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IFAD's Interest Rates and Service Charges Applicable for the Fourth Quarter of 2019

Note to Executive Board representatives

Focal points:

Technical questions:

Advit Nath
Director and Controller
Accounting and Controller's Division
Tel.: +39 06 5459 2829
e-mail: a.nath@ifad.org

David Hartcher
Senior Finance Officer
Tel.: +39 06 5459 2133
e-mail: d.hartcher@ifad.org

Dispatch of documentation:

Deirdre Mc Grenra
Chief
Institutional Governance and
Member Relations
Tel.: +39 06 5459 2374
e-mail: gb@ifad.org

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For: Information

IFAD's Interest Rates and Service Charges Applicable for the Fourth Quarter of 2019

1. This information paper presents IFAD's interest rates and service charges applicable for the fourth quarter of 2019.
2. All interest rate calculations have been performed to six decimal places and rounded to two decimal places.

IFAD's Interest Rates and Service Charges Applicable for the Fourth Quarter of 2019

I. Background

1. In 1994 the Executive Board decided to align the interest rates for the Fund's ordinary term loans with the variable interest rates set by the International Bank for Reconstruction and Development (IBRD).
2. This decision was re-affirmed by the Executive Board in 2009 (EB 2009/98/R.14), in the most recent review of loan pricing in 2018 (EB 2018/125/R.45/Rev.1) and by the Governing Council in 2019 (GC 42/L.7).
3. In a further alignment with IBRD, the Board agreed that, beginning in 2019, IFAD would adopt a quarterly rate-setting timeline for its interest rates and service charges. Once approved by IFAD Management, these rates and charges are published on the IFAD website, which ensures their timely and transparent communication to IFAD borrowers and other key stakeholders.
4. In addition, Management will keep the Executive Board informed of the rates and charges through an information paper at each session.

II. Summary

5. IFAD's interest rates for non-concessional lending have reduced slightly between the third quarter (Q3) and the fourth quarter (Q4) of 2019 due to the lowering of the six-month LIBOR/EURIBOR rates. The six-month LIBOR/EURIBOR rates for the euro and the Japanese yen (JPY) remain negative.
6. IFAD's interest rates and service charges for concessional lending from Q3 to Q4 2019 for loans denominated in United States dollars have increased slightly, while for loans denominated in special drawing rights (SDR) and euro (EUR), the interest rates and service charges have remained constant or reduced slightly.

A. Ordinary and intermediate term loans

7. IFAD interest rates for ordinary term loans are based on a floating reference rate – the six-month LIBOR/EURIBOR rate – plus a spread that is either variable or fixed over the life of the loan.
8. The IFAD interest rate for intermediate term loans is 50 per cent of the IFAD interest rate for ordinary term loans.¹

LIBOR/EURIBOR

9. Table 1 shows the LIBOR/EURIBOR rates for Q4 2019 by loan denomination currency and the change from Q3 2019.

Table 1
LIBOR/EURIBOR*
(Percentage)

<i>Currency</i>	<i>SDR</i>	<i>EUR</i>	<i>US\$</i>
Q4 2019	1.24	0.00	2.06
Q3 2019	1.29	0.00	2.22
Change Q3 to Q4	(0.05)	0.00	(0.16)

* LIBOR/EURIBOR rates are subject to a zero floor if there are negative interest rates.

¹ As of September 2012, IFAD no longer offers intermediate term loans.

IFAD spread²

10. For ordinary term loans approved up to 1 January 2019, in addition to the LIBOR/EURIBOR rate, IFAD applies the following spread:
- The IBRD variable spread for loans with an average repayment maturity of 18-20 years.
11. For ordinary term loans approved after 1 January 2019, in addition to the LIBOR/EURIBOR rate, IFAD applies the following:
- The IBRD spread that reflects the average repayment maturity and denomination currency of the loan;
 - Either a variable or a fixed spread as per the borrower's request; and
 - An adjustment to the variable or fixed spread depending on the borrower's country income categorization.³
12. Tables 2 and 3 present the IBRD variable and fixed spread rates by loan denomination currency and the average repayment maturity of the loan for Q4 2019.

Table 2

Variable spread: By loan denomination currency and average repayment maturity applicable for Q4 of 2019⁴
(Percentage)

Currency	Average maturity					
	8 years and below	Greater than 8 to 10	Greater than 10 to 12	Greater than 12 to 15	Greater than 15 to 18	Greater than 18 to 20
SDR	0.49	0.59	0.69	0.79	0.89	0.99
US\$	0.49	0.59	0.69	0.79	0.89	0.99
EUR	0.49	0.59	0.69	0.79	0.89	0.99

Table 3

Fixed spread: By loan denomination currency and average repayment maturity applicable for Q4 of 2019⁴
(Percentage)

Currency	Average maturity					
	8 years and below	Greater than 8 to 10	Greater than 10 to 12	Greater than 12 to 15	Greater than 15 to 18	Greater than 18 to 20
SDR	0.56	0.76	0.86	1.01	1.21	1.31
US\$	0.65	0.85	0.95	1.10	1.30	1.40
EUR	0.50	0.70	0.80	0.95	1.15	1.25

13. Table 4 presents the additional increases to the IBRD variable or fixed spread rates related to the borrower's income category.

