

INTERNATIONAL MONETARY FUND

**Poverty Reduction and Growth Trust—  
Borrowing Agreement with the Bank of Italy**

Prepared by the Finance and Legal Departments

(In consultation with the Strategy, Policy, and Review Department)

Approved by Andrew Tweedie and Sean Hagan

May 3, 2011

**I. INTRODUCTION**

1. On April 18, 2011, the Fund, as Trustee of the Poverty Reduction and Growth Trust (PRGT), entered into a borrowing agreement (the “Agreement”) with the Bank of Italy, by which Italy will provide new loan resources of up to SDR 800 million (see attachment). With this Agreement, the Fund has concluded eleven new borrowing agreements providing total resources of SDR 8,461 million in the context of the current fund-raising effort, which supports the reform of the Fund’s lending facilities for low-income countries that became effective on January 7, 2010.<sup>1,2,3</sup>
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 creditors to the Loan Accounts of the Trust. This paper presents the Agreement to the Executive Board for information.
3. This is the fourth borrowing agreement between Italy and the Fund as Trustee of the PRGT. Under the Agreement, the Bank of Italy provides loan resources in SDRs, similar to the previous agreements. The Agreement also provides for the encashability of claims in case of a balance of payments need, consistent with the new encashment regime under the PRGT,

---

<sup>1</sup> The other borrowing agreements are with the Bank of Spain ([Press Release No. 10/50](#)), the Danmarks Nationalbank ([Press Release No. 10/ 51](#)), Canada ([Press Release No. 10/88](#)), Norway ([Press Release No. 10/286](#)), De Nederlandsche Bank NV ([Press Release No. 10/309](#)), the People’s Bank of China, the Banque de France, Japan, and United Kingdom ([Press Release No. 10/340](#)), and the Bank of Korea ([Press Release No. 11/50](#)).

<sup>2</sup> See [IMF Support for Low-Income Countries](#).

<sup>3</sup> See [Financing the Fund’s Concessional Lending to Low-Income Countries](#).

which was adopted by the Executive Board in April 2010 as part of the changes to the PRGT framework to facilitate the mobilization of additional bilateral loan contributions to finance the Fund's concessional lending to low-income countries.

## II. PRINCIPAL ELEMENTS OF THE BORROWING AGREEMENT

4. **Amount of agreement.** The maximum amount of new loan resources available under the Agreement shall be the equivalent of up to SDR 800 million.
5. **Account designation.** The Agreement is for the benefit of the Extended Credit Facility (ECF) Loan Account of the PRGT to finance disbursements under that facility.
6. **Drawings on commitments.** Drawings can be made through December 31, 2018. The notification period of the intention to draw is at least five business days (Rome) (Paragraph 2(a)).
7. **Denomination and media.** Loan commitments and operations are denominated in SDRs. Disbursements under the Agreement are to be received by the Trust in SDRs, unless otherwise agreed between the Trustee and the Bank of Italy (Paragraph 4(a)). Payments of principal and interest to the Bank of Italy by the Trust are to be made in SDRs, or in a freely usable currency as may be agreed between the Trustee and the Bank of Italy (Paragraph 7(a)). Trust borrowers can convert SDRs received as a result of drawings under the Agreement through the voluntary trading arrangements established by a number of SDR Department participants and one prescribed holder.<sup>4</sup>
8. **Maturity.** Paragraph 5(a) of the Agreement provides for each drawing to be repaid in accordance with the repayment schedule for loan disbursements under the facility of the Trust for which it was drawn.
9. **Interest.** The Agreement provides for the payment of the official SDR interest rate on outstanding claims. Interest will be payable on a quarterly basis promptly after July 31, October 31, January 31, and April 30 of each year (Paragraph 6).
10. **Transfer of claims.** Provision is made in the Agreement for the voluntary transfer of claims on the Trust to a limited group of official-sector entities (Paragraph 8) and for temporary suspension of disbursements at any time prior to June 30, 2018, in the event of a liquidity need by the creditor (Paragraph 10).

---

<sup>4</sup> Italy has a voluntary trading arrangement; see [Special Drawing Rights \(SDRs\)](#).

