IMMEDIATE ATTENTION

EBS/10/153

August 10, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Borrowing Agreement with the Bank of Slovenia**

Attached for consideration by the Executive Directors is a paper on a draft borrowing agreement with the Bank of Slovenia.

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 Tuesday, August 17, 2010**. In the absence of such a request, the draft decision that appears on pages 5 and 6 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. Rodriguez, FIN (ext. 38475) and Mr. Bergthaler, LEG (ext. 34287).

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 the Bank of Slovenia

Prepared by the Finance Department and the Legal Department

Approved by Andrew Tweedie and Ross B. Leckow

August 10, 2010

I. Introduction

1. This paper presents for the approval of the Executive Board a draft borrowing agreement between the Bank of Slovenia and the Fund. On March 20, 2009, the European Union announced the support of its member states to boost the IMF's lending capacity by up to EUR 75 billion (about US$110 billion).[1] As part of this commitment, the Bank of Slovenia agreed to lend the Fund up to EUR 280 million (about US$366 million or SDR 240 million). Staff and Bank of Slovenia representatives have now reached agreement on a draft borrowing agreement, the text of which is set forth in the Attachment (the "Agreement"). 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 available to the Fund from the bilateral loan and note purchase agreements already in effect (Japan, Canada, Norges Bank, the United Kingdom, the People's Bank of China, Deutsche Bundesbank, De Nederlandsche Bank NV, Danmarks Nationalbank, Banco de Portugal, France, Brazil, the Central Bank of Malta, the National Bank of Belgium, Slovak Republic, the Reserve Bank of India, the Czech National Bank, the Swedish Riksbank, the Bank of Finland, and Spain), or expected to become effective shortly (the Swiss National Bank, Banca d'Italia, Oesterreichische Nationalbank, and Ireland).[2] It follows discussions between staff and the

[1] In September the European Union increased its commitment by an additional EUR 50 billion for the New Arrangements to Borrow, http://www.imf.org/external/np/sec/pr/2009/pr09298.htm.

[2] *Borrowing Agreement with the Government of Japan* (EBS/09/19, 2/10/09), *Borrowing Agreement with Norges Bank* (EBS/09/77, 5/29/09), *Borrowing Agreement with the Government of Canada* (EBS/09/85, 6/10/09), *Borrowing Agreement with the Government of France* (EBS/09/107, 6/29/09), *Borrowing Agreement with the Government of the United Kingdom* (EBS/09/128, 8/24/09), *Note Purchase Agreement with the People's Bank of China* (EBS/09/130, 8/26/09), *Borrowing Agreement with Deutsche Bundesbank* (EBS/09/136, 9/02/09), *Borrowing Agreement with the Swiss National Bank* (EBS/09/143, 9/11/09), *Borrowing Agreement with Spain* (EBS/09/144, 9/15/09), *Borrowing Agreement with De Nederlandsche Bank NV* (EBS/09/150, 9/28/09), *Borrowing Agreement with Danmarks Nationalbank* (EBS/09/156, 10/16/09), *Borrowing Agreement with Banca d'Italia* (EBS/09/160, 10/21/09), *Borrowing Agreement with Banco de Portugal* (EBS/09/169, 11/25/09), *Borrowing Agreement with the Central Bank of Malta* (EBS/10/1, 1/5/10),

(continued)

Sub-Committee on the IMF (SCIMF) of the Economic and Financial Committee (EFC) of the European Union on a template for bilateral loan agreements between the Fund and EU member states. It is expected that borrowing agreements with other EU members containing broadly similar terms will be proposed for Board approval in the near future.

2. The Agreement closely follows the terms of the previous borrowing agreements; hence Board approval on a lapse of time basis is proposed.

