

ARTICLE VII

Borrowing

GENERAL ARRANGEMENTS TO BORROW: ASSOCIATION AGREEMENT WITH SAUDI ARABIA*

Pursuant to Article VII, Section 1 of the Articles of Agreement, the Managing Director is authorized to send to the Minister of Finance of Saudi Arabia a letter proposing a borrowing agreement with Saudi Arabia, as set forth in the attachment to EBS/83/89. When a reply is received from the Minister accepting the proposal, the Managing Director's letter and the reply shall constitute an agreement between Saudi Arabia and the Fund, which shall enter into force on the date on which the revised and enlarged General Arrangements to Borrow authorized by Decision No. 7337-(83/37) become effective.

Decision No. 7403-(83/73)

May 20, 1983

Attachment

Letter Proposing an Agreement Between Saudi Arabia and the Fund

Your Excellency:

I refer to Decision No. 7337-(83/37) of the Executive Board of the International Monetary Fund (the Fund), providing for a revision and enlargement of the General Arrangements to Borrow (the GAB), and to the desire of Saudi Arabia to strengthen the Fund by providing supplementary resources, in association with and for the same purposes as the GAB. Accordingly, pursuant to Article VII of the Articles of Agreement of the Fund (the Articles) and Executive Board Decision No. 7403-(83/73), adopted May 20, 1983, I have been authorized to propose on behalf of the Fund that Saudi Arabia enter into an Agreement with the Fund as set forth below:

*The Agreement with Saudi Arabia entered into force on December 26, 1983.

Paragraph 1. *The Credit Arrangement*

During the period specified in Paragraph 2 and any renewal thereof, Saudi Arabia will stand ready to lend Saudi riyals to the Fund up to a maximum amount equivalent to one thousand five hundred million SDRs (SDR 1,500,000,000), on the terms and conditions set forth in this Agreement, to assist the Fund in the financing of purchases by members for the same purposes and in the same circumstances as are prescribed in the GAB. This amount may be changed by agreement between Saudi Arabia and the Fund.

Paragraph 2. *Period of Credit Arrangement and Renewal*

(a) Amounts of resources may be called by the Fund hereunder during a period of five years from the date this Agreement enters into force, unless the Fund's right to make calls is terminated earlier in accordance with this Agreement.

(b) When a renewal of the GAB Decision is under consideration, the Fund and Saudi Arabia shall consult regarding the renewal of the credit arrangement under this Agreement or the conclusion of such other credit arrangement as may be found appropriate at that time.

(c) Notwithstanding the termination of the credit arrangement under this Agreement, the provisions of Paragraphs 4 through 13 shall continue to apply until all the obligations of the Fund under this Agreement have been discharged.

Paragraph 3. *Calls*

(a) Calls may be made only pursuant to a proposal of the Managing Director that has become effective in accordance with (d) below.

(b) The Managing Director may make a proposal for calls for purchases, including future calls for purchases under stand-by or extended arrangements, (i) if he considers that a proposal for calls or future calls for the same purchases could be made under the GAB and (ii) after consultation with Saudi Arabia at the same time and in the same manner as he consults GAB participants.

(c) In deciding whether to make a proposal and the amount to be called thereunder, the Managing Director shall take into account the present and prospective balance of payments and reserve position of Saudi Arabia and the Fund's holdings of Saudi riyals.

(d) A proposal for calls shall become effective only when Saudi Arabia has notified the Fund that it accepts the proposal and the proposal has been

approved by the Executive Board of the Fund. Calls shall be made as and when amounts of Saudi riyals are needed by the Fund to finance purchases covered by the proposal.

(e) When the Fund makes a call, Saudi Arabia shall transfer to the account of the Fund, free of any charge or commission, an amount of Saudi riyals equivalent to the amount of the call. The transfer shall be made on the date specified in the call. Saudi Arabia shall exchange the riyals for a freely usable currency of its choice in accordance with Article V, Section 3 of the Articles.

(f) If Saudi Arabia represents to the Fund that, in view of the present and prospective balance of payments and reserve position of Saudi Arabia, future calls under a proposal that has become effective as provided in (d) above should no longer be made or be made for a smaller amount and the Fund, after giving the overwhelming benefit of any doubt to the representation, determines that it is justified, the Fund shall comply with Saudi Arabia's representation.

