

**FOR
AGENDA**

EBS/88/136

CONFIDENTIAL

July 12, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Enhanced Structural Adjustment Facility (ESAF) - Proposed
Borrowing Agreement with the Ufficio Italiano Dei Cambi

Attached for consideration by the Executive Directors is a paper on a proposed borrowing agreement with the Ufficio Italiano Dei Cambi. A draft decision appears on page 2.

It is proposed to bring this subject to the agenda of the Executive Board for discussion on Wednesday, July 27, 1988.

Mr. Munzberg (ext. 6675) or Mr. Zavoico (ext. 7626) 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 Borrowing Agreement with the
Ufficio Italiano Dei Cambi

Prepared by the Treasurer's and Legal Departments

(In consultation with the Exchange and Trade
Relations Department)

Approved by Gerhard Laske and Francois P. Gianviti

July 11, 1988

The staff has now concluded discussions with the Ufficio Italiano Dei Cambi (UIC) on the terms of a proposed borrowing agreement for SDR 370 million for the Loan Account of the ESAF Trust. This paper presents that agreement for approval by the Executive Board.

The terms of the proposed agreement with UIC, which is attached to this paper, are consistent in all respects with the general provisions described in Section II(1) of EBS/88/62. 1/ The maturity of the loan will be five and one half to ten years and the interest rate will be the six month combined domestic SDR rate, as described in Alternative B, Attachment I of the Annex to EBS/87/245. 2/ In contrast with other agreements that have been approved by the Executive Board to date, the proposed agreement with UIC specifies that disbursements by UIC and payments by the Trust shall be made in SDRs, although other media may be agreed between the Trustee and UIC. The agreement would enter into effect on the date the Trustee acknowledges receipt of the communication by which the lender notifies the Trustee of the completion of the required legislative procedures and accepts the proposal.

Moreover, the Italian authorities have indicated that they intend to seek parliamentary approval for the provision of grants to the Trust's Subsidy Account in amounts sufficient to effectively subsidize the interest rate on the full amount of UIC's loan to 0.5 percent per annum over the life of the loan.

1/ See "Enhanced Structural Adjustment Facility (ESAF): Proposed Borrowing Agreement with the Caisse Centrale de Cooperation Economique (CCCE) of France" (EBS/88/62, 3/22/88).

2/ See "Enhancement of the Structural Adjustment Facility - Operational Arrangements" (EBS/87/245, 11/25/87).

Proposed Decision

The loan offered by UIC represents a most welcome contribution to the Enhanced Structural Adjustment Facility. The staff considers that the proposed borrowing agreement with the UIC is consistent with the provisions of the ESAF Trust Instrument. Accordingly, the following decision, which can be taken by a majority of the votes cast, is proposed for adoption by the Executive Board:

Pursuant to Section III, Paragraph 2 of the Instrument to Establish the Enhanced Structural Adjustment Facility Trust, the International Monetary Fund, in its capacity as Trustee of that Trust, approves the agreement for borrowing from the Ufficio Italiano Dei Cambi in terms of the draft set out in the attachment to EBS/88/136, and authorizes the Managing Director to take such action as is necessary to conclude and implement the agreement.

Attachment

Enhanced Structural Adjustment Facility: Proposed
Borrowing Agreement with the Ufficio Italiano Dei Cambi

I have been authorized to propose on behalf of the International Monetary Fund (the "Fund") as Trustee of the Enhanced Structural Adjustment Facility Trust (the "Trust") that the Ufficio Italiano Dei Cambi ("UIC") agree to lend to the Fund as Trustee for the purpose of providing resources to the Loan Account of that Trust, in accordance with the terms of the Instrument establishing the Trust (the "Instrument") adopted by the Executive Board of the Fund by Decision No. 8759-(87/176) ESAF, adopted December 18, 1987. The amount of the loan is to be the equivalent of SDR 370 million and the terms and conditions of this loan shall be as follows:

1. a. The Trustee may make drawings under this agreement at any time during the period from the effective date of this agreement through June 30, 1992, upon giving UIC at least five business days (Rome) notice by tested telex, provided that total drawings may not exceed SDR 123 million until January 1, 1989 and SDR 247 million until January 1, 1990.

b. If any installment of interest is not paid to UIC within a period of ten days after its due date, the Trustee shall not make further drawings under this agreement pending consultations with the UIC on this matter. However, the Trustee may resume drawings under this agreement once arrears to UIC have been discharged.

