May 20, 2009
Approval: 5/28/09

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 09/15-1

10:00 a.m., February 12, 2009

1. Borrowing Agreement with the Government of Japan

Documents: EBS/09/19; EBS/09/20

Staff: Tweedie and Beaumont, FIN; Hagan and Weeks-Brown, LEG

Length: 1 hour, 11 minutes

Executive Board Attendance

D. Strauss-Kahn, Chairman
T. Kato

Executive Directors	**Alternate Executive Directors**
	M. Majoro (AE)
L. Rutayisire (AF)	K. Assimaidou (AF)
P. Pereira (AG)	D. Vogel (AG)
H-S. Lee (AU)	
W. Kiekens (BE)	
P. Nogueira Batista, Jr. (BR)	
H. Ge (CC)	
	A. Guerra (CE)
	P. St-Amant (CO), Temporary
A. Fayolle (FF)	
	S. von Stenglin (GR)
A. Kishore (IN)	
A. Sadun (IT)	
D. Kotegawa (JA)	
J. Mojarrad (MD)	
A. S. Shaalan (MI)	S. El-Khouri (MI)
A. Bakker (NE)	
J. Henriksson (NO)	J. Bergo (NO)
	L. Palei (RU), Temporary
A. Alazzaz (SA)	A. Al Nassar (SA)
	A. Chua (ST)
T. Moser (SZ)	
M. Lundsager (UA)	
A. Gibbs (UK)	

G. R. Kincaid, Acting Secretary
S. Maxwell, Assistant

Also Present

Asia and Pacific Department: K. Kang. Fiscal Affairs Department: J. Jonas. Finance Department: D. Andrews, S. Bassett, C. Beaumont, S. Fennell, H. Hatanpaa, C. Hatch, K. Kenney, R. Lam, M. Rossi, A. Tweedie, C. Visconti, S. Williams, B. Yuen. Legal Department: W. Bergthaler, S. Hagan, G. Rosenberg, B. Steinki, R. Weeks-Brown. Office of the Managing Director: D. Citrin, C. McDonald, E. Ramirez Rigo, J. Schiff. Secretary's Department: B. Esdar, P. Gotur, M. Yslas. Strategy, Policy, and Review Department: I. Mateos y Lago, M. Shannon. Statistics Department: A. Burgi-Schmelz, R. Heath, R. Kozlow, A. Leone. Senior Advisors to Executive Directors: W. Abdelati (MI), S. Bah (AF), A. Joseph (BR), M. Kaplan (UA), D. Kihara (JA), S. Krishnan (IN), B. Lischinsky (AG), E. Nyambal (AF), J.Poulain (FF), N. Raman (ST), A. Rojas (AG), S. Rouai (MD), W. Schilperoort (NE), G. Ukpong (AE), E. Valle (CE), R. Weber (SZ). Advisors to Executive Directors: N. Imamura (JA), R. Lin (CC), C. Mira (CE), K. Mogensen (NO), S. Na (AU), A. Rieck (GR), S. Rottier (BE).

1. BORROWING AGREEMENT WITH THE GOVERNMENT OF JAPAN

The Chairman made the following opening statement:

The Borrowing Agreement with the Government of Japan is a very important and concrete step to give our members and markets confidence that the Fund has adequate resources to address the current crisis. As I have already said, the Fund's target is to double its resources. I understand that many of you share this view, even though some are not yet fully convinced of the size of the needed increase. I hope we can continue this conversation in the coming weeks, building on the excellent start we are making today.

I would like to apologize to the Board for the short time Directors had to consider these two papers. I know that the Japanese authorities have worked very hard to finalize a draft Agreement as quickly as they possibly could after Thursday's meeting, but in the end they were only able to make it available on Tuesday. The reason why we need to proceed fast is to allow the announcement of this Agreement at the G-7 in Rome tomorrow, Friday. The proposal by the Japanese authorities is a very good idea, because the timing will maximize the confidence-building effect of this loan and also signal the priority that the international community attaches to ensuring that the Fund is adequately resourced.

Mr. Kotegawa made the following statement:

First, I would like to express my sincere gratitude for the warm words extended to this chair and to my authorities last week regarding Japan's contribution.

Second, I would like to extend my sincere apology to all chairs. While we started extensive talks with the Fund in December last year regarding this commitment, due to various factors, including the time difference between Washington and Tokyo, and the unexpected human tragedy in Tokyo, it took some time to finalize the Agreement. I would like to express my sincere apology for not having completed the exercise earlier and for putting other chairs in a tough position to work on this paper in a short period of time under very tight budget and staff constraints.

I would like to ask for consideration of this issue by the Board, taking into account the fact that, while there were several points which we could have insisted upon, we abandoned them with a view to designing the Agreement as flexibly as possible in the interest of the Fund. It is our sincere hope that this contribution would give a positive signal to the outside world, and help reaffirm the importance of this institution.

