IMMEDIATE ATTENTION

EBS/00/275

CONFIDENTIAL

December 19, 2000

To: Members of the Executive Board

From: The Secretary

Subject: **PRGF Trust—Modification to Loan Agreements**

Attached for consideration by the Executive Directors is a paper proposing amendments to the PRGF Trust loan agreements.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by the close of business on Thursday, December 21, 2000. In the absence of such a request, the draft decision that appears on pages 2-5 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Questions may be referred to Mr. Ordoobadi (ext. 36935) and Mr. Hicks (ext. 38280).

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

PRGF Trust: Modification to Loan Agreements

Prepared by the Treasurer's Department

(In consultation with the Legal and Policy Development and Review Departments)

Approved by Eduard Brau

December 18, 2000

1. This paper proposes amendments to the PRGF Trust loan agreements to change the instruments specified in those agreements for determining the six-month interest rate on loans to the PRGF Trust. The proposed amendments follow changes to the valuation of the SDR and the official SDR interest rate, which is based on three-month instruments.

2. On October 11, 2000, the Executive Board approved a revision to the method of determining the valuation of the SDR and the SDR interest rate.[1] Notably, this decision recognized the full integration of the euro into the international monetary system. The revision eliminated separate weights for France and Germany in the SDR basket, and adopted a single weight for the euro. This change had implications for the determination of the official SDR interest rate, as it would no longer be possible to use a weighted average of French and German instruments to represent three-month interest rates in the euro zone. Accordingly, it was decided to replace the current French Treasury bill rate and the German interbank rate with the three-month euro interbank offered rate (Euribor). Money market developments in Japan necessitated a further change in the instrument used to determine the official SDR interest rate, with the three-month rate on certificates of deposit in Japan replaced by the market rate on Japanese government thirteen-week financing bills, as the latter rate was found to be deeper and more representative.

3. The revisions to the representative interest rates used for determining the official SDR (three-month) interest rate have implications for the six-month instruments used for determining the interest rates in the borrowing agreements concluded between the Fund, as Trustee of the PRGF Trust, and lenders to the Loan Account of the Trust.[2] Specifically, the

[1] Review of the Method of Valuation of the SDR (SM/00/180, 7/24/00).

[2] The amendments affect the Fund's borrowing agreements with fifteen current lenders to the PRGF Trust: the Agence Française de Développement, the National Bank of Belgium, the Bank of Canada, the Government of China, the National Bank of Denmark, the Central Bank of Egypt, the Kreditanstalt für Wiederaufbau, the Bank of Italy, the Japan Bank for International Cooperation, the Bank of Korea, the Bank of the Netherlands, the Bank of
(continued)

elimination of separate weights for France and Germany in the SDR basket necessitates the use of a single instrument instead of two instruments to represent six-month interest rates in the euro zone.

4. **The staff proposes to substitute (i) the six-month Euribor rate for the current yield on six-month French Treasury bills and the six-month German interbank rate; and (ii) where applicable, the bond equivalent yield on six-month Japanese treasury bills for the average rate for newly issued bank CDs in Japan with a maturity of between 150 days and 180 days.** These proposed revisions to the borrowing agreements would result in the use of parallel instruments in determining both the three-month and six-month SDR interest rates, and reflect developments in the money markets of the countries concerned. In the case of the interest rate for the yen, the Japanese authorities have confirmed that, as in the case of the three-month instruments, the six-month treasury bill market is deeper and more representative than the six-month CD market. A comparison between interest rates on the existing instruments and the proposed instruments show that the interest rates have moved very closely together (Figure 1), so that the proposed changes are not expected to materially affect the return to lenders on the loans to the PRGF Trust.

5. The staff has contacted all lenders to the PRGF Trust and secured their agreement in principle to the amendments to the borrowing agreements outlined in paragraph 4 above. The proposed decisions amending the borrowing agreements of lenders to the PRGF Trust can be adopted by a majority of the votes cast. Upon the approval of the proposed decision by the Executive Board, the staff will inform the lenders of the Board's decision, and finalize the amendment of the borrowing agreements between the Fund, as the Trustee of the PRGF Trust, and lenders to the Loan Account of the PRGF Trust before the end of 2000.