II. Specific Features of the Proposed Agreement

3. This section highlights the key terms and provisions that are unique to the Agreement compared to the Japan borrowing agreement, reflecting the preferences of the Bank of Slovenia and other EU members, as well as developments since the Japan loan was agreed, including the enlargement and expansion of the New Arrangements to Borrow (NAB). 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.[3]

Amount

4. The ceiling for drawings under the Agreement is expressed in euros (the SDR equivalent of EUR 280 million), rather than in U.S. dollars as in the case of the Japan agreement.

Term of the Agreement

5. The Agreement has an initial term of two years, which defines the period within which drawings can be made under the Agreement. The term commences on the date the agreement becomes effective (Paragraph 2(a)). The initial term can be extended by additional one-year periods for a total drawing period of up to four years, subject to the agreement of the Bank of Slovenia (Paragraph 2(b)). (In contrast, the borrowing agreement with Japan provided for a one-year initial term that is extendable for additional one-year periods subject to consultation with Japan, for up to a total five-year period.)

Note Purchase Agreement with Brazil (EBS/10/2, 1/8/10), *Borrowing Agreement with the National Bank of Belgium* (EBS/10/9, 1/20/10), *Borrowing Agreement with the Slovak Republic* (EBS/10/10, 1/20/10), *Borrowing Agreement with the Oesterreichische Nationalbank* (EBS/10/17, 1/27/10), *Borrowing Agreement with Ireland* (EBS/10/19, 1/29/10), *Note Purchase Agreement with the Reserve Bank of India* (EBS/10/27, 2/16/10), *Borrowing Agreement with the Bank of Finland* (EBS/10/40, 3/11/10), *Borrowing Agreement with th*e *Czech National Bank* (EBS/10/43, 3/15/10), and *Borrowing Agreement with the Swedish Riksbank* (EBS/10/51, 3/22/10).

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

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, and consistent with the other bilateral loan and note purchase agreements approved after July 1, 2009, the Agreement gives the Bank of Slovenia the option to terminate the term of the Agreement with respect to any undrawn balances upon the participation of the Republic of Slovenia, the Bank of Slovenia, or another official institution of the Republic of Slovenia, in an enlarged and more flexible NAB (Paragraph 2(c)). The terms pursuant to which outstanding drawings under the Agreement can be folded into the NAB is addressed as part of the transitional arrangements in the NAB.[4]

Limits on Drawings

7. The Agreement provides only for a monthly limit on drawings, unlike the Japan agreement, which has both a weekly and a monthly limit. Specifically, unless otherwise agreed between the Bank of Slovenia and the Fund, the Fund cannot draw more than the equivalent of EUR 140 million during any calendar month (Paragraph 3(b)).

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. In line with all borrowing agreements concluded after the Japan agreement, to reduce the administrative burden for the Bank of Slovenia and the Fund, the agreement provides that the maturity dates of all outstanding drawings are automatically deemed to be extended unless the Fund notifies the Bank of Slovenia at least five business days before a maturity date that the Fund does not elect to extend that maturity date (Paragraph 5(a)).

Encashment

9. The Bank of Slovenia expressed the preference to have traditional provisions for immediate encashability of its claims under the Agreement in case of balance of payments need, so as to be in a position to treat its claims on the Fund as reserve assets. Paragraph 9 of the Agreement provides for such immediate encashability, consistent with the recently amended Guidelines for Borrowing by the Fund, which established an initial limit of

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[4] *Decision No. 11428-(97/6), adopted January 27, 1997*, as amended by *Decision No. 14577-(10/35), adopted April 12, 2010*, (not yet effective) and *Proposed Decision to Modify the New Arrangement to Borrow* (SM/10/71, 3/25/10).

SDR 15 billion under each agreement on immediate encashability.[5] Under this provision, at the request of the Bank of Slovenia the Fund will make an immediate early repayment at face value of all or a portion of the drawings outstanding under the Agreement if the Bank of Slovenia represents that the balance of payments and reserve position of the Republic of Slovenia justify such repayment and the Fund, having given this representation the overwhelming benefit of any doubt, determines that there is a need for the early repayment as requested by the Bank of Slovenia in light of the Republic of Slovenia's balance of payments and reserve position.

