> Sometimes a member may want to submit to the Fund a specific request for drawings, with adequate information as to the particular situation which prompts the request. At other times discussions between the member and the Fund may cover its general position, not with a view to any immediate drawing, but in order to ensure that it would be able to draw if, within a period of say 6 to 12 months, the need presented itself.[10]

A purpose of the Fund is "to give confidence to members by making the general resources . . . temporarily available to them. . . ."[11] Authority to invent the stand-by arrangement, in contrast to the immediate purchases that were the explicit subject matter of the Articles, was derived in large part from this purpose of the Fund. The assured availability of resources under a stand-by arrangement can provide a member with the confidence to follow present policies or to introduce corrective policies if they are necessary or if they become necessary. Not until the Second Amendment of the Articles became effective on April 1, 1978 was there a mention of stand-by arrangements in the Articles.

Official Policy to Encourage Requests

It has often been the policy of official entities to encourage a member to request a stand-by arrangement in order to maintain or to achieve order in international finance. Members themselves do not find it easy to impose conditionality on their sovereign peers. On a number of occasions in the past the monetary authorities of some countries have agreed, as a group, to advance substantial amounts of financial assistance to another country because of the knowledge that the member had initiated a request for a stand-by arrangement or because the Fund had already approved an arrangement for the member's benefit. Sometimes the assistance was to meet an emergency. The assistance was short term and was granted with the understanding that there would soon be repayment with resources purchased under the stand-by arrangement.[12] These occasions have been prompted by an exchange crisis affecting a major currency. The contribution of stand-by arrangements to order in international finance has been obvious and somewhat dramatic on these occasions. The drama has been intentional in order to impress the markets and to restore more peaceful conditions in them.

The usefulness of stand-by arrangements has been no less obvious when they have been employed to introduce lasting improvements in the international monetary system in accordance with official international policy. An example of such an occasion was the effort by the United Kingdom in early 1977 to stabilize sterling and to reduce its role as a reserve currency. At times, fluctuations in the sterling balances of official holders, through massive movements into other currencies, had disrupted the economic policies of the United Kingdom and had disturbed international monetary conditions. A large part of these balances, therefore, was regarded as a threatening "overhang."

The time had come for a change of policy by the United Kingdom. Supported in the past by multilateral international financing by the Fund and other official lenders, the United Kingdom had made efforts to induce official holders to maintain their holdings of sterling by offering guarantees that would protect holders against exchange losses. The efforts had not succeeded and may even have intensified the problem by encouraging official holders to increase their holdings and therefore the volume of them that might be involved in a future flight from sterling. The new strategy of the United Kingdom was to reduce official holdings by offering holders, in exchange for their balances, bonds denominated in specific currencies other than sterling on terms that avoided adverse effects on exchange rates or on the international monetary system.

On January 3, 1977 the Executive Board of the Fund approved a stand-by arrangement for the United Kingdom under which that member was assured of the ability to purchase the currencies of other members in an amount equivalent to SDR 3.36 billion in accordance with the terms of the arrangement during a period of two years from the date of approval. The terms referred to a letter of intent dated December 15, 1976 from the Chancellor of the Exchequer to the Managing Director of the Fund in which the Chancellor set forth a stabilization program.

The approval of the stand-by arrangement was followed by an announcement, dated January 10, 1977, by the Bank for International Settlements that it would provide a stand-by facility in the amount of US$3 billion to the Bank of England backed by commitments undertaken by the central banks of Belgium, Canada, the Federal Republic of Germany, Japan, the Netherlands, Sweden, Switzerland, and the United States, and by other countries that might wish to participate later.[13] The central banks of Austria, Denmark, and Norway did agree subsequently to become participants.[14]

The Chancellor declared in the House of Commons that:

> As the statement by the BIS makes clear, this agreement has been possible because there has been general approval of our economic and financial policies as set out in my letter of December 15 to the Managing Director of the International Monetary Fund. The new facility for the official balances assumes that these policies will be continued.[15]

The parties to the financial agreement, including the United Kingdom as obligor under it, wanted the Managing Director to inform the administrator of the agreement of any request by the Fund for consultation with the United Kingdom because performance criteria under the stand-by arrangement were not being observed or of any suspension of the right to make purchases for any other reason. (Performance criteria are explained later in this pamphlet.) The Executive Board of the Fund authorized the Managing Director to perform this service, and requested him to report to the Board from time to time on this activity.

