



December 2016

## POVERTY REDUCTION AND GROWTH TRUST—2016 BORROWING AGREEMENTS WITH DANMARKS NATIONALBANK, THE NORWEGIAN MINISTRY OF FINANCE REPRESENTING THE KINGDOM OF NORWAY, AND THE SVERIGES RIKSBANK

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



December 1, 2016

## POVERTY REDUCTION AND GROWTH TRUST—2016 BORROWING AGREEMENTS WITH DANMARKS NATIONALBANK, THE NORWEGIAN MINISTRY OF FINANCE REPRESENTING THE KINGDOM OF NORWAY, AND THE SVERIGES RIKSBANK

Approved By  
**Andrew Tweedie and  
Sean Hagan**

Prepared by the Finance and Legal Departments

### INTRODUCTION

1. The Fund, as Trustee of the Poverty Reduction and Growth Trust (PRGT or Trust), entered into an amendment of the 2010 borrowing agreement with Danmarks Nationalbank, and new borrowing agreements with the Norwegian Ministry of Finance representing the Kingdom of Norway and the Sveriges Riksbank (hereafter Denmark, Norway, and Sweden, respectively), by which the counterparties will provide new resources to the Loan Accounts of the PRGT in the total amount of SDR 1.1 billion (see attachments). The augmentation under the amendment and the two new agreements are the first three loan contributions to be concluded in the context of the current Board-endorsed effort to raise SDR 11 billion in new PRGT loan resources.<sup>1</sup> These amendment and new agreements became effective on November 17, 2016.

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 amendment to augment the existing agreement with Denmark and the two borrowing agreements with Norway and Sweden to the Executive Board for information.

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<sup>1</sup> See [Update on the Financing of the Fund's Concessional Assistance and Proposed Amendments to the PRGT](#) (4/7/2014).

3. The borrowing agreements embody recent changes to the Fund's framework for concessional lending to low-income countries, namely: (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.<sup>2,3</sup>

## PRINCIPAL ELEMENTS OF THE BORROWING AGREEMENTS

4. **Account designations.** The borrowing agreements with Denmark and Sweden (in a total amount of SDR 500 million each) are for the benefit of the General Loan Account (GLA) to finance disbursements under any of the facilities of the Trust.<sup>4</sup> The borrowing agreement with Norway (in a total amount of SDR 300 million) is for the benefit of the Stand-By Credit Facility (SCF) and the Rapid Credit Facility (RCF) Loan Accounts of the Trust to finance disbursements up to SDR 150 million under each of those facilities.

5. **Drawings on commitments.** Drawings under all the agreements can be made through December 31, 2024. The notification period of the intention to draw is five business days (creditor's location).

6. **Denomination and media.** Loan commitments and operations are denominated in SDRs. Disbursements are to be made by the transfer of the equivalent amount of Euros for Denmark (paragraph 3(a)) and U.S. dollars for Norway and Sweden (paragraph 4(a)) to an account specified by the Trustee, unless otherwise agreed between the Trustee and the creditors. Payments of principal and interest by the Trust are to be made in Euros for Denmark (paragraph 6(a)) and U.S. dollars for Norway and Sweden (paragraph 7(a)) or in other media as may be agreed between the Trustee and the creditors.

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<sup>2</sup> 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).

<sup>3</sup> Effective October 1, 2016, the six-month derived SDR interest rate is based on the Chinese treasury bill rate, the Euro-denominated euro government bond yield for bonds rated AA and above (as published by the ECB), the Japanese treasury bill rate, the Libor, and the U.S. treasury bill rate (all at six months maturity), 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).

<sup>4</sup> For Denmark, amount comprises of SDR 200 million under the 2010 borrowing agreement and of the augmentation of SDR 300 million.

- 7. Maturity.** Paragraph 4(a) for Denmark and paragraph 5(a) for Norway and Sweden provide 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.
- 8. Interest.** The borrowing agreement provides for outstanding drawings to earn interest at the six-month derived SDR rate, provided that if such calculation results in a negative interest rate, the interest rate shall be zero percent (paragraph 5(a) for Denmark and paragraph 6(a) for Norway and Sweden). Interest will be payable on a semi-annual basis promptly after June 30 and December 31 of each year (paragraph 5(b) for Denmark and paragraph 6(b) for Norway and Sweden).
- 9. 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 proposed agreement provides for the suspension of further drawings pending consultations on this matter with the respective creditor (paragraph 2(b)).
- 10. Transfer of claims.** Provision is made in the agreements 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 creditor.
- 11. Encashment.** Sweden's 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.

## CONCLUSION

**12.** The augmentation of Denmark's existing borrowing agreement and the new borrowing agreements with Norway and Sweden are the first PRGT loan contributions under the 2015/16 PRGT loan mobilization round and represent an important first step towards meeting the SDR 11 billion target. The participation of Sweden, a new PRGT loan provider, is also an important step towards a more broad-based and inclusive participation. Nevertheless, additional bilateral loan contributions, including from other new lenders, are still needed to ensure that the Trust remains in a position to meet low-income countries' needs over the medium term.