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, and in line with the agreements with Norges Bank, Deutsche Bundesbank, the Swiss National Bank, De Nederlandsche Bank NV, Danmarks Nationalbank, Banca d'Italia, Banco de Portugal, the Central Bank of Malta, the National Bank of Belgium, the Oesterreichische Nationalbank, the Czech National Bank, the Swedish Riksbank, and the Bank of Finland, the authorities have agreed that such payments can be made on behalf of the Bank of Slovenia to the Republic of Slovenia's account in the Special Drawing Rights Department.

11. As the Fund is not borrowing directly from the Republic of Slovenia, the Agreement will become effective only when the Republic of Slovenia has consented, in accordance with Article VII, Section 1(i), to the Fund's borrowing of euros from the Bank of Slovenia (Paragraph 15(b)).

[5] *Borrowing by the Fund—Operational Issues* (SM/09/150, Supplement 2, 6/29/09).

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 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 the Bank of Slovenia on the terms and conditions set forth in the proposed borrowing agreement with the Bank of Slovenia that is set out in the Attachment to EBS/10/153, 8/10/10 (the "Agreement").

2. 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.

3. 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.

4. 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.

Borrowing Agreement between the Bank of Slovenia and the International Monetary Fund

1. Purposes and Amounts.

(a) 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, the Bank of Slovenia agrees to lend to the Fund an SDR-denominated amount up to the equivalent of EUR 280 million, on the terms and conditions set out below.

(b) This agreement is based on Article VII, Section 1(i) of the Articles of Agreement of the IMF, which authorizes the Fund to borrow from Fund members or other sources if it deems such action appropriate to replenish its holdings of any member's currency in the General Resources Account (GRA). This agreement must be considered in light of the Fund's Guidelines on Borrowing which make clear that quota subscriptions are and should remain the basic source of Fund financing, and that the role of borrowing is to provide a temporary supplement to quota resources.

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 two years commencing on the date the agreement becomes effective according to paragraph 15(b). Unless otherwise agreed between the Bank of Slovenia and the Fund, the Fund shall give the Bank of Slovenia at least five business days' (Ljubljana) notice of its intention to draw, and shall provide payment instructions at least two business days (Ljubljana) prior to the value date of the transaction by SWIFT.

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

(c) Notwithstanding subparagraphs (a) and (b), the Bank of Slovenia may, at its option, terminate the term of this agreement if the Republic of Slovenia, the Bank of Slovenia, or any other official institution of the Republic of Slovenia is a participant in an enlarged and amended New Arrangements to Borrow ("NAB") that becomes effective after the date of this agreement.

3. Uses, Estimates and Limits on Drawings.

(a) After consultation with the Bank of Slovenia, and taking into account both the Fund's liquidity position and the need to achieve, in the medium-term, 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 the Bank of Slovenia and the Fund, the Fund shall not draw more than the equivalent of EUR 140 million during any calendar month, as calculated pursuant to paragraph 11(b).

(c) The Fund shall not make a drawing under this agreement if such drawing would result in the cumulative amount drawn under this agreement exceeding EUR 280 million at the time of such drawing, as calculated pursuant to paragraph 11(b).

(d) Prior to the beginning of each quarter of the Fund's financial year, the Fund shall provide the Bank of Slovenia 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 the Bank of Slovenia, the Fund shall issue to the Bank of Slovenia non-negotiable instruments evidencing the Fund's indebtedness to the Bank of Slovenia arising under this agreement. The form of the instruments shall be agreed between the Fund and the Bank of Slovenia.

(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 paragraph 9 below, each drawing under this agreement shall have a maturity date of three months from the 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 (Ljubljana) before a maturity date, the Fund notifies the Bank of Slovenia 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 of 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 the Bank of Slovenia, 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), provided that the Fund notifies in writing the Bank of Slovenia at least five business days (Ljubljana) before any such repayment.

