

**FOR
INFORMATION**

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July 12, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Poverty Reduction and Growth Trust—2021–21 Borrowing Agreements with the Government of Canada as Represented by the Minister of Finance, and the People’s Bank of China**

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Questions: Ms. Gust, FIN (ext. 36573)
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July 9, 2021

POVERTY REDUCTION AND GROWTH TRUST—2020-21 BORROWING AGREEMENTS WITH THE GOVERNMENT OF CANADA AS REPRESENTED BY THE MINISTER OF FINANCE AND THE PEOPLE'S BANK OF CHINA

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INTRODUCTION

1. This paper presents to the Executive Board for information two new borrowing agreements for the Poverty Reduction and Growth Trust (PRGT). These agreements have been finalized as part of the resource mobilization effort in response to the COVID-19 pandemic and ensuing economic shocks.¹ 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 PRGT lenders. On April 14, 2020 the Executive Board endorsed a policy decision to mobilize SDR 12.5 billion in additional PRGT loan resources and approved an increase in the PRGT cumulative borrowing limit from SDR 38 billion to SDR 50.5 billion.² The limit was further increased by SDR 5 billion on January 6, 2021 to SDR 55.5 billion to accommodate all pledges from lenders in excess of the amount initially targeted.³

¹ See Modifying the Poverty Reduction and Growth Trust Cumulative Borrowing Limit, EBS/20/53, April 10, 2020.

² See Decision No. 16748-(20/43), adopted April 14, 2020.

³ See Modifying the Poverty Reduction and Growth Trust Cumulative Borrowing Limit, EBS/20/53, April 10, 2020 and Modifying the Poverty Reduction and Growth Trust Cumulative Borrowing Limit, EBS/20/192, December 18, 2020, and Decision No. 16958-(21/1) adopted January 6, 2021.

2. The fast-track loan mobilization round launched in April 2020 allowed the Fund, as Trustee of the PRGT, to increase access limits and scale up emergency financing to low-income countries (LICs) in response to COVID-19 related crisis. To date, eleven new agreements and the augmentation of five existing agreements have been finalized with sixteen lenders. Together, they provide SDR 16.9 billion in new loan resources, of which SDR 15.1 billion is immediately available.⁴

Table 1. New PRGT Loan Resources¹

Country	Effective Date	Amount (SDR million)	Modality	Currency	Type of Agreement	Encashment
Japan ²	5/15/2020	3,600	Augmentation	SDR	NPA	Yes
Germany ³	1/11/2021	2,534	New agreement	EUR	Loan Agreement	No
France	5/18/2020	2,000	New agreement	SDR	Loan Agreement	Yes
United Kingdom	5/12/2020	2,000	Augmentation	SDR	NPA	Yes
China	3/18/2021	1,000	New agreement	SDR	NPA	Yes
Italy	1/26/2021	1,000	New agreement	SDR	Loan Agreement	Yes
Spain	7/1/2020	750	Augmentation	EUR	Loan Agreement	Yes
Australia	10/26/2020	500	New agreement	SDR	Loan Agreement	Yes
Brazil	8/27/2020	500	Augmentation	USD	NPA	Yes
Canada	5/13/2021	500	Augmentation	USD	Loan Agreement	No
Netherlands	7/24/2020	500	New agreement	SDR	Loan Agreement	No
Sweden	7/24/2020	500	New agreement	USD	Loan Agreement	Yes
Switzerland	1/1/2021	500	New agreement	EUR	Loan Agreement	No
Norway	7/1/2020	400	New agreement	USD	Loan Agreement	Yes
Belgium	7/29/2020	350	New agreement	EUR	Loan Agreement	No
Denmark	2/11/2021	300	New agreement	EUR	Loan Agreement	No
Total		16,934				

Source: Finance Department.

¹ All agreements are for the benefit of the General Loan Account, remunerated at the SDRi rate (with the exception of the UK loan capped at 0.05%) and expire at end-2029.

² The augmentation of SDR 3.6 billion consists of two equal tranches of SDR 1.8 billion, the second of which will become available upon written notification by the authorities.

