reached a mutual understanding on the general framework of the financing parallel with the Fund, but the details remain to be worked out.

I will now comment on the general framework of the loans. We expect that the Export-Import Bank of Japan will provide bilateral loans to countries with extended or other arrangements. The loans will be extended to support the policies and measures indicated in the Fund arrangements. The loan commitments will generally go into effect upon the approval of Fund arrangements by the Executive Board. The loans will normally be disbursed in line with the scheduled disbursements under the Fund arrangements, and upon continued satisfactory performance under these arrangements.

The Japanese authorities do not intend either to introduce any new conditionality with the Fund arrangements, or to interfere with the formulation of the adjustment programs by the borrowing countries. The terms and conditions of the parallel loans will be discussed and decided on a case-by-case basis, although a loan will, in principle, carry a maturity similar to that of the Fund arrangements, as well as an interest rate below the long-term prime lending rate of private banks in Japan. The parallel financing will be provided in the form of an untied loan. Therefore, we expect that the borrowing country will use this loan to undertake a more ambitious policy than would have been possible otherwise--such as import liberalization and/or higher reserves--as well as to finance imports or eligible project expenditures. However, the parallel financing will constitute additional financing; we do not expect a loan to replace contributions from other creditors.

Finally, I would like to ask my colleagues not to comment publicly on this issue until the official announcement has been made by the Alternate Governor for Japan at the informal afternoon session of the Interim Committee. There has already been a small leak regarding this issue, but it is an inaccurate one and does not go into detail. My authorities have not made any official statement yet, and I appreciate your understanding of the sensitivity of this matter.

The Chairman expressed his appreciation for the Japanese authorities' initiative and for their continuing support of the Fund. The additional financing that Japan intended to extend, mainly to middle-income developing countries, in parallel with Fund arrangements, would make a major contribution to promoting growth in those countries and thus to alleviating the debt problem. The proposal was an important and most welcome extension of the cooperation between the Fund and Japan. Japan's growing role in facilitating capital flows to developing countries was a positive development from the standpoint of both the recycling of external current account surpluses and the provision of urgently needed additional financing to those countries. The fact that Japan had chosen to provide financing in a way that supported the adjustment process, through the association of the financing with Fund arrangements, would clearly strengthen the debt strategy and the positive role that the Fund could play in it.

The availability of parallel financing involved a number of advantages for borrowing countries, as well as for the Fund, the Chairman said. It enhanced the catalytic role of the Fund and would allow countries to take the possibility of parallel financing into account when formulating their adjustment programs. Policies might, therefore, be able to aim at higher rates of investment and economic growth than might otherwise be possible, which was, indeed, in line with the views expressed at the previous Board discussion on the debt strategy.

Provision of financing in parallel with Fund arrangements was not a new concept, the Chairman remarked. Official creditors had keyed their lending to the approval and implementation of Fund arrangements on numerous occasions. The new element involved in the Japanese proposal was that the lending would be considered systematically, on a case-by-case basis, for countries entering into arrangements with the Fund, rather than on an ad hoc basis--a clearly welcome development. He hoped that that form of parallel financing could also be considered by other countries.

The staff and the Japanese authorities were preparing a note that reflected their common understanding about the financing that the Japanese authorities wished to make available to member countries in parallel with Fund arrangements, the Chairman noted. The financing would be based on, and consistent with, existing policies and practice of the Fund; no changes in those policies and practices would be required. The note would describe how the parallel loans might be linked with Fund arrangements.

In that connection, the Japanese authorities had made it very clear that they had no intention of interfering in the formulation of recipient countries' adjustment policies.

He expected the details of the staff note to be finalized shortly after the 1988 Annual Meetings, the Chairman commented, and he would ask the staff at the same time to prepare a short paper providing relevant background material; the Board could then hold a short discussion on the matter.

Mr. Yamazaki, in response to a question by Mr. Fernando, explained that the conditions on the loans might differ from country to country, and from time to time, depending on the negotiations between the lender and the borrower. If a country received two loans at the same time, it was likely that the terms and conditions would be the same, but if its creditworthiness, and credit and interest rate conditions, changed over time, the terms of the loans could change as well. The objective of the Japanese Government was to ensure that the Fund was at the center of the strategy for dealing with current problems facing the world economy; the new loans from Japan would be only a modest attempt to deal with those problems. Accordingly, he hoped that other countries would join in the effort to promote parallel lending.

The Executive Directors took note of the statement by Mr. Yamazaki.

CHRISTIAN BRACHET
Acting Secretary