(d) Repayments of drawings shall not increase the total amount that can be drawn under this agreement. The extension of 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 a maturity date for a drawing is not a business day in the place where payment is to be made, then the payment date for the principal amount of such drawing will be the next business day in that place. In such cases, interest will accrue up to the payment date.

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 the Bank of Slovenia, the amount of each drawing shall be paid by the Bank of Slovenia, on the value date specified in the Fund's notice under paragraph 2, by transfer of the SDR equivalent amount of euros to the account of the Fund at the designated depository of the Republic of Slovenia.

(c) Except as otherwise provided in paragraph 9 below, and unless otherwise agreed between the Fund and the Bank of Slovenia, repayments by the Fund of principal under this agreement shall be made in euros.

(d) Payments by the Fund of interest under this agreement shall normally be made in SDRs; provided that the Fund and the Bank of Slovenia may agree that interest payments will be made in euros.

(e) All payments made by the Fund in euros shall be made by crediting the amount due to an account specified by the Bank of Slovenia. Payments in SDRs shall be made by crediting the Republic of Slovenia's account in the Special Drawing Rights Department. Payments in any other currency shall be made to an account specified by the Bank of Slovenia.

8. Termination of Drawings at Request of the Bank of Slovenia.

The Bank of Slovenia's commitment to meet drawings under this agreement shall be terminated at the request of the Bank of Slovenia if (i) the Bank of Slovenia represents that the balance of payments and reserve position of the Republic of Slovenia 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 the balance of payments and reserve position of the Republic of Slovenia.

9. Early Repayment at Request of the Bank of Slovenia.

At the request of the Bank of Slovenia, the Bank of Slovenia shall obtain early repayment at face value of all or a portion of the drawings outstanding under this agreement, if (i) the Bank of Slovenia represents that the balance of payments and reserve position of the Republic of Slovenia justifies such repayment, and (ii) the Fund, having given this representation the overwhelming benefit of any doubt, determines that there is a need for the early repayment as requested by the Bank of Slovenia in light of the balance of payments and reserve position of the Republic of Slovenia. After consultation with the Bank of Slovenia, the Fund may make repayments pursuant to this paragraph 9 in SDRs or a freely usable currency as determined by the Fund.

10. Transferability.

(a) Except as provided in subparagraphs (b) through (h) below, the Bank of Slovenia 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) The Bank of Slovenia shall have the right to transfer at any time all or part of any claim on the Fund resulting from outstanding drawings under this agreement 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 the Bank of Slovenia 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 the Bank of Slovenia, 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 euros 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 (Ljubljana) 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 the Bank of Slovenia and the transferee.

(e) The Bank of Slovenia 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 the Bank of Slovenia 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.

(a) Unless otherwise agreed between the Bank of Slovenia 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) of the Fund's Articles of Agreement 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 Ljubljana, such date shall be the last preceding business day of the Fund that is also a business day in Ljubljana.

(b) For purposes of applying the limit on drawings specified in paragraphs 1, 3(b) and 3(c), the euro value of each SDR-denominated drawing shall be determined and permanently fixed on the value date of the drawing based on the euro/SDR exchange rate established pursuant to Article XIX, Section 7(a) of the Fund's Articles of Agreement and the rules and regulations of the Fund thereunder for the second business day of the Fund before the value date of the drawing. If this exchange rate determination date is not a business day in Ljubljana, such date shall be the last preceding business day of the Fund that is also a business day in Ljubljana.

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 the Bank of Slovenia'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 the Bank of Slovenia and the Fund.

15. Final Provisions.

(a) 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.

(b) This agreement shall become effective on the date last signed below or the date on which the Republic of Slovenia provides the concurrence that is required under Article VII, Section 1(i) of the Fund's Articles of Agreement for Fund borrowing of euros from the Bank of Slovenia, whichever is later.

For the Bank of Slovenia:

______________________________ ______________________________
Date

For the International Monetary Fund:

______________________________ ______________________________
Date