³ SDR equivalent of Euro 3 billion at January 11, 2021 exchange rate. The actual SDR value of the loan will be calculated at the exchange rate at the time of drawings and net of operational expenses incurred by Germany.

⁴ SDR 3.6 billion under the augmented note purchase agreement with Japan consists of two tranches. The first tranche of SDR 1.8 billion is already available while the second tranche of SDR 1.8 billion will be available upon written notification by the authorities.

3. Since the last update under the current loan mobilization campaign that was provided to the Executive Board in March 2021, two more agreements have become effective.⁵ These new agreements are as follows:

- an agreement with the Government of Canada represented by the Minister of Finance (Canada) that augments Canada’s 2017 loan agreement with the PRGT and amends its 2010 and 2017 loan agreements to allow for the change in the rate of remuneration to the SDR interest rate starting from July 1, 2021 given the forthcoming termination of LIBOR rates;
- an agreement with the People’s Bank of China for a new Note Purchase Agreement (NPA) and amendment to the 2017 NPA to allow for the change in the rate of remuneration to the SDR interest rate starting from January 1, 2021 given the forthcoming termination of LIBOR rates.

PRINCIPAL ELEMENTS OF THE BORROWING AGREEMENTS

The two new agreements follow the standard templates for PRGT borrowing agreements with the specific features highlighted below.

4. Amounts. The 2017 loan agreement with Canada was amended to augment the loan amount by SDR 500 million to a new total loan amount equivalent of SDR 1 billion. The new NPA with China provides for a new loan amount equivalent of SDR 1 billion.

5. Account designations. New loan amounts under these agreements are for the benefit of the General Loan Account (GLA) which can be used to finance disbursements under any of the PRGT facilities.

6. Drawings under commitments. Drawings under the augmented agreement with Canada and the new NPA with China can be made through December 31, 2029 and the notification period of the intention to draw is five days (creditor’s location).

7. Denomination and media. Loan commitments and operations are denominated in SDRs under the augmented and amended agreement with Canada and under the new NPA with China. Unless otherwise agreed between the Trustee and the creditors, disbursements are to be made by the transfer of U.S. dollars under the augmented and amended agreement with Canada (paragraph 4(a)) and SDRs under the new NPA with China (paragraph 4). With respect to the augmented and amended agreement with Canada, repayments of principal by the Trust are to be made in U.S.

⁵ For previous updates see: (i) Poverty Reduction and Growth Trust—2020 Borrowing Agreements with the National Bank of Belgium, Banco Central do Brasil, Banque de France, the Government of Japan, De Nederlandsche Bank NV, the Norwegian Ministry of Finance Representing the Kingdom of Norway, the Bank of Spain, the Sveriges Riksbank and the Government of the United Kingdom, EBS/20/157, October 7, 2020; (ii) Poverty Reduction and Growth Trust—2020–21 Borrowing Agreements with the Government of Australia, Danmarks Nationalbank, the Bank of Italy, the German Federal Ministry of Finance on Behalf of the Federal Republic of Germany, and the Swiss National Bank, EBS/21/30, March 19, 2021.

dollars, and payments of interest by the Trust are to be made in U.S. dollars through June 30, 2021 and in SDRs thereafter, although Canada and the Trustee may agree to have these repayments and payments to be made in other media (paragraphs 7(a) and 7(b)). Under the new NPA with China, repayments of principal and payments of interest are to be made in SDRs, or such currency as may be agreed upon between China and the Trustee (paragraph 7(a) of the General Terms and Conditions (GTC) for notes issued under the NPA).

8. Maturity. Under the augmented and amended agreement with Canada, each drawing is to be repaid in accordance with the repayment schedule for loan disbursements under the facility of the Trust for which it was drawn (paragraph 5(a) of the amended agreement). Under the new NPA with China, each note shall have an initial maturity date of six months. The Trustee may at its sole discretion elect to extend the maturity date for each note by additional periods of up to six months, which extension the Trustee shall automatically be deemed to have elected, unless it notifies China otherwise. In any case, the maximum extension period under the NPA is generally the maturity dates for the loan disbursement under the facility of the Trust for which a note was issued or the agreement was drawn (paragraph 3(a) of the GTC).

