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July 12, 1989

To: Members of the Executive Board  
From: The Secretary  
Subject: Japan - Statement by Prime Minister Sousuke Uno

The Secretary has received the following memorandum dated  
July 11, 1989 from Mr. Yamazaki:

I would appreciate it if you would arrange to have the  
attached statement from Prime Minister Sousuke Uno circulated to  
the Executive Board.

Att: (1)

Other Distribution:  
Department Heads



July 11, 1989

Message from Prime Minister Sousuke Uno  
on the Expansion of the Capital Recycling Program and  
Japan's Response to the Strengthened Debt Strategy

I. Expansion of the Capital Recycling Program

1. (1) I am pleased to announce on the occasion of the Arche Summit that Japan will expand the current capital recycling program of "more than \$30 billion to the developing countries over a three-year period" into a program of "more than \$65 billion over a five-year period, including the three years of the current program."

(2) The increment of this new program bears the basic characteristics of the original program, in that the funds are additional to normally-expected capital flow from Japan and that the funding is completely untied.

(3) I sincerely hope that Japan's Expanded Capital Recycling Program will further contribute to ease the socio-economic difficulties of the developing countries.

2. The background of the new program is as follows:

(1) Japan has made vigorous efforts to support and buttress the developing countries' economic adjustment efforts in light of the slackening flow of capital to the developing countries and the fact that many of these developing countries face sluggish economic growth, inflation, external indebtedness and other economic difficulties.

(2) As part of these Japanese efforts, then-Prime Minister Nakasone announced at the Venice Summit two years ago that Japan would embark upon an ambitious program to recycle more than \$30 billion to the developing countries over a three-year period.

(3) Since then, every effort has been made to implement this program promptly and effectively. With approximately a year yet to go, over 90 percent of the total program funding has already been committed to specific uses.

(4) However, the flow of capital to the developing countries from the industrial countries is still slack. Thus there is indeed a need of greater support from the industrial countries and other sources to the developing countries so that they can successfully implement their economic adjustment programs. Japan's new Capital Recycling Program is a positive response to this challenge.

## II. Japan's Response to the Strengthened Debt Strategy

1. This April at G-7 meeting, we reached a general agreement on a new debt strategy for the highly-indebted middle-income countries. In the wake of that agreement, the basic framework for this Strengthened Debt Strategy was consolidated by the recent decision of the International Monetary Fund and the World Bank, and Japan welcomes the big progress made in the recent negotiations under this basic framework between the Government of Mexico and its creditor banks.

2. Japan has decided to take the following two measures in support of the Strengthened Debt Strategy.

First, under the Expanded Capital Recycling Program Japan will increase capital flow to the highly-indebted countries to which the Strengthened Debt Strategy is applied (SDSCs). Japan has already announced this spring that the Export-Import Bank of Japan would provide \$4.5 billion in parallel lendings with the International Monetary Fund to these countries. In addition to this, we have decided that the Overseas Economic Cooperation Fund and the Export-Import Bank of Japan will provide more than \$5.5 billion on a totally untied basis to these countries bilaterally or in the form of cofinancing with the World Bank and other Multilateral Development Banks. In total, Japan is now prepared to extend a fundings of \$10 billion to the SDSCs.

Under this framework, we have announced to extend to Mexico a total amount of \$2.05 billion, consisting of \$1 billion in above-mentioned parallel lendings by the Export-Import Bank of Japan with the International Monetary Fund and \$1.05 billion in cofinancing by the Export-Import Bank of Japan with the World Bank.

Second, we intend to provide the necessary tax treatment to enable Japanese commercial banks to cooperate with the Strengthened Debt Strategy unimpededly.