PROPOSED DECISION

The following decision is proposed for adoption by the Executive Board:

The International Monetary Fund (the "Fund"), in its capacity as Trustee of the Poverty Reduction and Growth Facility (PRGF) Trust, approves the amendments to the borrowing agreements between the Fund and the lenders to the Loan Account of the PRGF Trust, and their related annexes, as enumerated below, and authorizes the Managing Director to take such action as is necessary to conclude and implement the amendments:

Norway, the OPEC Fund for International Development, the Bank of Spain, and the Swiss National Bank.

1. The references to the interest rates on domestic instruments in:

paragraph 4(a)(i) of the borrowing agreement with the National Bank of Belgium effective July 2, 1999;

paragraph 4(a)(i) of the borrowing agreements with the Bank of Canada effective May 9, 1995 and April 6, 2000;

paragraph 4(a)(i) of the borrowing agreement with the Government of China effective July 5, 1994;

paragraph 3(a)(i) of the borrowing agreement with the National Bank of Denmark effective May 3, 2000;

paragraph 4(a)(i) of the borrowing agreement with the Central Bank of Egypt effective June 13, 1994;

paragraph 5(b)(i) of the borrowing agreement with the Agence Française de Développement effective on April 5, 1988, and paragraph 5(a)(i) of the borrowing agreements with the Agence Française de Développement effective January 3, 1995 and December 17, 1999;

paragraph 4(a)(i) of the borrowing agreements with the Bank of Italy effective October 4, 1990, May 29, 1998, and March 1, 2000;

paragraph 6(b)(i) of the borrowing agreements with the Japan Bank for International Cooperation effective April 12, 1988 and October 5, 1994;

paragraph 4(a)(i) of the borrowing agreement with the Bank of Korea effective April 20, 1989 and June 20, 1994;

paragraph 4(a)(i) of the borrowing agreement with the Bank of the Netherlands effective September 29, 1999;

paragraph 4(a)(i) of the borrowing agreement with the Bank of Norway effective April 14, 1988 and June 16, 1994;

paragraph 4(a)(i) of the borrowing agreement with the OPEC Fund for International Development effective December 20, 1994;

paragraph 4(a)(i) of the borrowing agreements with the Bank of Spain effective June 20, 1988 and February 14, 2000; and paragraph 4(a)(i) of the borrowing agreement with the Swiss National Bank effective June 22, 1995, shall be amended to read as follows:

> "- the bond equivalent yield for six-month U.S. Treasury bills,
> - the six-month euro interbank offered rate (Euribor),
> - the bond equivalent yield on six-month Japanese treasury bills,
> - the six-month interbank rate in the United Kingdom, and..."

2. In the borrowing agreements with the Agence Française de Développement, all references to the text "euros (as the currency of France and Germany)" shall be changed to read "euros."

3. In the borrowing agreements and exchange of letters with the Japan Bank for International Cooperation, all references to "the percentage weight of the euro component of the SDR" made in regard to the former deutsche mark and French franc components of the SDR valuation basket shall be understood to mean solely "the percentage weight of the euro component of the SDR."

4. In the borrowing agreement with the Kreditanstalt für Wiederaufbau effective March 31, 1989:

Paragraph 4(a)(i) shall be amended to read as follows:

> "U.S. dollar – Libor, the euro – Euribor, Japanese yen – Libor, as well as pound sterling – Libor, as defined in the Annex to this agreement, and..."

5. In the borrowing agreements with the Kreditanstalt für Wiederaufbau, and related Annexes, effective May 17, 1995 and June 19, 2000:

(i) Paragraph 4(a)(i) shall be amended to read as follows:

> "U.S. dollar-rate on six-month certificates of deposit, the euro – Euribor, Japanese yen – Libor, as well as pound sterling – Libor, as defined in the Annex to this agreement; and..."

