

**DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE**

MASTER FILES
ROOM C-525

0451



EBS/89/224
Supplement 1

CONFIDENTIAL

December 18, 1989

To: Members of the Executive Board

From: The Secretary

Subject: Debt and Debt-Service Reduction Operations -
Early Repurchase Expectations - Revised Proposed Decision

It is not proposed to bring the attached draft decision to the agenda of the Executive Board for discussion unless an Executive Director so requests by the close of business on Tuesday, December 19, 1989. In the absence of such a request, the attached proposed decision, which reflects changes made during the Board meeting of December 18, 1989, will be deemed approved by the Executive Board, and it will be so recorded in the minutes of the next meeting thereafter.

Mr. Gianviti (ext. 8329) is available to answer questions relating to this proposed decision.

Att: (1)

Proposed Decision

In the context of the guidelines on the role of the Fund in the debt strategy, the Fund adopts the following decision on expectations of early repurchase by members with respect to purchases of additional resources for interest support under stand-by or extended arrangements, and purchases of amounts set aside under such arrangements to support operations involving debt reduction:

A. Failure to Use Resources for Specified Purposes

1. Whenever the Fund approves a member's request for (i) purchases of amounts set aside to support operations involving debt reduction under a stand-by or extended arrangement, or (ii) additional resources for interest support under a stand-by or extended arrangement, pursuant to the Fund's guidelines on the role of the Fund in the debt strategy, the Fund shall specify in the decision approving the request the purposes for which, and the period of time within which, such set-aside amounts or additional resources can be used.

2. If the member, having purchased such set-aside amounts or additional resources, has not used them by the end of the specified period of time for the specified purposes, the Managing Director shall, after consultation with the member, promptly report the matter to the

Executive Board. In his report, the Managing Director shall recommend that the Executive Board decide that the member is expected to make an early repurchase of the set-aside amounts or additional resources that were not used for the specified purposes, or shall recommend such other action as may be appropriate.

3. The Fund may decide that the member shall be expected to repurchase the set-aside amounts or additional resources that were not used for the specified purposes within 30 days of the decision or within such longer period as the Executive Board may specify.

B. Subsequent Derailment of Program

4. (a) If the program of a member that has previously made accelerated purchases of amounts set aside to support operations involving debt reduction under a stand-by or extended arrangement is off track on the date a purchase becomes available under the phasing provision in the arrangement, and is not back on track within 90 days after that date, the Managing Director shall report the matter to the Executive Board promptly after the expiration of the 90-day period.

(b) For purposes of this decision, a member's program is off track if the member is unable to make a purchase under the arrangement because of (i) the nonobservance of a performance criterion, the noncompletion of a review or the failure to meet any other condition

under the arrangement, or (ii) the cancellation of the arrangement by the member before the purchase; the program is back on track if the member is again able to make purchases under the arrangement.

(c) Subparagraph (a) shall not apply if, on the date the purchase becomes available, all set-aside amounts that were purchased by the member by virtue of the acceleration would already have become available to the member under the phasing provision in the stand-by or extended arrangement in the absence of the acceleration.

5. In the report submitted under paragraph 4 above, the Managing Director shall recommend such action as may be appropriate, including the possibility of an expectation of early repurchase of the accelerated set-aside amounts.

6. (a) In the event that the Executive Board, taking into account the member's economic and financial position, decides that the member shall be expected to repurchase accelerated set-aside amounts, the member would be expected to make the repurchase, to the extent that such amounts would not yet have become available to the member under the phasing provision in the stand-by or extended arrangement in the absence of acceleration, within a period specified by the Executive Board, provided that such period would not be less than 30 days. The Executive Board shall give special consideration to those cases where

the program has gone off track because of circumstances beyond the control of the member.

(b) A member shall not be expected to repurchase pursuant to subparagraph (a) above if its program is back on track within the period specified in that subparagraph, or if the Executive Board determines that the member has already begun to implement measures designed to bring the program back on track.

(c) If the Fund finds that the program is back on track after the repurchase has been made under this paragraph, the amount of the stand-by or extended arrangement shall be increased by an amount equivalent to the repurchase, subject to such phasing as shall be specified.

C. General Provisions

7. The Fund shall not approve, and the Managing Director shall not recommend for approval, a request for the use of the general resources of the Fund by a member that is failing to meet a repurchase expectation pursuant to paragraph 3 or 6 above.

8. (a) Provision shall be made in stand-by and extended arrangements for the suspension of further purchases under the arrangement whenever a member fails to meet a repurchase expectation pursuant to paragraph 3 or 6 above.

(b) Paragraph 5 of the standard form of the stand-by arrangement in Attachment A to Decision No. 6838-(81/70) adopted April 29, 1981, as amended, shall be modified as follows:

"(Member) will not make purchases under this stand-by arrangement during any period of the arrangement in which (member) 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.[this decision]."

(c) Paragraph 5 of the standard form of the extended arrangement in Attachment B to Decision No. 6838-(81/70) adopted April 29, 1981, as amended, shall be modified as follows:

"(Member) will not make purchases under this extended arrangement during any period of the arrangement in which (member) 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. [this decision]."

9. If a repurchase pursuant to the expectation under paragraph 3 or 6 above has not been effected within the specified period of time, the Managing Director shall submit promptly a report to the Executive Board accompanied with a proposal on how to deal with this matter.

10. Nothing in this decision shall be deemed to limit the power of the Fund to take any other action that may be taken pursuant to the Fund's Articles.