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Testimony by
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Federal Reserve System
before the
Committee on Banking, Finance and Urban Affairs
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I am pleased to appear today to comment on the Federal Reserve's participation in the deliberations by the National Advisory Council on International Monetary and Financial Policies (NAC) of the FY 1990 Commodity Credit Corporation (CCC) program for Iraq.

As you know, the NAC has been assigned by Congress the responsibility to assist in formulating U.S. positions in various international financial institutions and to evaluate the policies and practices of U.S. government agencies that make, or participate in making, foreign loans, or provide various forms of credit guarantees as part of U.S. foreign lending programs. The Federal Reserve was designated a member of the NAC under the Bretton Woods Agreements Act of 1945 and has participated in its deliberations since.

The NAC is an advisory body. The principal function of the seven members of the NAC is to review proposed transactions, programs, and policy issues related to those institutions -- both national and multilateral in which the United States is a member -- that are involved in making foreign loans.

The diversity of interests, perspectives, and expertise represented by the member agencies of the NAC allows a thorough airing of divergent views on issues that come before the NAC. In most cases, a unanimity of views among NAC member agencies is attained. On those occasions when no consensus is reached, it may indicate a fundamental difference on a particular aspect of the lending program under consideration,

often reflecting the particular vantage point and institutional focus of the member agencies of the NAC.

In evaluating lending proposals and programs presented to the NAC, the Federal Reserve draws upon its financial perspective and expertise. The Federal Reserve's principal contributions to the NAC process over time have been its ability to assess objectively the financial and economic soundness of proposals brought before the NAC and to share this expertise with other member agencies.

In light of this specialized focus of the Federal Reserve in NAC deliberations, for those proposals that involve major considerations other than economic and financial issues where the Federal Reserve has special expertise (e.g., where foreign policy or human rights issues are of overriding importance), the practice of the Federal Reserve in NAC deliberations is not to take a position on these matters and to abstain in the formal NAC decisionmaking process.

With regard to the Federal Reserve's position concerning the extension of CCC export credit sales guarantees for Iraq, even prior to the FY 1990 request for such guarantees, the Federal Reserve had become concerned about Iraq's creditworthiness and about the size of the CCC export credit sales guarantee programs that were being proposed for Iraq by the U.S. Department of Agriculture. The Federal Reserve, therefore, was only willing to consider favorably considerably scaled-down programs of such credit guarantees to Iraq.

In considering the request for \$1 billion in additional CCC export credit sales guarantees for Iraq for FY 1990, Federal Reserve reservations were based on continued concerns about Iraq's creditworthiness at that time. The growing external indebtedness of Iraq and questions about Iraq's ability and willingness to service this debt led to a growing Federal Reserve uneasiness in approving large, new CCC export credit sales guarantees for Iraq. The Federal Reserve also noted Iraq's spotty debt-servicing record with other bilateral official creditors, including incidents of unilateral and selective reschedulings. Finally, the Federal Reserve questioned the appropriateness of allocating one-fifth of the CCC's FY 1990 budget to one country, and of the CCC's having such a disproportionate share of total CCC credits outstanding to one country.

The unfolding Banca Nazionale del Lavoro (BNL) case in the summer of 1989 reinforced the Federal Reserve's reservations and opposition about approving additional CCC export credit sales guarantees for Iraq. The revelations of the BNL case, in fact, led the NAC to postpone a scheduled consideration of the FY 1990 program of CCC export credit sales guarantees for Iraq. Only limited details concerning allegations concerning the connection between the BNL case and the CCC program to Iraq were known at the time that the NAC was considering the proposal for additional export credit sales guarantees to Iraq. However, given the Federal Reserve's ongoing and growing concern about Iraq's creditworthiness, even

the limited allegations of linkages between the BNL case and the CCC export credit sales guarantee program provided in our view an additional reason to be cautious about further extensions of such guarantees to Iraq.

The Federal Reserve's reservations and opposition related to the FY 1990 CCC program for Iraq, therefore, were based on its evaluation of Iraq's creditworthiness, which was reinforced by the unfolding BNL case.