

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

**IMMEDIATE
ATTENTION**

EBS/81/172

CONFIDENTIAL

August 18, 1981

To: Members of the Executive Board

From: The Secretary

Subject: Borrowing by the Fund from the South African Reserve Bank

It is not proposed to bring the attached memorandum on borrowing by the Fund from the South African Reserve Bank to the agenda of the Executive Board for discussion unless an Executive Director so requests by the close of business on Thursday, August 20, 1981. In the absence of such a request, the draft decision will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Att: (1)

INTERNATIONAL MONETARY FUND

Borrowing by the Fund from the South African Reserve Bank

Prepared by the Treasurer's Department

(In consultation with the Legal Department)

Approved by W. O. Habermeier

August 17, 1981

1. The South African Reserve Bank has expressed its willingness to open a facility in favor of the Fund, permitting the Fund to borrow U.S. dollars up to the equivalent of SDR 30 million for a commitment period of two years. The terms and conditions proposed for the agreement with the Reserve Bank are based on the Executive Board Decision on Borrowing from Central Banks and Other Official Entities (Decision No. 6864-(81/81), adopted May 13, 1981). ^{1/} These terms, which are set out in the Attachment in the form of a draft agreement between the Fund and the Reserve Bank, closely follow the provisions of agreements concluded with other central banks.

2. The South African Reserve Bank has asked for the inclusion of a provision giving it the right to request bearer notes.

3. It is proposed that the Executive Board adopt the following decision:

The Executive Board authorizes the conclusion of a borrowing agreement between the Fund and the South African Reserve Bank as set out in the attachment to EBS/81/172.

Attachment

^{1/} See "Borrowing by the Fund from Central Banks and Other Official Entities", SM/81/109, Supplement 1, Revision 1 (May 15, 1981).

Proposed Borrowing Agreement
with the South African Reserve Bank

1. The South African Reserve Bank (the "Bank") agrees to open a facility, free of commission, fee or charge, in favor of the International Monetary Fund (the "Fund") for the equivalent of SDR 30 million in accordance with the conditions set out below. The facility shall remain open for a commitment period of two years from the date this agreement enters into effect.

2. (a) The Fund may draw on the facility during the commitment period on giving the Bank at least seven days' notice of the amount it intends to draw. Each drawing shall be denominated in special drawing rights.

(b) Unless otherwise agreed between the Bank and the Fund, the Bank shall transfer to an account designated by the Fund with the Federal Reserve Bank of New York, on the value date of the drawing, an amount of U.S. dollars equivalent to the drawing. The amount shall be determined by applying the exchange rate of the U.S. dollar in terms of the special drawing right established by the Fund for the third business day of the Fund before the value date.

3. At the request of the Bank, its commitment to meet or renew drawings under this agreement shall be terminated if (a) the Bank represents that the balance of payments and reserve position of South Africa (the "Member") does not justify further drawings or renewals, and (b) the Fund, having given this representation the overwhelming benefit of any doubt, determines that no further drawing or renewal should be made.

4. (a) The maturity periods applicable to drawings and renewals shall be six months, one year or two years. For each drawing, the initial maturity period shall be determined by the Bank at the time the drawing is made. A drawing or renewal maturing within two years after the value date of the drawing may be renewed by the Fund as it matures, by notice to the Bank at least seven days before the maturity date, for a further maturity period determined by the Bank at the time of each renewal. When a drawing has been outstanding for two years or more, it may be renewed on maturity as agreed between the Bank and the Fund.

(b) The maturity date of a drawing or renewal shall be set to coincide with the last interest payment date established pursuant to paragraph 7 for the maturity period in question, and the next maturity period, if any, shall begin on the same date.

(c) The Fund shall repay the principal amount of a drawing on the maturity date of the drawing or, if the drawing is renewed, on the maturity date of the last renewal.

5. (a) Interest on each outstanding drawing or renewal shall accrue daily, at an annual rate determined on the basis of the maturity period applicable to the drawing or renewal. For maturity periods of six months and one year, the rate shall be determined at the beginning of the period. For maturity periods of two years, the rate for each successive period of three months shall be determined at the beginning of each such period, provided that the length of periods shall be adjusted as necessary so that every second period ends on the day before an interest payment date and the next succeeding period begins on that date.

(b) In each case the applicable interest rate shall be determined by the Fund, on the basis of the interest rates and yields on the instruments listed in paragraphs 6(a), 6(b) or 6(c), as appropriate to the maturity period for which the determination is made. The interest rates and yields shall be those for the third business day of the Fund before the period during which the rate of interest is to apply, as reported to the Fund by the central bank or other appropriate agency of the member in whose currency the instrument is denominated. If a rate or yield cannot be reported for that date, the rate or yield shall be the latest available before that date. The calculation shall be made by multiplying each reported interest rate or yield by the number of units of the corresponding currency used by the Fund for valuation of the special drawing right on the date for which the interest rate or yield is reported, and by then multiplying the product by the value of that currency unit in terms of the special drawing right on that date. The resulting products for all component currencies in the special drawing right, rounded to the nearest four decimal places, shall be added together and the total, rounded up to the nearest one-sixteenth of one per cent, shall be the annual interest rate to be applied. If the Bank has exercised the option in paragraph 9 below, the calculations for drawings to which the option applies shall be made on the basis of the former method of valuation of the special drawing right.

6. The interest rates and yields reported to the Fund for the purpose of interest rate calculations shall be the following:

(a) for maturity periods of six months:

- the market yield for six-month U. S. Treasury bills,
- the rate for six-month interbank deposits in Germany,
- the midpoint between bid and offered rates for six-month interbank loans against private paper in the Paris market,
- the average rate for newly issued bank CD's in Japan with a maturity of between 150 and 180 days,
- the rate for six-month interbank deposits in the United Kingdom.