Paragraph 4. *Evidence of Indebtedness*

The Fund shall issue to Saudi Arabia, at its request, a nonnegotiable instrument or instruments in a form to be agreed with Saudi Arabia, evidencing the Fund's outstanding indebtedness to Saudi Arabia under this Agreement. Upon repayment of an amount of indebtedness evidenced by an instrument and all accrued interest thereon, the instrument shall be returned to the Fund for cancellation, and if any balance of the indebtedness remains outstanding, the Fund shall issue a new instrument for the remainder of the amount, with the same maturity date.

Paragraph 5. *Interest*

(a) The Fund shall pay interest on its outstanding indebtedness at a rate equal to the combined market interest rate computed by the Fund from time to time under its Rules and Regulations for the purpose of determining the rate at which it pays interest on holdings of SDRs. If the Fund changes the method of computing the combined market interest rate, the new method will apply to amounts borrowed hereunder only if it is applied to borrowing by the Fund under the GAB, and Saudi Arabia agrees.

(b) Interest shall accrue daily and shall be paid as soon as possible after each July 31, October 31, January 31, and April 30.

Paragraph 6. *Repayment by the Fund*

(a) Subject to the other provisions of this Agreement, the Fund shall repay an amount equal to each amount transferred by Saudi Arabia hereunder five

years after the date the transfer was made. To the extent the member whose purchase the amount was used to finance is committed to repurchase by installments on fixed dates falling earlier than five years after that date, the Fund shall repay the amount in corresponding installments on those fixed dates.

(b) Whenever a reduction in the Fund's holdings of currency of a purchasing member is attributed to a purchase financed with an amount transferred by Saudi Arabia hereunder, the Fund shall promptly make a corresponding repayment to Saudi Arabia. If the amount was used to finance a reserve tranche purchase, and the Fund's holdings of the purchasing member's currency not subject to repurchase are reduced as a result of net sales of the currency during a quarterly period covered by an operational budget, the Fund shall make a corresponding repayment to Saudi Arabia at the beginning of the next quarterly period. The amount repaid under this subparagraph (b) shall bear the same proportion to the amount of the reduction as the amount transferred under this Agreement bears to the amount of the purchase.

(c) Before the date repayment is due under (a) or (b) above, the Fund, after consultation with Saudi Arabia, may repay all or part of its outstanding indebtedness hereunder.

(d) If Saudi Arabia represents to the Fund that it has a balance of payments need for repayment before the due date of all or part of such outstanding indebtedness and requests such repayment, and the Fund after giving Saudi Arabia's representation the overwhelming benefit of any doubt determines that there is such a need, the Fund shall make early repayment as requested by Saudi Arabia.

(e) Amounts repaid under (c) and (d) shall be credited against outstanding indebtedness in the order in which such indebtedness would fall due under (a) above.

(f) The Fund shall at no time reduce its holdings of the currency of a member whose purchases were financed by borrowing hereunder below an amount equal to the outstanding amount of such borrowing plus any outstanding amount borrowed under the GAB to finance purchases by the same member.

(g) When any repayment is made to Saudi Arabia, the amount that the Fund may call for under the credit arrangement shall be restored pro tanto.

Paragraph 7. *Media of Payment*

(a) Payments of interest and repayments of principal shall be made, as determined by the Fund after consultation with Saudi Arabia, in Saudi riyals, in SDRs or in currencies that are actually convertible; provided that (i) unless Saudi Arabia agrees, SDRs shall not be used in early repayment under Paragraph 6(c) if the effect would be to increase Saudi Arabia's holdings of SDRs above the limit specified in Article XIX, Section 4 of the Articles, and (ii) Saudi riyals shall not be used in early repayment on balance of payments grounds under Paragraph 6(d).

(b) Currencies other than Saudi riyals to be used in payment of interest and repayment of principal shall be selected by the Fund from those than can be used in net sales under the operational budget of the Fund in effect at the time the payment is made.

Paragraph 8. *Rates of Exchange*

All amounts under this Agreement shall be denominated in SDRs, as valued by the Fund from time to time. The value in terms of SDRs of Saudi riyals to be transferred by Saudi Arabia to the Fund and of payments to be made by the Fund to Saudi Arabia in currencies shall be determined in accordance with Rule O-2 of the Rules and Regulations of the Fund.

Paragraph 9. *Transferability*

Saudi Arabia may transfer all or part of its claims under this Agreement only with the prior consent of the Fund and on such terms and conditions as the Fund may approve.

Paragraph 10. *Withdrawal from Membership*

If Saudi Arabia withdraws from membership in the Fund, no further calls shall be made hereunder. The Fund's outstanding indebtedness hereunder shall be treated as an amount due from the Fund for purposes of Article XXVI, Section 3, and Schedule J of the Articles.

