

DOCUMENT OF INTERNATIONAL MONETARY FUND
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**FOR
AGENDA**

EBS/88/106

CONFIDENTIAL

May 31, 1988

To: Members of the Executive Board

From: The Acting Secretary

Subject: Enhanced Structural Adjustment Facility (ESAF) - Proposed
Arrangement for Subsidy Contribution by the Austrian
National Bank; Establishment of an Administered Account

Attached for consideration by the Executive Directors is a paper on a proposed arrangement for subsidy contribution by the Austrian National Bank and the establishment of an administered account. A draft decision appears on page 3.

It is proposed to bring this subject to the agenda of the Executive Board for discussion on Wednesday, June 8, 1988.

Mr. Leddy (ext. 8332) or Mr. Munzberg (ext. 6675) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

INTERNATIONAL MONETARY FUND

Enhanced Structural Adjustment Facility (ESAF):
Proposed Arrangement for Subsidy Contribution
by the Austrian National Bank;
Establishment of an Administered Account

Prepared by the Treasurer's and Legal Departments

(In consultation with the Exchange and
Trade Relations Department)

Approved by Gerhard Laske and François P. Gianviti

May 31, 1988

I. Introduction

As noted in EBS/88/93 (5/17/88), the staff has been discussing with a number of potential contributors to the ESAF Trust's Subsidy Account contributions to that account in forms other than direct grants. 1/ A proposal has now been received from the Austrian National Bank (the "Bank") for a deposit of SDR 60 million with an Administered Account that the Bank requests the Fund to establish (Annex II). Subject to completion of legislative procedures, the Bank proposes to make this deposit available for 5 1/2 to 10 years at a rate of interest of one-half of 1 percent per annum; the proceeds of the deposit would be reinvested by the Administered Account; and the net investment earnings would be transferred as a donation to the Trust's Subsidy Account. The subsidy value of the proposed arrangement is presently estimated to be SDR 26 million.

II. Principal Elements of the Proposed Arrangement

The Bank's proposal for a deposit (Annex II) and the Managing Director's reply accepting the proposal (Annex III) would constitute an agreement between the Fund and the Austrian National Bank which would enter into effect following completion of required legislative procedures.

1/ EBS/88/93 presents the proposed agreement for investments with the Subsidy Account by Bank Negara Malaysia and is also intended to serve as general background for the Board's consideration of other arrangements that are similar in substance.

1. Nature of contribution. At the request of the Bank, the Fund would establish an Administered Account pursuant to Article V, Section 2(b) of the Articles of Agreement, in accordance with the draft Instrument set out in Annex I. The Administered Account would become operational once the necessary Austrian legislative procedures have been completed and the Bank makes the proposed deposit.
2. Timing of contribution. It is intended that the deposit would be made as soon as legislative approval is obtained, but in any case not later than January 1, 1989 (Annex II).
3. Terms. The deposit would be denominated in SDRs, and all payments would be made in Austrian schillings (paragraphs 2 and 7 of the draft Instrument). The proceeds of the deposit would be invested by the Administered Account (paragraph 3). Interest would be payable on the outstanding amount of the deposit, from the proceeds of the investment, at a rate of one-half of 1 percent per annum (paragraph 4). The net investment earnings would be transferred to the ESAF Trust's Subsidy Account (paragraph 5). The deposit would be repaid, from the proceeds of the investment, in 10 equal semiannual installments beginning 5 1/2 years and ending 10 years after the date of the deposit (paragraph 6).

The Bank has requested that the exchange rates of the Austrian schilling in terms of the SDR, for transfers and payments between the Bank and the Administered Account, be established by the Fund for the second business day of the Fund before the date of transfer or payment. Normally, payments in Fund-related transactions (including those conducted through ESAF Trust's Loan Account) are made on the basis of exchange rates three business days before payment, primarily to give adequate time to members in different geographical locations to effect the necessary operations. In this particular case, however, the payments relate exclusively to transactions between the Administered Account and the Bank. As a two-day settlement period is feasible for both parties in this instance, the appropriate provision is incorporated into paragraph 8 of the Instrument.

The provisions for encashment of the deposit by the Bank and advance repayment by the Trustee parallel those proposed for the Bank Negara Malaysia's investment with the Subsidy Account as explained in EBS/88/93 (paragraphs 9 and 10).

The assets and property of the Administered Account would be kept separate from all other accounts of, or administered by, the Fund. No obligation of the Administered Account would be discharged from other Fund accounts (paragraph 11). The rules regarding financial records, reports, and audit of the accounts are outlined in paragraph 12. The Account would be terminated once its operations are completed, and any

residual balances would be transferred to the Subsidy Account (paragraph 13). Any questions arising under the agreement would be settled by mutual agreement between the Bank and the Fund (paragraph 14).