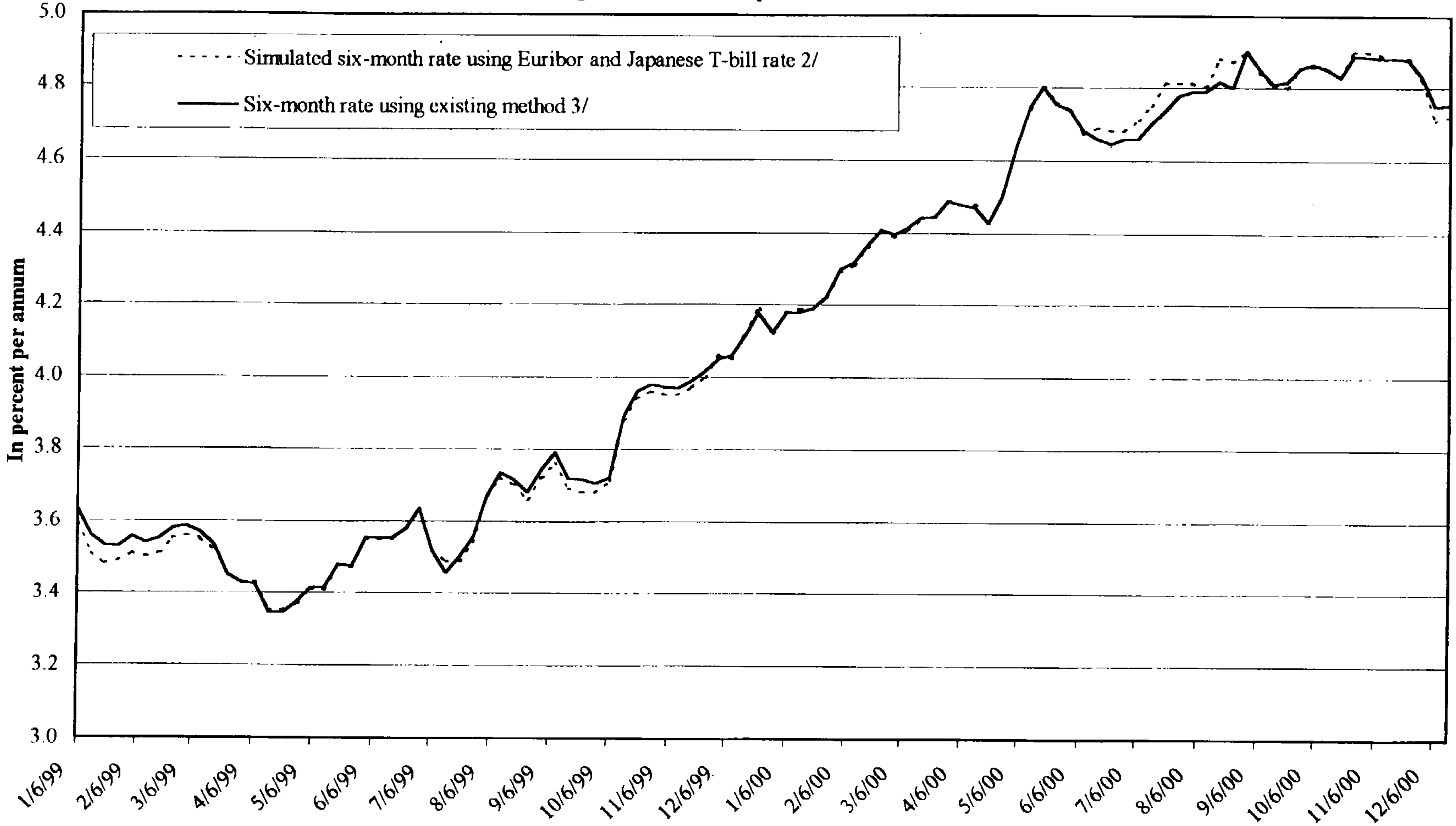
(ii) Paragraph 1(b) of the Annex shall be amended to read as follows:

> "(b) Euro – Euribor:
>
> means the rate at which euro interbank term deposits are offered for a period of six months within the European Monetary Union zone by one prime bank to another at 11:00 a.m. Brussels time."

(iii) Paragraph 1(c) of the Annex shall be deleted.

6. In the borrowing agreements with the Kreditanstalt für Wiederaufbau, all references to the text " the euro as the currency of Germany and France, respectively" shall be changed to read "euros."

Figure 1. Six-Month Actual and Simulated Combined SDR Interest Rate Using Euribor and Japanese T-bill rate 1/



Sources: Bloomberg, Reuters, TRE Rates Maintenance System, and staff estimates.

1/ Weekly Wednesday data for the period from 1/6/99 through 12/13/00.

2/ The simulated SDR interest rate reflects a substitution of (i) the six-month Euribor for the current six-month French T-bill rate and the six-month German interbank rate, and (ii) the bond equivalent yield on six-month Japanese T-bills for the CD rate.

3/ Existing method of most loan agreements.