**Attachment I. Amendment to the Borrowing Agreement  
Between Danmarks Nationalbank  
and the International Monetary Fund as Trustee of  
the Poverty Reduction and Growth**

On November 17, 2016, Denmark's new loan contribution was made effective when the Managing Director acknowledged Danmarks Nationalbank's consent to the amendment of its borrowing agreement with the Poverty Reduction and Growth Trust, dated January 28, 2010.

Accordingly, paragraph 1 of the 2010 borrowing agreement has been amended to augment the amount with Denmark's new contribution of up to SDR 300 million, to a total amount of SDR 500 million. Therefore, the amended paragraph 1 of the agreement now reads as follows (to help identify the change, the additional text is underlined and the deleted text is struck through):

"1. The amount of the loan shall be equivalent of up to SDR ~~200~~ 500 million with accrued interest."

All other elements of the 2010 borrowing agreement remain unchanged.<sup>1</sup>

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<sup>1</sup> See [Press Release No. 10/51](#), (02/19/2010).

**Attachment II. Borrowing Agreement  
Between the Norwegian Ministry of Finance representing  
the Kingdom of Norway and the International Monetary Fund as  
Trustee of the Poverty Reduction and Growth Trust**

The Norwegian Ministry of Finance, on behalf of the Kingdom of Norway (“Norway”), 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.

Norges Bank (the Central Bank of Norway) shall act as agent for the Norwegian Ministry of Finance as regards the implementation of this Agreement.

1. The amount of the loan shall be up to the equivalent of SDR 300 million, of which up to SDR 150 million shall be for the Stand-By Credit Facility (SCF) Loan Account and up to SDR 150 million for the Rapid Credit Facility (RCF) Loan Account of the Trust.
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. Unless otherwise agreed between Norges Bank and the Trustee, the Trustee shall give Norges Bank at least five business days (Oslo) 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 Norway within a period of ten days after its due date, the Trustee shall not be authorized to make further drawings under this agreement pending consultations with Norges Bank on the matter. However, the Trustee may resume drawings under this agreement once arrears to Norway have been discharged and this has been confirmed by Norges Bank in writing.
3. The Trustee may make drawings under this agreement to finance loan disbursements by the Trustee under the SCF and RCF loan accounts.
4. (a) The amount of each drawing shall be denominated in SDRs. Unless otherwise agreed between the Trustee and Norges Bank, the amount shall be paid by

Norway on the value date specified in the Trustee's notice by transfer of the equivalent amount of U.S. dollars to an account specified by the Trustee.

(b) At the request of Norges Bank, the Trustee shall issue to Norway a non-negotiable 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 respective repayment schedules for loan disbursements under the SCF or RCF. At the time of each drawing, the Trustee will indicate in the notice requesting the drawing the specific repayment schedule for the amount drawn. Repayments by the Trust shall be made on the relevant maturity dates.

(b) By agreement between Norges 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 Norges Bank and the Trustee, a request for agreement on early repayment shall be made by the Trustee with at least five business days (Oslo) notice.

(c) If the relevant maturity date is not a business day of the Fund, the Trans European Automated Real-Time Gross Settlement (Target) system and the domestic markets of the other (non-euro) currencies included in the SDR basket, the repayment date shall be on the first succeeding business day that is a business day for the Fund, the Target system and the domestic markets of the other (non-euro) currencies included in the SDR basket.

6. (a) Interest on the amount outstanding in respect of each drawing shall be computed at an annual rate determined by the Trustee at the time each drawing is made and at intervals of six calendar months thereafter, from the product of:

(i) the interest rates on domestic instruments in each currency included in the SDR basket, as reported to the Trustee by each reporting agency, two LIBOR business days prior to the commencement of the interest rate period to which such computation applies—provided that if this date is not a business date of the Fund, such date shall be the first preceding business day of the Fund that is also a LIBOR business day—as follows:

- the bond equivalent yield for six-month U.S. Treasury bills,
- the six-month Euro-denominated euro government bond yield for bonds rated AA and above, as published by the European Central Bank,
- the bond equivalent yield on six-month Chinese treasury bills,
- the bond equivalent yield on six-month Japanese treasury bills,
- the six-month interbank rate in the United Kingdom, and

(ii) the percentage weight of that currency in the valuation of the SDR on that business day, calculated by using the same amounts and exchange rates for currencies as are employed by the Fund for calculating the value of the SDR in terms of the U.S. dollar on that day. The applicable interest rate shall be the sum of the products so calculated, rounded to two decimal places, provided that, if such calculation results in a negative interest rate, the applicable interest rate shall be zero percent.

(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 June 30 and December 31 of each year.

7. (a) Payments of principal and interest shall be made in U.S. dollars or in other media as may be agreed between the Trustee and Norges Bank.