9. Interest. Amendments to the 2010 and 2017 agreements with Canada provide that the outstanding drawings under these agreements are to be remunerated at the derived 6-month SDR interest rate through June 30, 2021, and thereafter at the SDR interest rate established by the Fund pursuant to Article XX, Section 3 of its Articles of Agreement. The new NPA with China provides for outstanding drawings to earn interest at the SDR interest rate established by the Fund. Additionally, amendments of the 2017 NPA with China change the remuneration rate from the previously used derived 6-month SDR interest rate to the SDR interest rate effective January 1, 2021.

10. Suspension of drawings. In the event that any installment of principal or interest is not paid by the Trust under the agreements within a period of ten days after its due date, both agreements provide for the suspension of further drawings pending consultations on this matter with the respective creditor (paragraph 2(b) of the amended 2017 agreement with Canada, and paragraph 2(c) of the new NPA with China).

11. 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, 2029, in the event of a liquidity need by the creditor (paragraphs 8(a) and 10 of the augmented and amended agreement with Canada; and paragraphs 6 and 7 of the new NPA with China, and paragraph 5 of the GTC under the new NPA with China).

12. Encashment. The new NPA with China 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 agreement is subject to the availability of resources under borrowing agreements of other participating creditors (paragraph 6 of the GTC). The agreement with Canada does not envision participation in the encashment regime.

CONCLUSION

13. The new agreements with Canada and China complete the process of securing loan resources for the PRGT under the borrowing limit approved in January 2021. Discussions on concessional financing are ongoing in the context of the review of concessional financing and policies. Staff will continue to consult the Board as needed regarding any further proposed increase in the borrowing limit to facilitate additional PRGT loan resources.

Attachment I. Agreement Between Her Majesty in Right of Canada and the International Monetary Fund as Trustee of the Poverty Reduction and Growth Trust

Her Majesty in Right of Canada represented by the Minister of Finance ("Canada") and the International Monetary Fund (the "Fund") as Trustee (the "Trustee") of the Poverty Reduction and Growth Trust (the "Trust") have reached understandings on:

- (i) amendments to the borrowing agreement between them dated January 10, 2017 (the "2017 Borrowing Agreement"), and
- (ii) amendments to the borrowing agreement between them dated March 5, 2010 (the "2010 Borrowing Agreement"),

as set out in Sections I and II below:

I. AMENDMENTS TO THE 2017 BORROWING AGREEMENT

Canada and the Trustee agree that the 2017 Borrowing Agreement shall be amended as follows:

1. Paragraph 1 shall be revised to read:

"The amount of the loan will be the equivalent of up to SDR 1.0 billion."
2. Paragraph 4(b) shall be revised to read:

"[Reserved]"
3. Paragraph 6 shall be revised to read:

"(a) Effective through June 30, 2021, interest on the amount outstanding in respect of each drawing will 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 will 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 will 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 will be zero percent.

(b) Effective from July 1, 2021, each drawing bears interest at the SDR interest rate established by the Fund pursuant to Article XX, Section 3 of its Articles of Agreement.

(c) The amount of interest payable in respect of each drawing will be calculated on an actual day basis and will be paid on all outstanding drawings under this agreement: (i) with respect to interest accumulated through June 30, 2021, promptly after June 30, 2021, and (ii) with respect to interest accumulated from July 1, 2021, promptly after January 31, April 30, July 31, and October 31 of each year."

4. Paragraph 7 shall be revised to read:

"(a) Payments of principal will be made in U.S. dollars or in other media as may be agreed between Canada and the Trustee.

(b) Effective through June 30, 2021, payments of interest by the Trustee shall be made in U.S. dollars or in other media as may be agreed between Canada and the Trustee. Effective July 1, 2021, payments of interest by the Trustee shall be made in SDRs or in other media as may be agreed between Canada and the Trustee.

(c) Payments in U.S. dollars will be made by crediting the amount due to the account of the Bank of Canada at the Federal Reserve Bank of New York in New York City.

Payments in SDRs will be made by crediting Canada's holdings account in the Special Drawing Rights Department. Payments in other currencies will be made to an account specified by Canada.”

