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POVERTY REDUCTION AND GROWTH TRUST—2017 BORROWING AGREEMENTS WITH THE NATIONAL BANK OF BELGIUM AND THE SWISS NATIONAL BANK

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POVERTY REDUCTION AND GROWTH TRUST—2017 BORROWING AGREEMENTS WITH THE NATIONAL BANK OF BELGIUM AND THE SWISS NATIONAL BANK

Approved By
**Andrew Tweedie and
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Prepared by the Finance and Legal Departments

INTRODUCTION

1. The Fund, as Trustee of the Poverty Reduction and Growth Trust (PRGT or Trust), has entered into new borrowing agreements with the National Bank of Belgium (Belgium) and the Swiss National Bank (Switzerland), effective on August 30, 2017. These new borrowing agreements with Belgium and Switzerland provide new resources equivalent to SDR 350 million and SDR 500 million, respectively, for a total amount equivalent to SDR 850 million in new PRGT lending resources (see attachments).

2. Pursuant to Section III, paragraph 2 of the Instrument to establish the PRGT, the Managing Director is authorized to enter into borrowing agreements and agree to their terms and conditions with lenders to the Loan Accounts of the Trust. This paper presents to the Executive Board for information the new borrowing agreements with Belgium and Switzerland.

3. Including these two new borrowing agreements, the Fund has concluded fourteen new PRGT loan agreements providing total resources of SDR 9.4 billion in the context of the current Board endorsed effort to raise SDR 11 billion.¹ To accommodate two remaining prospective loan providers that could yield an additional amount of up to SDR 2.4 billion, Fund staff are engaged in consultations with PRGT creditors on a proposed increase of the PRGT cumulative borrowing limit.² Once completed,

¹ See [Update on the Financing of the Fund's Concessional Assistance and Proposed Amendments to the PRGT](#) (4/7/2014).

² As reported in [2017 Update Paper on the Financing of the Fund's Concessional Activities](#) (4/3/2017) and [Poverty Reduction and Growth Trust—2017 Borrowing Agreements with the Bank of Italy](#) (7/20/2017), to accommodate the possible better than expected loan mobilization outcome, the current PRGT cumulative borrowing limit of SDR 37 billion would need to be increased by SDR 1 billion.

a Board paper that summarizes the outcome of these consultations along with a proposed decision to increase the PRGT cumulative borrowing limit will be issued to the Executive Board.

4. These new borrowing agreements are the third and fourth PRGT loan contributions negotiated with Belgium and Switzerland, respectively.³ They incorporate the following recent changes to the Fund’s framework for concessional lending to low-income countries: (i) the extensions of the commitments and drawdown period for PRGT loans to end-2020 and end-2024, respectively; (ii) the incorporation of the Chinese Renminbi (RMB) interest rate instrument of six-month maturity for borrowing agreements in currencies; and (iii) the provision that, if the derived six-month SDR interest rate formula results in a negative rate, the applicable interest rate shall be zero percent.⁴

PRINCIPAL ELEMENTS OF THE BORROWING AGREEMENTS

5. **Account designations.** The new borrowing agreement with Belgium (in a total amount equivalent to SDR 350 million) is for the benefit of the Extended Credit Facility Loan Account of the PRGT to finance disbursements under that facility, and the agreement with Switzerland (in a total amount equivalent to SDR 500 million) is for the benefit of the General Loan Account (GLA) to finance disbursements under any of the facilities of the Trust.

6. **Drawings on commitments.** Drawings under both agreements can be made through December 31, 2024 (drawdown period) to cover PRGT lending commitments of the Trustee until December 31, 2020 (commitment period). Further, as provided under the agreement with Switzerland, the commitment period and the drawdown period may be extended by agreement between Switzerland and the Trustee, provided that the drawdown period may not be extended beyond December 31, 2028. Drawings under the agreement with Switzerland can only be made once the total amount of the loan under the previous borrowing agreement between the Swiss National Bank and the International Monetary Fund as Trustee of the Poverty Reduction and Growth

³ The previous borrowing agreements with Belgium and Switzerland were presented to the Board at the time of their approval (1999 and [2012](#) for Belgium; 1988, 1995 and [2011](#) for Switzerland).