Mr. Shaalan made the following statement:

I would like to take the opportunity to extend my sincere welcome for the proposed Agreement with the Government of Japan, and approve the proposed decisions. We thank the Government of Japan for coming forward with a substantial commitment that will help the Fund in meeting the rising demand or potential demand by the membership for its resources. In particular, we welcome the very early announcement of the contribution by Japan last November which, in my view at least, serves to assure the markets that additional resources were forthcoming to meet the crisis.

Mr. Kotegawa mentioned flexibility. I will not go into the details, but we very much welcome the flexible attitude the Japanese authorities have shown in the Agreement that made its implementation much simpler.

We understand the difficulty of establishing a quantitative limit on Fund borrowing at this time. We therefore approve the proposed decision that temporarily suspends the application of paragraph 2 of the 1991 Guidelines for Borrowing by the Fund in order to enable the approval today of the Borrowing Agreement with Japan. The question of setting a limit on borrowing can be addressed at a later date.

Mr. von Stenglin made the following statement:

I also welcome the willingness of the Japanese government to provide a bilateral loan, and I congratulate the Japanese authorities and the staff for reaching a draft Agreement on this substantial commitment.

Although I understand the rationale for the authorities' request for a Board discussion as soon as possible, I feel that the rush with which the Board is asked to consider and decide on the Agreement is less than optimal—I welcome, Mr. Chairman, your apologies and remarks on that—because I think it is not a run-of-the-mill Arrangement, either for the Fund or for Japan. Moreover, given the current relatively comfortable liquidity position, I would like to underline that we do not, at least from this angle, see the urgent need to decide within two days.

I recognize that the majority of the Board is looking forward to an early agreement. However, I regret that the Board has not discussed in depth several aspects of such an agreement, for instance the advantages and disadvantages for the Fund of having only one large creditor, or whether Japan can treat the loan to the Fund as part of its liquid international reserves given the modified encashment provision. I would have preferred that the Board, before deciding on the Agreement, would have reviewed the borrowing guidelines.

Moreover, I note that the Agreement should help provide a bridge to the next general increase in Fund quotas. This wording does not reflect the consensus of last week's Board meeting in which we agreed to increase the Fund's resources on a temporary basis. In my view, it is not justified yet to suggest a permanent increase through a general increase in quotas. I think there is still a difference between a quota review and an increase in quotas.

I would like to stress that the Fund's Press Release communicating the Agreement requires careful wording. We should avoid a signal that the situation has dramatically worsened and the Fund's resources have been exhausted.

Having said that, I have a few further questions.

When are the borrowing guidelines scheduled to be reviewed? It is proposed in the paper (paragraph 27) to use supplementary Board resources at an early stage in order to preserve an adequate liquidity buffer in the GRA. Could the staff comment on possible thresholds in GRA lending that would trigger drawing bilateral resources? Furthermore, could staff elaborate on the ranking order of different supplementary borrowing sources? If regular GRA resources were exhausted, would the NAB be the first line of defense or would bilateral borrowing, such as the Japanese loan, be drawn first?

Finally, a governance issue. How does the staff see the risk of an actual or perceived conflict of interest in connection with relatively high bilateral borrowing by the Fund, both regarding surveillance and program activity?

With these remarks, I can support both decisions.

Mr. Pereira made the following statement:

On behalf of my authorities of the Southern Cone countries, I would like to express our gratitude to the Japanese authorities for their leadership in providing temporary assistance to the Fund and help in the context of the current confidence crisis, to ensure that the Fund will be able to respond with enough resources to the demand from developing and emerging market economies. Hence, at the outset, we welcome today's opportunity and we reiterate our views. In particular, we praise the authorities' view that this is an interim measure, that it will be a bridge toward a permanent increase in quota resources. This is also very important.

We know that both the size and the flexibility that the Agreement provides is quite substantive. On size, we know that the Japanese contribution is up to five times the quota that they have at the Fund. It is 10 percent of the reserves and will actually be very important in increasing the pre-crisis levels of borrowing that we committed, up to 40 percent in my understanding. Hence, I think it is quite important, and it is recognized that the scale is large in absolute and relative terms.

On flexibility, we also welcome the remark of Mr. Kotegawa, which indeed points in the direction that there seems to be plenty of flexibility in terms of encashment provisions and other changes that have been introduced that will provide flexibility and support the interest of the Fund.

Hence, overall, we stand ready to support both decisions. I just would like to add one final remark. In our view, increasing the Fund's resources is a necessary but not sufficient condition to put the Fund into a central role as a crisis responder. Hence, we are also waiting for a comprehensive package of reforms in the lending function to ensure that the needs of the members will be met.

Mr. Kiekens made the following statement:

I agree with the two proposed decisions. I would like to thank the authorities of Japan and Mr. Kotegawa for the very constructive proposals that we are considering today. The draft Agreement should be a model for other potential lenders. I hope that the offer of Japan will inspire similar offers from other creditor countries that are in a position to do so.