5. Paragraph 11 shall be revised to read:

“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 will be made on the basis of the new method of valuation. If prior to June 30, 2021 there is a change in the currency composition of the SDR basket, the interest rate calculations and instruments under paragraph 6(a)(i) will 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 Canada and (ii) delete, for any currency removed from the SDR basket, the reference to the relevant domestic instrument. This modification will be effective as of the date the changes in the method of valuing the SDR become effective.”

II. Amendments to the 2010 Borrowing Agreement

Canada and the Trustee agree that the 2010 Borrowing Agreement shall be amended as follows:

1. Drawings under the 2010 Borrowing Agreement shall be subject to the interest rate and interest payment modalities as set out in paragraphs 6, 7 and 11 of the 2017 Borrowing Agreement, as amended above, which shall supersede and amend the provisions in paragraphs 5, 6 and 10 of the 2010 Borrowing Agreement.

III. Effectiveness

1. This agreement may be executed in one or more duplicate counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same agreement.
2. The amendments to the 2017 Borrowing Agreement and to the 2010 Borrowing Agreement shall become effective on the last date written below.

[Signature Page Follows]

IN WITNESS WHEREOF, Her Majesty in Right of Canada represented by the Minister of Finance and the International Monetary Fund, as Trustee of the Poverty Reduction and Growth Trust, have executed this agreement.

For HER MAJESTY IN RIGHT OF CANADA REPRESENTED BY THE MINISTER OF FINANCE:

Chrystia Freeland /s
Minister of Finance

March 27, 2021

Date

For the INTERNATIONAL MONETARY FUND as Trustee:

Kristalina Georgieva /s
Managing Director

May 13, 2021

Date

Attachment II. Agreement Between People’s Bank of China and the International Monetary Fund as Trustee of the Poverty Reduction and Growth Trust

The People’s Bank of China (“Purchaser”) and the International Monetary Fund (the “Fund”), acting as Trustee (the “Trustee”) of the Poverty Reduction and Growth Trust (“Trust”), have reached understandings on:

- (i) a Note Purchase Agreement between the Purchaser and the Fund, as Trustee of the Trust, (the “2020 Note Purchase Agreement”), and
- (ii) amendments to the Note Purchase Agreement between the Purchaser and the Fund, as Trustee of the Trust, dated April 21, 2017 (the “2017 Note Purchase Agreement”)

as set out in Sections I and II below:

I. 2020 Note Purchase Agreement

The Purchaser and the Fund enter into the 2020 Note Purchase Agreement on the following terms and conditions:

1. For the purpose of providing resources to the Trust established pursuant to the Instrument to Establish the Poverty Reduction and Growth Trust (the “PRGT Instrument”) adopted by the Executive Board of the Fund by Decision No. 8759-(87/176) ESAF, December 18, 1987, as amended, Purchaser agrees to purchase from the Trustee promissory notes, which shall be issued in accordance with the PRGT Instrument, the terms of this Agreement and the General Terms and Conditions attached as Annex I to this 2020 Note Purchase Agreement (the “Notes”). This Agreement is based on Section III, Paragraph 2 of the PRGT Instrument, which authorizes the Managing Director to enter into borrowing agreements for the Loan Accounts of the Trust.

2. (a) Notes in a total principal amount of up to the equivalent of SDR 1 billion may be issued under this Agreement.

(b) The Trustee may issue and Purchaser shall purchase Notes at any time from the date this 2020 Note Purchase Agreement becomes effective through December 31, 2029. Unless otherwise agreed between Purchaser and the Trustee, the Trustee shall give Purchaser at least five business days’ (Beijing) notice of the Trustee’s intention to issue Notes for purchase under this 2020 Note Purchase Agreement, including the amount of the Notes to be purchased, and shall provide

payment instructions at least two Fund business days prior to the value date of the transaction by SWIFT.

(c) If principal or interest under a Note is not paid fully within ten days after its due date, the Trustee shall not issue further Notes under this 2020 Note Purchase Agreement pending consultations with Purchaser on the matter. However, the Trustee may resume issuances of Notes under this 2020 Note Purchase Agreement once all arrears under the Note have been discharged.

