

**IMMEDIATE
ATTENTION**

EBS/09/77

May 29, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Borrowing Agreement with Norges Bank**

Attached for consideration by the Executive Directors is a paper on a draft borrowing agreement between Norges Bank and the Fund.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by **noon on Friday, June 5, 2009**. In the absence of such a request, the draft decision that appears on pages 4 and 5 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

It is intended that this paper will be published on the Fund's external website after the borrowing agreement is signed and enters into force.

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

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

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Borrowing Agreement with Norges Bank

Prepared by the Finance Department and the Legal Department

Approved by Andrew Tweedie and Sean Hagan

May 29, 2009

I. INTRODUCTION

1. This paper presents for the approval of the Executive Board a draft borrowing agreement between Norges Bank and the Fund. On March 28, the Finance Minister of Norway announced that the Ministry of Finance and Norges Bank (the central bank of Norway) were exploring a possible Norwegian contribution of up to 30 billion Norwegian kroner (about US\$4.5 billion or SDR 3 billion) of financial resources to the IMF to support the Fund's ability to provide timely and effective balance of payments assistance to its members in the current crisis. Staff and Norges Bank representatives have now reached agreement on a draft borrowing agreement, the text of which is set forth in the Attachment ("the Agreement").
2. The Agreement would make an important contribution to the multilateral effort to ensure the adequacy of the Fund's financial resources, adding to the resources already available to the Fund from the borrowing agreement with Japan that was approved by the Board in February 2009.¹ The attached draft agreement is also being submitted to Norway's Parliament for discussion and approval. Once approved by the Executive Board and the Norwegian Parliament, the Agreement would enter into force when signed by the Governor of Norges Bank and the Managing Director. It is hoped that this process could be completed by around mid-June. It is also expected that borrowing agreements with other members will be proposed for Board approval soon.
3. The Agreement closely follows the terms of the Japan borrowing agreement, hence Board approval on a lapse of time basis is proposed. In particular, Norges Bank has agreed to the inclusion of the modified encashment used in the Japan agreement, which will help to support the liquidity management of the resources available to the Fund. A limited number of modifications reflect the preferences of Norges Bank and new developments, including the

¹ *Borrowing Agreement with the Government of Japan* (EBS/09/19, 02/10/2009) and (Decision No. 14264-(09/15), adopted February 12, 2009).

possible enlargement and expansion of the New Arrangements to Borrow (NAB). The main differences between the Agreement and the agreement with Japan, as discussed in more detail in Section II below, are (i) the option for Norges Bank to unilaterally terminate the term of the agreement under certain circumstances once an expanded and enlarged NAB with the participation of Norway or Norges Bank becomes effective, and (ii) the revolving character of the loan, which provides additional flexibility to the Fund and parallels the approach followed under the NAB.

II. SPECIFIC FEATURES OF THE PROPOSED AGREEMENT

4. This section highlights the key terms and provisions that are unique to the Agreement compared to the Japan borrowing agreement. The staff report for the Japan borrowing agreement contains a summary of other key terms and conditions that are common to both the Agreement and the Japan agreement.²

Amount

5. The ceiling for drawings under the Agreement is expressed in SDR (“the equivalent of SDR 3 billion”), and not in U.S. dollar terms as in the case of the Japan agreement (i.e., the equivalent of US\$100 billion).

Folding the Agreement into an Expanded and More Flexible NAB

6. In view of the stated intention by the G20 leaders to incorporate immediate financing from members into an expanded and more flexible NAB, the Agreement gives Norges Bank the option to terminate the term of the Agreement with respect to any **undrawn balances** upon Norway’s or Norges Bank’s participation in an enlarged and more flexible NAB (Paragraph 2(c)). Termination is conditional on Norway or Norges Bank having an effective credit arrangement under the new NAB that is at least equal to the remaining undrawn balance under the Agreement at the time of the termination. The terms pursuant to which outstanding **drawings** under the Agreement could be folded into the NAB raise issues of permissible uses of NAB resources, and thus will need to be addressed separately as part of the upcoming discussions on the NAB.

Limits on Drawings

7. The Agreement provides for a limit on drawings during any calendar week of SDR 400 million. There is no additional monthly limit on drawings. As in the case of the Japan agreement, drawings in excess of the weekly limit are permitted but require the agreement of Norges Bank (Paragraph 3(b)).