⁴ Effective October 1, 2016, the six-month derived SDR interest rate is based on the Chinese treasury bill rate, the Euro-denominated Euro government bond yield for bonds rated AA and above (as published by the ECB), the Japanese treasury bill rate, the Libor, and the U.S. treasury bill rate (all at six months maturity), see [Update on the Mobilization of Loan Resources for PRGT Lending, Proposed Amendment to the PRGT Instrument, and Floor for the Six-Month Derived SDR Interest Rate](#) (9/13/2016). The zero interest rate floor is applicable to all PRGT loan agreements that use the derived six-month SDR rate, regardless of whether PRGT lenders choose to make new contributions of lending resources to the PRGT, or whether these contributions are made in the form of augmentations of existing PRGT borrowing agreements, or new borrowing agreements with the Fund, as Trustee of the PRGT.

Trust dated April 21, 2011, has been fully drawn. The notification period of the intention to draw is five days (creditor's location) (paragraphs 2(a)).

7. Denomination and media. Loan commitments and operations are denominated in SDRs. Unless otherwise agreed between the Trustee and the creditors, disbursements are to be made by the transfer of the equivalent amount of euros (paragraph 4(a) for Belgium and paragraph 3(a) for Switzerland) to an account specified by the Trustee. Payments of principal and interest by the Trust are to be made in euros or in other media as may be agreed between the Trustee and the creditor (paragraph 7(a) for Belgium and paragraph 6(a) for Switzerland).

8. Maturity. Under these borrowing agreements, each drawing is to be repaid in accordance with the repayment schedule for loan disbursements under the facility of the Trust for which it was drawn (paragraph 5(a) for Belgium and paragraph 4(a) for Switzerland).

9. Interest. The borrowing agreements for Belgium and Switzerland provide for outstanding drawings to earn interest at the six-month derived SDR rate (paragraph 6(a) and paragraph 5(a), respectively). Interest will be payable on a semi-annual basis promptly after June 30 and December 31 of each year (paragraph 6(b) and paragraph 5(b), respectively).

10. Suspension of drawings in event of nonpayment by the Trust. In the event that any installment of principal or interest is not paid under the agreements within a period of ten days after its due date, the agreements provide for the suspension of further drawings pending consultations on this matter with the respective creditor (paragraphs 2(b)).

11. Transfer of claims. Provision is made in the agreements for the voluntary transfer of claims on the Trust to a limited group of official-sector entities and for temporary suspension of disbursements at any time prior to June 30, 2024, in the event of a liquidity need by the creditor (paragraphs 8(a) and 9 for Belgium, and paragraphs 7(a) and 8 for Switzerland).

CONCLUSION

12. The new borrowing agreements with Belgium and Switzerland represent an important additional step towards meeting the SDR 11 billion target under the 2015–17 PRGT loan mobilization round. With fourteen new loan agreements concluded to date and negotiations well under way with two remaining prospective loan providers, the SDR 11 billion fund-raising target is expected to be exceeded and therefore, the PRGT's cumulative borrowing limit will need to be increased to accommodate the success of the ongoing loan mobilization.

Attachment I. Borrowing Agreement Between the National Bank of Belgium and the International Monetary Fund as Trustee of the Poverty Reduction and Growth Trust

The National Bank of Belgium (the “Bank”) agrees to lend to the International Monetary Fund (the “Fund”) as Trustee (the “Trustee”) of the Poverty Reduction and Growth Trust (the “Trust”), for the purposes of providing loan resources to the Trust. Such loan resources shall be provided in accordance with the terms of the Instrument establishing the Trust adopted by the Executive Board of the Fund by Decision No. 8759-(87/176) ESAF, as amended (the “PRGT Instrument”), and on the terms and conditions set out below. This agreement is based on Section III, paragraph 2 of the PRGT Instrument, which authorizes the Managing Director to enter into borrowing agreements with creditors to the Loan Accounts of the Trust.

1. The amount of the loan shall be the equivalent of up to SDR 350 million.
2. (a) The Trustee may make drawings under this agreement at any time during the period from the effective date of this agreement through December 31, 2024. Unless otherwise agreed between the Bank and the Trustee, the Trustee shall give the Bank at least five business days (Brussels) notice of its intention to draw, and shall provide payment instructions at least two Fund business days prior to the value date of the transaction by SWIFT.

