

**FOR
AGENDA**

EBS/09/20

February 10, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Guidelines for Borrowing by the Fund—Temporary Suspension of Certain Provisions**

Attached for consideration by the Executive Directors is a paper on guidelines for borrowing by the Fund—temporary suspension of certain provisions, which together with the paper on the borrowing agreement with the government of Japan (EBS/09/19, 2/10/09), is tentatively scheduled for discussion on **Thursday, February 12, 2009**. A draft decision appears on page 2.

The staff does not propose the publication of this paper.

Questions may be referred to Mr. Beaumont, FIN (ext. 37411), Ms. Weeks-Brown, LEG (ext. 36896), and Ms. Mateos y Lago, SPR (ext. 37219).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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Department Heads

INTERNATIONAL MONETARY FUND

Guidelines for Borrowing by the Fund—Temporary Suspension of Certain Provisions

Prepared by the Finance, Legal, and Strategy, Policy
and Review Departments

Approved by Andrew Tweedie, Sean Hagan and Reza Moghadam

February 10, 2009

1. At its recent discussion of the Review of the Adequacy of and Options for Supplementing Fund Resources (EBS/09/7, 01/12/09), the Executive Board reached broad consensus on the need to temporarily supplement the Fund's resources through borrowing, with most Directors considering a near-term doubling of the Fund's pre-crisis lending capacity (SDR 167 billion or \$250 billion) to be appropriate, at least on a temporary basis. Directors also particularly welcomed the willingness of Japan to provide a bilateral loan of up to US\$100 billion, and looked forward to its early agreement.
2. As reported in EBS/09/19, 2/10/09, agreement has been reached between Fund staff and the Japanese authorities on a draft loan agreement. The Japanese authorities have requested that the proposed borrowing agreement be considered by the Board as soon as possible, considering the nature of the global financial crisis and the potential financing needs of members, as a means to demonstrate the determination of the international community to ensure that the Fund has sufficient resources to play its role in overcoming the crisis. Staff supports this request.
3. The existing Guidelines for Borrowing by the Fund ("Borrowing Guidelines") were last revised by the Board in 1991, at a time when the need for Fund borrowing had diminished.¹ Reflecting this dynamic, the Borrowing Guidelines did not establish limits, but rather provided that, in advance of any further borrowing (except under the GAB), the Executive Board shall establish borrowing limits expressed in terms of total quotas.² While most Directors at the recent Board discussion supported a doubling of Fund resources, some considered that further analysis would help clarify the appropriate size of an immediate

¹ Decision No. 9862-(91/156), adopted November 15, 1991 (*Selected Decisions and Selected Documents of the International Monetary Fund*, Thirty-Second Issue, pp. 504–05).

² Under Paragraph 2 of these Guidelines, the Board is to establish these limits "in the context of circumstances prevailing at the time"; in addition, the limits are to impose a ceiling above which "the total of outstanding borrowing plus unused credit lines would not be permitted to rise."

augmentation. Given this, staff proposes not to fix a new borrowing limit now, but rather to revisit this issue in the context of a future paper on the operational modalities that would govern the use of borrowed resources to address the current global crisis.

4. In light of the foregoing, staff proposes that paragraph 2 of the Borrowing Guidelines be suspended so as to enable approval of the borrowing agreement with Japan without the establishment of quantitative limits on Fund borrowing. Staff envisage that the latter issue and the proposed operational guidelines on the use of borrowed resources would be considered by the Board in the coming weeks so as to enable the Fund to be in a position to begin drawing under the Japan borrowing agreement.

Proposed Decision

Accordingly, the following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

The Fund temporarily suspends the application of Paragraph 2 of the Guidelines for Borrowing by the Fund, Decision No. 9862-(91/156), adopted November 15, 1991, in order to enable approval of the proposed borrowing agreement with the Government of Japan that is set forth in EBS/09/19, 2/10/09.