² See *Borrowing Agreement with the Government of Japan* (EBS/09/19, 2/10/2009).

Maturity

8. As in the case of the Japan agreement, each drawing has a maturity of three months, which may be extended by additional periods of three months for up to a total of five years from the date of drawing. To reduce the administrative burden for Norges Bank and the Fund, the agreement provides that the maturity dates of all outstanding drawings are automatically deemed to be extended unless the Fund notifies Norges Bank at least five business days before a maturity date that the Fund does not elect to extend that maturity date (Paragraph 5(a)).

9. Unlike the Japan agreement, which established a cumulative limit for drawings, the Agreement would give the Fund a revolving line of credit, which parallels the NAB (i.e., repayments of drawings would restore proportionately the amount that could be drawn under this agreement), contributing to the flexibility in utilizing the resources made available to the Fund under the Agreement (Paragraph 5(d)).

Central Bank as Counterpart

10. Technical provisions on media and modalities of payment (in particular paragraph 7) reflect the fact that the counterpart under the Agreement is not a member but the central bank of a member. Regarding SDR payments, the authorities have agreed that such payments can be made on behalf of Norges Bank to Norway's account in the Special Drawing Rights Department. This is similar to the approach under the NAB, where the Fund is deemed to have discharged its obligation to a participating institution to make repayment of principal or interest in SDRs if the Fund transfers an equivalent amount in SDRs to the member in which the institution is established (paragraph 11(g) of the NAB Decision).

11. Moreover, as the Fund is not borrowing directly from Norway, the Agreement will become effective only when Norway has consented, in accordance with Article VII, Section 1(i), to the Fund's borrowing of Norwegian kroner from Norges Bank (Paragraph 15).

III. GUIDELINES FOR BORROWING BY THE FUND—TEMPORARY SUSPENSION OF CERTAIN PROVISIONS

12. Staff is in the process of finalizing a paper on the operational modalities for the use of borrowed resources, including the implications for the existing borrowing guidelines, which will be brought to the Executive Board for discussion shortly. Pending that discussion, the requirement in paragraph 2 of the existing Guidelines on Borrowing by the Fund regarding the establishment of an overall limit prior to any new borrowing remains applicable.³ As in

³Decision No. 9862-(91/156), adopted November 15, 1991 (*Selected Decisions and Selected Documents of the International Monetary Fund*, Thirty-Third Issue, pp. 489).

the case of the approval of the Japan agreement, staff proposes to further temporarily suspend the application of paragraph 2 of the Guidelines on Borrowing by the Fund in order to enable approval of the Agreement with Norges Bank.⁴ Pending the adoption of new borrowing guidelines, drawings under the Agreement would only be made on the basis of a Board decision on the use of borrowed resources, similar to the decision taken by the Executive Board regarding drawings under the borrowing agreement with Japan.⁵

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:

1. 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 Norges Bank that is set out in the Attachment to EBS/09/77, 5/29/09 (the “Agreement”).

2. The Fund deems it appropriate, in accordance with Article VII, Section 1(i) of the Articles of Agreement, to replenish its holdings of currencies in the General Resources Account by borrowing from Norges Bank on the terms and conditions set forth in the Agreement

3. The Executive Board approves the Agreement and authorizes the Managing Director to take such actions as are necessary to execute the Agreement on behalf of the Fund.

⁴ *Guidelines for Borrowing by the Fund—Temporary Suspension of Certain Provisions* (EBS/09/20, 2/10/2009).

⁵ *Extension of the Financial Transactions Plan, SDR Designation Plan and Use of Borrowed Resources for the Period February–May 2009 to February–June 2009* (EBS/09/75, 5/22/09).

4. The Managing Director is authorized, following the execution of the Agreement, to make such determinations and take such actions as are necessary to implement the Agreement, including but not limited to the making of drawings, the extension of the term of the Agreement and the maturity of drawings thereunder, and the determination of the media for drawings and payments in light of the Fund's operational needs. Such determinations and actions shall be consistent with the policies and guidelines on borrowing and the use of borrowed resources that are adopted by the Executive Board.