11. **Encashment.** The Agreement includes the right to seek early repayment of outstanding claims on the Trust in case of balance of payments and reserve needs, and authorizes drawings by the Trustee to fund such encashment requests of other participating creditors to any of the Loan Accounts of the Trust. The right to encashment under the agreement is in all cases subject to the availability of resources under borrowing agreements of other participating creditors.

### **III. CONCLUSION**

12. The new borrowing agreement with the Bank of Italy represents an important contribution to the PRGT. It increases the Trust's available loan resources to cover the medium-term demand for concessional lending under the Extended Credit Facility. Additional bilateral loan contributions, including from new lenders, are still needed to ensure the PRG Trust remains in a position to meet low-income countries' needs over the medium term.

**Borrowing Agreement**  
**Between**  
**the Bank of Italy**  
**and**  
**the International Monetary Fund as Trustee of**  
**the Poverty Reduction and Growth Trust**

The Bank of Italy (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 (the “PRGT Instrument”) adopted by the Executive Board of the Fund by Decision No. 8759-(87/176) ESAF on December 18, 1987, as amended, 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 800 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, 2018, upon giving the Bank at least five business days’ (Rome) notice of its intention to draw, and shall provide payment instructions at least two business days (Rome) prior to the value date of the transaction by SWIFT.  
  
(b) If any installment of principal or interest is not 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 (i) loan disbursements by the Trustee under the Extended Credit Facility Loan Account and (ii) the early repayment pursuant to Section III, paragraph 4(b) of the PRGT Instrument of the Trustee’s outstanding indebtedness under other borrowing agreements to any of the Loan Accounts 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 SDRs from Italy's holding account in the SDR Department 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.

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 shall provide information on 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.

(c) If the relevant maturity date is not a business day of the Fund, the repayment date shall be on the preceding business day.

6. (a) Each drawing bears interest at the SDR interest rate established by the Fund pursuant to Article XX, Section 3 of the Fund's Articles of Agreement.

(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 July 31, October 31, January 31, and April 30 of each year.

7. (a) Payments of principal and interest shall be made in SDRs or in a freely usable currency as may be agreed between the Trustee and the Bank; provided however that payments by the Trustee of principal pursuant to paragraph 9 shall be made in SDRs or a freely usable currency as determined by the Trustee after consultation with the Bank.

(b) Payments in SDRs shall be made by crediting Italy's holdings account in the Special Drawing Rights Department. Payments in currencies shall be made to an account specified by the Bank.

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, except that the transferee shall acquire the right to request early repayment under paragraph 9 of this agreement only if it is a member or the central bank or other fiscal agency of a member and, at the time of transfer, the member's balance of payments and reserve position was considered sufficiently strong in the opinion of the Fund for its currency to be usable in transfers under the Financial Transactions Plan.

9. The Bank shall have the right to seek early repayment of all or part of the principal amount of its outstanding claims on the Trust pursuant to Section III, paragraph 4(b) of the PRGT Instrument if the Bank represents that the balance of payments and reserve position of Italy justify the early repayment, and the Trustee, having given this representation the overwhelming benefit of any doubt, agrees. Early repayment is in all cases subject to the availability of resources under borrowing agreements to the Loan Accounts of the Trust that authorize drawings for such early repayments.

10. At the request of the Bank, calls on its commitment to meet drawings may be suspended temporarily at any time prior to June 30, 2018, subject to the provisions of Section III, paragraph 4(c) and (d) of the PRGT Instrument.

11. 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. If this exchange rate determination date is not a business day in Rome, then such date shall be the last preceding business day of the Fund that is also a business day in Rome.

12. 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.

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

14. (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 Bank of Italy and the Trustee have executed this Agreement.

For the BANK OF ITALY:

\_\_\_\_\_/s\_\_\_\_\_  
Mario Draghi  
Governor

March 31, 2011

Date

For the INTERNATIONAL MONETARY FUND as Trustee:

\_\_\_\_\_/s\_\_\_\_\_  
Dominique Strauss-Kahn  
Managing Director

April 18, 2011

Date