(b) If any installment of principal or interest is not fully paid to the Bank within a period of ten days after its due date, the Trustee shall not make further drawings under this agreement pending consultations with the Bank on the matter. However, the Trustee may resume drawings under this agreement once arrears to the Bank have been discharged.
3. The Trustee may make drawings under this agreement to finance loan disbursements by the Trustee under the Extended Credit Facility Loan Account of the Trust.
4. (a) The amount of each drawing shall be denominated in SDRs. Unless otherwise agreed between the Trustee and the Bank, the amount shall be paid by the Bank on the value date specified in the Trustee’s notice by transfer of the equivalent amount in Euros to an account specified by the Trustee.

(b) Upon request, the Trustee shall issue to the Bank a non-negotiable certificate evidencing its claim on the Trust resulting from a drawing outstanding under this agreement.
5. (a) Each drawing shall be repaid in accordance with the repayment schedule for loan disbursements under the facility of the Trust for which it was drawn. At the time of each drawing, the Trustee will indicate in the notice requesting the drawing the specific repayment schedule for the amount drawn. Repayments by the Trust shall be made on the relevant maturity dates.

(b) By agreement between the Bank and the Trustee, any drawing or part thereof may be repaid by the Trustee at any time in advance of maturity. Unless otherwise agreed between the Bank and the Trustee, a request for agreement on early repayment shall be made by the Trustee with at least five business days (Brussels) notice.

(c) If the relevant maturity date is not a business day of the Fund, the Target system and the domestic markets of the other (non-euro) currencies included in the SDR basket, the repayment date shall be on the first succeeding business day that is a business day for the Fund, the Target system and the domestic markets of the other (non-euro) currencies included in the SDR basket.

6. (a) Interest on the amount outstanding in respect of each drawing shall be computed at an annual rate determined by the Trustee at the time each drawing is made and at intervals of six calendar months thereafter, from the product of:

(i) the interest rates on domestic instruments in each currency included in the SDR basket, as reported to the Trustee by each reporting agency, two LIBOR business days prior to the commencement of the interest rate period to which such computation applies—provided that if this date is not a business date of the Fund, such date shall be the first preceding business day of the Fund that is also a LIBOR business day—as follows:

- the bond equivalent yield for six-month U.S. Treasury bills,
- the six-month Euro-denominated euro government bond yield for bonds rated AA and above, as published by the European Central Bank,
- the bond equivalent yield on six-month Chinese treasury bills,
- the bond equivalent yield on six-month Japanese treasury bills,
- the six-month interbank rate in the United Kingdom, and

(ii) the percentage weight of that currency in the valuation of the SDR on that business day, calculated by using the same amounts and exchange rates for currencies as are employed by the Fund for calculating the value of the SDR in terms of the U.S. dollar on that day. The applicable interest rate shall be the sum of the products so calculated, rounded to two decimal places.

(b) The amount of interest payable in respect of each drawing shall be calculated on an actual day basis and shall be paid on all outstanding drawings under this agreement promptly after June 30 and December 31 of each year.

7. (a) Payments of principal and interest shall be made in Euros or in other media as may be agreed between the Trustee and the Bank.

(b) Payments in Euros or other currencies shall be made to an account of the Bank as agreed between the Trustee and the Bank. Payments in SDRs shall be made by crediting Belgium's holdings account in the Special Drawing Rights Department.

8. (a) The Bank shall have the right to transfer at any time all or part of any claim to any member of the Fund, to the central bank or other fiscal agency designated by any member for purposes of Article V, Section 1, of the Fund's Articles of Agreement, or to any official entity that has been prescribed as a holder of SDRs pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement.

(b) The transferee shall acquire all the rights of the Bank under this agreement with respect to repayment of and interest on the transferred claim.

9. At the request of the Bank, calls on its commitment to meet drawings may be suspended temporarily at any time prior to June 30, 2024, subject to the provisions of Section III, paragraph 4(c) and (d) of the PRGT Instrument.

10. Unless otherwise agreed between the Trustee and the Bank, all transfers, exchanges, and payments of principal and interest in currencies shall be made at the exchange rates for the relevant currencies in terms of the SDR established by the Fund pursuant to Article XIX, Section 7(a) of the Fund's Articles of Agreement and the rules and regulations of the Fund thereunder for the second business day of the Fund before the value date of the transfer, exchange or payment.