Paragraph 11. *Suspension of Exchange Transactions and Liquidation*

(a) The right of the Fund to make calls and its obligation to make repayment hereunder shall be suspended during any suspension of exchange transactions under Article XXVII of the Articles.

(b) In the event of liquidation of the Fund, no further calls shall be made by the Fund hereunder. The Fund's outstanding indebtedness shall constitute a liability under Schedule K of the Articles. For the purpose of Paragraph 1(a) of Schedule K, the currency in which each amount of the Fund's indebtedness is

payable shall be first Saudi riyals and then any currency that is actually convertible.

Paragraph 12. *Amendments*

(a) This Agreement may be amended at any time, by agreement between Saudi Arabia and the Fund.

(b) If the revised and enlarged GAB is modified while this Agreement is in effect, Saudi Arabia and the Fund will consult with each other with a view to determining whether consequential modifications should be made in the provisions of this Agreement.

(c) If, after consultation with the Fund and the GAB participants, Saudi Arabia proposes that the credit arrangement under this Agreement be converted into or replaced by an arrangement of the type referred to in Paragraph 23(a) or Paragraph 3(b) of the revised GAB Decision, as the case may be, the Fund will consider the steps to be taken, subject to the concurrence of the GAB participants as necessary, to effect such conversion or replacement.

Paragraph 13. *Interpretation; Settlement of Disputes*

Any question of interpretation arising in connection with this Agreement that does not fall within the purview of Article XXIX of the Articles, and any dispute arising hereunder, shall be settled to the mutual satisfaction of Saudi Arabia and the Fund.

If the foregoing proposal is acceptable to Saudi Arabia, this communication and your reply indicating Saudi Arabia's acceptance shall constitute an Agreement between Saudi Arabia and the Fund, which shall enter into force on the date on which the revised and enlarged GAB authorized by Decision No. 7337-(83/37) of the Executive Board of the Fund becomes effective.

Very truly yours,

/s/

J. DE LAROSIÈRE

Note: The reply indicating Saudi Arabia's acceptance was received by the Fund on July 18, 1983.

GENERAL ARRANGEMENTS TO BORROW: TRANSFERABILITY OF CLAIMS

Pursuant to Paragraph 13 of the revised General Arrangements to Borrow (GAB) which became effective on December 26, 1983, the Fund consents in advance to the transfer of outstanding claims to repayment under the GAB on the terms and conditions set out below:

1. All or part of any claim under the GAB may be transferred at any time to a participant in the GAB.

2. As from the value date of the transfer, the transferred claim shall be held by the transferee on the same terms and conditions as claims originating under its credit arrangement, except that the transferee shall acquire the right to request early repayment of the transferred claim on balance of payments grounds pursuant to Paragraph 11(e) of the GAB only if, at the time of the transfer, (i) the transferee is a member, or the institution of a member, whose balance of payments and reserve position is considered sufficiently strong for its currency to be usable in net sales in the Fund's operational budget; or (ii) the transferee is the Swiss National Bank,* and the balance of payments and reserve position of the Swiss Confederation is, in the opinion of the Fund, sufficiently strong to justify such acquisition.

3. The price for the claim transferred shall be as agreed between the transferee and the transferor.

4. The transferor of a claim shall inform the Fund promptly of the claim that is being transferred, the name of the transferee, the amount of the claim that is being transferred, the agreed price for transfer of the claim, and the value date of the transfer.

5. The transfer shall be registered by the Fund if it is in accordance with the terms and conditions of this decision. The transfer shall be effective as of the value date agreed between the transferee and the transferor.

*Became a participant in the GAB with effect from April 10, 1984.

6. If all or part of a claim is transferred during a quarterly period as described in Paragraph 9(b) of the GAB, the Fund shall pay interest to the transferee on the amount of the claim transferred for the whole of that period.

7. If requested, the Fund shall assist in seeking to arrange transfers.

Decision No. 7628-(84/25)

February 15, 1984, effective April 10, 1984

GENERAL ARRANGEMENTS TO BORROW: TRANSFERABILITY OF
CLAIMS UNDER SAUDI ARABIA'S BORROWING AGREEMENT

Pursuant to Paragraph 9 of the Borrowing Agreement with Saudi Arabia under which Saudi Arabia has agreed to provide supplementary resources in association with the GAB, and which became effective on December 26, 1983 (the Agreement), the Fund consents in advance to the transfer of outstanding claims to repayment under the Agreement on the terms and conditions set out below:

1. All or part of any claim may be transferred at any time to any member of the Fund, the central bank or other agency of any member, or any official entity that has been prescribed as a holder of SDRs pursuant to Article XVII, Section 3 of the Articles of Agreement.

