

DOCUMENT OF INTERNATIONAL MONETARY FUND  
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**IMMEDIATE  
ATTENTION**

EBS/82/145

CONFIDENTIAL

August 13, 1982

To: Members of the Executive Board

From: The Secretary

Subject: Borrowing Agreement with the Saudi Arabian Monetary Agency -  
Proposed Change in Conversion Arrangements

It is not proposed to bring the attached memorandum to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on Friday, August 20, 1982. 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)



CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Borrowing Agreement with the Saudi Arabian Monetary Agency--  
Proposed Change in Conversion Arrangements

Prepared by the Treasurer's and Legal Departments

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

August 12, 1982

The Saudi Arabian Monetary Agency (SAMA) has proposed a modification in the exchange arrangements applicable to Saudi riyals borrowed by the Fund under the agreement concluded on May 7, 1981. Under the existing arrangements, SAMA will on request exchange the riyals for U.S. dollars. In a communication to the Fund, the text of which is attached, SAMA has indicated that when an exchange is requested it would like to be free to provide either U.S. dollars or, at its option, deutsche mark, French francs, sterling or yen. This option to provide currencies other than the U.S. dollar would facilitate SAMA's cash flow planning and give it greater flexibility in the use of liquid resources. This proposal is made on the understanding that, if SAMA intends to exercise the option, it will notify the Fund at least 15 days before the exchange is to occur of the particular currency to be provided, and that all the exchanges will be at equal value exchange rates.

To the extent that riyals are transferred by the Fund in purchases, SAMA has an obligation to exchange the riyals for a freely usable currency of its choice. This obligation, which arises under Article V, Section 3(e) of the Articles of Agreement, applies to all riyals held in the General Resources Account, including any acquired under the borrowing agreement concluded on May 7, 1981 that are to be transferred by the Fund in a purchase. SAMA is free to select the freely usable currency that it will provide to purchasers when discharging its exchange obligation, and it has notified the Fund under Rule O-4 that it will do so by providing U.S. dollars. The attached communication constitutes notice that, in the case of riyals borrowed under the agreement and transferred in a purchase, SAMA will elect to provide any of the five freely usable currencies.

On the other hand, the exchange of riyals needed to facilitate the investment of borrowed funds pending their use in financing purchases from the Fund is governed by the terms of the borrowing agreement. In the agreement, SAMA has undertaken that, to the extent amounts borrowed are to be used for temporary investment, it will, at the Fund's request,

exchange riyals for U.S. dollars. 1/ It is a matter for the Fund to determine whether it is prepared to accept currencies other than the U.S. dollar in satisfaction of SAMA's contractual undertaking.

The procedures that are to govern the temporary investment of borrowed resources are specified in Executive Board Decisions No. 6844-(81/75) and No. 6845-(81/75). They authorize the Managing Director to establish a Borrowed Resources Suspense Account with the central bank issuing the currency to be invested. Where amounts borrowed in one currency are to be invested in another, the Managing Director is authorized to arrange the necessary exchanges and transfers after receiving the concurrence of two members whose currencies are involved. These steps have already been taken in the case of the U.S. dollar. Before the new arrangements requested by SAMA could come into operation, the Fund would need to take similar steps in the case of the deutsche mark, French franc, sterling, and yen, and to make appropriate arrangements for the investment of any amounts provided under the agreement with SAMA in each of these currencies.

The staff has been in contact with each of the four members whose currencies SAMA would have the option to provide under the proposal, in exchange for riyals, and each has indicated its willingness to provide the concurrence required by the Executive Board Decisions referred to above in relation to the proposed use of its currency. Arrangements have also been made for the concurrence of Saudi Arabia to the exchange and transfer of amounts borrowed in riyals.