Table 4

Average maturity premium by country category classification applicable for Q4 of 2019³
(Percentage)

Country income category	Average maturity						Note
	8 years and below	Greater than 8 to 10	Greater than 10 to 12	Greater than 12 to 15	Greater than 15 to 18	Greater than 18 to 20	
Group A	0.00	0.00	0.00	0.00	0.00	0.00	Exempt
Group B	0.00	0.00	0.05	0.10	0.15	0.20	Discount
Group C	0.00	0.00	0.10	0.20	0.30	0.40	Standard
Group D	0.05	0.05	0.20	0.35	0.50	0.65	Surcharge

² Source of data is the information published on the IBRD website on the first working day of the relevant rate revision quarter.

³ The adjustment to the IBRD spread depending on the country income category will be limited to the maturity premium increase introduced by IBRD and effective as of 1 July 2018.

⁴ Excludes the maturity premium increase introduced by IBRD and effective as of 1 July 2018.

14. Two examples of IFAD interest rate calculations for a hypothetical loan on ordinary terms are provided on page 5.

B. Blend term loans

15. For blend term loans approved up to 15 February 2019, the interest rates and service charges for loans denominated in SDR, euros and United States dollars for Q4 2019 were 2.00 per cent.
16. For blend term loans approved after 15 February 2019, the interest rate and service charges for loans denominated in SDR remained at 2.00 per cent; however, in order to account for the differences in notional interest rates between the relevant currency and the SDR, for loans denominated in euros and United States dollars the interest rates and service charges have been adjusted each quarter (see table 5).
17. Table 5 presents the interest rates and service charges applicable per loan denomination currency for loans on blend terms approved after 15 February 2019.

Table 5

Interest rate and service charge for blend term loans approved after 15 February 2019
(Percentage)

<i>Currency</i>	<i>SDR</i>	<i>EUR</i>	<i>US\$</i>
Q42019	2.00	1.00	2.94
Q3 2019	2.00	1.21	2.89
Change Q3 to Q4	0.00	(0.21)	0.05

* Source of data is the information published on the IDA website on the first working day of the relevant rate revision quarter.

C. Highly concessional term loans

18. For highly concessional term loans approved up to 15 February 2019, the service charge for loans denominated in SDR, euros and United States dollars for Q4 2019 remained constant at 0.75 per cent.
19. For highly concessional term loans approved after 15 February 2019, the service charge for loans denominated in SDR remained at a rate of 0.75 per cent; whereas due to the differences in notional interest rates between the relevant currency and SDR, for loans denominated in euros and United States dollars the service charges have been adjusted each quarter (see table 6).
20. Table 6 presents the service charge applicable by loan denomination currency on highly concessional term loans approved after 15 February 2019.

Table 6

Service charge for highly concessional loans approved after 15 February 2019
(Percentage)

<i>Currency</i>	<i>SDR</i>	<i>EUR*</i>	<i>US\$*</i>
Quarter 4 2019	0.75	0.75	1.54
Quarter 3 2019	0.75	0.75	1.46
Movement Q3 to Q4	0.00	0.00	0.08

* Source of data is the information published on the IDA website on the first working day of the relevant rate revision quarter.

D. Example for the calculation of IFAD's interest rate for the fourth quarter 2019 for ordinary term loans

21. For ordinary term loans approved up to 1 January 2019:

Example 1

- Loan: US\$2,000,000
- Maturity: 18 years
- Grace period: 3 years

	LIBOR/EURIBOR by loan denomination currency	IBRD variable spread by loan denomination currency and average repayment maturity	Country income category adjustment of the maturity premium by loan denomination currency and average maturity
	US\$	18-20 years	Country C
Interest rate component	2.06%	0.99%	N.A
Reference	Table 1	Table 2	N.A
IFAD interest rate equals 3.05% (2.06% + 0.99%)			

* Excludes the maturity premium increase introduced by IBRD and effective as of July 1 2018.

22. For ordinary term loans approved after 1 January 2019:

Example 2

- Loan: US\$2,000,000
- Maturity: 18 years
- Grace period: 3 years
- Average maturity: 10.75 years
- Average maturity premium (variable/fixed) selected by the borrower
- Country income categorization: C

	LIBOR/EURIBOR by loan denomination currency	IBRD variable spread by loan denomination currency and average repayment maturity	Country income category adjustment of the maturity premium by loan denomination currency and average maturity
	US\$	10.75 years	Category C
Variable spread			
Interest rate component	2.06%	0.69%	0.10%
Reference	Table 1	Table 2	Table 4
IFAD reference interest rate equals 2.85% (2.06% + 0.69% + 0.10%)			
Fixed spread			
Interest rate component	2.06%	0.95%	0.10%
Reference	Table 1	Table 3	Table 4
IFAD reference interest rate equals 3.11% (2.06% + 0.95% + 0.10%)			

* Excludes the maturity premium increase introduced by IBRD and effective as of July 1 2018.