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**FOR
AGENDA**

EBS/83/89

CONFIDENTIAL

May 5, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Borrowing Arrangement Between Saudi Arabia and the Fund in
Association with the General Arrangements to Borrow (GAB)

There is attached for the consideration of the Executive Directors a paper on a borrowing arrangement between Saudi Arabia and the Fund in association with the General Arrangements to Borrow (GAB). A draft decision appears on pages 3 and 4.

This subject has been tentatively scheduled for discussion on Friday, May 20, 1983.

Att: (1)

INTERNATIONAL MONETARY FUND

Borrowing Arrangement Between Saudi Arabia and the Fund
in Association with the General Arrangements to Borrow (GAB)

Prepared by the Legal Department and the Treasurer's Department

Approved by George P. Nicoletopoulos and W. O. Habermeier

May 5, 1983

Paragraph 23 of the revised GAB approved by the Board on February 24, 1983 contemplates that the Fund may enter into borrowing arrangements associated with the GAB with lenders other than GAB participants. According to Paragraph 23(a), an arrangement that is closely comparable to GAB credit arrangements may, with the concurrence of the GAB participants, authorize the use of the GAB by the Fund to finance purchases requested by the lender, or the early repayment of a loan claim of the lender, as if it were a GAB participant. However, Paragraph 23(b) makes it clear that the Fund is free to enter into associated borrowing arrangements that do not include this special feature.

Saudi Arabia has expressed its desire to strengthen the Fund by providing supplementary resources, in association with the GAB, under an arrangement of this second type. The terms and conditions proposed for the arrangement are incorporated in the draft letter attached to this memorandum. The Saudi authorities have indicated that these terms and conditions are acceptable to them.

The Proposed Credit Arrangement

The letter proposes an Agreement between Saudi Arabia and the Fund, under which the member would extend a credit arrangement in the amount of SDR 1.5 billion, on which the Fund could call to assist in financing purchases by members for the same purposes and in the same circumstances as are prescribed in the revised GAB. The credit arrangement, which would be in the nature of a revolving line of credit, would enter into force when the revised GAB becomes effective. The Fund would be able to make calls under the credit arrangement during a period of five years, corresponding to the initial period of effectiveness of the revised GAB. Thereafter, the arrangement could be renewed for further periods, either in its present form or in a modified form, as subsequently agreed between Saudi Arabia and the Fund.

The procedure for making calls provided in Paragraph 3 of the attached letter is similar to that applicable to calls under the GAB. Calls on Saudi Arabia would be made on the basis of proposals of the Managing Director which have been accepted by Saudi Arabia and approved by the Executive Board. The Managing Director could make a

proposal, after consultation with the Saudi Arabian authorities, if he considered that a proposal for calls for the same purchases could be made under the GAB. As with a proposal for the use of the credit arrangement of a GAB participant, the Managing Director, in deciding whether to make a proposal, would be required to take into account the balance of payments and reserve position of Saudi Arabia, and the Fund's holdings of Saudi currency.

It should be noted that, as Paragraph 3 is formulated, the Managing Director would not be legally required to make a proposal to Saudi Arabia each time he makes one to GAB participants, nor would he be required to make a proposal to GAB participants each time he makes one to Saudi Arabia. For its part, Saudi Arabia would be legally free to accept or reject a proposal that is made to it. In this respect, the position of Saudi Arabia would differ from that of the individual GAB participants, each of which is bound to give effect to a proposal of the Managing Director that has been accepted by the participants as a group, under the arrangements agreed among them.

Once a proposal has been accepted by Saudi Arabia and approved by the Board, Saudi Arabia would be committed to meet calls under the proposal. As with the GAB, calls would be made as and when requests are received by the Fund for purchases covered by the proposal. A period of notice would not be required before a call is made, though the Fund would try to give Saudi Arabia as much advance notice of a call as practicable.

Terms and Conditions of Loans

The terms and conditions applicable to amounts loaned by Saudi Arabia in response to calls under the credit arrangement are set out in Paragraphs 4 through 9 of the draft Agreement. These provisions are modelled in all substantive respects on those of the revised GAB, although in some cases the opportunity has been taken to simplify the formulation without changing the substance.

