



# IMF POLICY PAPER

## MODIFYING THE POVERTY REDUCTION AND GROWTH TRUST (PRGT) CUMULATIVE BORROWING LIMIT

February 2018

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- The **Staff Report**, prepared by IMF staff and completed on December 29, 2017 for the Executive Board's consideration on January 8, 2018.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Electronic copies of IMF Policy Papers  
are available to the public from  
<http://www.imf.org/external/pp/ppindex.aspx>

**International Monetary Fund**  
**Washington, D.C.**



December 29, 2017

## **MODIFYING THE POVERTY REDUCTION AND GROWTH TRUST (PRGT) CUMULATIVE BORROWING LIMIT**

### **EXECUTIVE SUMMARY**

An effort to mobilize SDR 11 billion in additional Poverty Reduction and Growth Trust (PRGT) loan resources is underway to sustain the Fund's concessional lending operations over the medium term. SDR 9.4 billion in new loan resources have been secured to date and negotiations with remaining potential loan providers indicate that the target is likely to be exceeded by about SDR ½ to 1 billion. To accommodate the better-than-expected loan mobilization outcome, the PRGT's cumulative borrowing limit of SDR 37 billion would need to be increased. PRGT creditors were consulted and supportive of a proposed increase in the borrowing limit, from SDR 37 billion to SDR 38 billion.

Approved By  
**Andrew Tweedie and  
Sean Hagan**

Prepared by the Finance and Legal Departments.

## CONTENTS

<b>BACKGROUND</b>	3
<b>UPDATE ON PRGT LOAN MOBILIZATION</b>	3
<b>INCREASING THE CUMULATIVE BORROWING LIMIT</b>	3

## BACKGROUND

**1. The current PRGT loan mobilization initiative was endorsed by the Executive Board in April 2014.** This involved a Board decision to increase the PRGT's cumulative borrowing limit (henceforth borrowing limit) to SDR 37 billion to accommodate the loan mobilization target of SDR 11 billion. Borrowing limits have been in place for the PRGT since 1989 to ensure that new PRGT borrowing would not take place without prior consultation with loan account creditors regarding the justification for such borrowing and the adequacy of the PRGT Reserve Account. Authorization to raise the borrowing limit has been sought in the context of subsequent PRGT loan mobilization rounds.

## UPDATE ON PRGT LOAN MOBILIZATION

**2. The loan mobilization effort is well advanced with new loan agreements concluded for eighty five percent of the original mobilization target.** Since April's update to the Executive Board on staff's progress in raising SDR 11 billion in new loan resources<sup>1</sup>, new loans amounting to an additional SDR 3.6 billion have been finalized. This brings the total amount of new loan contributions under the current fundraising round to SDR 9.4 billion (Table 1). This comprises 14 new loan agreements or augmentations to previous agreements and includes loan contributions from two new lenders (Sweden and Brazil). Negotiations on the terms and conditions of new loan contributions continue with two remaining potential loan providers in the amount of SDR 2–2½ billion. Staff expects these discussions to be concluded in due course, implying that fundraising efforts should exceed the mobilization target by about SDR ½–1 billion.

**Table 1. New PRGT Loan Agreements**  
(in millions of SDRs; as of end-November 2017)

Country	Amount	Effective Date	Existing Loan Provider
Belgium	350	Aug-17	Yes
Brazil	500	Jun-17	No
Canada	500	Jan-17	Yes
China	800	Apr-17	Yes
Denmark	300	Nov-16	Yes
Italy	400	Jul-17	Yes
Japan	1,800	Apr-17	Yes
Korea	500	Dec-16	Yes
Netherlands	500	Dec-16	Yes
Norway	300	Nov-16	Yes
Spain	450	Feb-17	Yes
Sweden	500	Nov-16	No
Switzerland	500	Aug-17	Yes
United Kingdom	2,000	Jan-17	Yes
<b>Total</b>	<b>9,400</b>		

## INCREASING THE CUMULATIVE BORROWING LIMIT

**An increase in the borrowing limit is thus proposed to accommodate the anticipated better-than expected loan mobilization outcome.** Raising the borrowing limit to SDR 38 billion will be sufficient to absorb the incremental loan resources with a modest buffer.<sup>2</sup> Staff has consulted with

<sup>1</sup> See [Update on the Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Countries \(2017\)](#).

<sup>2</sup> The increase in the cumulative borrowing limit of the PRGT to SDR 37 billion in 2014 allowed the Trustee to seek additional resources for the PRGT in the total amount of SDR 10.8 billion. Including the remaining potential lenders,

(continued)

existing lenders through Executive Directors' offices regarding the proposal. Staff clarified that reserve account coverage relative to outstanding PRGT credit—the traditional indicator of security for PRGT loan providers—currently stands at 60.6 percent and its projection, which in the short and medium term is determined by demand to use PRGT resources, would not change by a decision to increase the cumulative debt limit. As such, the PRGT's repayment capacity would also not be affected. The PRGT's self-sustained annual lending capacity of SDR 1¼ billion would also be consistent with the small increase in the cumulative borrowing limit. On the other hand, the increase would facilitate a broader-based burden sharing among new and existing PRGT loan providers while providing a welcome additional cushion given elevated demand for concessional resources consistent with the PRGT's annual lending capacity target. During the consultation, there was broad support among PRGT creditors to increase the borrowing limit to SDR 38 billion to allow the successful completion of the current PRGT mobilization round.

---

additional loan resources to the PRGT raised during the current mobilization round could amount to up to SDR 11¾ billion. Therefore, the proposed SDR 1 billion increase in the PRGT borrowing limit would allow room for such negotiations to be concluded and provide a small buffer.