3. The Trustee may issue Notes for purchase under this 2020 Note Purchase Agreement in order 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. Notes shall be denominated in the special drawing right (SDR). Notes shall be issued in multiples of SDR 1,000 and the minimum amount of each issue of Notes shall be SDR 1 million. The purchase price for each Note shall be 100 percent of the principal amount thereof.

5. (a) Unless otherwise agreed between the Trustee and Purchaser, the purchase price of each Note shall be paid by Purchaser on the value date specified in the Trustee's notice under paragraph 2(b) by transfer of SDR to an account specified by the Trustee.

(b) Unless otherwise agreed between the Trustee and Purchaser, all purchases of Notes where the purchase price is paid in currency and all exchanges of currency pursuant to this 2020 Note Purchase Agreement, shall be made at the exchange rate for the relevant currency in terms of the SDR established 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 purchase or exchange.

(c) If the Fund changes the method of valuing the SDR, all purchases, transfers, exchanges and payments of principal and interest made two or more (Fund) business days after the effective date of the change shall be made on the basis of the new method of valuation.

6. At the request of Purchaser, the issuance of Notes under this 2020 Note Purchase Agreement may be suspended temporarily at any time prior to June 30, 2029, in accordance with Section III, paragraphs 4(c) and (d) of the PRGT Instrument.

7. Purchaser shall have the right to transfer all or part of the Notes held by it in accordance with Section VI of the PRGT Instrument and the General Terms and Conditions for Poverty Reduction and Growth Trust Notes attached as Annex I to this 2020 Note Purchase Agreement.

8. Any question arising under this 2020 Note Purchase Agreement shall be settled by mutual agreement between Purchaser and the Trustee.

II. Amendments to the 2017 Note Purchase Agreement

The Purchaser and the Trustee agree that the 2017 Note Purchase Agreement shall be amended as follows:

1. Paragraph 2(b) shall be revised to read:

“The Trustee may issue and Purchaser shall purchase Notes at any time from the date this Agreement becomes effective in accordance with paragraph 9(b) through December 31, 2029. Unless otherwise agreed between Purchaser and the Trustee, the Trustee shall give Purchaser at least five business days’ (Beijing) notice of the Trustee’s intention to issue Notes for purchase under this Agreement, including the amount of the Notes to be purchased, and shall provide payment instructions at least two Fund business days prior to the value date of the transaction by SWIFT.”

2. Paragraph 5(c) shall be revised to read as follows:

“(c) If the Fund changes the method of valuing the SDR, all purchases, transfers, exchanges and payments of principal and interest made two or more (Fund) business days after the effective date of the change shall be made on the basis of the new method of valuation.”

3. Paragraph 6 shall be revised to read as follows:

“At the request of Purchaser, the issuance of Notes under this Agreement may be suspended temporarily at any time prior to June 30, 2029, in accordance with Section III, paragraphs 4(c) and (d) of the PRGT Instrument.”

4. Effective January 1, 2021, interest payable by the Trustee on the Notes outstanding and all new issuances and purchases of Notes under the 2017 Note Purchase Agreement shall be subject to the interest rate and interest payment modalities as set out in paragraphs 4, 5(f), 7 and 9 of Annex I to the 2020 Note Purchase Agreement, which shall supersede and amend the interest rate and interest payment modalities set out in paragraphs 4, 5(f), 7 and 9 of Annex I to the 2017 Note Purchase Agreement.

5. To incorporate the new interest rate and interest rate modalities provided under Section II, paragraph 4 of this agreement, effective January 1, 2021, (a) the form of a registered Note set out in Annex II to the 2017 Note Purchase Agreement shall be deleted in its entirety and replaced with the

form of a registered Note as set out in Annex II to the 2020 Note Purchase Agreement (the “Revised Form”), (b) the issuance of any registered Note under the 2017 Note Purchase Agreement shall be made substantially in this Revised Form; and (c) any registered Note that is issued prior to January 1, 2021 under the 2017 Note Purchase Agreement shall be exchanged and replaced with a new registered Note substantially in the Revised Form.

III. Effectiveness

1. This agreement may be executed in one or more duplicate counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

2. The 2020 Note Purchase Agreement and amendments to the 2017 Note Purchase Agreement shall become effective on the last date written below.