Under Paragraph 5, interest on outstanding indebtedness will be payable by the Fund quarterly, at a rate equal to the combined market interest rate computed by the Fund for purposes of determining interest on SDR holdings. If the Fund changes the method of computing this rate, the new method will be applied to borrowing under the arrangement only if it is applied to GAB borrowing, and Saudi Arabia agrees. Under Paragraph 6, each amount borrowed under the Agreement will be repayable after five years, or in earlier installments to the extent the purchaser is required to repurchase in installments. The Fund may, however, repay earlier at its option, and will be obliged to do so if any reduction of its holdings of the purchasing member's currency occurs that is attributed to the purchase or, in the case of reserve tranche purchases, if there are net sales of the purchasing member's currency

under the operational budget. Under Paragraph 7, payments of principal and interest will be made in Saudi riyals, SDRs or actually convertible currency, selected by the Fund on a basis similar to that specified in the GAB.

Like GAB lenders, Saudi Arabia will be entitled to call for non-negotiable instruments evidencing the amount of its outstanding loan claims under the Agreement (Paragraph 4). It may also transfer these claims, but only with the prior consent of the Fund and on terms and conditions acceptable to the Fund (Paragraph 9).

Other Provisions

The draft Agreement contains a number of formal provisions, modelled on those of the GAB, dealing with the effect if Saudi Arabia should withdraw from the Fund (Paragraph 10) or if the Fund should suspend operations or go into liquidation (Paragraph 11), and providing for interpretation and the settlement of disputes (Paragraph 13).

Paragraph 12 of the Agreement deals with amendments. It provides that the Agreement may be amended by further agreement between Saudi Arabia and the Fund. It also makes specific provision for consultation between the parties if the GAB is modified, to determine whether consequential modifications should be made in the provisions of the Agreement. In addition, the Paragraph provides that the Fund will consider the steps to be taken for a possible future conversion of the arrangement --which, as mentioned above, is an arrangement falling under Paragraph 23(b) of the revised GAB--into an associated credit arrangement of the type referred to in Paragraph 23(a) of the GAB, or its replacement by a participation arrangement of the type referred to in Paragraph 3(b) of the GAB, if after consultation with the Fund and GAB participants Saudi Arabia should propose such action. It should be noted that the Agreement requires consultation and consideration of any such proposal, but the proposal would be implemented only if it is accepted by the Fund and participants.

Proposed Decision

It is recommended that the Executive Board authorize the conclusion of the proposed borrowing agreement with Saudi Arabia, by adopting the decision set forth below:

Pursuant to Article VII, Section 1 of the Articles of Agreement, the Managing Director is authorized to send to the Minister of Finance of Saudi Arabia a letter proposing a borrowing agreement with Saudi Arabia, as set forth in the attachment to ERS/83/89.

When a reply is received from the Minister accepting the proposal, the Managing Director's letter and the reply shall constitute an agreement between Saudi Arabia and the Fund, which shall enter into force on the date on which the revised and enlarged General Arrangements to Borrow authorized by Decision No. 7337-(83/37) become effective.

Attachment

(Draft) Letter Proposing an Agreement Between
Saudi Arabia and the Fund

Your Excellency:

I refer to Decision No. 7337-(83/37) of the Executive Board of the International Monetary Fund (the Fund), providing for a revision and enlargement of the General Arrangements to Borrow (the GAB), and to the desire of Saudi Arabia to strengthen the Fund by providing supplementary resources, in association with and for the same purposes as the GAB. Accordingly, pursuant to Article VII of the Articles of Agreement of the Fund (the Articles) and Executive Board Decision No. _____ adopted May _____, 1983, I have been authorized to propose on behalf of the Fund that Saudi Arabia enter into an Agreement with the Fund as set forth below:

Paragraph 1. The Credit Arrangement

During the period specified in Paragraph 2 and any renewal thereof, Saudi Arabia will stand ready to lend Saudi riyals to the Fund up to a maximum amount equivalent to one thousand five hundred million SDRs (SDR 1,500,000,000), on the terms and conditions set forth in this Agreement, to assist the Fund in the financing of purchases by members for the same purposes and in the same circumstances as are prescribed in the GAB. This amount may be changed by agreement between Saudi Arabia and the Fund.

Paragraph 2. Period of Credit Arrangement and Renewal

(a) Amounts of resources may be called by the Fund hereunder during a period of five years from the date this Agreement enters into force, unless the Fund's right to make calls is terminated earlier in accordance with this Agreement.