5. The Executive Board shall be informed of developments related to the implementation of the Agreement in reports to be furnished by the Managing Director on a quarterly basis throughout the term of the Agreement, with reports to be furnished more frequently in the event of significant developments related to the Agreement. Such reports shall cover all aspects of the implementation of the Agreement, including, as applicable, drawings made, disposition of amounts borrowed, and repayment of drawings.

**ATTACHMENT. Draft Borrowing Agreement Between Norges Bank
and the International Monetary Fund**

This borrowing agreement is entered into as of this ___ day of [month] 2009 by and between Norges Bank and the International Monetary Fund.

1. Purposes and Amounts.

In light of the multilateral effort to ensure the adequacy of the financial resources available to the International Monetary Fund (the “Fund”), and with a view to supporting the Fund’s ability to provide timely and effective balance of payments assistance to its members, Norges Bank agrees to lend to the Fund up to the equivalent of SDR 3 billion on the terms and conditions set out below.

2. Term of the Agreement.

(a) Subject to subparagraph (b), the Fund may make drawings in accordance with the terms of this agreement for a period of one year commencing on the date of the first drawing or August 1, 2009, whichever is earlier. Unless otherwise agreed between Norges Bank and the Fund, the Fund shall give Norges Bank at least five business days’ (Oslo) notice of its intention to draw, and shall provide payment instructions at least two business days (Oslo) prior to the value date of the transaction by SWIFT.

(b) After consultation with Norges Bank, the Fund may, if warranted in light of the Fund’s overall liquidity situation and actual and prospective borrowing requirements, extend the term of this agreement for successive one-year periods for a total drawing period of up to 5 years, effective upon notice being given by the Fund at least 1 month prior to expiration of the then current term.

(c) Notwithstanding subparagraphs (a) and (b), Norges Bank may, at its option, terminate the term of this agreement if Norway or Norges Bank (i) is a participant in an enlarged and amended New Arrangements to Borrow (“NAB”) that becomes effective after the date of this agreement, and (ii) has an effective credit arrangement under such enlarged and amended NAB that is at least equal to the remaining undrawn balance under this agreement at the time of such termination.

3. Uses, Estimates and Limits on Drawings.

(a) After consultation with Norges Bank, and taking into account both the Fund’s liquidity position and the desirability of achieving, over time, broadly balanced drawings under the Fund’s bilateral borrowing agreements, the Fund may make drawings under this agreement in connection with (i) any use of Fund resources in the General Resources Account, or (ii) the payment of the Fund’s outstanding indebtedness under other official sector borrowing effected pursuant to Article VII, Section 1(i) of the Fund’s Articles of

Agreement, in circumstances where the terms of such other borrowing permit the Fund to make drawings under such other borrowing in connection with the payment of the Fund's outstanding indebtedness under this agreement.

(b) Unless otherwise agreed between Norges Bank and the Fund, the Fund shall not draw more than the equivalent of SDR 0.4 billion during any calendar week.

(c) Prior to the beginning of each quarter of the Fund's financial year, the Fund shall provide Norges Bank with its best estimates of the amounts that it expects it will draw under this agreement during the forthcoming quarter, and shall provide revised estimates during each quarter where this is warranted.

4. Evidence of Indebtedness.

(a) At the request of Norges Bank, the Fund shall issue to Norges Bank non-negotiable instruments evidencing the Fund's indebtedness to Norges Bank arising under this agreement. The form of the instruments shall be agreed between the Fund and Norges Bank.

(b) Upon repayment of the amount of any instrument issued under subparagraph (a) and all accrued interest, the instrument shall be returned to the Fund for cancellation. If less than the amount of such an instrument is repaid, the instrument shall be returned to the Fund and a new instrument for the remainder of the amount shall be substituted with the same maturity date as the old instrument.

5. Maturity.

(a) Except as otherwise provided in this paragraph 5 and in subparagraph 9(b) below, each drawing under this agreement shall have a maturity date of three months from its drawing date. The Fund may in its sole discretion elect to extend the maturity date of any drawing or of any portion thereof by additional periods of three months after the initial maturity date, which extension the Fund shall automatically be deemed to have elected with respect to the maturity dates for all drawings then outstanding unless, at least five business days (Oslo) before a maturity date, the Fund notifies Norges Bank in writing that the Fund does not elect to extend the maturity date of a particular drawing or portion thereof; provided however that, in no event, shall the maturity date for any drawing be extended to a date that is later than the fifth anniversary of the date of such drawing.