In this period of significant deleveraging in the world, it is clear that several—if not many—emerging market and other developing countries might be faced with a significant withdrawal of foreign capital, and that the Fund has, therefore, a critical role in assisting the affected countries with financial assistance in order to make this deleveraging process orderly. To do so, it is important that the Fund has a strong liquidity position to instill confidence in the markets.

As I said, I consider the offer by Japan as exemplary and very supportive of multilateral cooperation within our institution. I repeat my hope that it will inspire similar commitments from other countries in a similarly strong position.

Mr. Henriksson made the following statement:

Let me start by thanking Mr. Kotegawa for his personal involvement on this issue which, according to my view, would not have been possible without his personal involvement. I am glad and welcome the willingness of the Government of Japan to provide temporary loans to the Fund.

One minor issue that we should think about is, when reading the paper, it seems as though this proposal was brought up in the G20; I thought it was brought up at the IMFC. We should be more careful about matters like this, because the IMFC is the one organization that we listen to and not the G20.

I am willing to support the Borrowing Arrangement. I would welcome if the reporting to the Board would include updates on eventual intentions to extend the Borrowing Agreement within the specified time limits. I assume that the individual financing requests would specify if the Fund would be making use of the Borrowing Arrangement with Japan.

I will not spend time bringing up my authorities' discomfort with the short period. I would also like to share some of Mr. von Stenglin's comments.

I am also willing to support the proposed decision to temporarily suspend paragraph 2 of the borrowing guidelines, but I stress the urgency of returning to these issues.

This Agreement and other potential borrowing arrangements should not prejudge the outcome of the next general quota review, and I would also like to reiterate my view that an enlargement of the NAB should be a key element in a temporary expansion of the Fund's lending capacity.

Mr. Chua made the following statement:

I would like to record our chair's appreciation to the Japanese authorities, and to Mr. Kotegawa in particular, for their proactive stance in support of the Fund during this period of crisis. Our chair supports the proposed decisions on the Agreement. We are pleased to note that the Agreement provides the Fund with a large degree of flexibility, including the possibility of extensions up to five years. I would just like to make two comments.

First, on the subsequent paper on the operational guidelines, it would be helpful for staff to address what this and other bilateral borrowing arrangements will mean for the risk management capabilities of the Fund. I note that the Fund is required to provide Japan with its best estimates of the amounts that it expects to draw at the beginning of each quarter. What does this mean for the liquidity management framework that we will need to have in place? On a medium-term issue, once we get to the middle of the duration of this Agreement, and depending on the circumstances at the time, the Fund will have to start looking out for possible maturity mismatches between the loans that it grants and the loans that it will have to pay back.

Second, I reiterate our chair's position that this and other bilateral agreements should be viewed as an interim short-term means of augmenting the Fund's resources in response to the crisis. The Fund will have to increasingly deal with systemic issues in the future, not just crises affecting individual countries. It is clear from the deterioration of the Fund's lending capacity relative to measures of global output and capital flows that a permanent solution will have to be found. In our view, quotas will have to be at the core of this solution.

Mr. St-Amant made the following statement:

First, I would like to join others in welcoming this Agreement with Japan, and thank the Japanese authorities and Mr. Kotegawa for the leadership that they are showing on the question of Fund resources. We also thank the staff for the good papers that they have circulated on this subject. I would like to add that we support the proposed decisions.

We have a question regarding the sequencing of the use of diverse sources of funding. Mr. Beaumont and his colleagues have provided information on this, including in bilateral discussions that I had with them. I also understand that there is a document that is coming that will provide more information. But we would find it useful in general terms what they have in mind in terms of sequencing the use of this loan versus activating the NAB and using other GRA resources.

Although we see that there is a significant possibility that the coming discussions will lead to a general increase in quotas, we believe it is important for now not to prejudge the outcome of these discussions; in fact, it could be counterproductive. We would thus prefer that the staff not indicate, as is done in paragraph 4 of the paper, that this Agreement is to provide a bridge to the next general increase in Fund quotas.

Mr. Ge made the following statement:

We welcome the Borrowing Agreement with the Government of Japan and support the proposed decisions. I also thank the staff and Mr. Kotegawa in their efforts to reach this Agreement. In our view, an early approval and activation of this Agreement would effectively supplement the Fund's resources and boost market confidence, given its timing and scale.

We could also go along with the temporary suspension of the new borrowing limits, to be revisited in the upcoming discussion on the operational guidelines on Board resources.

The large size of the commitment from the Government of Japan would, to some extent, lessen the urgency for the Fund to seek additional resources to strengthen its lending capacity. However, the Fund should not slow down its pace in exploring other options, such as the placement of IMF paper. Instead, the Fund should take advantage of this breathing room to prepare work on this front.

As this chair mentioned on other occasions, quota resources are still the primary and reliable source for the Fund's lending operations. We urge the Fund to initiate the Fourteenth General Quota Review as quickly as possible, and to treat the borrowing options as only a bridge to the next quota increase.