11. If the Fund changes the method of valuing the SDR, all transfers, exchanges, and payments of principal and interest made two or more business days of the Fund after the effective date of the change shall be made on the basis of the new method of valuation. If there is a change in the currency composition of the SDR basket, the interest rate calculations and instruments under paragraph 6(a)(i) shall be modified by operation of this clause to (i) incorporate, for any new currency included in the SDR basket, the interest rate on a widely used six-month domestic instrument for such currency as determined by the Trustee after consultation with the Bank and (ii) delete, for any currency removed from the SDR basket, the reference to the relevant domestic instrument. This modification shall be effective as of the date the changes in the method of valuing the SDR become effective.

12. Any question arising hereunder shall be settled by mutual agreement between the Bank and the Trustee.

13. (a) This agreement may be executed in duplicate counterparts, each of which shall be deemed an original and both of which together shall constitute but one and the same instrument.

(b) This agreement shall become effective on the last date written below.

IN WITNESS WHEREOF, the National Bank of Belgium and the Trustee have executed this Agreement.

For the NATIONAL BANK OF BELGIUM:

Jan Smets /s
Governor
National Bank of Belgium

July 31, 2017

Date

For the INTERNATIONAL MONETARY FUND as Trustee:

Christine Lagarde /s
Managing Director

August 30, 2017

Date

Attachment II. Borrowing Agreement Between the Swiss National Bank and the International Monetary Fund as Trustee of the Poverty Reduction and Growth Trust

The Swiss National Bank (the “Bank”) agrees to lend to the International Monetary Fund (the “Fund”) as Trustee (the “Trustee”) of the Poverty Reduction and Growth Trust (the “Trust”), for the purposes of providing loan resources to the Trust. Such loan resources shall be provided in accordance with the terms of the Instrument establishing the Trust adopted by the Executive Board of the Fund by Decision No. 8759-(87/176) ESAF, as amended (the “PRGT Instrument”), and on the terms and conditions set out below. Loans made pursuant to this agreement shall be to the General Loan Account of the Trust. This agreement is based on Section III, paragraph 2 of the PRGT Instrument, which authorizes the Managing Director to enter into borrowing agreements with creditors to the Loan Accounts of the Trust.

1. The amount of the loan shall be the equivalent of up to SDR 500 million.
2.
 - (a) The Trustee may make drawings under this agreement at any time during the period from the effective date of this agreement through December 31, 2024 (“drawdown period”) to cover PRGT lending commitments of the Trustee until December 31, 2020 (“commitment period”). The commitment period and the drawdown period may be extended by agreement between the Bank and the Trustee, provided that the drawdown period may not be extended beyond December 31, 2028. Notwithstanding the above, drawings under this agreement can only be made once the total amount of the loan under the previous borrowing agreement between the Bank and the International Monetary Fund as Trustee of the Poverty Reduction and Growth Trust dated April 21, 2011, has been fully drawn. Unless otherwise agreed between the Bank and the Trustee, the Trustee shall give the Bank at least five business days (Zurich) notice of its intention to draw, and shall provide payment instructions at least two Fund business days prior to the value date of the transaction by SWIFT.
 - (b) If any installment of principal or interest is not fully paid to the Bank within a period of ten days after its due date, the Trustee shall not make further drawings under this agreement pending consultations with the Bank on the matter. However, the Trustee may resume drawings under this agreement once arrears to the Bank have been discharged.
3.
 - (a) The amount of each drawing shall be denominated in SDRs. Unless otherwise agreed between the Trustee and the Bank, the amount shall be paid by the Bank on the value date specified in the Trustee’s notice by transfer of the equivalent amount in Euros to an account specified by the Trustee.
 - (b) Upon request, the Trustee shall issue to the Bank a nonnegotiable certificate evidencing its claim on the Trust resulting from a drawing outstanding under this agreement.

4. (a) Each drawing shall be repaid in accordance with the repayment schedule for loan disbursements under the facility of the Trust for which it was drawn. At the time of each drawing, the Trustee will indicate in the notice requesting the drawing the specific repayment schedule for the amount drawn. Repayments by the Trust shall be made on the relevant maturity dates.

(b) By agreement between the Bank and the Trustee, any drawing or part thereof may be repaid by the Trustee at any time in advance of maturity. Unless otherwise agreed between the Bank and the Trustee, a request for agreement on early repayment shall be made by the Trustee with at least five business days (Zurich) notice.