(b) The Fund shall repay the principal amount of each drawing or relevant part thereof on the maturity date applicable to that drawing or part thereof pursuant to subparagraph (a).

(c) After consultation with Norges Bank, the Fund may make an early repayment in part or in full of the principal amount of any drawing prior to the maturity date applicable to the drawing pursuant to subparagraph (a).

(d) Repayments of drawings shall restore pro tanto the amount that can be drawn under this agreement. The extension of the maturity of a drawing or of any part thereof pursuant to subparagraph (a) shall not reduce the amount that can be drawn under this agreement.

(e) If the maturity date for a drawing is not a business day in the place where payment is to be made, the payment date shall be the next business day in that place.

6. Rate of Interest.

(a) Each drawing shall bear interest at the SDR interest rate established by the Fund pursuant to Article XX, Section 3 of the Fund's Articles of Agreement; provided however that, if the Fund pays an interest rate higher than the SDR interest rate on outstanding balances from any other borrowing on comparable terms that has been effected pursuant to Article VII, Section 1(i) of the Fund's Articles of Agreement, and for as long as the payment of such higher interest rate remains in effect, the interest rate payable on drawings under this agreement shall be equivalent to the interest rate paid by the Fund on such other comparable borrowing.

(b) The amount of interest payable on each drawing shall be calculated on the basis of the outstanding amount of the drawing. Interest shall accrue daily and shall be paid promptly by the Fund after each July 31, October 31, January 31 and April 30.

7. Denomination, Media and Modalities of Drawings and Payments.

(a) The amount of each drawing and corresponding repayment under this agreement shall be denominated in SDRs.

(b) Unless otherwise agreed between the Fund and Norges Bank, the amount of each drawing shall be paid by Norges Bank, on the value date specified in the Fund's notice under paragraph 2, by transfer of the SDR equivalent amount of Norwegian kroner to the account of the Fund at Norges Bank, Oslo.

(c) Repayments by the Fund of principal under this agreement shall be made in Norwegian kroner; provided that the Fund, after consultation with Norges Bank, may make repayments of principal in SDRs or freely usable currencies as determined by the Fund.

(d) Payments by the Fund of interest under this agreement shall normally be made in SDRs; provided that the Fund, by agreement with Norges Bank, may make interest payments in Norwegian kroner or any freely usable currency.

(e) All payments made by the Fund in Norwegian kroner shall be made by crediting the amount due to an account specified by Norges Bank, Oslo. Payments in SDRs

shall be made by crediting Norway's account in the Special Drawing Rights Department. Payments in any other currency shall be made to an account specified by Norges Bank.

8. Termination of Drawings at Request of Norges Bank.

Norges Bank's commitment to meet drawings under this agreement shall be terminated at the request of Norges Bank if (i) it represents that Norway's balance of payments and reserve position does not justify further drawings, and (ii) the Fund, having given this representation the overwhelming benefit of any doubt, determines that no further drawing should be made in light of Norway's balance of payments and reserve position.

9. Early Repayment at Request of Norges Bank.

(a) At the request of Norges Bank, Norges Bank shall obtain early repayment at face value of all or a portion of the drawings outstanding under this agreement, in accordance with subparagraphs (b) and (c), if (i) Norges Bank represents that Norway's balance of payments and reserve position justifies such repayment, and (ii) the Fund, having given this representation the overwhelming benefit of any doubt, determines that there is a need for early repayment as requested by Norges Bank in light of Norway's balance of payments and reserve position.

(b) Upon the Fund's determination under subparagraph (a), the maturity date of all outstanding drawings for which Norges Bank has requested early repayment shall be changed to the date that is 12 months after the date of the Fund's determination.

(c) The Fund shall begin to repay the drawings for which Norges Bank has requested repayment as soon as practicable after the Fund's determination under subparagraph (a), and shall, in any event, make full repayment of all such drawings within the 12-month maturity period specified in subparagraph (b).