Mr. Kishore made the following statement:

I begin by joining others in congratulating the leadership in Japan for having taken this initiative. I would particularly like to express my grateful appreciation for the efforts and initiative made and shown by Mr. Kotegawa in order to see that the Agreement fructifies. We support both the Agreement and the temporary suspension of the limits on IMF borrowing.

I believe that this very timely and substantive gesture made by the Government of Japan would go a long way in further strengthening the credibility of the IMF in the eyes of the needy countries that are obviously facing a shortage of capital flows in the current situation when most of the developed countries are naturally absorbed in taking care of their own economies. This contribution by Japan will make a significant milestone in the multilateral effort to alleviate the situation globally and to hold the hands of needy developing countries at this hour.

I would like to join other speakers in underscoring the point that this temporary measure, while bridging the requirement and availability of resources, will also give an indication of the need to hasten the consideration of the larger question of an overall increase in the resources through all options, including our general review of resources.

We look forward to the quarterly reports on the implementation of the Agreement.

Mr. Majoro made the following statement:

We support the proposed decisions and approve the language of the Agreement, which we find very reasonable in its terms. We thank the Government of Japan for the constructive role in providing the resources, as well as in negotiating and agreeing to what we consider a very helpful Agreement. I would support Mr. Kiekens in that the structure of this contract should become a model agreement, perhaps with minor modifications for other borrowing agreements.

While we support borrowing in general to assist with the current crisis, we believe that it should be a temporary mechanism, and we agree with other Directors that it is the quotas that are central to the operations of the Fund, and it is what we should look at as a source of lending resources for the Fund. We would support the commencing as soon as possible of the discussions on the review of quotas so that it supports the Fund as a source of balance of payments support to its members.

Mr. Guerra made the following statement:

We support the proposed decisions. Like other Directors, we want to extend our sincere appreciation to the Government of Japan, and for the hard work of Mr. Kotegawa and his staff and the staff of the IMF to reach an agreement that we believe is very flexible and suitable to these times.

Although we understand the cost of reviewing these important measures in such a short period of time, we also must recognize that we have to move fast. In these times the markets need signals of trust and confidence. In the end, what the government of Japan is doing is giving to the IMF a big signal of trust and confidence, and for that we thank the Government of Japan.

Mr. Alazzaz made the following statement:

I thank the Japanese authorities for their initiative, and support the proposed Borrowing Agreement between the Fund and Japan.

The $100 billion loan to the Fund along with the Fund's still-large forward commitment capacity, and the available resources under the GAB and the NAB, should give ample confidence in the Fund's ability to provide timely and effective balance of payments assistance to its members.

Finally, I support the proposed decision to temporarily suspend the application of paragraph 2 of the Fund's borrowing guidelines.

Mr. Rutayisire made the following statement:

I would also like to thank the Japanese authorities for the initiative, and I am also prepared to go with the consensus on the Agreement. However, I have a few questions on the Agreement.

First, on paragraph 17, I can see some burden sharing issues that are unanswered. The Japanese authorities could determine the currencies in which they would require repurchase, just as the Fund could also determine the currencies within which it could repurchase. I do not know how this kind of haggling over exchange rate risk would ensure that the burden that all the members could share in the event would be properly distributed.

On the interest rate, it is said that if the Fund borrowed from another member on terms that could be higher, the Japanese authorities would also demand to be considered on the same terms. This is a repricing condition. I do not understand from what point this repricing would start to be counted.

Going further, one sees terms in this Agreement that perhaps would not be in another agreement. For instance, the Japanese authorities emphasize seniority. They emphasize a call option in the event that they have circumstances that would require their being paid immediately. There is also this option to determine which currency in which to be paid. There is a condition on reciprocity.

I think that if we get a member that would not insist on these conditions, provided it is given a few basic points of what we paid for the Japanese loan, I would not expect that the Japanese authorities would demand the same conditions. I think the rules of the game should apply rather than introducing conditions that could make it difficult to mobilize resources.

Finally, I would also share the concerns that have been raised by Mr. Henriksson on responding to the call of the IMFC rather than other groups of countries, as well as the issues raised by Mr. von Stenglin on independence and surveillance.

Mr. Fayolle made the following statement:

I would also like to join colleagues in thanking Japan and, in particular, Mr. Kotegawa for his leadership and help in bringing this to the Board.

I have nothing to add because I share very much what Mr. Kiekens and Mr. Henriksson said. I very much hope that this Agreement will help speed up efforts toward renewing and expanding the NAB.

Mr. Mojarrad made the following statement:

We also join other Directors in thanking the Japanese authorities for their support in expanding the Fund's resource base, and we are also grateful for the efforts of Mr. Kotegawa.

We support the two proposed decisions. However, with respect to the decision on the Borrowing Agreement with Japan, we think it would be helpful if we add a preamble to that decision to indicate the objective of this borrowing. Such preamble could be based on the wording from the preamble of the NAB decision and from paragraph 2 of EBS/09/20.

