



June 2023

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

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The Report prepared by IMF staff and completed on May 26, 2023, has been released.

The staff report was issued to the Executive Board for information. The report was prepared by IMF staff. The views expressed in this paper are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board.

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.



May 26, 2023

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

Approved By
**Craig Beaumont (FIN) and
Guillaume Chabert (SPR)**

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

This paper proposes to postpone to end-July 2025 the next review of the PRGT interest rate structure which is due by end-July 2023. In the April 2023 annual review of resource adequacy of the concessional financing and debt relief trusts, the Board concurred that it is desirable to consider all policies regarding LIC facilities—including those related to PRGT interest rates—at once in the context of 2024/25 Review of the Fund’s Concessional Facilities and Financing. As a result of the proposed postponement, the interest rates on all PRGT credit would be kept at zero until the completion of the next review.

A. Context

1. The IMF’s Executive Board last reviewed the interest rate structure of the Poverty Reduction and Growth Trust (PRGT) on July 14, 2021.¹ In the context of that review, the Board noted that the interest rate mechanism of the PRGT, adopted in 2009² and modified in 2019,³ had worked broadly as intended. With low-income countries (LICs) facing a challenging economic conjuncture and global interest rates at very low levels, the Board also decided that interest rates on loans provided through the Extended Credit Facility (ECF) and Standby Credit Facility (SCF) would remain at zero until the next biennial review of the interest rate structure to take place by end-July 2023. The interest rate on outstanding Rapid Credit Facility (RCF) credit had been permanently set at zero percent in 2015 and is not subject to review under the interest rate mechanism.

¹ *Fund Concessional Financial Support for Low-Income Countries—Responding to the Pandemic*, July 2021.

² *A New Architecture of Facilities for Low-Income Countries and Reform of the Fund’s Concessional Financing Framework—Supplementary Information*, July 2009.

³ *Poverty Reduction and Growth Trust—Review of Interest Rate Structure*, May 2019.

2. **Under the PRGT Instrument, interest on credit outstanding under the ECF and SCF is linked to the average SDR interest rate (SDRi) over the most recently observed 12-month period.** The average SDRi currently exceeds 2 percent (Figure 1), and the current interest rate mechanism is summarized in Table 1. Accordingly, if a review of PRGT interest rates were to occur, application of the current interest rate mechanism would result in an upward adjustment of the interest rates for the ECF and the SCF from zero to 25 basis points, unless the Board decided otherwise.

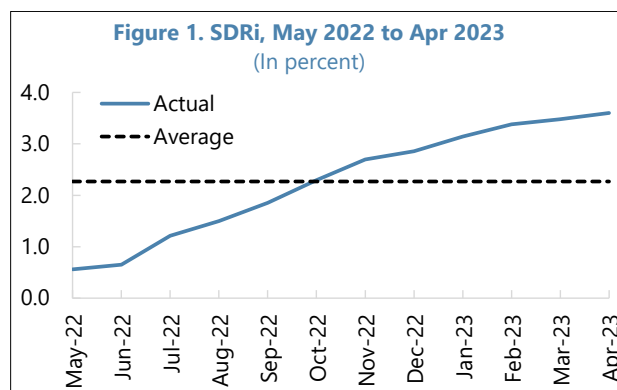


Table 1. Current PRGT Interest Rate Mechanism
(In percent)

SDRi Thresholds	ECF	RCF	SCF
SDRi < 2	0.00	0.00	0.00
2 ≤ SDRi ≤ 5	0.25	0.00	0.25
SDRi > 5	0.50	0.00	0.50

B. Proposal

3. **With a comprehensive review of the PRGT soon approaching, staff recently proposed to postpone the 2023 review of PRGT interest rate structure to 2025.** In the context of the annual review of the resource adequacy of the concessional financing and debt relief trusts, staff proposed to defer the interest rate review due by end-July 2023 until this topic is taken up as part of the 2024/25 Review of the Fund's Concessional Facilities and Financing, but no later than end-July 2025.⁴ The proposed deferral of the review by two years reflects the difficult environment and high uncertainty facing LICs, with LICs experiencing high financing needs and reduced policy buffers owing to multiple shocks including the pandemic and the adverse spillovers from Russia's war in Ukraine. It is also desirable to consider all policies regarding LIC facilities at once, especially as the 2024/25 review will include an assessment of the appropriate long-term lending envelope as well as the options to sustainably support such PRGT lending, which would include the interest rate structure among other options.⁵ Staff also noted the modest financial impact of a deferral on the PRGT, with the forgone interest income on existing and scheduled credit amounting to about SDR 20–30 million over 12 months. While some Directors would have preferred to complete the review in July 2023 as stipulated by the PRGT Instrument, many Executive Directors (representing a majority of the total voting power) favored deferring the next review of PRGT interest rates until the 2024/25 comprehensive PRGT review.

⁴ *2023 Review of Resource Adequacy of the Poverty Reduction and Growth Trust, Resilience and Sustainability Trust, and Debt Relief Trusts*, April 2023.

⁵ A somewhat similar decision was taken in November 2018, to provide the Board with an opportunity to assess the PRGT interest rate mechanism in light of the findings of the LIC Facilities Review that was envisaged for Board discussion in 2019. See *Poverty Reduction and Growth Trust—Review of the Interest Rate Structure—Postponement*, November 2018.

4. This paper now proposes a decision to postpone the review of the PRGT interest rate mechanism, which would effectively maintain the zero percent interest rates on all PRGT credit for this period. Specifically, it puts forward the necessary amendment of the PRGT instrument to implement the postponement by modifying the deadline for the next review of the PRGT interest rate mechanism from end-July 2023 to July 31, 2025. As a result of the postponement, the current zero percent interest rates set out in Section IV, paragraph 4(a) of the PRGT Instrument would remain valid until the completion of the next review.

5. Ahead of the 2024/25 comprehensive PRGT review staff will be conducting technical work on options as requested by the Board, including on the interest rate structure of the PRGT. In April 2023, the Board underlined its commitment to a self-sustained PRGT that is fully able to meet the needs of the institution’s poorest and most vulnerable members over the longer term and called for technical work on the full range of options available, where a number of Directors emphasized that adjustments to concessional lending terms, including a tiered interest rate structure, may be needed. Accordingly, staff will conduct technical work ahead of the 2023 Annual Meetings, that will include a preliminary analysis comprising illustrative examples of potential changes to the PRGT interest rate structure, for instance a dual interest rate mechanism along with commensurate possible modifications to blending policies as discussed in 2021⁶ and a tiered interest rate structure. Staff will also provide a preliminary assessment of the pros and cons of such examples for contributing to putting the PRGT on a sustainable footing.⁷ The potential options on the PRGT interest rate structure for consideration by the Board will be further developed and assessed as part of the 2024/25 comprehensive PRGT review.

⁶ See Box 3 and Annex V of *Fund Concessional Financial Support for Low-Income Countries—Responding to the Pandemic*, July 2021.

⁷ This preliminary technical work is in line with the following call by the IMFC during the 2023 Spring Meetings: “We also ask the IMF to provide an analysis, by the 2023 Annual Meetings, of the full range of options to put the Poverty Reduction and Growth Trust on a sustainable footing which will inform its burden-shared medium-term funding strategy, to be elaborated as part of the upcoming Poverty Reduction and Growth Trust review.” *Chair’s Statement of Forty-Seventh Meeting of the IMFC*.

Proposed Decision

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

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:

“In Section II, paragraph 4(b) the words “July 31, 2023” shall be replaced with the words “July 31, 2025”.