

DOCUMENT OF INTERNATIONAL MONETARY FUND
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FOR
AGENDA

EBS/88/141

CONFIDENTIAL

July 18, 1988

To: Members of the Executive Board

From: The Secretary

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

Attached for consideration by the Executive Directors is a paper on a proposed arrangement for subsidy contribution by the National Bank of Belgium and the establishment of an administered account. A draft decision appears on pages 2 and 3.

This subject has been tentatively scheduled 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 Arrangement for Subsidy Contribution
by the National Bank of Belgium;
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

July 15, 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. A proposal has been received from the National Bank of Belgium (the "Bank") for deposits totaling SDR 100 million with an Administered Account that the Bank requests the Fund to establish (Annex II). The proposed arrangement with the Bank and the general provisions of the Instrument for the "Administered Account Belgium" are similar to those outlined in EBS/88/106 regarding the arrangement with the Austrian National Bank. 1/

II. Principal Elements of the Proposed Arrangement

The Bank proposes to make the deposit in three parts. Each deposit would have an initial maturity of six months and would be renewable for further successive periods of six months, provided that the total period of each deposit would not exceed ten years. The first deposit in the amount of SDR 30 million would be made on July 29, 1988, the second deposit in the amount of SDR 35 million would be made on December 30, 1988, and the third deposit in the amount of SDR 35 million would be made on June 30, 1989 (Annex II).

The deposit would be denominated in SDRs, and payment of each deposit to the Administered Account would be made in SDRs (paragraph 2

1/ See "Enhanced Structural Adjustment Facility (ESAF) - Proposed Arrangement for Subsidy Contribution by the Austrian National Bank; Establishment of an Administered Account" (EBS/88/106, 5/31/88).

of the draft Instrument - Annex I). The proceeds of each deposit would be invested by the Administered Account in SDR-denominated deposits (paragraph 4 of the draft Instrument - Annex I). The Bank proposes in its letter (Annex II) that the resources of the Account shall be invested by the Fund in an institution of first rank. This will be done in this and in all other cases.

Interest would be payable on the outstanding amount of the deposit, from the earnings on the investment, at a rate of one-half of 1 percent per annum (paragraph 5 of the draft Instrument - Annex I). The principal amount of each deposit would be repaid, from the proceeds of the liquidation of the investment, on the final maturity date applicable to the deposit (paragraph 7 of the draft Instrument - Annex I) or on an earlier date as may be established pursuant to the provisions for early encashment or repayment (paragraphs 10 and 11 of the draft Instrument - Annex I). Payments by the Fund of principal and interest would be made in SDRs, unless otherwise agreed between the Bank and the Fund.

The net investment earnings on the deposits would be transferred to the ESAF Trust's Subsidy Account (paragraph 6 of the draft Instrument - Annex I). The subsidy value of the proposed arrangement is presently estimated to be approximately SDR 55 million.

The Bank's proposal for a deposit (Annex II) and the Managing Director's reply accepting the proposal (Annex III) would constitute an agreement on the deposit between the Fund and the National Bank of Belgium, which would enter into effect on the date the Fund accepts the proposal.

III. Proposed Decision

The offer by the National Bank of Belgium to make deposits 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 National Bank of Belgium (the "Bank") as set forth in its letter dated July 6, 1988 (Annex II), the Fund adopts the Instrument to establish an account for the administration by the Fund of deposits 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 (Annex III) to make a deposit with the Administered Account in the total amount of SDR 100 million to be deposited in three parts in the amounts and on the value dates specified in the Bank's letter. 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 on the deposit shall enter into effect on the date the Fund accepts the proposal by the Bank for deposits with an Administered Account.

Attachments

Proposed Instrument for an Administered Account Belgium

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 Belgium") at the request of the National Bank of Belgium, (the "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 Bank.

2. The amount of each deposit shall be denominated in SDRs. Each amount shall be paid by the Bank by transfer of SDRs to an account specified by the Fund.

3. (a) Each deposit shall have an initial maturity of six months and shall be renewable by the Fund for further successive periods of six months by giving notice of at least three business days (Brussels) prior to each maturity date, provided that the total period of each deposit shall not exceed ten years.