Another decision by a monetary authority to tie its loan agreements to a stand-by arrangement in order to protect or improve the international monetary system goes back to June 11, 1964 when the Fund entered into an agreement with Switzerland[16] under which that nonmember of the Fund associated itself with the Fund's decision entitled the "General Arrangements to Borrow" (GAB).[17] The Fund, acting under its authority to borrow to replenish its holdings of currencies,[18] adopted the decision on January 5, 1962. It became effective, in accordance with its terms, on October 24, 1962. All prospective participants adhered to the decision. They were the United States, the Deutsche Bundesbank, the United Kingdom, France, Italy, Japan, Canada, the Netherlands, Belgium, and the Sveriges Riksbank. Each of the ten participants has undertaken to consider proposals by the Managing Director of the Fund that the participant lend amounts of its currency to the Fund within the maximum outstanding amount specified in the GAB. The loans are made for the purpose of helping the Fund to finance its transactions, with the main emphasis on transactions under stand-by arrangements, for the benefit of any one of the ten members that have adhered to the GAB or have approved adherence by their central banks. A criterion that must be satisfied to justify borrowing by the Fund under the GAB is that supplementary resources are needed to forestall or to cope with an impairment of the international monetary system in circumstances of widespread convertibility, including freedom for short-term capital movements. The GAB was intended not only to deal with the possible impairment of the system but also to improve the system by supporting the expansion of convertibility through the markets.

Under its agreement with the Fund, Switzerland agrees to consider direct lending to a member when the Fund borrows under the GAB to finance its own transactions with the member. The Managing Director proposes the amount that Switzerland should lend within the total that is specified in the agreement with the Fund. One reason why loans by Switzerland are made to the member instead of to the Fund is that the Fund has no authority to borrow a nonmember's currency. A condition precedent to loans by Switzerland to a member under the association agreement with the Fund is that an implementing agreement is entered into between Switzerland and the member.

Switzerland entered into implementing agreements with the United Kingdom in 1964 and the Federal Reserve Bank of New York in 1974. Loans were made under the former agreement in 1964 and 1965. Both the GAB and the association agreement are still in existence.

Lending by official entities with the assurance that a stand-by arrangement has been approved by the Fund has sometimes been far more substantial than the amount of resources made available by the Fund. The stand-by arrangement approved by the Fund for Portugal on April 27, 1977 is an example of such financing. The arrangement made available an amount equivalent to SDR 42.4 million, but the purchase of this amount would take place in the higher credit tranches, so that other lenders were assured that the more stringent conditionality attached to purchases in these tranches would have to be observed.[19] In these circumstances, a group of 14 countries met in Paris in June 1977 and agreed to provide US$750 million over 18 months in medium-term balance of payments support.[20]

A multilateral framework has been developed for the rescheduling of the debts of a country to foreign official creditors. A feature of current practice is that debt relief granted to the debtor country should be associated with a program designed to improve the condition of the balance of payments to an extent that would encourage the resumption of external capital flows to the country. The association of debt relief with adjustment of the balance of payments helps to ensure that the relief will not encourage the neglect of underlying problems and will not prove to be a temporary accommodation. A principal strut in the framework for the multilateral renegotiation of debt is often a stand-by arrangement approved by the Fund for the debtor country permitting the use of the Fund's resources in the higher credit tranches. The subject is discussed in detail in a paper published in May 1981 under the auspices of the Fund.[21]

Suggestions that a country should request a stand-by arrangement in order to facilitate lending by others can come from diverse official sources, such as groups of countries, individual countries, or another international organization. Little publicity and even less study have been devoted to the legal ties between this lending and stand-by arrangements. It must not be assumed that there is a legal tie in all instances in which official lenders rely on the Fund's approval of a stand-by arrangement. In some cases, the official lenders may simply await the approval of a stand-by arrangement before entering into their loan agreements, but they do not tie these agreements into the stand-by arrangements in any of the ways that will be discussed when private lending is considered later in this pamphlet.

In contrast to official suggestions made to a particular country are general measures taken to encourage recourse to the Fund. The United States has adopted a measure of this character by placing limits on certain of its financial activities. A statute[22] that took effect on October 28, 1977 amends Section 10(a) of the Gold Reserve Act of 1934[23] as previously amended.[24] Under the earlier legislation, the Secretary of the Treasury, with the approval of the President, is authorized to deal in gold and foreign exchange and such other instruments of credit and securities for the account of the Exchange Stabilization Fund as he may deem necessary consistently with the obligations of the United States to the Fund [IMF] with respect to orderly exchange arrangements and a stable system of exchange rates. The amendment of 1977 adds a proviso under which

> no loan or credit to a foreign government or entity shall be extended by or through such [Exchange Stabilization] Fund for more than six months in any twelve-month period unless the President provides a written determination to the Congress that unique or exigent circumstances make such loan or credit necessary for a term greater than six months.[25]

The proviso was adopted when Congress approved the legislation authorizing the United States to accept the Second Amendment of the Fund's Articles and to participate as a lender under the Fund's supplementary financing facility. The purpose of the proviso is to help to ensure that the use of the Exchange Stabilization Fund will be confined to the