

**FOR
INFORMATION**

EBS/17/37

May 2, 2017

To: Members of the Executive Board

From: The Secretary

Subject: **Poverty Reduction and Growth Trust—2017 Borrowing Agreements with the Bank of Spain, the Government of Japan, and the People's Bank of China**

Board Action:	Executive Directors' information
Publication:	Yes, after noon on Tuesday, May 9, 2017
Questions:	Mr. Unteroberdoerster, FIN (ext. 35448) Ms. Marcelino, FIN (ext. 37812) Mr. Pinto, LEG (ext. 35587) Mr. Pham, LEG (ext. 34479)



May 1, 2017

POVERTY REDUCTION AND GROWTH TRUST—2017 BORROWING AGREEMENTS WITH THE BANK OF SPAIN, THE GOVERNMENT OF JAPAN AND THE PEOPLE'S BANK OF CHINA

Approved By
**Andrew Tweedie and
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Prepared by the Finance and Legal Departments

INTRODUCTION

1. The Fund, as Trustee of the Poverty Reduction and Growth Trust (PRGT or Trust), has entered into a new borrowing agreement with the Bank of Spain (Spain), amendments to the 2010 NPA with the Government of Japan (Japan), and a new note purchase agreement (NPA) with the People's Bank of China (China). The new borrowing agreement with Spain, the amendments to the NPA with Japan, and the new NPA with China provide new resources of SDR 450 million, SDR 1.8 billion and SDR 800 million, respectively, to the General Loan Account of the PRGT for a total amount of SDR 3.05 billion in new PRGT lending resources (see attachments).¹

2. The new borrowing agreement, the augmentation under the amended NPA and the new NPA are among the first ten loan contributions concluded in the context of the current Board endorsed effort to raise SDR 11 billion in new PRGT loan resources.² These became effective on February 22, 2017, for Spain; April 20, 2017, for Japan; and April 21, 2017, for China.

¹ Spain also requested the amendment of its 2009 borrowing agreement to participate in the encashment regime. There was no augmentation of the agreement and, except for adding the encashment regime and other minor changes to align the drafting of the 2009 borrowing agreement with the drafting of Spain's new borrowing agreement, all other elements of the 2009 borrowing agreement with Spain remain unchanged.

² See *Update on the Financing of the Fund's Concessional Assistance and Proposed Amendments to the PRGT* (SM/14/79, 4/7/2014).

3. 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 to the Executive Board for information the new borrowing agreement with Spain, the amendments to augment the existing agreement with Japan, and the new NPA with China.

4. The new borrowing agreement with Spain and NPA with China incorporate the following recent changes to the Fund's framework for concessional lending to low-income countries, which have also been adopted, as applicable, in prior amendments to the agreement with Japan: (i) the extensions of the commitments and drawdown period for PRGT loans to end-2020 and end-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 results in a negative rate, the applicable interest rate shall be zero percent.^{3, 4}

5. With respect to the amendment of the NPA with Japan, in addition to increasing the principal amount of notes that can be issued under the NPA, Japan's agreement was also modified to: (i) provide more flexibility in the media of payment for purchases under the NPA; (ii) set up a maximum amount for monthly purchases under the NPA; and (iii) to establish a preferred media for payments of interest and principal amount of the notes issued under the NPA. Except for these changes, all other elements of the NPA with Japan remain unchanged.

PRINCIPAL ELEMENTS OF THE BORROWING AGREEMENTS⁵

6. **Account designations.** The new borrowing agreement with Spain (in a total amount of SDR 450 million), and the NPAs with Japan (in a total amount of SDR 3.6 billion) and China (in a total amount of SDR 800 million) are for the benefit of the General Loan Account (GLA) to finance disbursements under any of the facilities of the Trust.

³ SM/14/79; Decision No. 15576-(14/36), adopted April 24, 2014; SM/15/78; and SM/16/259.

⁴ 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* (SM/16/259, September 13, 2016). Although explicitly referenced in the new borrowing agreement and NPA with Spain and China, the zero interest rate floor is applicable to all PRGT loan agreements that use the derived six-month SDR rate, regardless of whether PRGT lenders choose to make new contributions of lending resources to the PRGT, or whether these contributions are made in the form of augmentations of existing PRGT borrowing agreements, or new borrowing agreements with the Fund, as Trustee of the PRGT.

⁵ The amendments to the NPA with Japan were limited to the changes mentioned in paragraph 5. The reference to other key provisions of this agreement in this section is for convenience purposes only.

7. 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 days (creditor's location) in the agreements with Spain and China, and seven business days in the agreement with Japan. In the case of Japan, unless otherwise agreed between Japan and the Trustee, there will be no more than SDR 600 million drawn in any calendar month (paragraph 2(c)), provided that such limit will not apply to encashment-related purchases under paragraph 3(ii) of the NPA.