Mr. Moser made the following statement:

I would also like to thank the Japanese authorities and Mr. Kotegawa for making this Agreement possible. However, I have to say I share many points made by Mr. von Stenglin. I feel especially somewhat uncomfortable about the suspension of paragraph 2 of the borrowing guidelines. I would have preferred to have a Board discussion first on the new borrowing guidelines and limits, but I appreciate very much that the G-7 meeting sets a time constraint for us.

A general question I have concerns the sequencing, how this Borrowing Agreement is intended to be used. At what point does management intend to draw on this Agreement? We still have quota resources, we have the NAB/GAB, but certain passages in the staff's document seemed to suggest that drawing under this Agreement is intended to be done rather quickly.

I also have a question with regard to the Agreement itself concerning paragraph 11 in the staff comments, namely that, over time, broadly balanced drawings under the Fund's bilateral borrowing agreements are intended to be achieved. What do those bilateral borrowing agreements include? Do they also include GAB/NAB; is it envisaged that they would be enacted to reach such balanced drawings under bilateral agreements? Footnote 4 says that bilateral borrowing agreements used in the clause cover both bilateral loan agreements and borrowing under any other modalities entered into through bilateral agreements. So, would that include the NAB? If the Agreement with Japan would remain the only one, what is then the consequence of this paragraph in the Agreement?

Mr. Nogueira Batista made the following statement:

This is a very happy meeting for a change. I would like to warmly thank Mr. Kotegawa and his Japanese authorities for this initiative. Japan, among the developed countries, has been one of the most enlightened in its approach to the international crisis, and we should all be very grateful to Japan. I join others in emphasizing the important role Mr. Kotegawa has played in this process.

I see today's support as an expression of confidence that the Board has in the Managing Director and also in Mr. Kotegawa.

I wanted to say that I partially support Mr. von Stenglin's intervention. Lately I have been supporting the German chair more than I expected. I am surprised to see that Mr. von Stenglin's concerns did not have more echo around the table. I remember quite clearly that this announcement was made by Japan in October. So, it took four months for the Agreement to be concluded and we are supposed to assess this in two days.

So, take our approval as an indication of our confidence in the Managing Director. I would also like to mention that the fact that Mr. Kiekens had no objections, not even questions, is a confidence factor for me, too. So, I am glad to support this decision.

I would only like to say to congratulate the Board, too, because by this Agreement the Fund may become the single largest borrower in the world. I hope this will make us even more sensitive to the concerns of debtor countries than we already are, given our new condition. So, this is a very happy condition for all of us.

Just a few minor points that I would like to ask. First, reverting to my normal role of disagreeing with Mr. von Stenglin, I do not think at all that paragraph 4 of the paper is badly drafted. I think it can remain as it is. We should see these borrowing agreements as a bridge to a general increase in Fund quotas, given that this is a quota-based institution and given that it is very hard to deny that quotas have fallen behind by any conceivable metric since the last general quota increase. So, I am in full agreement with the way the staff drafted this. By the way, in the discussion of the adequacy of Fund resources, there was a commitment on the part of management to include in the Work Program the pending work on the quota issue. I am looking forward to this on Thursday, February 19, when we will have the discussion on the Work Program of the Board.

Lastly, I hope that Japan's initiative will be an example to other countries that can come forward in this extremely difficult situation.

Mr. Bakker made the following statement:

This is a great gesture by the Japanese government. It is a great signal of international cooperation, so I join other colleagues in complementing Mr. Kotegawa, his authorities, and the Managing Director for this Agreement.

It becomes available very quickly, but I do think, like others, that we should now also speed up the NAB, which will take more time. We now have to focus on this. We should try to have a concrete discussion on that by the time of the Spring Meetings.

Many relevant questions were asked, and maybe I could add one or two. First, the paper mentions that, before each drawing, there will be consultations with Japan. It would be interesting to learn what exactly these consultations will involve apart from the normal Board discussions.

Second, I was struck that the transfer agreement is very broad; there is no limitation to it. Of course, we have a transfer agreement under the NAB, but that is strictly limited for a transfer in that limited circle of NAB members. I was wondering whether we should not have a somewhat better defined group of members, because it might affect the liquidity situation of the IMF if it could be transferred everywhere.

Finally, we need to come back quickly to the guidelines on borrowing. I take it that this bilateral loan agreement is on top of Japan's contribution to the NAB. So, if both the NAB and the Bilateral Agreement are activated, Japan would be expected to do its share under the NAB. That is not quite clear to me, so that might be something which we either discuss today or when we discuss the guidelines.

I am in full support of the decisions.

Mr. Lee made the following statement:

I also welcome the Japanese government's great contribution, and thank the staff for the well-written paper. I very much support the two proposals. However, I would like to raise one technical question regarding the draft Agreement for clarification purposes.

On the consultation clause, it is noted that the Fund's drawings are to be preceded by a consultation with Japan. I wonder about the nature of that process. For example, paragraph 2(a) in the Attachment states that the Fund must give at least five business days' notice of its intention to draw. However, can the Japanese government refuse the Fund's drawing request, or is this five-business-day-notice simply a formality? We would appreciate staff's clarification on this.

