

Web Document 15.C: The New Arrangements to Borrow

On January 27, 1997, the IMF approved the establishment of the New Arrangements to Borrow. These arrangements permitted the Fund to borrow up to SDR 34 billion from a group of 26 countries and monetary authorities. The NAB was ratified by participants and took effect on November 17, 1998.

New Arrangements to Borrow - Establishment Decision No. 11428 (97/6), adopted January 27, 1997

Preamble

In order to enable the Fund to fulfill more effectively its role in the international monetary system, a number of countries with the financial capacity to support the international monetary system have agreed to make available to the Fund resources in the form of loans up to specified amounts when supplementary resources are needed to forestall or cope with an impairment of the international monetary system or to deal with an exceptional situation that poses a threat to the stability of that system. In order to give effect to these intentions, the following terms and conditions are adopted under Article VII, Section 1 of the Articles of Agreement.

Paragraph 1. Definitions

- (a) As used in this decision the term:
 - (i) amount of a credit arrangement means the maximum amount expressed in special drawing rights that a participant undertakes to lend to the Fund under a credit arrangement;
 - (ii) Articles means the Articles of Agreement of the Fund;
 - (iii) available commitment means a participant's credit arrangement less any committed or drawn balances;
 - (iv) borrowed currency or currency borrowed means currency transferred to the Fund's account under a credit arrangement;
 - (v) call means a notice by the Fund to a participant to make a transfer under its credit arrangement to the Fund's account;

- (vi) credit arrangement means an undertaking to lend to the Fund on the terms and conditions of this decision;
 - (vii) currency actually convertible means currency included in the Fund's quarterly operational budget for transfers;
 - (viii) drawer means a member that purchases borrowed currency from the Fund in an exchange transaction, including an exchange transaction under a stand-by or extended arrangement;
 - (ix) indebtedness of the Fund means the amount it is committed to repay under a credit arrangement;
 - (x) member means a member of the Fund;
 - (xi) participant means a participating member or a participating institution;
 - (xii) participating institution means an official institution of a member that has entered into a credit arrangement with the Fund with the consent of the member, or an official institution of a nonmember that has entered into a credit arrangement with the Fund;
 - (xiii) participating member means a member that has entered into a credit arrangement with the Fund.
- (b) For the purposes of this decision, the Hong Kong Monetary Authority (HKMA) shall be regarded as an official institution of the member whose territories include Hong Kong, provided that:
- (i) loans by the HKMA and payments by the Fund to the HKMA under this decision shall be made in principle in the currency of the United States of America, unless the currency of another member is agreed between the Fund and the HKMA;
 - (ii) the participation of the HKMA shall not give rise to the application of paragraph 6 A to the member whose territories include Hong Kong; and
 - (iii) the references to the balance of payments and reserve position in paragraphs 7 A(c), 7 B(b) and 11(e) shall be understood to refer to the balance of payments and reserve position of Hong Kong.

Paragraph 2. Credit Arrangements

- (a) A member or institution that adheres to this decision undertakes to make loans to the Fund on the terms and conditions of this decision up to the amount in special drawing rights set forth in the Annex to this decision or established in accordance with paragraph 3(b).
- (b) Unless otherwise agreed with the Fund, loans under this decision shall be made in the currency of the participant. If the participant is an institution of a nonmember, the Fund and the participant shall agree on which member's currency or members' currencies shall be used for the loans. Agreements under this paragraph shall be subject to the concurrence of any member whose currency shall be used in the loans.