III. Proposed Decision

The offer by the Austrian National Bank to make a deposit for the benefit of the Subsidy Account of the ESAF Trust represents a most welcome contribution to the Enhanced Structural Adjustment Facility. Accordingly, the following decision, which can be taken by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. Pursuant to Article V, Section 2(b), at the request of the Austrian National Bank (the "Bank") as set forth in its letter dated May 27, 1988 (Annex II), the Fund adopts the Instrument to establish an account for the administration by the Fund of a deposit to be provided by the Bank on the terms and conditions set forth in the Instrument that is annexed to this decision (Annex I).
2. The provisions of the Instrument may be amended only by a decision of the Fund and with the concurrence of the Bank.
3. Pursuant to Article V, Section 2(b), the Managing Director is authorized to accept the proposal by the Bank to deposit to the Account an amount in the equivalent of SDR 60 million on a value date to be agreed between the Fund and the Bank, but in any case not later than January 1, 1989 (Annex III). The deposit shall be administered in accordance with the provisions of the Instrument adopted under paragraph 1 of this decision. The agreement between the Fund and the Bank is subject to a special Austrian Enabling Act. It shall enter into effect on the date the Fund acknowledges receipt of the communication by which the Austrian National Bank notifies the Fund of the completion of the required legislative procedures.

Attachments

Proposed Instrument for An Administered Account Austria

To help fulfill its purposes, the International Monetary Fund (hereinafter called the Fund) has adopted this Instrument to establish an account in accordance with Article V, Section 2(b) ("Administered Account Austria") at the request of the Austrian National Bank, which shall be governed by, and administered in accordance with, the terms and conditions of this Instrument:

1. The Managing Director is hereby authorized to establish with the Fund an account for the administration of resources deposited in that account by the Austrian National Bank (the "Bank").

2. The amount of the deposit shall be denominated in SDRs. The amount shall be paid by the Bank by transfer of an equivalent amount of Austrian schillings to an account designated by the Fund.

3. The resources of the account shall be invested by the Fund. The Managing Director is authorized (i) to make all arrangements, including establishment of accounts in the name of the International Monetary Fund, with such depositories of the Fund as may be necessary to carry out the operations of the account, and (ii) to take all measures necessary to implement the provisions of this Instrument.

4. (a) The deposit shall bear interest at an annual rate of one-half of 1 percent per annum.

(b) The amount of interest payable in respect of the amount of the deposit outstanding shall be calculated on the basis of the actual number of days that interest has accrued and a 365-day year and shall be paid by the Fund on each anniversary of the deposit or on the date the relevant principal amount is repaid, whichever is earlier, from the proceeds of the investment.

5. The difference between the interest earned by the Fund on the invested amount and the interest due to the Bank under paragraph 4, net of any cost, shall be transferred promptly to the Subsidy Account of the Enhanced Structural Adjustment Facility Trust.

6. (a) The Fund shall repay the principal amount of the deposit in 10 equal semiannual instalments, which shall begin not later than the end of the first six months of the sixth year, and be completed at the end of the tenth year, after the date of the deposit.

- (b) The Fund shall repay the principal amount of the deposit from the proceeds of the investment.

7. Payments by the Fund of principal and interest shall be made in Austrian schillings and shall be made by crediting the amount due to an account designated by the Bank. If a payment date does not fall on a business day in Austria, payment shall be made on the next succeeding business day in Austria.

8. Unless otherwise agreed between the Bank and the Fund, the transfer under paragraph 2, and all payments of principal and interest, shall be made at the exchange rates for the Austrian schilling, in terms of the SDR, established by the Fund for the second business day of the Fund before the value date of the transfer or payment.

9. The Bank intends to maintain the deposit outstanding through its maturity, subject to paragraphs 6(a) and 10. However, if the Bank represents that because of Austria's balance of payments and reserve position there is a need to encash all or part of the outstanding deposit, and the Fund, having given this representation the overwhelming benefit of any doubt, agrees, the deposit may be encashed in whole or in part in advance of maturity. The Bank agrees to restore the deposit as soon as practicable in light of developments in Austria's balance of payments and reserve position.

10. The Fund may repay the principal amount of the deposit in part or in full at any time in advance of maturity.

11. (a) The assets and property of the account shall be kept separate from the assets and property of all other accounts of, or administered by, the Fund. The assets and property held in such other accounts shall not be used to discharge or meet the liabilities, obligations or losses of the Fund incurred in the administration of the account; nor shall the assets and property of the account be used to discharge or meet the liabilities, obligations or losses incurred by the Fund in the administration of such other accounts.
- (b) Subject to the provisions of this Instrument, the Fund, in administering the account, shall apply *mutatis mutandis* the same rules and procedures as apply to operations of the General Resources Account of the Fund.
- (c) No charge shall be levied on the Bank for the services rendered by the Fund in the administration, operation, and termination of this account.

12. (a) The Fund shall maintain separate financial records and prepare separate financial statements for the account.
 - (b) The Audit Committee selected under Section 20 of the Fund's By-Laws shall audit the operations and transactions conducted through the account. The audit shall relate to the financial year of the Fund.
 - (c) The Fund shall report on the assets and property and on the operations of the account in the Annual Report of the Executive Board to the Board of Governors and shall include in that Annual Report the report of the Audit Committee on the account.
13. The account shall be terminated upon completion of its operation. Once the obligation to repay the deposit has been discharged and the final payment of interest has been made, any surplus remaining in the account shall be transferred to the Subsidy Account of the Enhanced Structural Adjustment Facility Trust.
14. Any question arising hereunder shall be settled by mutual agreement between the Austrian National Bank and the Fund.