Mr. Palei made the following statement:

I support the proposed decisions. Additional financing will reassure the markets regarding the Fund's ability to help its members deal with the crisis we are all facing now.

I also would like to thank the Japanese authorities, and Mr. Kotegawa personally, for facilitating expeditious achievement of the Agreement with the Fund.

Finally, like other Directors, I would like to underscore that we fully agree with the notion reflected in the paper that this is an interim response to the need to increase the resources of the Fund on a permanent basis. We look forward to the discussions on a quota increase as soon as possible.

Mr. Sadun made the following statement:

Like my colleagues, I would like to thank the Japanese authorities and Mr. Kotegawa for his contribution to bring this important Agreement to fruition. I also, like my colleagues, support the Agreement in the same spirit that Mr. von Stenglin and others have expressed, namely that this is an important precautionary measure. We are facing a very severe and uncertain crisis. It is absolutely appropriate that a financial institution like the IMF behave in a very prudent way.

I would like to stress the precautionary rationale for this step. It is true that we are facing uncertainty, but there is no evidence as yet—and I hope there would not be—that the resources of the Fund are under stress. As I understand it, it is a precautionary measure and not necessarily, as some of my colleagues have expressed, a bridge to a permanent increase of the Fund's resources. That is a determination that the Board has not yet made.

I agree that we should congratulate the Japanese authorities, management, and perhaps even the Board for concurring with this decision, but I am not sure if I would characterize this as a happy circumstance. In my mind, it is not a happy circumstance when the IMF should either seek additional resources or lend to our members. I would have preferred and I would certainly agree that it would be a much happier circumstance when our members repay the funds, because that is a clear indication that things are doing well.

Whatever it is, I think this Agreement is important and significant, and I hope that it will have a very strong demonstrative effect on other members who are in a position to do so to follow Japan's example.

Ms. Lundsager made the following statement:

Let me join colleagues in thanking Mr. Kotegawa and his authorities for reaching agreement with management and the staff on the framework for the Agreement. Colleagues have asked many questions. I have had some of the same questions that I have conveyed to the staff. I very much look forward to hearing the answers and for us continuing our work on many of the issues related to this.

Mr. Gibbs made the following statement:

I am very happy to support the decisions and to join others in thanking Mr. Kotegawa and the Japanese Government. Japan has responded to an urgent need and has done so in a way that shows both great leadership and great commitment both to multilateralism, and to this institution in particular. It is a pleasure to be able to support the decisions.

The Director of the Finance Department (Mr. Tweedie), in response to comments and questions from Executive Directors, made the following statement:

Let me address some of the financial questions and then turn to my colleagues to pick up on some of the others that were raised.

There was a question on when we intend to come back to the Board with a broader discussion on the borrowing guidelines and how we would propose to use this Agreement and others. We will come back as quickly as we can. I do not want to give a timetable now, because there are quite a few issues that have been raised today and also in the discussion last week on the issues of sequencing, how we treat this in relation to our liquidity, and the risk issues. So, there are a number of issues that we need to look at, but we will come back as quickly as possible so that we are in a position, if needed, to use this Agreement.

There were some questions on the threshold, when we might want to draw on the Japan Agreement, the sequencing of this Agreement versus others, the NAB in particular. The general point to make here is there is nothing in this Agreement that constrains the Board either way, either to draw early on the Japan Agreement or to use quota resources before it draws. The Agreement is flexible. So, the issue of how we would use it is something that the Board still needs to decide, and that would be the subject of the next paper. I mentioned last week in the meeting on resource adequacy that our current thinking in the staff is that we would probably want to draw on this Agreement relatively early to preserve a liquidity buffer for this and for other potential borrowing. If the Fund was to undertake substantial borrowing, the Fund would need to hold a liquidity buffer against that borrowing. So, that is our general thinking now, but we need to develop that further. The Board needs to consider the issues. At this point, the decision the Board is taking today does not constrain it in any way on those issues.

There was a question on the use of currencies and if there are any exchange risk issues for the Fund and burden sharing across currencies. What is in this Agreement is a perfectly standard arrangement that we have for all our transactions with members, including in the FTP. So, there is nothing here that has implications for exchange risks, certainly not for the Fund. The loans will be denominated in SDRs. The Fund lends in SDRs so the Fund will not be taking any exchange risk. The issue here is simply a matter of what freely usable currency is provided to the borrowing countries. This could be the Japanese yen or it could be another freely usable currency. If it is another currency, those arrangements are made outside of the GRA, but this is a perfectly standard arrangement which basically reflects the provisions in the Articles.