(b) When a renewal of the GAB Decision is under consideration, the Fund and Saudi Arabia shall consult regarding the renewal of the credit arrangement under this Agreement or the conclusion of such other credit arrangement as may be found appropriate at that time.

(c) Notwithstanding the termination of the credit arrangement under this Agreement, the provisions of Paragraphs 4 through 13 shall continue to apply until all the obligations of the Fund under this Agreement have been discharged.

Paragraph 3. Calls

(a) Calls may be made only pursuant to a proposal of the Managing Director that has become effective in accordance with (d) below.

(b) The Managing Director may make a proposal for calls for purchases, including future calls for purchases under stand-by or extended arrangements, (i) if he considers that a proposal for calls or future calls for the same purchases could be made under the GAB and (ii) after consultation with Saudi Arabia at the same time and in the same manner as he consults GAB participants.

(c) In deciding whether to make a proposal and the amount to be called thereunder, the Managing Director shall take into account the present and prospective balance of payments and reserve position of Saudi Arabia and the Fund's holdings of Saudi riyals.

(d) A proposal for calls shall become effective only when Saudi Arabia has notified the Fund that it accepts the proposal and the proposal has been approved by the Executive Board of the Fund. Calls shall be made as and when amounts of Saudi riyals are needed by the Fund to finance purchases covered by the proposal.

(e) When the Fund makes a call, Saudi Arabia shall transfer to the account of the Fund, free of any charge or commission, an amount of Saudi riyals equivalent to the amount of the call. The transfer shall be made on the date specified in the call. Saudi Arabia shall exchange the riyals for a freely usable currency of its choice in accordance with Article V, Section 3 of the Articles.

(f) If Saudi Arabia represents to the Fund that, in view of the present and prospective balance of payments and reserve position of Saudi Arabia, future calls under a proposal that has become effective as provided in (d) above should no longer be made or be made for a smaller amount and the Fund, after giving the overwhelming benefit of any doubt to the representation, determines that it is justified, the Fund shall comply with Saudi Arabia's representation.

Paragraph 4. Evidence of Indebtedness

The Fund shall issue to Saudi Arabia, at its request, a nonnegotiable instrument or instruments in a form to be agreed with Saudi Arabia, evidencing the Fund's outstanding indebtedness to Saudi Arabia under this Agreement. Upon repayment of an amount of indebtedness evidenced by an instrument and all accrued interest thereon, the instrument shall be returned to the Fund for cancellation, and if any balance of the indebtedness remains outstanding, the Fund shall issue a new instrument for the remainder of the amount, with the same maturity date.

Paragraph 5. Interest

(a) The Fund shall pay interest on its outstanding indebtedness at a rate equal to the combined market interest rate computed by the Fund

from time to time under its Rules and Regulations for the purpose of determining the rate at which it pays interest on holdings of SDRs. If the Fund changes the method of computing the combined market interest rate, the new method will apply to amounts borrowed hereunder only if it is applied to borrowing by the Fund under the GAB, and Saudi Arabia agrees.

(b) Interest shall accrue daily and shall be paid as soon as possible after each July 31, October 31, January 31, and April 30.

Paragraph 6. Repayment by the Fund

(a) Subject to the other provisions of this Agreement, the Fund shall repay an amount equal to each amount transferred by Saudi Arabia hereunder five years after the date the transfer was made. To the extent the member whose purchase the amount was used to finance is committed to repurchase by installments on fixed dates falling earlier than five years after that date, the Fund shall repay the amount in corresponding installments on those fixed dates.

(b) Whenever a reduction in the Fund's holdings of currency of a purchasing member is attributed to a purchase financed with an amount transferred by Saudi Arabia hereunder, the Fund shall promptly make a corresponding repayment to Saudi Arabia. If the amount was used to finance a reserve tranche purchase, and the Fund's holdings of the purchasing member's currency not subject to repurchase are reduced as a result of net sales of the currency during a quarterly period covered by an operational budget, the Fund shall make a corresponding repayment to Saudi Arabia at the beginning of the next quarterly period. The amount

repaid under this subparagraph (b) shall bear the same proportion to the amount of the reduction as the amount transferred under this Agreement bears to the amount of the purchase.

(c) Before the date repayment is due under (a) or (b) above, the Fund, after consultation with Saudi Arabia, may repay all or part of its outstanding indebtedness hereunder.

