



IMF POLICY PAPER

POVERTY REDUCTION AND GROWTH TRUST—REVIEW OF THE INTEREST RATE STRUCTURE—POSTPONEMENT

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- The **Staff Report**, prepared by IMF staff and completed on November 27, 2018 for the Executive Board's consideration by December 4, 2018.

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POVERTY REDUCTION AND GROWTH TRUST—REVIEW OF INTEREST RATE STRUCTURE—POSTPONEMENT

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Prepared by the Finance Department and the Strategy, Policy, and Review Department (in consultation with the Legal Department).

1. The Executive Board last reviewed the interest rate structure for the Fund’s concessional facilities on October 3, 2016. The review concluded that a strong case remained for maintaining zero interest rates on Fund concessional credit given the global economic juncture at that time. Taking into account the prolonged period of very low global interest rates, the Board approved amendments to the PRGT interest rate mechanism.¹ Specifically, a new threshold was adopted whereby both the Extended Credit Facility (ECF) and the Standby Credit Facility (SCF) interest rates would be set at zero when the 12-month average SDR rate was less than or equal to 0.75 percent. The application of the revised mechanism set the ECF and SCF interest rates to zero for the period 2017–18.^{2, 3} In addition, interest rate charges on outstanding legacy balances under the Exogenous Shocks Facility (ESF), which are not determined via the interest rate mechanism, were waived for the period 2017–18.

2. This paper proposes to postpone the deadline for the next interest rate review by six months in light of the timing of the second stage of the Low-Income Countries (LIC) Facilities Review, and to maintain the zero percent interest rates applicable to ECF, SCF and ESF balances for this period. The review of the PRGT interest rate structure is required to take place by December 31, 2018 under the PRGT

¹ See [Poverty Reduction and Growth Trust—Review of Interest Rate Structure](#), (August 24, 2016).

² See [IMF Executive Board Modifies PRGT Interest Rate Mechanism and Approves Zero Rates on All Low-Income Country Lending Facilities Through end-2018](#) (October 6, 2016), and [Decision No. 16060-\(16/91\)](#), adopted October 3, 2016.

³ Since 2015, to further enhance support for PRGT-eligible countries in fragile situations and those hit by natural disasters, the interest rate mechanism introduced in 2009 was modified by setting the interest rate levied on Rapid Credit Facility (RCF) financing at zero percent on a permanent basis. See [Financing for Development—Enhancing the Financial Safety Net for Developing Countries](#) (June 11, 2015), [Decision No. 15819-\(15/66\)](#), adopted on July 1, 2015, and [Decision No. 15821-\(15/66\)](#), adopted on July 1, 2015.

instrument.⁴ However, the Executive Board also agreed in 2016 that this review should also provide Directors with an opportunity to assess the PRGT interest rate mechanism in light of the findings of the LIC Facilities Review.⁵ As the second Board paper on the LIC Facilities Review is now currently envisaged to be discussed by the Executive Board in March 2019, staff proposes to extend the deadline for the interest rate review by six months to ensure that the Board can consider the two reviews as a package. In line with this proposal, staff proposes that the interest rates of zero percent per annum set by [Decision No. 16060 \(16/91\)](#), adopted October 3, 2016, continue to be applied to the outstanding balance of PRGT loans under the ECF and SCF through June 30, 2019.⁶ In addition, staff recommends the extension of the waiver of interest rate charges on outstanding legacy balances under the ESF, by six months.

⁴ In accordance with Section II, paragraph 4(b) of the Instrument to Establish the Poverty Reduction and Growth Trust (PRGT Instrument), annexed to [Decision No. 8759-\(87/176\) ESAF](#), adopted December 18, 1987, as amended.

⁵ See [IMF Executive Board Modifies PRGT Interest Rate Mechanism and Approves Zero Rates on All Low-Income Country Lending Facilities Through end-2018](#) (October 6, 2016). The LIC Facilities Review will propose specific reforms to ensure the continued adequacy of the Fund's toolkit for meeting LICs' current needs. An initial paper was discussed by the Executive Board in July 2018. One of the proposals includes the alignment of interest rates between the ECF and SCF. For more details, see [2018 Review of Facilities for Low-Income Countries](#) (August 1, 2018).

⁶ Applying the current interest rate mechanism using the average SDR interest rate in the last 12 months would set the ECF interest rate at zero percent and the SCF interest rate at 0.25 percent, and would result in an estimated SDR 0.33 million in interest payments to the PRGT on SCF credit for the six-month period ending June 2019. Similarly, without further ESF interest waiver, the interest payments due to the PRGT would be estimated at SDR 0.13 million on ESF credit outstanding.

Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board.

1. The Instrument to establish the Poverty Reduction and Growth Trust (PRGT Instrument), annexed to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, as amended, shall be further amended as follows:
 - (a) In Section II, paragraph 4(b) the words “December 31, 2018” shall be replaced with the words “June 30, 2019.”
 - (b) In Section II, paragraph 4(c), the words “through December 31, 2018” shall be replaced with the words “through June 30, 2019.”
2. In light of paragraph 1(a) above, the interest rate on the outstanding balance of Trust loans under the Extended Credit Facility (“ECF”) and the Stand-By Credit Facility (“SCF”) set under Decision No. 16060-(16/91), adopted October 3, 2016 shall continue to be charged at a rate of zero percent per annum through June 30, 2019.