[Signature Page Follows]

IN WITNESS WHEREOF, People’s Bank of China and the International Monetary Fund as Trustee of the Poverty Reduction and Growth Trust have executed this agreement.

For the PEOPLE’S BANK OF CHINA:

February 10, 2021

Yi Gang/s
Governor

Date

For the INTERNATIONAL MONETARY FUND, as TRUSTEE OF THE POVERTY REDUCTION AND GROWTH TRUST:

March 18, 2021

Kristalina Georgieva/s
Managing Director

Date

ANNEX I. General Terms and Conditions
for Notes Issued Under the Note Purchase Agreement Between the International
Monetary Fund as Trustee of the Poverty Reduction and Growth Trust and
People’s Bank of China

These General Terms and Conditions are issued in accordance with the Instrument to Establish the Poverty Reduction and Growth Trust (the “Trust”), adopted by Executive Board Decision No. 8759-(87/176) ESAF, December 18, 1987, as amended, and the Note Purchase Agreement between the International Monetary Fund (the “Fund”) as Trustee (the “Trustee”) of the Trust and the People’s Bank of China (“Purchaser”), to which they are attached.

1. Definitions. The following definitions apply for purposes of these General Terms and Conditions:

(a) “Permitted Holder” means (i) Purchaser, (ii) a member of the Fund, (iii) the central bank or other fiscal agency designated by a member of the Fund for purposes of Article V, Section 1 of the Fund’s Articles of Agreement (“fiscal agency of a member”), and (iv) an official entity that has been prescribed as a holder of special drawing rights (SDRs) pursuant to Article XVII, Section 3 of the Fund’s Articles of Agreement (“prescribed SDR holder”). Permitted Holders shall be the only authorized holders of Notes.

(b) “Notes” mean the promissory notes that are subject to these General Terms and Conditions.

(c) “Relevant Member” means, in the case of a Permitted Holder that is the central bank, fiscal agency or other official institution of a member of the Fund, that member of the Fund.

2. Form, Delivery and Custody of Notes.

(a) Notes will only be issued in book entry form. The Trustee will establish and maintain in its records a book entry account in the name of each Permitted Holder recording pertinent details of all Notes issued, including the number, issue date, principal amount, and maturity date. As of the value date of each purchase or transfer of a Note, the Trustee will make an appropriate entry in its records regarding details of the Note purchased or transferred. The making of such an entry in the records of the Trustee shall constitute a taking of delivery of the Note by the purchaser or transferee.

(b) Upon the request of a Permitted Holder, the Trust will issue to the Permitted Holder a registered Note substantially in the form set out in Annex II, including without limitation the legend regarding restrictions on transfer of Notes. Each such registered Note will bear as its issue date the value date of the purchase of the Note and shall be issued in the

name of the relevant Permitted Holder. Unless otherwise agreed between a Permitted Holder and the Trustee, the Trustee will keep registered Notes in custody for the Permitted Holder, and acceptance of custody by the Trustee shall constitute delivery of Notes to the Permitted Holder.

3. Maturity.

(a) Except as otherwise provided in this paragraph 3 and in subparagraph 6(b) below, each Note shall have a maturity date that is six months from its issue date. The Trustee may in its sole discretion elect to extend the maturity date of any Note or of any portion thereof by additional periods of up to six months after the initial maturity date, which extension the Trustee shall automatically be deemed to have elected with respect to the maturity dates then in effect for all Notes unless, at least five business days (Fund) before a maturity date, the Trustee notifies a Permitted Holder in writing that the Trustee does not elect to extend the maturity date of the particular Note or portion thereof; provided however that, in no event, shall the maturity date of any Note be extended to a date that is later than the maturity dates for the loan disbursement under the facility of the Trust for which it was issued. For purposes of the preceding sentence, Notes issued in connection with the early repayment of other Trust borrowing pursuant to Section III, paragraph 4(b) of the PRGT Instrument, shall have the maximum maturity dates associated with such other borrowing. At the time of issuance of a Note, the Trustee shall provide information on the specific repayment schedule for the Note issued.

(b) The Trustee shall pay the principal amount of each Note on the maturity date that is applicable to that Note in accordance with subparagraph (a). If a maturity date for a Note is not a business day in the place where payment is to be made, then the payment date for such principal amount will be the next business day in that place.

