

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

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CONFIDENTIAL

September 21, 1992

To: Members of the Executive Board
From: The Secretary
Subject: Latvia - Stand-By Arrangement

Attached for the records of Executive Directors is the text of the stand-by arrangement for Latvia agreed at Executive Board Meeting 92/118 (9/14/92).

Att: (1)

Other Distribution:
Department Heads

Latvia - Stand-by Arrangement

Attached hereto* is a Letter and annexed Memorandum dated August 14, 1992, from the Minister of Finance of Latvia and the Governor of the Bank of Latvia requesting a stand-by arrangement and setting forth (i) the objectives and policies that the authorities of Latvia intend to pursue for the period of this stand-by arrangement; and (ii) understandings of Latvia with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Latvia will pursue for the remaining period of this stand-by arrangement.

To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement, in accordance with the following provisions:

1. For the period of 12 months from September 14, 1992, Latvia will have the right to make purchases from the Fund in an amount equivalent to SDR 54,900,000, subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.
2. (a) Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 15,250,000 until November 15, 1992, the equivalent of SDR 25,162,500 until February 15, 1993, the equivalent of SDR 35,075,000 until May 15, 1993, and the equivalent of SDR 44,987,500 until August 15, 1992.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Latvia's currency in the credit tranches beyond 25 percent of quota.
3. Purchases under this stand-by arrangement shall be made from ordinary resources only.
4. Latvia will not make purchases under this arrangement that would increase the Fund's holdings of its currency in the credit tranches beyond 25 percent of quota:

(a) during any period in which the data at the end of the preceding period indicate that:

(1) the limits on the cumulative change in the net international reserves referred to in paragraph 44 and Annex III of the Memorandum; or

* See EBS/92/131 (8/17/92).

(2) the limits on net disbursement of public medium- and long-term external debt, referred to in paragraph 45 and Annex IV of the Memorandum; or

(3) the limit on government debt of up to one year, referred to in paragraph 45 of the Memorandum; or

(4) the limit on the cumulative change in net credit from the banking system to the general government referred to in paragraph 18 and Annex I of the Memorandum; or

(5) the limit on net domestic assets of the Bank of Latvia referred to in paragraph 22 and Annex II of the Memorandum has not been observed; or

(b) after November 14, 1992, until the review referred to in the last paragraph of the Letter has been completed; or

(c) after February 14, 1993 until the review referred to in the last paragraph of the Letter has been completed and appropriate understandings have been reached on suitable performance criteria for the remainder of the stand-by arrangement, or after such performance criteria have been established, while they are not being observed; or

(d) during any period of the stand-by arrangement, if Latvia

(1) imposes or intensifies restrictions on payments and transfers for current international transactions; or

(2) introduces or modifies multiple currency practices; or

(3) concludes bilateral payments agreements which are inconsistent with Article VIII; or

(4) imposes or intensifies import restrictions for balance of payments reasons; or

(5) accumulates external arrears.

When Latvia is prevented from purchasing under this arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Latvia and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Latvia will not make purchases under this stand-by arrangement during any period of the arrangement in which it has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase or pursuant to Decision No. 9331-(89/167) as amended.

6. Latvia's right to engage in the transactions covered by this arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility; or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Latvia. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 6, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Latvia and understandings have been reached regarding the circumstances in which such purchases can be resumed.

7. Purchases under this arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Latvia, the Fund agrees to provide them at the time of the purchase.

8. Latvia shall pay a charge for this arrangement in accordance with the decisions of the Fund.

9. (a) Latvia shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those related to repurchase as Latvia's balance of payments and reserve position improves.

(b) Any reduction in Latvia's currency held by the Fund shall reduce the amount subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

10. During the period of the stand-by arrangement, Latvia shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Latvia or of representatives of Latvia to the Fund. Latvia shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Latvia in achieving the objectives and policies set forth in the attached letter.

11. In accordance with the authorities' letter, Latvia will consult with the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed, or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Latvia has outstanding repurchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Latvia's balance of payments policies.