Paragraph 3. Adherence

- (a) Any member or institution specified in the Annex may adhere to this decision in accordance with paragraph 3(c).
- (b) Any member or institution not specified in the Annex, including an institution of a nonmember, may apply to become a participant at the time of renewal of this decision in accordance with paragraph 19. Any such member or institution that wishes to become a participant shall, after consultation with the Fund, give notice of its willingness to adhere to this decision, and, if the Fund and participants representing 80 percent of total credit arrangements under the renewed decision shall so agree, the member or institution may adhere in accordance with paragraph 3(c). When giving notice of its willingness to adhere under this paragraph 3(b), a member or institution shall specify the amount, expressed in special drawing rights, of the credit arrangement which it is willing to enter into, provided that the amount shall not be less than the credit arrangement of the participant with the smallest credit arrangement. The admission of a new participant shall lead to a proportional reduction in the credit arrangements of all existing participants whose credit arrangements are above that of the participant with the smallest credit arrangement: such proportional reduction in the credit arrangements of participants shall be in an aggregate amount equal to the amount of the new participant's credit arrangement less any increase in total credit arrangements decided in accordance with paragraph 5(a), provided that no participant's credit arrangement shall be reduced below the minimum amount set out in the Annex.
- (c) A member or institution shall adhere to this decision by depositing with the Fund an instrument setting forth that it has adhered in accordance with its law and has taken all steps necessary to enable it to carry out the terms and conditions of this decision. On the deposit of the instrument the member or institution shall be a participant as of the date of the deposit or of the effective date of this decision, whichever is later.

Paragraph 4. Entry into Force

This decision shall become effective when it has been adhered to by members or institutions included in the Annex with credit arrangements amounting to not less than SDR 28.9 billion, including the five members or institutions with the largest credit arrangements specified in the Annex.

Paragraph 5. Changes in Amounts of Credit Arrangements

- (a) When a member or institution is authorized under paragraph 3(b) to adhere to this decision, the total amount of credit arrangements may be increased by the

Fund with the agreement of participants representing 85 percent of total credit arrangements; the increase shall not exceed the amount of the new participant's credit arrangement.

- (b) The amounts of participants' individual credit arrangements may be reviewed from time to time in the light of developing circumstances and changed with the agreement of the Fund and of participants representing 85 percent of total credit arrangements, including each participant whose credit arrangement is changed. This provision may be amended only with the consent of all participants.

Paragraph 6. Initiation of Procedure

A. Participants

When a participating member or a member whose institution is a participant approaches the Fund on an exchange transaction or a stand-by or extended arrangement and the Managing Director, after consultation, considers that the exchange transaction or stand-by or extended arrangement is necessary in order to forestall or cope with an impairment of the international monetary system, and that the Fund's resources need to be supplemented for this purpose, the Managing Director may initiate the procedure set out in paragraph 7A.

B. Nonparticipants

The Managing Director may initiate the procedure set out in paragraph 7A for exchange transactions requested by members that are not participants if (a), the exchange transactions are (i) transactions in the upper credit tranches, (ii) transactions under Stand-By Arrangements extending beyond the first credit tranche, (iii) transactions under Extended Arrangements, or (iv) transactions in the first credit tranche in conjunction with a Stand-By Arrangement or an Extended Arrangement, and (b), after consultation, the Managing Director considers that the Fund's resources need to be supplemented to meet actual and expected requests for financing that reflect the existence of an exceptional situation associated with balance of payments problems of members of a character or aggregate size that could threaten the stability of the international monetary system. In making proposals for calls pursuant to paragraph 6B, the Managing Director shall pay due regard to potential calls pursuant to paragraph 6A.

Paragraph 7. Proposals and Calls

A. Proposals

- (a) The Managing Director shall make a proposal for calls under this decision only after consultation with Executive Directors and participants.