2. On the value date of the transfer, all the rights and obligations of Saudi Arabia provided in the Agreement with respect to the claim that is the subject of the transfer shall vest in the transferee, except that

- (a) the transferee shall acquire the right to request early repayment on balance of payments grounds provided in Paragraph 6(d) of the Agreement only if, at the time of the transfer, (i) the transferee is a member, or the agency of a member, whose balance of payments and reserve

position is considered sufficiently strong for its currency to be usable in net sales in the Fund's operational budget, or (ii) the transferee is the Swiss National Bank,* and the balance of payments and reserve position of the Swiss Confederation is, in the opinion of the Fund, sufficiently strong to justify such acquisition;

- (b) if the transferee is a member or the agency of a member, references in the Agreement to payment in Saudi riyals shall be deemed to be references to payment in the member's currency, and if the transferee is not a member or the agency of a member such references shall not apply; and
- (c) the right to repayment on withdrawal provided in Paragraph 10 of the Agreement shall apply only if the transferee is a member or the agency of a member, and that member withdraws from the Fund.

3. The price for the claim transferred shall be as agreed between the transferor and the transferee.

4. The transferor shall inform the Fund promptly of the claim that is being transferred, the name of the transferee, the amount of the claim that is being transferred, the agreed price for the transfer of the claim, and the value date of the transfer.

5. The transfer shall be registered by the Fund if it is in accordance with the terms and conditions of this decision. The transfer shall be effective as of the value date agreed between the transferor and the transferee.

6. If all or part of a claim is transferred during the quarterly period ending on a date specified in Paragraph 5(b) of the Agreement, the Fund shall pay interest to the transferee on the amount of the claim transferred for the whole of that period.

*Became a participant in the GAB with effect from April 10, 1984.

7. If requested by the holder of a claim under the Agreement, the Fund shall assist in seeking to arrange a transfer pursuant to this Decision.

Decision No. 7629-(84/25)

February 15, 1984, effective April 10, 1984

GUIDELINES FOR BORROWING BY THE FUND

Quota subscriptions are and should remain the basic source of the Fund's financing. However, borrowing by the Fund provides an important temporary supplement to its resources. In present circumstances, it facilitates the provision of balance of payments assistance to its members under the Fund's policies of supplementary financing and enlarged access.

The confidence of present and potential creditors in the Fund will depend not only on the prudence and soundness of its financial policies but also on the effective performance of its various responsibilities, including, in particular, its success in promoting adjustment.

Against this background the Executive Board approves the following guidelines on borrowing by the Fund.

1. Fund borrowing shall remain subject to a process of continuous monitoring by the Executive Board in the light of the above considerations. For this purpose, the Executive Board will regularly review the Fund's liquidity and financial position, taking into account all relevant factors of a quantitative and qualitative nature.

2. Subject to paragraph 4 below, the Fund will not allow the total of outstanding borrowing plus unused credit lines to exceed the range of 50–60 percent of the total of Fund quotas. If the total of outstanding borrowing plus unused credit lines reaches the level of 50 percent of quotas, the Executive Board shall assess the various technical factors that determine, at that time, the

availability of balances of unused lines of credit. While this assessment is being made, the total of outstanding borrowing plus unused credit lines may rise, if necessary, beyond 50 percent, but shall not exceed 60 percent of total quotas.

3. The total of outstanding borrowing plus unused credit lines under paragraph 2 above shall include, in respect of the GAB and borrowing arrangements associated with the GAB, either outstanding borrowing by the Fund under these arrangements, or two thirds of the total of credit lines under these arrangements, whichever is the greater.

4. In the case of major developments, the Executive Board shall promptly review, and may adjust, the guidelines. In any event, the guidelines shall be reviewed when the Board of Governors has completed the Ninth General Review of Quotas, or when there is a significant change in the GAB or associated arrangements, and may be adjusted as a result of such reviews.

5. The percentage limits specified in paragraph 2 above, or any other limits that may be adopted as a result of a review pursuant to paragraph 4 above, are not to be understood, at any time, as targets for borrowing by the Fund.

Decision No. 7589-(83/181)

December 23, 1983