10. Transferability.

(a) Except as provided in subparagraphs (b) through (h) below, Norges Bank may not transfer its obligations under this agreement, or any of its claims on the Fund resulting from outstanding drawings under this agreement, except with the prior consent of the Fund and on such terms or conditions as the Fund may approve.

(b) Norges Bank shall have the right to transfer at any time all or part of any claim on the Fund to any member of the Fund, to the central bank or other fiscal agency designated by any member for purposes of Article V, Section 1 of the Fund's Articles of Agreement ("other fiscal agency"), or to any official entity that has been prescribed as a holder of SDRs pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement.

(c) The transferee of a claim transferred pursuant to subparagraph (b) shall, as a condition of the transfer, assume the liability of Norges Bank pursuant to paragraph 5(a) regarding the extension of the maturity of drawings related to the transferred claim. More generally, any claim transferred pursuant to subparagraph (b), shall be held by the transferee on the same terms and conditions as the claim was held by Norges Bank, except that (i) the transferee shall acquire the right to request early repayment under paragraph 9 only if it is a member, or the central bank or other fiscal agency of a member, and at the time of transfer the member's balance of payments and reserve position is considered sufficiently strong in the opinion of the Fund that its currency is used in transfers under the Financial Transactions Plan, (ii) if the transferee is a member or the central bank or other fiscal agency of a member, the reference to Norwegian kroner in paragraph 7 shall be deemed to refer to the transferee's currency, and in other cases it shall be deemed to refer to a freely usable currency determined by the Fund, (iii) payments related to the transferred claim shall be made to an account specified by the transferee, and (iv) references to business days (Oslo) shall be deemed to refer to business days in the place where the transferee is situated.

(d) The price of a claim transferred pursuant to subparagraph (b) shall be as agreed between Norges Bank and the transferee.

(e) Norges Bank shall notify the Fund promptly of the claim that is being transferred pursuant to subparagraph (b), the name of the transferee, the amount of the claim that is being transferred, the agreed price for transfer of the claim, and the value date of the transfer.

(f) A transfer notified to the Fund under subparagraph (e) shall be reflected in the Fund's records if it is in accordance with the terms and conditions of this paragraph 10. The transfer shall be effective as of the value date agreed between Norges Bank and the transferee.

(g) If all or part of a claim is transferred during a quarterly period as described in paragraph 6(b), the Fund shall pay interest to the transferee on the amount of the claim transferred for the whole of that period.

(h) If requested, the Fund shall assist in seeking to arrange transfers.

11. Effective Exchange Rate.

Unless otherwise is agreed between Norges Bank and the Fund, all drawings, exchanges, and payments of principal and interest under this agreement shall be made at the exchange rates for the relevant currencies in terms of the SDR established pursuant to Article XIX, Section 7(a) and the rules and regulations of the Fund thereunder for the second business day of the Fund before the value date of the transfer, exchange or payment. If this exchange rate determination date is not a business day in Oslo, such date shall be the last preceding business day of the Fund that is also a business day in Oslo.

12. Changes in Method of Valuation of SDR.

If the Fund changes the method of valuing the SDR, all transfers, exchanges and payments of principal and interest made two 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.

13. Non-Subordination of Claims.

The Fund agrees that it will not take any action that would have the effect of making Norges Bank's claims on the Fund resulting from outstanding drawings under this agreement subordinate in any way to claims on the Fund resulting from any other borrowing effected pursuant to Article VII, Section 1(i) of the Fund's Articles of Agreement.

14. Settlement of Questions.

Any question arising under this agreement shall be settled by mutual agreement between Norges Bank and the Fund.

15. Concurrence under Article VII, Section 1(i).

This Agreement shall become effective only after Norway has provided the concurrence that is required under Article VII, Section 1(i) of the Fund's Articles of Agreement for Fund borrowing of Norwegian kroner from a party other than Norway.

This Agreement may be executed in duplicate counterparts, each of which shall be deemed an original and both of which together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, Norges Bank and the Fund have executed this Agreement as of the date first written above.

For Norges Bank:

Svein Gjedrem
Governor

Date

For the INTERNATIONAL MONETARY FUND:

Dominique Strauss-Kahn
Managing Director

Date