

**FOR
AGENDA**

EBS/88/240

CONFIDENTIAL

November 23, 1988

To: Members of the Executive Board

From: The Secretary

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

Attached for consideration by the Executive Directors is a paper on a proposed arrangement for subsidy contribution by the Bank of Greece and the establishment of an administered account. 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, November 30, 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 Bank of Greece;
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

November 23, 1988

I. Introduction

As Executive Directors are aware, 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 Bank of Greece (the "Bank") for a deposit of SDR 35 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 Greece" (Annex I) are substantially the same as those described in EBS/88/106 regarding the similar arrangement with the Austrian National Bank. ^{1/} The deposit would be in an amount equivalent to SDR 35 million, would bear interest at the rate of 0.5 percent per annum, and would be repayable over 5 1/2-10 years. The proceeds of the deposit would be invested, and the net investment earnings would be transferred to the Subsidy Account.

The subsidy value of the proposed arrangement with the Bank is estimated to be approximately SDR 15 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 Bank of Greece, which would enter into effect on the date the Fund accepts the proposal.

^{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).

II. Proposed Decision

The offer by the Bank of Greece 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 Bank of Greece (the "Bank") as set forth in its letter dated November 18, 1988 (Annex II), the Fund adopts the Instrument to establish an account for the administration by the Fund of the 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 (Annex III) to make a deposit with the Administered Account in the equivalent of SDR 35 million. 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 a deposit with an Administered Account.

Attachments

Proposed Instrument for an Administered Account Greece

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 Greece") at the request of the Bank of Greece, 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 of Greece (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 U.S. dollars 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 (0.5%).

(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 installments, 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 U.S. dollars 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 New York, payment shall be made on the next succeeding business day in New York.

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 U.S. dollars, 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.

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 Greece'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 Greece'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 Bank and the Fund.

Athens, 18 November 1988

Dear Mr. Camdessus,

The Bank of Greece 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 35 million on a value date to be agreed between the Bank of Greece and the Fund, but in any case not later than December 15, 1988. 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 Bank of Greece. It shall enter into effect on the date the Fund accepts the proposal.

The Bank of Greece 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/ Demetrios Chalikias
Governor
Bank of Greece

Mr. Michel Camdessus
Managing Director
International Monetary Fund
700, 19th Street, N.W.
Washington DC 20431
U.S.A.

Proposed Instrument for an Administered Account Greece

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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 Bank of Greece (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 U.S. dollars 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 (0.5%).
(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 installments, 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 U.S. dollars 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 New York, payment shall be made on the next succeeding business day in New York.

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 U.S. dollars, 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.

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 Greece'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 Greece'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 Bank and the Fund.

DRAFT
December , 1988

Dear Mr. Chalikias:

I am delighted to acknowledge and thank you for your letter of November 18, 1988 proposing a deposit by the Bank of Greece 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 Bank of Greece is providing for the Enhanced Structural Adjustment Facility initiative.

Sincerely,

Michel Camdessus

Mr. Demetrios Chalikias
Governor
Bank of Greece
P.O.B. 105
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Athens, Greece