



July 2017

POVERTY REDUCTION AND GROWTH TRUST—2017 BORROWING AGREEMENTS WITH THE BANK OF ITALY

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International Monetary Fund
Washington, D.C.



July 20, 2017

POVERTY REDUCTION AND GROWTH TRUST—2017 AGREEMENT WITH THE BANK OF ITALY

Approved By
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Prepared by Finance and Legal Departments

INTRODUCTION

1. On July 17, 2017, the Fund, as Trustee of the Poverty Reduction and Growth Trust (PRGT or Trust), entered into a new borrowing agreement (the “Agreement”) with the Bank of Italy (hereafter, Italy or Purchaser), by which Italy will provide new resources to the Extended Credit Facility Loan Account of the PRGT in the total amount of up to SDR 400 million (see Attachment I).
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 the Agreement with Italy to the Executive Board for information.
3. This is the fifth borrowing agreement between Italy and the Fund as Trustee of the PRGT.¹ The Agreement embodies relevant recent changes to the Fund’s framework for concessional lending to low income countries, which include: (i) the extensions of the commitments and drawdown period for PRGT loans to end-2020 and -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 applicable to the two new agreements results in a negative rate, the applicable interest rate shall be zero percent.^{2, 3}

¹ The previous borrowing agreements with Italy were presented to the Board at the time of their approval ([2011](#), 1999, 1994, and 1988).

² See [Update on the Financing of the Fund’s Concessional Assistance and Proposed Amendments to the PRGT](#) (4/7/2014).

³ 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).

4. Including this Agreement, the Fund has concluded twelve new loan agreements providing total resources of SDR 8.6 billion in the context of the current Board endorsed effort to raise new PRGT loan resources.⁴ Negotiations with four remaining prospective loan providers are proceeding that could yield an additional amount of up to SDR 3.2 billion. If such negotiations are successfully concluded, the SDR 11 billion fund-raising target would be exceeded.⁵ To accommodate the better-than-expected loan mobilization outcome, the PRGT's cumulative borrowing limit of SDR 37 billion would need to be increased, which would involve consultations with PRGT creditors on the proposed increase and the issuance of a Board paper that summarizes the outcome of these consultations along with a proposed decision. Staff expects to begin this process in the coming weeks.

PRINCIPAL ELEMENTS OF THE BORROWING AGREEMENT

5. **Account designations.** The agreement (in a total amount of SDR 400 million) is for the benefit of the Extended Credit Facility Loan Account of the PRGT to finance disbursements under that facility.

6. **Drawings on commitments.** Drawings under the agreement can be made through December 31, 2024. The notification period of the intention to draw is five business days (Rome) (Paragraph 2(a)).

7. **Denomination and media.** Loan commitments and operations are denominated in SDRs. Unless otherwise agreed between the Trustee and Purchaser, disbursements are to be made by the transfer of SDRs to an account specified by the Trustee, (paragraph 4(a)). Payments of principal and interest by the Trust are to be made in SDRs or in freely usable currency, as may be agreed between the Trustee and the Purchaser (paragraph 7(a)).

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 outstanding drawings to the official SDR interest rate. Interest will be payable on a quarterly basis promptly after July 31, October 31, January 31, and April 30 of each year (Paragraph 6(b)).

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

⁵ As reported in the [2017 Update Paper on the Financing of the Fund's Concessional Activities \(4/3/2017\)](#), the committed and indicative loan amounts under the current fund-raising efforts could potentially exceed the mobilization target.

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 Agreement within a period of ten days after its due date, the Agreement provides for the suspension of further drawings pending consultations on this matter with the Purchaser (Paragraph 2(b)).

11. 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 and for temporary suspension of disbursements at any time prior to June 30, 2024, in the event of a liquidity need by the Purchaser (Paragraphs 8 and 10).

12. 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 agreements is in all cases subject to the availability of resources under borrowing agreements of other participating creditors (Paragraph 9).

CONCLUSION

13. The new borrowing agreement with Italy represents an important step towards ensuring that the Trust remains in a position to meet low-income countries' needs over the medium term. With twelve new loan agreements concluded to date and negotiations well under way with four 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 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 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 400 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. The Trustee and the Bank, with the consent of the Ministry of Economy and Finance of Italy, may agree to extend this agreement through December 31, 2030. Unless otherwise agreed between the Bank and the Trustee, the Trustee shall give the Bank at least five business days’ (Rome) 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 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 to an account specified by the Trustee.

(b) At the request of the Bank, 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. 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 (Rome) notice.

(c) If the relevant maturity date is not a business day of the Fund, the repayment date shall be on the first succeeding 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; payments by the Trustee of principal pursuant to paragraph 9 shall be made in SDRs, or in freely usable currency as may be agreed between the Trustee and 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 as agreed between the Trustee and 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, 2024, 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.

12. If the Fund changes the currency composition or currency weights of the SDR basket, all transfers, exchanges, and payments of principal and interest made three 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.

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:

Ignazio Visco /s
Governor

July 6, 2017

Date

For the INTERNATIONAL MONETARY FUND as Trustee:

Christine Lagarde /s
Managing Director

July 17, 2017

Date