On both the interest rate issue and, more broadly, whether there are constraints from this Agreement on possible future agreements, there is none. I would thank again the Japanese authorities for their flexibility. Essentially, Japan is agreeing to a very large borrowing agreement, but also they are the first one. We hope that there will be others. So, the provisions in this Agreement really reflect the fact that Japan is going first. I think it is perfectly reasonable in that situation that subsequent borrowing agreements that the Fund might sign should not have more favorable terms for the other creditors than Japan has in this Agreement. So, the provision on the interest rate intends to reflect that. Under this Agreement, Japan agrees to lend to the Fund at the SDR rate. If there was a subsequent agreement that included a higher interest rate, the intention then is that Japan would also receive that higher interest rate for the period in which that higher interest rate applies. So, this is the provision that is intended simply to protect Japan against the possibility of a more favorable agreement for another creditor. Again, it does not constrain in any way the terms of those future agreements.

Similarly, on reciprocity, Japan has agreed that the Fund could draw under this Agreement to repay another borrowing arrangement, if that other borrowing arrangement also includes the provision, that it could be used to repay Japan. Again, it is intended essentially to ensure that future conditions are not more favorable than the conditions Japan is agreeing to now.

There were some questions on what we meant by "broadly balanced." Again, this is a similar point. We do not know yet what other agreements we will have in place, but I hope again that we will have others. The intention then would be that we would not be simply drawing on Japan's Agreement and leaving other loan agreements untouched. If we have several agreements—and this would be an issue we would come back to and discuss in more detail in the follow-up paper—the intention would be that we would use them in a broadly balanced way.

On the specific question of the NAB, this borrowing agreement was not intended to apply to the NAB. That is why it uses the term "bilateral." Again, it does not constrain anything on the NAB and the sequencing issue, but our intention here was to reflect the idea that, if we have several bilateral borrowing agreements, we would intend to use them in a balanced way and not be simply drawing on the Japan Agreement and leaving others untouched. So, it would be part of a multilateral effort.

There were some questions regarding the meaning of the consultation clause. This is a perfectly standard clause that we have in all our borrowing agreements. It is also the practice under the FTP. We always consult with our creditor members before we use their currencies. Obviously, the creditor members need to make the necessary arrangements to provide their currencies. The consultation clause and the requirement of five days' notice simply reflects our normal practice.

The General Counsel and Director of the Legal Department (Mr. Hagan), in response to comments and questions from Executive Directors, made the following statement:

> There were a few questions of a legal nature. A general point was raised by Mr. von Stenglin as to the governance implications of this loan, particularly its magnitude, whether it would give rise to a potential conflict of interest, particularly in the conduct of our surveillance function. The conduct of surveillance is ultimately the responsibility of this Executive Board. The assumption underlying the Fund's borrowing authority, which is under the Articles of Agreement, is that if the Fund did borrow, the Executive Board's capacity to continue to exercise surveillance in an independent manner would not be impaired. The staff does not want to call into question that assumption, and we assume that the Board will be able to fulfill that function.
>
> If I could elaborate one aspect of what Mr. Tweedie said, what is important in consultation is that there is a requirement of a discussion with the Japanese authorities. In the very unlikely event that there is a difference of views, ultimately the Fund can go ahead. There is no veto by the Japanese authorities on drawings or the extension of the term of the Agreement. There are other provisions that require agreement and there, indeed, the Japanese authorities could exercise a veto. But when we use the word "consultation," there is a requirement only for a discussion, which is different from a requirement to reach agreement.
>
> Mr. Bakker raised the important point of the breadth of the transferability provision. Indeed, relative to the NAB, where transferability is automatic only for its participants, this is broader. However, the concern that he raised, which is the liquidity risk for the Fund, is addressed under the Agreement, because the early repayment right would be acquired by a transferee only if the transferee is a member (or its central bank or other fiscal agency) whose currency is being used under the FTP at the time of the transfer and, therefore, is in a position of balance of payments strength. That is designed to mitigate that risk.

> Finally, Mr. Mojarrad suggested to perhaps include in the preamble of the decision some of the context about the financial crisis. Decisions normally are relatively dry statements that deal with operational issues. They do not get into motivation. One approach would be that this issue would perhaps be best handled in the Press Release, which is probably going to be more widely read than the decision. That would be my suggestion.

Mr. Moser noted that the proposed decision on the Agreement would give broad powers to the Managing Director to make drawings under the Agreement. Those powers would be limited by the guidelines to be set by the Board, which still needed to be discussed. The staff was asked to clarify whether the Board could assume that there were no drawings planned until the Board had discussed the guidelines?

The Chairman replied that the staff would try to make the guidelines ready for Board discussion as quickly as possible.

Mr. von Stenglin wondered whether the loan from Japan or the Arrangement would be part of international reserves in case of drawing or activation, given the encashment provision and up to 12 months repayment period. That could mean it was not liquid.

The Director of the Finance Department (Mr. Tweedie) replied that the staff's understanding was that it would not be included as part of Japan's international reserves, as it was repayable within 12 months and not be immediately encashable. The requirement for inclusion in international reserves was immediate availability, within a matter of days. Drawings under the loan, however, would be included as part of Japan's foreign assets. In that sense, it would still be an exchange of assets for Japan. It would not change the country's foreign assets, but it would not be included in the definition of international reserves.