8. Denomination and media. Loan commitments and operations are denominated in SDRs. Unless otherwise agreed between the Trustee and the creditors, disbursements are to be made by the transfer of the equivalent amount of euros for Spain (paragraph 4(a)), SDRs or U.S. dollars for Japan (paragraph 5(a)), and RMB for China to an account specified by the Trustee. Payments of principal and interest by the Trust are to be made in euros for Spain (paragraph 7(a)), and in RMB for China (paragraph 7(a) of the General Terms and Conditions (GTC) for notes issued under the NPA), or in other media as may be agreed between the Trustee and the creditor. For Japan, interest payments are to be made in SDRs, and principal repayments in the same media originally used to purchase each note (paragraph 7(a) of the GTC) or in other media as may be agreed between the Trustee and Japan.

9. Maturity. Under Spain's borrowing agreement, 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)). Under the NPAs with Japan and 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 Japan 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).

10. Interest. The borrowing agreement and NPA for Spain and China provide for outstanding drawings to earn interest at the six-month derived SDR rate (paragraph 4(a) of the GTC and paragraph 6(a), respectively). Interest will be payable on a semi-annual basis promptly after June 30 and December 31 of each year (paragraph 4(b) of the GTC and paragraph 6(b), respectively). Japan's agreement provides for the payment of the official SDR interest rate on outstanding claims (paragraph 4(a) of the GTC). Interest will be payable on a quarterly basis promptly after July 31, October 31, January 31, and April 30 of each year (paragraph 4(b) of the GTC).

11. 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 agreements within a period of ten days after its due date, the agreements provide for the suspension of further drawings pending consultations on this matter with the respective creditor (Spain, paragraph 2(b); Japan, paragraph 2(d); and China, paragraph 2(c)).

12. 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 (paragraphs 8(a) and 10 (Spain); paragraphs 6 and 7 of NPA, and paragraph 5 of the GTC (Japan and China)).

13. Encashment. All the agreements include 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 in all cases subject to the availability of resources under borrowing agreements of other participating creditors (paragraph 9 (Spain); and paragraph 6 of the GTC (Japan and China)).⁶

CONCLUSION

14. The new borrowing agreement with Spain, the augmentation of Japan's existing NPA, and the new NPA with China are among the first ten PRGT loan contributions under the 2015–17 PRGT loan mobilization round and represent an important additional step towards meeting the SDR 11 billion target. 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 near and medium term.

⁶ See also *Facilitating Mobilization of Loan Resources for Concessional Lending to Low-Income Countries — Proposed Decision*, page 2 (SM/10/46, Sup. 1, 4/15/2010).

Attachment I. Borrowing Agreement Between the Bank of Spain and the International Monetary Fund as Trustee of the Poverty Reduction and Growth Trust

The Bank of Spain (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 450 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 Bank and the Trustee, the Trustee shall give the Bank at least five business days (Madrid) 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. The Trustee shall endeavor to make no more than five drawings per twelve-month period.

(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 euros 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 (Madrid) notice.

(c) If the relevant maturity date is not a business day of the Fund, the 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 preceding 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 euros 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 euros shall be made to an account as agreed between the Trustee and the Bank. Payments in SDRs shall be made by crediting Spain'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 Spain 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 three 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 of Spain and the Trustee have executed this Agreement.

For the BANK OF SPAIN:

_____	February 9, 2017
Luis M. Linde /s	_____
Governor	Date

For the INTERNATIONAL MONETARY FUND as Trustee:

_____	February 22, 2017
Christine Lagarde /s	_____
Managing Director	Date

Attachment II. Amendments to the Note Purchase Agreement Between the Government of Japan and the International Monetary Fund as Trustee of the Poverty Reduction and Growth Trust

On April 20, 2017, the Government of Japan's new loan contribution was made effective when the Managing Director acknowledged the Ministry of Finance's consent on behalf of the Government of Japan to the amendment of its borrowing agreement with the Poverty Reduction and Growth Trust, dated September 3, 2010.

Accordingly, the following changes were made to the NPA (to help identify the change, the additional text is in red and underlined, and the deleted text is struck through):

A. Amendment to the total principal amount of notes that can be issued under the NPA

Paragraph 2(a) was modified to read as follows:

"2. (a) Notes in a total principal amount of up to the equivalent of SDR ~~1,800 million~~ 3.6 billion may be issued under this Agreement."

B. Amendments to lengthen the notice period for note purchases, to include the Trustee's proposal for the media of payment for purchase, and to establish a monthly limit for purchases under the NPA.