- (b) In making a proposal for resources to be lent to the Fund, the Managing Director shall identify the prospective drawer, the amount, and the period during which the resources requested in the proposal may be called.
- (c) If a participant determines that it will not be able to meet calls under a proposal because of its present and prospective balance of payments and reserve position, which would normally be reflected in the member's exclusion from the list of countries that are included in the Fund's quarterly operational budget for transfers of their currencies, it shall so notify the Fund and the other participants. If the participant is an institution of a nonmember, the participant shall consult with the Fund on that nonmember's balance of payments and reserve position before making a determination under this provision. A participant shall exercise restraint and shall take into account the views of the Fund and other participants in making such a determination.
- (d) Unless otherwise specified under paragraph 7A(e), a proposal shall be for calls proportional to the amount of each participant's credit arrangement.
- (e) The Managing Director may make a proposal for calls that are not proportional to the amount of each participant's credit arrangement under the following circumstances:
 - (i) If proportional calls sufficient to provide the total amount sought from participants to finance the proposed exchange transactions cannot be made because at least one participant's available commitment is insufficient to meet such a proportional call, the Managing Director may ask every participant whose available commitment would have been sufficient to meet fully such a proportional call to provide the amount under such a proportional call; provided that, if the Managing Director asks every such participant to provide such amount, the Managing Director shall also ask every participant whose available commitment would have been insufficient to meet such a proportional call to provide an amount to the extent of its available commitment. If necessary, the Managing Director may also ask for an amount in addition to that provided under the prior sentence from a participant whose available commitment exceeds the amount it would provide under such a proportional call.
 - (ii) If proportional calls sufficient to provide the total amount sought from participants to finance the proposed exchange transactions cannot be made because at least one participant lacks sufficient amounts of the type of currency or currencies needed for the proposed exchange transactions, the Managing Director may ask every participant that is in a position to provide the currency or currencies needed to provide the amount under such a proportional call, up to the amount of its available commitment or the amount that it is in a position to provide, whichever is less. If necessary, the Managing Director may also ask a participant whose available commitment exceeds the resources it would provide under such a proportional call and that

remains in a position to provide the type of currency or currencies needed to provide an amount of the currency or currencies needed in addition to that provided under the prior sentence.

- (f) The concurrence of every participant that would undertake to provide proportionately more resources than at least one other participant shall be required before the proposal can be accepted under Paragraph 7A(g).
- (g) If there is not unanimity among the participants, the question whether the participants are prepared to facilitate, by making loans to the Fund, the exchange transactions or stand-by or extended arrangement specified in the proposal will be decided by a poll of the participants. A favorable decision shall require an 80 percent majority of total credit arrangements of participants eligible to vote. The decision shall be notified to the Fund.
- (h) Neither the prospective drawer nor its participating institution nor participants that have notified that they will not meet calls under a proposal shall be eligible to vote on the proposal.
- (i) A proposal shall become effective only if it is accepted by participants pursuant to paragraph 7A(g) and is then approved by the Executive Board.
- (j) After a proposal has been accepted, commitments and drawings shall not be affected by a subsequent change in the amounts of the credit arrangements.

B. Calls

- (a) Unless otherwise provided in a proposal for future calls approved under paragraph 7A, each call shall be made in proportion to the amounts in the proposal.
- (b) Except with the participant's consent, calls may not be made on a participant, on which calls could otherwise be made pursuant to this paragraph, when, based on its present and prospective balance of payments and reserve position, the member is not included and is not being proposed by the Managing Director to be included in the list of countries in the quarterly operational budget for transfers of its currency. If the participant is an institution of a nonmember, its ability to meet calls under this decision shall be determined by the Fund, after consultation with the participant, on the basis of that nonmember's present and prospective balance of payments and reserve position. In the event that a call is not made on a participant, the Managing Director may propose to the other participants that substitute amounts be made available under their credit arrangements, and this proposal shall be subject to the procedure of paragraph 7A.
- (c) When the Fund makes a call pursuant to this paragraph, the participant shall promptly make the transfer in accordance with the call.

Paragraph 8. Evidence of Indebtedness

- (a) The Fund shall issue to a participant, on its request, nonnegotiable instruments evidencing the Fund's indebtedness to the participant. The form of the instruments shall be agreed between the Fund and the participant.
- (b) Upon repayment of the amount of any instrument issued under paragraph 8(a) and all accrued interest, the instrument shall be returned to the Fund for cancellation. If less than the amount of any such instrument is repaid, the instrument shall be returned to the Fund and a new instrument for the remainder of the amount shall be substituted with the same maturity date as in the old instrument.

Paragraph 9. Interest

- (a) The Fund shall pay interest on its indebtedness under this decision at a rate equal to the combined market interest rate computed by the Fund from time to time for the purpose of determining the rate at which it pays interest on holdings of special drawing rights or any such higher rate as may be agreed between the Fund and participants representing 80 percent of the total credit arrangements.
- (b) A change in the method of calculating the combined market interest rate shall apply to the Fund's indebtedness under this decision only if the Fund and participants representing 80 percent of the total credit arrangements so agree; provided that, if a participant so requests at the time this agreement is reached, the change shall not apply to the Fund's indebtedness to that participant outstanding at the date the change becomes effective.
- (c) Interest shall accrue daily and shall be paid as soon as possible after each July 31, October 31, January 31, and April 30.
- (d) Interest due to a participant shall be paid, as determined by the Fund in consultation with the participant, in special drawing rights, in the participant's currency, in the currency borrowed, or in other currencies that are actually convertible.

