

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

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Supplement 2

CONFIDENTIAL

December 18, 1997

To: Members of the Executive Board
From: The Secretary
Subject: **Supplemental Reserve Facility**

Attached for the records of Executive Directors is the Secretary's understanding of the decision adopted at Executive Board Meeting 97/123 (12/17/97) relating to the establishment of the Supplemental Reserve Facility.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Supplemental Reserve Facility

Executive Board Decision—December 17, 1997

1. (a) The Fund will be prepared to provide financial assistance in accordance with the terms of this Decision to a member that is experiencing exceptional balance of payments difficulties due to a large short-term financing need resulting from a sudden and disruptive loss of market confidence reflected in pressure on the capital account and the member's reserves, if there is a reasonable expectation that the implementation of strong adjustment policies and adequate financing will result, within a short period of time, in an early correction of such difficulties.

(b) This facility is likely to be utilized in cases where the magnitude of the outflows may create a risk of contagion that could pose a potential threat to the international monetary system.

(c) When approving a request for the use of its resources under this Decision, the Fund will take into account the financing provided by other creditors. In order to minimize moral hazard, a member using resources under this Decision will be encouraged to seek to maintain participation of creditors, both official and private, until the pressure on the balance of payments ceases. All options should be considered to ensure appropriate burden sharing.

(d) The Fund may make the use of its resources under this Decision conditional upon the adoption by the member of measures under Article VI, Section 1 of the Fund's Articles of Agreement.

2. Financing under this Decision will be available to members under a stand-by or extended arrangement in addition to resources in the credit tranches or under the extended Fund facility, in cases where (i) a member faces the type of balance of payments difficulties described in paragraph 1 above and (ii) the projected access in the credit tranches or under the extended Fund facility, taking into account outstanding purchases, would otherwise exceed either the annual or cumulative limit. In those cases, unless the member's medium-term financing needs require access in the credit tranches or under the extended Fund facility beyond the annual or cumulative limit, financing in the credit tranches or under the extended Fund facility will not be provided beyond the annual or cumulative limit, and financing beyond either limit will be provided only under this Decision.

3. Financing under this Decision will be determined by the Fund, taking into account the financing needs of the member, its capacity to repay, including in particular the strength of its program, its outstanding use of Fund credit, and its record in using Fund

resources in the past and in cooperating with the Fund in surveillance, as well as the Fund's liquidity.

4. Financing under this Decision will be committed for a period of up to one year, even if the corresponding arrangement is for a longer period, and will generally be available in two or more purchases. The first purchase will be available at the time of approval of financing under this Decision, which will normally coincide with the approval of the corresponding arrangement. The subsequent purchases will be available subject to the conditions of the corresponding arrangement.

5. The corresponding arrangement will identify the total amount and phasing of the financing provided under this Decision.

6. (a) A member making purchases under this Decision shall repurchase the outstanding amounts of its currency resulting from such purchases within two to two and a half years from the date of each purchase in two equal semi-annual installments; the first installment shall become due two years and the second installment two and a half years from the date of each purchase.

(b) The member will be expected to repurchase those amounts one year before they become due, provided that the Fund may, upon request by the member, decide to extend each such repurchase expectation by up to one year. If a member fails to make a repurchase as expected, the Fund may require the member to make the repurchase in question within a specified period not to exceed the repurchase schedule under (a) above.

(c) The Fund shall not approve, and the Managing Director shall not recommend for approval, a request for the use of the general resources of the Fund by a member that is failing to meet a repurchase expectation under (b) above. Provision shall be made in each stand-by and extended arrangement for the suspension of further purchases under the arrangement whenever a member fails to meet a repurchase expectation under (b) above.

7. Purchases under this Decision and holdings resulting from such purchases shall be excluded for the purposes of the definition of "reserve tranche purchase" pursuant to Article XXX(c).

8. During the first year from the date of approval of financing under this Decision, the rate of charge under Article V, Section 8(b) on holdings acquired as a result of purchases under this Decision shall be 300 basis points per annum above the rate of charge referred to in Rule I-6(4) as adjusted for purposes of burden sharing. Such rate shall be increased by 50 basis points at the end of that period and every six months thereafter, until the surcharge reaches 500 basis points, subject to the provisions of paragraph 9.

Pending a Decision on the use to be given to the income generated under this Decision, such income shall not be taken into account when determining the amount of net income in excess of the net income target for purposes of paragraph 3 of Decision No. 11482-(97/42), April 21, 1997.

9. The provisions of Decision No. 8165-(85/189) G/TR, December 30, 1985, except Section IV, shall apply to overdue financial obligations arising under this Decision, subject to the following provision:

The rate of charge on overdue repurchases shall be determined by the Fund but shall not be less than the maximum rate of charge specified in paragraph 8.

10. Except for the purposes of determining the level of conditionality applied to purchases in the credit tranches, the Fund's holdings of a member's currency resulting from purchases under this Decision shall be considered separate from the Fund's holdings of the same currency resulting from purchases made under any other policy on the use of the Fund's general resources.

11. In order to carry out the purposes of this Decision, the Fund will be prepared to grant a waiver of the limitation of 200 percent of quota in Article V, Section 3(b)(iii), whenever necessary to permit purchases under this Decision or to permit other purchases that would raise the Fund's holdings of the purchasing member above that limitation because of purchases outstanding under this Decision.

12. This Decision and its operation will be reviewed no later than December 31, 1998.

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