Paragraph 2(b) was modified, paragraph 2(c) was renumbered as 2(d), and a new paragraph 2(c) was added. The modifications read as follows:

" (b) 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, 2024. Unless otherwise agreed between Purchaser and the Trustee, the Trustee shall give Purchaser at least ~~five~~ seven business days' (Tokyo) notice of: (i) the Trustee's intention to issue Notes for purchase under this Agreement, including the amount of the Notes to be purchased and (ii) subject to paragraph 5(a) below, the Trustee's proposal for the media of payment for purchase, and shall provide payment instructions at least two business days (Tokyo) prior to the value date of the transaction by SWIFT.

(c) Unless otherwise agreed between the Purchaser and the Trustee, there will be no more than SDR 600 million purchased under this agreement in any calendar month. The provisions in this paragraph 2(c) do not apply to purchases under paragraph 3(ii).

(d) 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 Agreement pending consultations with Purchaser on the matter. However, the Trustee may resume issuances of Notes under this Agreement once all arrears under the note have been discharged."

C. Amendment to establish the media selection process for purchases under the NPA

Paragraph 5(a) was modified to read as follows:

"5. (a) ~~Unless otherwise agreed between the Trustee and Purchaser, the~~ 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 SDRs, U.S. dollars or any other freely usable currency as may be agreed upon between the Trustee and Purchaser, to an account specified by the Trustee. ~~The Trustee shall propose SDRs, U.S. dollars or any other freely usable currency as the media of payment by Purchaser for purchase of Notes in its notice under paragraph 2(b). Purchaser shall be deemed to consent to the Trustee's proposal unless within one business days from receipt of the Trustee's notice, Purchaser informs the Trustee of Purchaser's preference for another media of payment, which shall be either SDRs, U.S. dollars or any other freely usable currency. At least five business days (Tokyo) prior to the issuance of Notes, the Trustee shall send a final notice to Purchaser either confirming the media and other terms of payment for purchase of Notes, or, if no agreement is reached by that time between the Trustee and Purchaser on the media of payment, cancelling the initial notice under paragraph 2(b)."~~

D. Amendments to provide for interest payments in SDRs, and principal repayments in the same media originally used to purchase each note.

Paragraph 7(a) of the General Terms and Conditions of the NPA (Annex I) was modified to read as follows:

"7. Media and Modalities of Payments on the Notes

(a) ~~Unless otherwise agreed between the Permitted Holder and the Trustee, the Trustee will make payments of interest on the Notes in SDRs, and payments of the principal amount under each Note in the same media originally used to purchase each Note. Payments by the Trustee of the principal amount of Notes and 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. The Trustee shall give the Permitted Holder at least five business days' (Washington DC) notice of its intention to seek agreement for making interest payments in a media other than SDRs, or principal repayments in a media other than the media originally used to purchase each Note. payment in a media other than SDRs."

All other elements of the 2010 borrowing agreement remain unchanged.¹

¹ See EBS/10/178, 9/16/10 and subsequent amendments.

Attachment III. Note Purchase Agreement Between the People's Bank of China and the International Monetary Fund as Trustee of the Poverty Reduction and Growth Trust

This Note Purchase Agreement (this "Agreement") is entered into between People's Bank of China ("Purchaser") and the International Monetary Fund (the "Fund") as Trustee (the "Trustee") of the Poverty Reduction and Growth Trust (the "Trust").

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 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 800 million may be issued under this Agreement.

(b) 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, 2024. 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.

(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 Agreement pending consultations with Purchaser on the matter. However, the Trustee may resume issuances of Notes under this Agreement once all arrears under the Note have been discharged.

3. The Trustee may issue Notes for purchase under this 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 renminbi (RMB) 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 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) 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 and exchanges of currency made three 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.

6. At the request of Purchaser, the issuance of Notes under this Agreement may be suspended temporarily at any time prior to June 30, 2024, in accordance with Section III, paragraphs 4(c) and (d) of the 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 Agreement.

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

9. (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, Purchaser and the Trustee have executed this Agreement.

For the PEOPLE'S BANK OF CHINA:

March 24, 2017

YI Gang/s
Deputy Governor

Date

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

April 21, 2017

Christine Lagarde/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 (Washington) 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 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 on each Note shall be calculated on an actual day basis and shall be paid on a semiannual basis promptly after June 30 and December 31 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 semiannual 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 or 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) Payments by the Trustee of the principal amount of Notes and of interest on the Notes shall be made in renminbi (RMB), or in other media 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 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. 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 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.

(a) If the Fund changes the method of valuing the SDR, all transfers, exchanges, and payments of principal and interest made three 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.

(b) If there is a change in the currency composition of the SDR basket, the interest rate calculations and instruments under paragraph 4(a) shall be modified by operation of paragraph 9(a): 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 Permitted Holder 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.

10. Settlement of Questions.

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