(c) If the relevant maturity date is not a business day of the Fund, the Target system and the domestic markets of the other (non-euro) currencies included in the SDR basket, the repayment date shall be on the first succeeding business day that is a business day for the Fund, the Target system and the domestic markets of the other (non-euro) currencies included in the SDR basket.

5. (a) Interest on the amount outstanding in respect of each drawing shall be computed at an annual rate determined by the Trustee at the time each drawing is made and at intervals of six calendar months thereafter, from the product of:

(i) the interest rates on domestic instruments in each currency included in the SDR basket, as reported to the Trustee by each reporting agency, two LIBOR business days prior to the commencement of the interest rate period to which such computation applies—provided that if this date is not a business date of the Fund, such date shall be the first preceding business day of the Fund that is also a LIBOR business day—as follows:

- the bond equivalent yield for six-month U.S. Treasury bills,
- the six-month Euro-denominated euro government bond yield for bonds rated AA and above, as published by the European Central Bank,
- the bond equivalent yield on six-month Chinese treasury bills,
- the bond equivalent yield on six-month Japanese treasury bills,
- the six-month interbank rate in the United Kingdom, and

(ii) the percentage weight of that currency in the valuation of the SDR on that business day, calculated by using the same amounts and exchange rates for currencies as are employed by the Fund for calculating the value of the SDR in terms of the U.S. dollar on that day. The applicable interest rate shall be the sum of the products so calculated, rounded to two decimal places.

(b) The amount of interest payable in respect of each drawing shall be calculated on an actual day basis and shall be paid on all outstanding drawings under this agreement promptly after June 30 and December 31 of each year.

6. (a) Payments of principal and interest shall be made in Euros or in other media as may be agreed between the Trustee and the Bank.

(b) Payments in Euros or other currencies shall be made to an account of the Bank as agreed between the Trustee and the Bank. Payments in SDRs shall be made by crediting Switzerland's holdings account in the Special Drawing Rights Department.

7. (a) The Bank shall have the right to transfer at any time all or part of any claim to any member of the Fund, to the central bank or other fiscal agency designated by any member for purposes of Article V, Section 1 of the Fund's Articles of Agreement, or to any official entity that has been prescribed as a holder of SDRs pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement.

(b) The transferee shall acquire all the rights of the Bank under this agreement with respect to repayment of and interest on the transferred claim.

8. At the request of the Bank, calls on its commitment to meet drawings may be suspended temporarily at any time prior to June 30, 2024, subject to the provisions of Section III, paragraph 4(c) and (d) of the PRGT Instrument.

9. Unless otherwise agreed between the Trustee and the Bank, all transfers, exchanges, and payments of principal and interest in currencies shall be made at the exchange rates for the relevant currencies in terms of the SDR established by the Fund pursuant to Article XIX, Section 7(a) of the Fund's Articles of Agreement and the rules and regulations of the Fund thereunder for the second business day of the Fund before the value date of the transfer, exchange or payment.

10. If the Fund changes the currency composition or currency weights of the SDR basket, all transfers, exchanges, and payments of principal and interest made two or more business days of the Fund after the effective date of the change shall be made on the basis of the new SDR basket. If there is a change in the currency composition of the SDR basket, the interest rate calculations and instruments under paragraph 5(a)(i) shall be modified by operation of this clause to (i) incorporate, for any new currency included in the SDR basket, the interest rate on a widely used six-month domestic instrument for such currency as determined by the Trustee after consultation with the Bank and (ii) delete, for any currency removed from the SDR basket, the reference to the relevant domestic instrument. This modification shall be effective as of the date the changes in the currency composition or currency weights of the SDR basket become effective.

11. Any question arising hereunder shall be settled by mutual agreement between the Bank and the Trustee.

12. (a) This agreement may be executed in duplicate counterparts, each of which shall be deemed an original and both of which together shall constitute but one and the same instrument.

(b) This agreement shall become effective on the last date written below.

IN WITNESS WHEREOF, the Swiss National Bank and the Trustee have executed this Agreement.

For the SWISS NATIONAL BANK:

Thomas Jordan /s
Chairman of the Governing Board

August 22, 2017

Date

Fritz Zurbrügg /s
Vice Chairman of the Governing Board

August 22, 2017

Date

For the INTERNATIONAL MONETARY FUND as Trustee:

Christine Lagarde /s
Managing Director

August 30, 2017

Date