Vienna, May 27, 1988

Dear Mr. Camdessus:

In view of the economic plight many low-income developing countries find themselves in, the Austrian National Bank, welcoming international action to remedy this situation, wishes to share in the financial support for sound policy undertakings by such countries aiming at a substantial and sustained strengthening of their balance of payments and economic growth. Considering the Enhanced Structural Adjustment Facility, administered by the Fund, as a valuable instrument toward this end, the Austrian National Bank proposes to deposit in an account to be established with the International Monetary Fund for the administration of the deposited resources in accordance with Article V, Section 2(b) of the Fund's Articles of Agreement an amount equivalent to SDR 60 million on a value date to be agreed between the Austrian National Bank and the Fund, but in any case not later than January 1, 1989. It is also proposed that the deposit and its administration be governed by the provisions of the attached Instrument, which is subject to the approval of the Executive Board of the Fund.

If the foregoing proposal is acceptable to the Fund, this communication and your duly authenticated reply accepting this proposal shall constitute an agreement between the Fund and the Austrian National Bank. This agreement is subject to a special Austrian Enabling Act. It shall enter into effect on the date the Fund acknowledges receipt of the communication by which the Austrian National Bank notifies the Fund of the completion of the required legislative procedures.

The Austrian National Bank requests the Fund to open an account for the administration of the deposit in accordance with Article V Section 2(b) of the Fund's Articles of Agreement.

Sincerely,

/s/ Kienzl /s/ Lachs

Executive Board
of the Austrian National Bank

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Instrument for An Administered Account Austria

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1. The Managing Director is hereby authorized to establish with the Fund an account for the administration of resources deposited in that account by the Austrian National Bank (the "Bank").

2. The amount of the deposit shall be denominated in SDRs. The amount shall be paid by the Bank by transfer of an equivalent amount of Austrian schillings to an account designated by the Fund.

3. The resources of the account shall be invested by the Fund. The Managing Director is authorized (i) to make all arrangements, including establishment of accounts in the name of the International Monetary Fund, with such depositories of the Fund as may be necessary to carry out the operations of the account, and (ii) to take all measures necessary to implement the provisions of this Instrument.

4. (a) The deposit shall bear interest at an annual rate of one-half of 1 percent per annum.

(b) The amount of interest payable in respect of the amount of the deposit outstanding shall be calculated on the basis of the actual number of days that interest has accrued and a 365-day year and shall be paid by the Fund on each anniversary of the deposit or on the date the relevant principal amount is repaid, whichever is earlier, from the proceeds of the investment.

5. The difference between the interest earned by the Fund on the invested amount and the interest due to the Bank under paragraph 4, net of any cost, shall be transferred promptly to the Subsidy Account of the Enhanced Structural Adjustment Facility Trust.

6. (a) The Fund shall repay the principal amount of the deposit in 10 equal semiannual instalments, which shall begin not later than the end of the first six months of the sixth year, and be completed at the end of the tenth year, after the date of the deposit.

- (b) The Fund shall repay the principal amount of the deposit from the proceeds of the investment.

7. Payments by the Fund of principal and interest shall be made in Austrian schillings and shall be made by crediting the amount due to an account designated by the Bank. If a payment date does not fall on a business day in Austria, payment shall be made on the next succeeding business day in Austria.

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9. The Bank intends to maintain the deposit outstanding through its maturity, subject to paragraphs 6(a) and 10. However, if the Bank represents that because of Austria's balance of payments and reserve position there is a need to encash all or part of the outstanding deposit, and the Fund, having given this representation the overwhelming benefit of any doubt, agrees, the deposit may be encashed in whole or in part in advance of maturity. The Bank agrees to restore the deposit as soon as practicable in light of developments in Austria's balance of payments and reserve position.

10. The Fund may repay the principal amount of the deposit in part or in full at any time in advance of maturity.

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(b) Subject to the provisions of this Instrument, the Fund, in administering the account, shall apply *mutatis mutandis* the same rules and procedures as apply to operations of the General Resources Account of the Fund.

(c) No charge shall be levied on the Bank for the services rendered by the Fund in the administration, operation, and termination of this account.

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14. Any question arising hereunder shall be settled by mutual agreement between the Austrian National Bank and the Fund.

DRAFT

June , 1988

Gentlemen:

I am delighted to acknowledge and thank you for your letter of May 27, 1988 proposing a deposit by the Austrian National Bank for the benefit of the Subsidy Account of the Enhanced Structural Adjustment Facility Trust. I have been authorized to accept your proposal for the Bank's deposit, and I am pleased to inform you that the Executive Board has adopted the Instrument to establish an account for the administration of the deposit by the Fund, as set out in the attachment to your letter. I understand that the proposed deposit is subject to legislative procedures; the account will become operational when the deposit is made by the Bank.

Please let me express my deep appreciation, and that of the Fund's membership, for the generous support the Austrian National Bank is providing for this initiative.

Sincerely,

Michel Camdessus

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Dr. Thomas Lachs
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