(c) With the agreement of the Permitted Holder, the Trustee may make an early repayment in part or in full of the principal amount of any Note prior to its maturity date.

(d) The Trustee will cancel a Note upon repayment of the principal amount of the Note and all accrued interest. If the Trustee makes early repayment of less than the principal amount of a Note, the Trustee will cancel the Note and issue a new Note for the remainder of the amount, with the same maturity date as the cancelled Note. If the maturity date of a Note is extended with respect to less than the principal amount of the Note, the Trustee will cancel the Note and issue a new Note for the remainder of the amount, with the extended maturity date.

(e) Any Note to be cancelled by the Trustee that is not already in the custody of the Trustee shall be surrendered by the Permitted Holder to the Trustee for cancellation.

4. Rate of Interest.

(a) Interest on each Note shall be computed 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 on each Note shall be calculated on an actual day basis and shall be paid on a quarterly basis promptly after July 31, October 31, January 31, and April 30 of each year.

5. Transferability of Notes.

(a) A Permitted Holder has the right to transfer at any time all or part of any Note to any member of the Fund, to the central bank or other fiscal agency of a member, or to a prescribed SDR holder.

(b) The transferee shall, as a condition of the transfer, notify the Trustee prior to the transfer that it accepts all the obligations of the transferor with respect to extensions of the maturity of the Note pursuant to paragraph 3(a), and shall acquire all the rights of the transferor with respect to the transferred Note.

(c) The price of a Note transferred pursuant to this paragraph 5 will be as agreed between the transferor and the transferee.

(d) The transferor of a Note shall inform the Trustee promptly of the Note that is being transferred, the name of the transferee, the agreed price for transfer of the Note, and the value date of the transfer. The transfer shall be recorded by the Trustee and the transferee shall become the holder of the Note only if such transfer is in accordance with this paragraph 5. Subject to the foregoing, upon recording, the transfer shall be effective as of the value date agreed between the transferee and the transferor.

(e) For all transfers under this paragraph 5, the Trustee will cancel the Note that has been transferred in whole or in part and, if the Note is a registered Note, the transferor shall, as a condition for the transfer, surrender for cancellation any such registered Note that is not already in the custody of the Trustee. Upon cancellation of the relevant Note, the Trustee will issue a new Note in the name of the transferee for the principal amount transferred and, where appropriate, a new Note in the name of the transferor for any part of the principal amount retained by it. The issue date of each new Note will be the issue date of the cancelled Note, and the new Notes will have the same maturity date (including any maturity date resulting from extensions of a previous maturity date) that is applicable to the cancelled Note pursuant to paragraph 3. The form and delivery of each new Note will be as specified in paragraph 2 of these General Terms and Conditions.

(f) If all or part of a Note is transferred during a quarterly period as described in paragraph 4(b), the Trustee will pay interest to the transferee on the principal amount of the Note for the whole of that period.

6. Early Payment by the Trust at Request of Certain Permitted Holders.

(a) The rights provided in subparagraph (b) shall apply only to a Permitted Holder that is: (A) the Purchaser, or (B) a member of the Fund or the central bank or other fiscal agency of a member of the Fund that has acquired the Notes by transfer if, at the time of such transfer, the balance of payments and reserve position of the member or Relevant Member, as the case may be, was considered sufficiently strong in the opinion of the Fund for its currency to be usable in transfers under the Financial Transactions Plan.

(b) If a Permitted Holder described in subparagraph (a) represents that its balance of payments and reserve position (the balance of payments and reserve position of the Relevant Member if the Permitted Holder is the central bank or other fiscal agency of a member or other official institution of a member) justifies early payment of all or part of the principal amount of the Permitted Holder's Notes covered by subparagraph (a), and if the Trustee, having given this representation the overwhelming benefit of any doubt, agrees, then the Trust shall pursuant to Section III, paragraph 4(b) of the PRGT Instrument pay the principal amount of the Permitted Holder's Notes covered by subparagraph (a) that is then outstanding, up to the amount for which early payment has been requested, and subject to the availability of resources under borrowing agreements to the Loan Accounts of the PRGT that authorize drawings for such early repayments.