(d) If Saudi Arabia represents to the Fund that it has a balance of payments need for repayment before the due date of all or part of such outstanding indebtedness and requests such repayment, and the Fund after giving Saudi Arabia's representation the overwhelming benefit of any doubt determines that there is such a need, the Fund shall make early repayment as requested by Saudi Arabia.

(e) Amounts repaid under (c) and (d) shall be credited against outstanding indebtedness in the order in which such indebtedness would fall due under (a) above.

(f) The Fund shall at no time reduce its holdings of the currency of a member whose purchases were financed by borrowing hereunder below an amount equal to the outstanding amount of such borrowing plus any outstanding amount borrowed under the GAB to finance purchases by the same member.

(g) When any repayment is made to Saudi Arabia, the amount that the Fund may call for under the credit arrangement shall be restored pro tanto.

Paragraph 7. Media of Payment

(a) Payments of interest and repayments of principal shall be made, as determined by the Fund after consultation with Saudi Arabia, in Saudi

riyals, in SDRs or in currencies that are actually convertible; provided that (i) unless Saudi Arabia agrees, SDRs shall not be used in early repayment under Paragraph 6(c) if the effect would be to increase Saudi Arabia's holdings of SDRs above the limit specified in Article XIX, Section 4 of the Articles, and (ii) Saudi riyals shall not be used in early repayment on balance of payments grounds under Paragraph 6(d).

(b) Currencies other than Saudi riyals to be used in payment of interest and repayment of principal shall be selected by the Fund from those that can be used in net sales under the operational budget of the Fund in effect at the time the payment is made.

Paragraph 8. Rates of Exchange

All amounts under this Agreement shall be denominated in SDRs, as valued by the Fund from time to time. The value in terms of SDRs of Saudi riyals to be transferred by Saudi Arabia to the Fund and of payments to be made by the Fund to Saudi Arabia in currencies shall be determined in accordance with Rule 0-2 of the Rules and Regulations of the Fund.

Paragraph 9. Transferability

Saudi Arabia may transfer all or part of its claims under this Agreement only with the prior consent of the Fund and on such terms and conditions as the Fund may approve.

Paragraph 10. Withdrawal from Membership

If Saudi Arabia withdraws from membership in the Fund, no further calls shall be made hereunder. The Fund's outstanding indebtedness hereunder shall be treated as an amount due from the Fund for the purposes of Article XXVI, Section 3, and Schedule J of the Articles.

Paragraph 11. Suspension of Exchange Transactions and Liquidation

(a) The right of the Fund to make calls and its obligation to make repayment hereunder shall be suspended during any suspension of exchange transactions under Article XXVII of the Articles.

(b) In the event of liquidation of the Fund, no further calls shall be made by the Fund hereunder. The Fund's outstanding indebtedness shall constitute a liability under Schedule K of the Articles. For the purpose of Paragraph 1(a) of Schedule K, the currency in which each amount of the Fund's indebtedness is payable shall be first Saudi riyals and then any currency that is actually convertible.

Paragraph 12. Amendments

(a) This Agreement may be amended at any time, by agreement between Saudi Arabia and the Fund.

(b) If the revised and enlarged GAB is modified while this Agreement is in effect, Saudi Arabia and the Fund will consult with each other with a view to determining whether consequential modifications should be made in the provisions of this Agreement.

(c) If, after consultation with the Fund and the GAB participants, Saudi Arabia proposes that the credit arrangement under this Agreement be converted into or replaced by an arrangement of the type referred to in Paragraph 23(a) or Paragraph 3(b) of the revised GAB Decision, as the case may be, the Fund will consider the steps to be taken, subject to the concurrence of the GAB participants as necessary, to effect such conversion or replacement.

Paragraph 13. Interpretation; Settlement of Disputes

Any question of interpretation arising in connection with this Agreement that does not fall within the purview of Article XXIX of the Articles, and any dispute arising hereunder, shall be settled to the mutual satisfaction of Saudi Arabia and the Fund.

If the foregoing proposal is acceptable to Saudi Arabia, this communication and your reply indicating Saudi Arabia's acceptance shall constitute an Agreement between Saudi Arabia and the Fund, which shall enter into force on the date on which the revised and enlarged GAB authorized by Decision No. 7337-(83/37) of the Executive Board of the Fund becomes effective.

Very truly yours,

J. de Larosière