(b) for maturity periods of one year:

- the yield to maturity on actively traded U.S. Government securities, determined on the basis of a constant maturity of one year as published weekly by the Federal Reserve Board in Statistical Release H.15,
- the yield to maturity on notes and bonds of the Federal Republic of Germany, Railways and Post Office with a remaining period to maturity of one year as calculated by the Deutsche Bundesbank on the basis published in the Statistical Supplement (Series 2, Table 8D) to the Bundesbank's Monthly Report,
- the midpoint between bid and offered rates for twelve-month interbank loans against private paper in the Paris market,
- the yield to maturity of that ten year Japanese Government bond with a remaining period to maturity closest to one year, based on the closing market price officially published by the Tokyo Stock Exchange,
- the calculated redemption yield on British Government securities, determined for a constant maturity of twelve months, as calculated by the Bank of England on the basis published in its Quarterly Bulletin.

(c) for maturity periods of two years:

- the interest rates or yields on the instruments described in the Rules and Regulations of the Fund relating to the method of determining the interest rate on the special drawing right.

7. Interest on each drawing or renewal shall be paid at successive intervals of six months from the value date of the drawing until the date the principal is repaid. If a six-monthly date is not a day banks are open for business in the place where an interest payment is to be made, the interest payment date shall fall on the preceding banking day. Each interest payment shall comprise all interest accrued on the principal amount of the drawing from and including the value date of the drawing or the date of the previous interest payment, whichever is later, up to and including the day preceding the date of payment.

8. (a) Payments of principal and interest under this agreement may be made in the Member's currency, in any other currency or in special drawing rights, or in any combination of these means of payment, as may be agreed between the Bank and the Fund: provided that, failing agreement, payments shall be made in U.S. dollars.

(b) Payments in the Member's currency shall be made by debiting the account of the Fund with the Bank. Payments in special drawing rights shall be made by crediting the account of the Member in the Special

Drawing Rights Department of the Fund, and each such credit shall be deemed to discharge pro tanto the obligations of the Fund to the Bank under this agreement. Payments in U.S. dollars shall be made by transfer to an account of the Bank with the Federal Reserve Bank of New York. Payments in other currencies shall be made as agreed between the Bank and the Fund.

(c) Payments of principal and interest in currency shall be made at the exchange rate for the currency in terms of the special drawing right established by the Fund for the third business day of the Fund before the value date of the payment.

9. If the Fund changes the method of valuation of the special drawing right, any payment of principal or interest due three or more business days of the Fund after the effective date of the change shall be made on the basis of the new method of valuation. Nevertheless, if the Bank so requests within 30 days after the adoption of the relevant decision of the Fund but not later than 14 days after the date the change becomes effective, the former method of valuation shall continue to be used in subsequent interest rate calculations and payments of principal of and interest on all drawings or renewals outstanding on the effective date of the change. If the Bank exercises this option, the Fund may repay all such drawings or renewals in advance of maturity upon giving 14 days notice.

10. (a) At any time, the Fund may agree with the Bank on repayment before maturity. Such early repayment may be subject to an adjustment in the amount of principal and interest which would otherwise have been payable.

(b) The Fund shall repay a drawing or renewal before maturity at face value if (i) the Bank represents that in view of the Member's balance of payments and reserve position there is a need for early repayment, and (ii) the Fund, having given this representation the overwhelming benefit of any doubt, determines that there is such a need.

11. At the request of the Bank, the Fund shall issue to the Bank an instrument evidencing its claim on the Fund resulting from a drawing or renewal under this agreement.

12. (a) The Bank shall have the right to transfer at any time all or part of its claim on the Fund which results from a drawing or renewal that has not less than three months to maturity, to any member of the Fund, to the central bank or other agency of any member, or to any official entity that has been prescribed as a holder of special drawing rights pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement.

(b) The transferee shall assume all the rights and obligations of the Bank hereunder with respect to the claim, including the obligations to renew, except that (i) the right to obtain repayment before maturity pursuant to paragraph 10(b) above shall be exercisable by the transferee only if it is a member, or the central bank or other agency of a member, that at the time of the transfer is in a net creditor position in the Fund and, in the opinion of the Fund, the transferee's currency could be used in net sales in the Fund's operational budgets for the foreseeable future, and (ii) the right of the Fund to use the transferor's currency in payment of principal or interest shall, if the transferee is a member, or the central bank or other agency of a member, be replaced by the right to use the transferee's currency. If the transferee is not a member, or the central bank or other agency of a member, the right specified in (ii) above shall no longer apply.

13. (a) At the request of the Bank received not later than ten days after the date a drawing is made or renewed, the Fund shall issue and deliver to the Bank, in accordance with the provisions of Annex A to Decision No. 6864-(81/81) of the Executive Board of the Fund, bearer notes in an aggregate principal amount not exceeding the principal amount of the drawing. The notes shall be substantially in the form set forth in Annex B and Annex C to the Decision, or in such other form as may be agreed between the Bank and the Fund.

(b) On delivery of each note, the rights and obligations of the Bank and the Fund under this agreement with respect to an amount of the relevant drawing corresponding to the principal amount of the note shall be cancelled. To the extent that under paragraph 4(a) of this agreement the Fund would have been entitled to renew the drawing at maturity, it may, on the date on which the principal amount of the note is repaid, make a further drawing under this facility in an equivalent amount, which drawing shall for purposes of this agreement be deemed to be a renewal of the original drawing.

14. This agreement shall enter into effect as soon as (a) the Fund has notified the Bank that the Executive Board of the Fund has authorized the conclusion of the agreement, and (b) the Bank has notified the Fund by tested telex that it accepts the terms and conditions hereof.