(b) Payments in U.S. dollars shall be made by crediting the amount due to the account of the Norges Bank at the Federal Reserve Bank of New York in New York City (account no 0210-8513-0). Payments in SDRs shall be made by crediting Norway's holdings account in the Special Drawing Rights Department. Payments in other currencies shall be made to an account of the Norges Bank as agreed between the Trustee and the Norges Bank.

8. (a) Norway 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 Norway under this agreement with respect to repayment of and interest on the transferred claim.

9. At the request of Norges Bank, calls on Norway's 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.

10. Unless otherwise agreed between the Trustee and Norges 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.

11. (a) 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.

(b) If there is a change in the currency composition of the SDR basket, the interest rate calculations and instruments under paragraph 6(a)(i) shall be modified by operation of this clause to:

(i) incorporate, for any new currency included in the SDR basket, the interest rate on a widely used six-month domestic instrument for such currency as determined by the Trustee after consultation with the Norges Bank, and

(ii) delete, for any currency removed from the SDR basket, the reference to the relevant domestic instrument. This modification shall be effective as of the date the changes in the method of valuing the SDR become effective.

12. Any question arising hereunder shall be settled by mutual agreement between Norway and the Trustee.

13. (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 Ministry of Finance, on behalf of the Kingdom of Norway, and the Trustee have executed this Agreement.

For the MINISTRY OF FINANCE, on behalf of the Kingdom of Norway:

October 27, 2016

\_\_\_\_\_  
Ms. Siv Jensen/s  
Minister of Finance

\_\_\_\_\_  
Date

For the INTERNATIONAL MONETARY FUND as Trustee:

November 17, 2016

\_\_\_\_\_  
Christine Lagarde/s  
Managing Director

\_\_\_\_\_  
Date

**Attachment III. Borrowing Agreement  
Between the Sveriges Riksbank and  
the International Monetary Fund as Trustee of  
the Poverty Reduction and Growth Trust**

The Sveriges Riksbank (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 500 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. Unless otherwise agreed between the Bank and the Trustee, the Trustee shall give the Bank at least five business days Stockholm 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 fully 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 General 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 the equivalent amount in U.S. dollars to an account specified by the Trustee.

(b) Upon request, the Trustee shall issue to the Bank a non-negotiable 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 will indicate in the notice requesting the drawing 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 Stockholm notice.

(c) If the relevant maturity date is not a business day of the Fund, the Trans-European Automated Real-time Gross Settlement (Target) system and the domestic markets of the other (non-euro) currencies included in the SDR basket, the repayment date shall be on the first succeeding business day that is a business day for the Fund, the Target system and the domestic markets of the other (non-euro) currencies included in the SDR basket.

6. (a) Interest on the amount outstanding in respect of each drawing shall be computed at an annual rate determined by the Trustee at the time each drawing is made and at intervals of six calendar months thereafter, from the product of:

(i) the interest rates on domestic instruments in each currency included in the SDR basket, as reported to the Trustee by each reporting agency, two LIBOR business days prior to the commencement of the interest rate period to which such computation applies—provided that if this date is not a business date of the Fund, such date shall be the first preceding business day of the Fund that is also a LIBOR business day—as follows:

- the bond equivalent yield for six-month U.S. Treasury bills,
- the six-month Euro-denominated euro government bond yield for bonds rated AA and above, as published by the European Central Bank,
- the bond equivalent yield on six-month Chinese treasury bills,
- the bond equivalent yield on six-month Japanese treasury bills,
- the six-month interbank rate in the United Kingdom, and

(ii) the percentage weight of that currency in the valuation of the SDR on that business day, calculated by using the same amounts and exchange rates for currencies as are employed by the Fund for calculating the value of the SDR in

terms of the U.S. dollar on that day. The applicable interest rate shall be the sum of the products so calculated, rounded to two decimal places, provided that, if such calculation results in a negative interest rate, the interest rate shall be zero percent.

(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 June 30 and December 31 of each year.

7. (a) Payments of principal and interest shall be made in U.S. dollars or in other media 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 U.S. dollars or other currencies shall be made to an account of the Bank as agreed between the Trustee and the Bank. Payments in SDRs shall be made by crediting Sweden's holdings account in the Special Drawing Rights Department.

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 Sweden 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 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. If there is a change in the currency composition of the SDR basket, the interest rate calculations and instruments under paragraph 6(a) (i) shall be modified by operation of this clause to (i) incorporate, for any new currency included in the SDR basket, the interest rate on a widely used six-month domestic instrument for such currency as determined by the Trustee after consultation with the Bank and (ii) delete, for any currency removed from the SDR basket, the reference to the relevant domestic instrument. This modification shall be effective as of the date the changes in the method of valuing the SDR become effective.

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 and the Trustee have executed this Agreement.

For the Bank:

October 25, 2016

\_\_\_\_\_  
Stefan Ingves/s  
Governor

\_\_\_\_\_  
Date

For the INTERNATIONAL MONETARY FUND as Trustee:

November 17, 2016

\_\_\_\_\_  
Christine Lagarde/s  
Managing Director

\_\_\_\_\_  
Date