Paragraph 10. Use of Borrowed Currency

The Fund's policies and practices under Article V, Sections 3 and 7 on the use of its general resources and Stand-By Arrangements and Extended Arrangements, including those relating to the period of use, shall apply to purchases of currency borrowed by the Fund. Nothing in this decision shall affect the authority of the Fund with respect to requests for the use of its resources by individual members, and access to these resources by members shall be determined by the Fund's policies and practices, and shall not depend on whether the Fund can borrow under this decision.

Paragraph 11. Repayment by the Fund

- (a) Subject to the other provisions of this paragraph 11, the Fund, five years after a transfer by a participant, shall repay the participant an amount equivalent to the transfer calculated in accordance with paragraph 12. If the drawer for whose purchase participants make transfers is committed to repurchase at a fixed date earlier than five years after its purchase, the Fund shall repay the participants at that date. Repayment under this paragraph 11(a) or under paragraph 11(c) shall be, as determined by the Fund, in the currency borrowed whenever feasible, in the currency of the participant, in special drawing rights in an amount that does not increase the participant's holdings of special drawing rights above the limit under Article XIX, Section 4, of the Articles of Agreement unless the participant agrees to accept special drawing rights above that limit in such repayment, or, after consultation with the participant, in other currencies that are actually convertible. Repayments to a participant under paragraph 11(b) and 11(e) shall be credited against transfers by the participant for a drawer's purchases in the order in which repayment must be made under this paragraph 11(a).
- (b) Before the date prescribed in paragraph 11(a), the Fund, after consultation with the participants, may make repayment in part or in full to one or several participants. The Fund shall have the option to make repayment under this paragraph 11(b) in the participant's currency, in the currency borrowed, in special drawing rights in an amount that does not increase the participant's holdings of special drawing rights above the limit under Article XIX, Section 4, of the Articles of Agreement unless the participant agrees to accept special drawing rights above that limit in such repayment, or, with the agreement of the participant, in other currencies that are actually convertible.
- (c) Whenever a reduction in the Fund's holdings of a drawer's currency is attributed to a purchase of currency borrowed under this decision, the Fund shall promptly repay an equivalent amount. If the Fund is indebted to a participant as a result of transfers to finance a reserve tranche purchase by a drawer and the Fund's holdings of the drawer's currency that are not subject to repurchase are reduced as a result of net sales of that currency during a quarterly period covered by an operational budget, the Fund shall repay at the beginning of the next quarterly period an amount equivalent to that reduction, up to the amount of the indebtedness to the participant.
- (d) Repayment under paragraph 11(c) shall be made in proportion to the Fund's indebtedness to the participants that made transfers in respect of which repayment is being made.
- (e) Before the date prescribed in paragraph 11(a), a participant may give notice representing that there is a balance of payments need for repayment of part or all of the Fund's indebtedness and requesting such repayment. If a reversal of

its loan may lead to further loans to the Fund by other participants, the participant seeking such reversal shall consult with the Managing Director and with the other participants before giving notice. The Fund shall give the overwhelming benefit of any doubt to the participant's representation. Repayment shall be made after consultation with the participant in the currencies of other members that are actually convertible, or in special drawing rights, as determined by the Fund. If the Fund's holdings of currencies in which repayment should be made are not wholly adequate, individual participants may be requested to provide the necessary balance under their credit arrangements subject to the limit of their available commitments. For all of the purposes of this paragraph 11, transfers under this paragraph 11(e) shall be deemed to have been made at the same time and for the same purchases as the transfers by the participant obtaining repayment under this paragraph 11(e).

