

**FOR  
AGENDA**

**MASTER FILES  
ROOM C-525**

**0451**

**EBS/97/225  
Supplement 1**

**CONFIDENTIAL**

**December 12, 1997**

**To: Members of the Executive Board**

**From: The Secretary**

**Subject: Supplemental Reserve Facility**

There is attached for consideration by the Executive Directors the draft decision on the supplemental reserve facility, which is scheduled for discussion on Monday, December 15, 1997.

Mr. Elizalde (ext. 37796) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:  
Department Heads



INTERNATIONAL MONETARY FUND

**Supplemental Reserve Facility**

Prepared by the Legal Department  
(In consultation with the Policy Development and Review Department  
and the Treasurer's Department)

Approved by François Gianviti

December 12, 1997

The following draft decision is circulated for consideration by the Executive Board:

1. The Fund will be prepared to provide financial assistance in accordance with the terms of this Decision to a member that is experiencing balance of payments difficulties due to a large short-term financing need resulting from a 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 appropriate supporting policies and adequate financing will result, within a short period of time, in an early correction of such difficulties.

2. Financing under this Decision will be available to members under a stand-by or extended arrangement (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 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 [three] [four] years of the date of each purchase in four equal quarterly installments commencing [two] [three] years from the date of each purchase.

(b) The member will be expected to repurchase those amounts in four equal quarterly installments commencing [one year] [two years] from the date of each purchase, provided that the Fund may, upon request by the member, 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.

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. The rate of charge under Article V, Section 8(b) on holdings acquired as a result of a purchase in accordance with this Decision shall be [200 - 400] basis points per annum above the rate of charge referred to in Rule I-6(4)(a) as adjusted for purposes of burden sharing.

[Pending a decision on the use to be given to the additional income generated [by the surcharge levied on purchases] under this Decision, such income shall not be taken into account for purposes of meeting the Fund's net income target.]

9. 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.

10. 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.