7. Media and Modalities of Payments on the Notes.

(a) Repayments by the Trustee of the principal amount of Notes and payments of interest on the Notes shall be made in SDRs, or such currency as may be agreed upon between the Permitted Holder and the Trustee; provided however that payments by the Trustee of principal pursuant to paragraph 6(b) shall be made in SDRs or a freely usable currency as determined by the Trustee after consultation with the Permitted Holder.

(b) All repayments or payments made by the Trustee to a Permitted Holder in currency will be made by crediting the amount due to an account specified in advance by the Permitted Holder for purposes of receiving such payments. Repayments or payments in SDRs will be made by crediting the SDR Department account of the Permitted Holder or of the Relevant Member as the case may be.

8. Effective Exchange Rate for Payments.

Unless otherwise agreed between a Permitted Holder and the Trustee, all payments and repayments in currency of principal and interest under these General Terms and Conditions will be made at the exchange rates for the relevant currencies in terms of the SDR established 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 payment.

9. Changes in Method of Valuation of SDR.

If the Fund changes the method of valuation of the SDR basket, all purchases, transfers, exchanges and payments of principal and interest made two or more (Fund) business days after the effective date of the change shall be made on the basis of the new method of valuation.

10. Settlement of Questions.

Any question arising under any Note shall be settled by mutual agreement between the relevant Permitted Holder and the Trustee.

ANNEX II. Form of Registered Note

Number _____

SDR _____

POVERTY REDUCTION AND GROWTH TRUST

REGISTERED NOTE

Issue Date: _____

Maturity Date: [to include description of automatic extensions of maturity]

The POVERTY REDUCTION AND GROWTH TRUST ("the Trust"), for value received, hereby promises to pay to _____, being the registered holder of this note an amount equivalent to

_____ Special Drawing rights (SDR)

on the maturity date specified above and to pay interest thereon as set forth below.

This Note is issued in accordance with the General Terms and Conditions for Notes issued under the Note Purchase Agreement between the International Monetary Fund (the "Fund"), as Trustee of the Poverty Reduction and Growth Trust (the Trustee) and the People's Bank of China dated [mm/dd/yy]. Each holder of this Note is deemed to have agreed to the General Terms and Conditions and relevant terms of the Note Purchase Agreement, including without limitation the maturity date (including the terms on which it may be extended at the sole option of the Trustee from time to time), the interest rate, the terms and conditions for early payment with the agreement of the holder of the Note at the request of the Trustee or the holder hereof, and the terms and conditions for transfer of this Note or any part thereof.

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES LAWS OF ANY JURISDICTION.

IN NO EVENT SHALL ANY HOLDER OF THIS NOTE SELL, ASSIGN, DISPOSE OF OR OTHERWISE TRANSFER THIS NOTE, DIRECTLY OR INDIRECTLY, TO ANY ENTITY THAT IS NOT (I) A MEMBER OF THE FUND, (II) THE CENTRAL BANK OR OTHER FISCAL AGENCY DESIGNATED BY A MEMBER OF THE FUND FOR PURPOSES OF ARTICLE V, SECTION 1 OF THE FUND'S ARTICLES OF AGREEMENT, OR (III) AN OFFICIAL ENTITY THAT HAS BEEN PRESCRIBED AS A HOLDER OF SPECIAL DRAWING RIGHTS PURSUANT TO ARTICLE XVII, SECTION 3 OF THE FUND'S ARTICLES OF AGREEMENT.

Interest on each Note shall be computed at the SDR interest rate established by the Fund pursuant to Article XX, Section 3 of the Fund's Articles of Agreement. The amount of interest payable on each Note shall be calculated on an actual day basis and shall be paid on a quarterly

basis promptly after July 31, October 31, January 31, and April 30 of each year. Payments of interest shall be made in SDRs, or such currency as may be agreed upon between the registered holder and the Trustee. Payments in SDRs shall be made by crediting the SDR Department account of the registered holder (if any), or of the member for which the registered holder serves as central bank or other fiscal agency or other official institution in the case of registered holders that are the central bank or other fiscal agency or other official institution of a member of the Fund.

[Signatures]