(b) If a maturity period does not end on a business day of the Fund, the maturity date shall be on the next succeeding business day of the Fund.

4. The resources of the account shall be invested by the Fund in SDR denominated deposits.

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.

5. (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 maturity period 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 the last day of the period or on the date the principal amount is repaid, whichever is earlier, from the earnings on the investment.

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

7. The Fund shall repay the principal amount of each deposit on the final maturity date applicable to the deposit or on such earlier repayment date as may be established pursuant to paragraphs 10 or 11, from the proceeds of the liquidation of the investment.

8. Unless otherwise agreed between the Bank and the Fund, payments by the Fund of principal and interest shall be made in SDRs and shall be made by crediting the amount due to Belgium's holdings account in the Special Drawing Rights Department.

9. Unless otherwise agreed between the Bank and the Fund, the transfers under paragraph 2, and all 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 or payment.

10. The Bank intends to maintain each deposit outstanding through the final maturity date. However, if the Bank represents that because of Belgium's balance of payments and reserve position there is a need to encash all or part of the 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 before maturity. The Bank agrees to restore the deposit as soon as practicable in light of developments in Belgium's balance of payments and reserve position.

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

12. (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.

13. (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.

14. 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 ESAF Trust.

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

Brussels, July 6, 1988

Dear Mr. Camdessus,

The National Bank of Belgium 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 a total amount of SDR 100 million. The deposit shall be made by the Bank in three parts. The first deposit in the amount of SDR 30 million shall be made on July 29, 1988, the second deposit in the amount of SDR 35 million shall be made on December 30, 1988, and the third deposit in the amount of SDR 35 million shall be made on June 30, 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, and that the resources of the Account shall be invested by the Fund in an institution of first rank.

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 National Bank of Belgium. It shall enter into effect on the date the Fund accepts the proposal.

The National Bank of Belgium 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.

Yours sincerely,

/s/ J. Godeaux
Governor
National Bank of Belgium

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

Instrument for an Administered Account Belgium

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 Belgium") at the request of the National Bank of Belgium, (the "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 Bank.

2. The amount of each deposit shall be denominated in SDRs. Each amount shall be paid by the Bank by transfer of SDRs to an account specified by the Fund.

3. (a) Each deposit shall have an initial maturity of six months and shall be renewable by the Fund for further successive periods of six months by giving notice of at least three business days (Brussels) prior to each maturity date, provided that the total period of each deposit shall not exceed ten years.

(b) If a maturity period does not end on a business day of the Fund, the maturity date shall be on the next succeeding business day of the Fund.

4. The resources of the account shall be invested by the Fund in SDR denominated deposits.

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.

5. (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 maturity period 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 the last day of the period or on the date the principal amount is repaid, whichever is earlier, from the earnings on the investment.

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

7. The Fund shall repay the principal amount of each deposit on the final maturity date applicable to the deposit or on such earlier repayment date as may be established pursuant to paragraphs 10 or 11, from the proceeds of the liquidation of the investment.

8. Unless otherwise agreed between the Bank and the Fund, payments by the Fund of principal and interest shall be made in SDRs and shall be made by crediting the amount due to Belgium's holdings account in the Special Drawing Rights Department.

9. Unless otherwise agreed between the Bank and the Fund, the transfers under paragraph 2, and all 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 or payment.

10. *The Bank intends to maintain each deposit outstanding through the final maturity date. However, if the Bank represents that because of Belgium's balance of payments and reserve position there is a need to encash all or part of the 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 before maturity. The Bank agrees to restore the deposit as soon as practicable in light of developments in Belgium's balance of payments and reserve position.*

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

12. (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.

13. (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.

14. 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 ESAF Trust.

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

July , 1988

Dear Mr. Godeaux,

I am delighted to acknowledge and thank you for your letter of July 6, 1988 proposing a deposit by the National Bank of Belgium 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.

Please let me express my deep appreciation, and that of the Fund's membership, for the generous support the National Bank of Belgium is providing for the Enhanced Structural Adjustment Facility initiative.

Sincerely,

Michel Camdessus

H.E. J. Godeaux
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