2. a. The amount of each drawing shall be denominated in SDRs. Unless otherwise agreed between the Trustee and UIC, the amount shall be paid by UIC, on the value date specified in the Trustee's notice, by transfer of SDRs to an account specified by the Trustee.

b. Upon request, the Trustee shall issue to UIC a non-negotiable certificate evidencing its claim on the Trust resulting from a drawing outstanding under this agreement.

3. a. Each drawing shall be repaid in ten equal semiannual installments beginning five and one-half years and ending ten years after the date of the drawing. Repayments by the Trust shall be made on or promptly after the relevant maturity date.

b. By agreement between UIC and the Trustee, any drawing or part thereof may be repaid by the Trustee at any time in advance of maturity.

c. If a drawing matures on a date that is not a business day of the Fund, the maturity date shall be on the preceding business day.

4. a. The rate of interest applicable to each drawing shall be calculated at the time of the drawing and at intervals of six calendar months thereafter. The amount outstanding in respect of each drawing shall bear interest at an annual rate determined by the Trustee at the time of the calculation from the product of:

(i) the interest rates on domestic instruments in each currency included in the SDR basket, as reported to the Trustee by each reporting agency, on the business day of the Fund referred to in paragraph 8, as follows:

- the bond equivalent yield for six-month U.S. Treasury bills,
- the six-month interbank rate in Germany,
- the six-month rate for interbank loans against private paper in France,
- the average rate for newly issued bank CDs in Japan with a maturity of between 150 days and 180 days,
- the six-month interbank rate in the United Kingdom, and

(ii) the percentage weight of that currency in the valuation of the SDR on that business day, calculated by using the same amounts and exchange rates for currencies as are employed by the Fund for calculating the value of the SDR in terms of the U.S. dollar on that day.

The applicable interest rate shall be the sum of the products so calculated, rounded to two decimal places.

b. The amount of interest payable in respect of each drawing shall be calculated on an actual day basis and shall be paid on all outstanding drawings under this agreement promptly after June 30 and December 31 of each year.

5. a. Payments of principal and interest shall be made in SDRs, or in other media as may be agreed between the Trustee and UIC.

b. Payments in SDRs shall be made by crediting Italy's holdings account in the Special Drawing Rights Department. Payments in other media shall be made to an account specified by UIC.

6. a. UIC shall have the right to transfer at any time all or part of any claim 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, 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.

b. The transferee shall acquire all the rights of UIC under this agreement with respect to repayment of and interest on the transferred claim.

7. At the request of UIC, calls on its commitment to meet drawings may be suspended temporarily at any time prior to December 31, 1991, subject to the provisions of Section III, paragraph 4(b) and (c) of the Instrument.

8. Unless otherwise agreed between the Trustee and UIC, all transfers, exchanges, and payments of principal and interest shall be made at the exchange rates for the relevant currencies in terms of the SDR established by the Fund for the third business day of the Fund before the value date of the transfer, exchange or payment.

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

10. Any question arising hereunder shall be settled by mutual agreement between UIC and the Trustee.

If the foregoing proposal is acceptable to UIC, this proposal and the duly authenticated communication by which the UIC notifies the Trustee of the completion of the required legislative procedures and accepts the proposal shall constitute an agreement between UIC and the Trustee, which shall enter into effect on the date the Trustee acknowledges receipt of that communication.