- (f) When a repayment is made to a participant, the amount that can be called for under its credit arrangement in accordance with this decision shall be restored pro tanto.
- (g) The Fund shall be deemed to have discharged its obligations to a participating institution to make repayment in accordance with the provisions of this paragraph or to pay interest in accordance with the provisions of paragraph 9 if the Fund transfers an equivalent amount in special drawing rights to the member in which the institution is established.

Paragraph 12. Rates of Exchange

- (a) The value of any transfer shall be calculated as of the date of the dispatch of the instructions for the transfer. The calculation shall be made in terms of the special drawing right in accordance with Article XIX, Section 7(a) of the Articles, and the Fund shall be obliged to repay an equivalent value.
- (b) For all of the purposes of this decision, the value of a currency in terms of the special drawing right shall be calculated by the Fund in accordance with Rule O-2 of the Fund's Rules and Regulations.

Paragraph 13. Transferability

A participant may not transfer all or part of its claim to repayment under a credit arrangement except with the prior consent of the Fund and on such terms and conditions as the Fund may approve.

Paragraph 14. Notices

Notice to or by a participating member under this decision shall be in writing or by rapid means of communication and shall be given to or by the fiscal agency of

the participating member designated in accordance with Article V, Section 1 of the Articles and Rule G-1 of the Rules and Regulations of the Fund. Notice to or by a participating institution shall be in writing or by rapid means of communication and shall be given to or by the participating institution.

Paragraph 15. Amendment

- (a) Except as provided in paragraphs 5(b), 15(b) and 16, this decision may be amended during the period prescribed in paragraph 19(a) and any subsequent renewal periods that may be decided pursuant to paragraph 19(b) only by a decision of the Fund and with the concurrence of participants representing 85 percent of total credit arrangements. Such concurrence shall not be necessary for the modification of the decision on its renewal pursuant to paragraph 19(b).
- (b) If in its view an amendment materially affects the interest of a participant that voted against the amendment, the participant shall have the right to withdraw its adherence to this decision by giving notice to the Fund and the other participants within 90 days from the date the amendment was adopted. This provision may be amended only with the consent of all participants.

Paragraph 16. Withdrawal of Adherence

Without prejudice to paragraph 15(b), a participant may withdraw its adherence to this decision in accordance with paragraph 19(b) but may not withdraw within the period prescribed in paragraph 19(a) except with the agreement of the Fund and all participants. This provision may be amended only with the consent of all participants.

Paragraph 17. Withdrawal from Membership

If a participating member or a member whose institution is a participant withdraws from membership in the Fund, the participant's credit arrangement shall cease at the same time as the withdrawal takes effect. The Fund's indebtedness under the credit arrangement shall be treated as an amount due from the Fund for the purpose of Article XXVI, Section 3, and Schedule J of the Articles.

Paragraph 18. Suspension of Exchange Transactions and Liquidation

- (a) The right of the Fund to make calls under paragraph 7 and the obligation to make repayments under paragraph 11 shall be suspended during any suspension of exchange transactions under Article XXVII of the Articles.

- (b) In the event of liquidation of the Fund, credit arrangements shall cease and the Fund's indebtedness shall constitute liabilities under Schedule K of the Articles. For the purpose of paragraph 1(a) of Schedule K, the currency in which the liability of the Fund shall be payable shall be first the currency borrowed, then the participant's currency and finally the currency of the drawer for whose purchases transfers were made by the participants.