Regarding the investment arrangements themselves, the BIS has confirmed that the Fund can use any freely usable currency as the vehicle currency for SDR-denominated investments with the BIS. As the cost of making these investments using non-dollar vehicle currencies can be somewhat greater, the return that the BIS will be able to offer

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1/ Paragraph 3(a) of the borrowing agreement reads as follows:

"SAMA shall make each loan hereunder by transferring to the account of the Fund with SAMA the equivalent in Saudi riyals of the loan amount called for by the Fund, on the value date specified by the Fund in its call. In addition to Saudi Arabia's obligations under the Articles regarding the exchange of its currency, SAMA agrees that, on request, it shall exchange riyals provided hereunder for U.S. dollars to the extent required for investment pending use of the borrowed funds in transactions of the Fund."

may be less than if the U.S. dollar were used as the vehicle currency, but only marginally so. 1/

In view of this, it is recommended that the Managing Director be authorized to communicate to SAMA the Fund's willingness to accept deutsche mark, French francs, sterling, U.S. dollars, and yen when an exchange of riyals borrowed under the agreement is required. If the Board approves this recommendation, the communication would be sent when the necessary operational prerequisites have been established; that is to say, after the members concerned have formally signified their concurrence to any transfers of their currencies for purposes of investment that may occur as a consequence of the exercise of the option requested by SAMA, and arrangements have been completed for the establishment of Borrowed Resource Suspense Accounts with their central banks.

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1/ This arises because, inter alia, non-dollar currencies constitute significantly smaller proportions of the SDR basket and their use as vehicle currencies involves greater transaction costs when the BIS goes to the market to acquire the SDR basket prior to arranging for its investment. This differential would be materially reduced if the Fund were to adopt as the representative rates for each currency in the SDR basket the same exchange rates as it uses to compute the official value of the SDR basket. The staff has initiated consultations with the authorities concerned regarding this point. This issue was foreshadowed in "Further Improvements in the Existing SDR" (SM/82/92, 5/7/82), pp. 10-12.

ATTACHMENT

QUOTE

AUGUST 12, 1982

FROM: SAUDI ARABIAN MONETARY AGENCY, HEAD OFFICE, RIYADH

TO: MR. JACQUES DE LAROSIERE,  
MANAGING DIRECTOR,  
INTERNATIONAL MONETARY FUND,  
WASHINGTON.

I REFER TO PARAGRAPH 3 OF THE BORROWING AGREEMENT BETWEEN THE FUND AND SAMA CONCLUDED ON MAY 7, 1981. UNDER THIS PARAGRAPH, SAMA HAS AGREED THAT, ON REQUEST BY THE FUND, IT WILL EXCHANGE BORROWED RIYALS FOR U.S. DOLLARS TO THE EXTENT AMOUNTS ARE TO BE TEMPORARILY INVESTED BY THE FUND. TO FACILITATE OUR CASH FLOW PLANNING AND GIVE US GREATER FLEXIBILITY IN THE USE OF OUR LIQUID RESOURCES, IT WOULD BE HELPFUL IF FROM TIME TO TIME, WHEN AN EXCHANGE OF RIYALS BORROWED UNDER THE AGREEMENT IS REQUIRED, SAMA COULD ELECT TO EFFECT THE EXCHANGE IN U.S. DOLLARS OR IN OTHER CURRENCIES AGREED WITH THE FUND. SPECIFICALLY, WE WOULD PROPOSE THAT THE FUND AGREE TO ACCEPT DEUTSCHE MARK, FRENCH FRANCS, STERLING OR YEN, AT SAMA'S OPTION, AS AN ALTERNATIVE TO U.S. DOLLARS. THIS PROPOSAL IS MADE ON THE UNDERSTANDING (A) THAT SAMA WILL NOTIFY THE FUND OF ITS INTENTION TO EXERCISE THIS OPTION, AND OF THE CURRENCY SELECTED, AT LEAST FIFTEEN DAYS BEFORE THE EXCHANGE IS TO BE EFFECTED, AND (B) THAT EXCHANGES WILL BE AT EQUAL VALUE EXCHANGE RATES DETERMINED PURSUANT TO THE ARTICLES AND THE RULES AND REGULATIONS OF THE FUND.

WITH BEST REGARDS,

HAMAD AL-SAYARI  
VICE GOVERNOR

UNQUOTE