Mr. Nogueira Batista noted that the staff had mentioned that the Borrowing Agreement with the Government of Japan was a standard arrangement comparable, for instance, to the FTP in terms of currencies and other aspects mentioned by the staff. However, there were some differences. On page 2, paragraph 5 of the staff report, the staff referred to the fact that the Agreement involved a modified version of the traditional encashment provision. The staff was asked to explain to what extent that modified version of the encashment provision would characterize the Agreement as different from standard arrangements. Second, there was what could be called a most favored creditor clause in the Agreement. The question was whether that meant that any other arrangement that subsequently was put in place that had more favorable conditions for the creditor would automatically extend to Japan in all respects.

The Director of the Finance Department (Mr. Tweedie) replied that the loan from the Government of Japan was different from agreements that the Fund had had in the past and currently. For example, drawings under the NAB were immediately encashable in case of balance of payments need and included as part of members' international reserves. The loan from Japan differed in the sense that the Agreement provided a period for encashment of up to 12 months but did not commit the Fund to immediate encashability. The reason for that was the size of the Agreement. The Fund could potentially be faced with a situation of having to provide up to US$100 billion, about SDR 67 billion, immediately, which would substantially constrain its liquidity position. That would mean that the Fund would have to hold a very large buffer against that possibility. Hence, in that sense, the loan was different from other agreements, which were smaller and did not pose the same challenge. The parallel was with a previous loan with the Saudi Arabian Monetary Authority, which had a limit on immediate encashability and with the remainder to be repaid over a longer period. So, when the Fund had another very large agreement relative to quotas, the agreement had included a limit on the amount to be encashable immediately. In the case of the Agreement with Japan, it was agreed not to have a limit but rather to have a provision for encashment over a 12-month period.

There was no general preferred creditor clause, the Director continued. The specifics of the Agreement included, for example, the interest rate clause. If the Fund agreed on a Borrowing Agreement with another creditor that included a higher interest rate, that would also apply to Japan, but there was no all-encompassing preferred creditor clause.

The General Counsel and Director of the Legal Department (Mr. Hagan) stated that the only other relevant provision that dealt with inter-creditor relationships was the provision on nonsubordination, which specified that loans under the Agreement would not be subordinated in any way to other borrowing by the Fund. As the Director of the Finance Department had mentioned, there was no general preferred creditor provision.

Mr. St-Amant wondered if there was a sunset clause to the proposed temporary suspension of the borrowing limits.

The Director of the Finance Department (Mr. Tweedie) remarked that there was no sunset clause other than the intention of the staff to come back as quickly as possible to address those issues and amend the guidelines at such point as the Board decided. The staff hoped to do that quickly, to enable the Fund to be in a position to use the resources.

The Chairman thanked the Japanese authorities on behalf of the Fund, and Mr. Kotegawa for his role in facilitating the process.

The Executive Board took the following decisions:

Guidelines for Borrowing by the Fund—Temporary Suspension of Certain Provisions

The Fund temporarily suspends the application of Paragraph 2 of the Guidelines for Borrowing by the Fund, Decision No. 9862-(91/156), adopted November 15, 1991, in order to enable approval of the proposed borrowing agreement with the Government of Japan that is set forth in EBS/09/19, 2/10/09. (EBS/09/20, 2/10/09)

Decision No. 14263-(09/15), adopted
February 12, 2009

Borrowing Agreement with the Government of Japan

1. The Fund deems it appropriate, in accordance with Article VII, Section 1(i) of the Articles of Agreement, to replenish its holdings of currencies in the General Resources Account by borrowing from Japan on the terms and conditions set forth in the draft Borrowing Agreement between the Government of Japan and the International Monetary Fund that is set out in the Attachment to EBS/09/19 (the "Agreement").

2. The Executive Board approves the Agreement and authorizes the Managing Director to take such actions as are necessary to execute the Agreement on behalf of the Fund.

3. The Managing Director is authorized, following the execution of the Agreement, to make such determinations and take such actions as are necessary to implement the Agreement, including but not limited to the making of drawings, the extension of the term of the Agreement and the maturity of drawings thereunder, and the determination of the media for drawings and payments in light of the Fund's operational needs. Such determinations and actions shall be consistent with the policies and guidelines on borrowing and the use of borrowed resources that are adopted by the Executive Board.

4. The Executive Board shall be informed of developments related to the implementation of the Agreement in reports to be furnished by the Managing Director on a quarterly basis throughout the term of the Agreement, with reports to be furnished more frequently in the event of significant developments related to the Agreement. Such reports shall cover all aspects of the implementation of the Agreement, including, as applicable, drawings made, disposition of amounts borrowed, and repayment of drawings. (EBS/9/19, 2/10/09)

Decision No. 14264-(09/15), adopted
February 12, 2009

APPROVAL: May 28, 2009

SHAILENDRA J. ANJARIA
Secretary