Paragraph 19. Period and Renewal

- (a) This decision shall continue in existence for five years from its effective date. When considering a renewal of this decision for the period following the five-year period referred to in this paragraph 19(a), the Fund and the participants shall review the functioning of this decision and shall consult on any possible modifications.
- (b) This decision may be renewed for such period or periods and with such modifications, subject to paragraphs 5(b), 15(b) and 16, as the Fund may decide. The Fund shall adopt a decision on renewal and modification, if any, not later than twelve months before the end of the period prescribed in paragraph 19(a). Any participant may advise the Fund not less than six months before the end of the period prescribed in paragraph 19(a) that it will withdraw its adherence to the decision as renewed. In the absence of such notice, a participant shall be deemed to continue to adhere to the decision as renewed. Withdrawal of adherence in accordance with this paragraph 19(b) by a participant, whether or not included in the Annex, shall not preclude its subsequent adherence in accordance with paragraph 3(b).
- (c) If this decision is terminated or not renewed, paragraphs 8 through 14, 17 and 18(b) shall nevertheless continue to apply in connection with any indebtedness of the Fund under credit arrangements in existence at the date of the termination or expiration of the decision until repayment is completed. If a participant withdraws its adherence to this decision in accordance with paragraph 15(b), paragraph 16, or paragraph 19(b), it shall cease to be a participant under the decision, but paragraphs 8 through 14, 17 and 18(b) of the decision as of the date of the withdrawal shall nevertheless continue to apply to any indebtedness of the Fund under the former credit arrangement until repayment has been completed.

Paragraph 20. Interpretation

Any question of interpretation raised in connection with this decision which does not fall within the purview of Article XXIX of the Articles shall be settled to the mutual satisfaction of the Fund, the participant raising the question, and all other participants. For the purpose of this paragraph 20 participants shall be deemed to

include those former participants to which paragraphs 8 through 14, 17 and 18(b) continue to apply pursuant to paragraph 19(c) to the extent that any such former participant is affected by a question of interpretation that is raised.

Paragraph 21. Relationship with the General Arrangements to Borrow and Associated Borrowing Arrangements

- (a) When considering whether to activate the New Arrangements to Borrow or the General Arrangements to Borrow, the Fund shall be guided by the following principles: The New Arrangements to Borrow shall be the facility of first and principal recourse except that:
 - (i) in the event of a request for a drawing on the Fund by a participating member, or a member whose institution is a participant, in both the General Arrangements to Borrow and the New Arrangements to Borrow, a proposal for calls may be made under either of the arrangements; and
 - (ii) in the event that a proposal for calls under the New Arrangements to Borrow is not accepted under paragraph 7A, a proposal for calls may be made under the General Arrangements to Borrow.
- (b) Outstanding drawings and commitments under the New Arrangements to Borrow and the General Arrangements to Borrow shall not exceed SDR 34 billion, or such other amount of total credit arrangements as may be in effect in accordance with this decision. The available commitment of a participant under the New Arrangements to Borrow shall be reduced pro tanto by any outstanding drawings on, and commitments of, the participant under the General Arrangements to Borrow. The available commitment of a participant under the General Arrangements to Borrow shall be reduced pro tanto by the extent to which its credit arrangement under the General Arrangements to Borrow exceeds its available commitment under the New Arrangements to Borrow.
- (c) References to drawings and commitments under the General Arrangements to Borrow shall include drawings and commitments under the Associated Borrowing Arrangements referred to in paragraph 23 of the General Arrangements to Borrow.

Paragraph 22. Other Borrowing Arrangements

Nothing in this decision shall preclude the Fund from entering into any other types of borrowing arrangements.

Annex

Participants and Amount of Credit Arrangements

The size of each participant's credit arrangement listed below has initially been based in principle on its relative economic strength as reflected in its quota in the Fund. Credit arrangements are subject to a minimum of SDR 340 million. Amounts have been adjusted between some participants subject to the condition that the total for the participants involved in an adjustment does not change and the minimum is observed. The amounts, in terms of SDRs of the individual credit arrangements and their total will remain in effect unless and until changed in accordance with this decision.

The size of the Hong Kong Monetary Authority's (HKMA) credit arrangement has not been calculated on the basis of the quota of the member whose territories include Hong Kong. The same principle explains the special provision on activation of the New Arrangements to Borrow to meet requests from such member. Participant amount in millions of special drawing rights:

Australia	810
Austria	412
Belgium	967
Canada	1396
Denmark	371
Deutsche Bundesbank	3557
Finland	340
France	2577
Hong Kong Monetary Authority	340
Italy	1772
Japan	3557
Korea	340
Kuwait	345
Luxembourg	340
Malaysia	340
Netherlands	1316
Norway	383
Saudi Arabia	1780
Singapore	340
Spain	672
Sveriges Riksbank	859
Swiss National Bank	1557
Thailand	340
United Kingdom	2577
United States	6712