

Document: EB 2020/130/INF.3
Date: 4 August 2020
Distribution: Public
Original: English

E



Investing in rural people

IFAD's Interest Rates and Service Charges Applicable for the Second and Third Quarter of 2020

Note to Executive Board representatives

Focal points:

Technical questions:

Benjamin Powell
Director and Treasurer
Treasury Services Division
Tel.: +39 06 5459 2251
e-mail: b.powell@ifad.org

Natalia Toschi
Treasury Senior Officer
Tel.: +39 06 5459 2653
e-mail: n.toschi@ifad.org

Verena Herbst
Treasury Senior Officer
Tel.: +39 06 5459 2397
e-mail: v.herbst@ifad.org

Dispatch of documentation:

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

Executive Board — 130th Session
Rome, 8-11 September 2020

For: Information

IFAD's Interest Rates and Service Charges Applicable for the Second and Third Quarter of 2020

1. This information paper presents IFAD's interest rates and service charges applicable for the second and third quarters of 2020.
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 Q3 2020

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 been reduced slightly between the second quarter (Q2) and the third quarter (Q3) of 2020 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 Q2 to Q3 2020 have remained constant.

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 Q3 2020 by loan denomination currency and the change from Q2 2020.

Table 1
LIBOR/EURIBOR*
(Percentage)

<i>Currency</i>	<i>SDR</i>	<i>EUR</i>	<i>US\$</i>
Q3 2020	0.41	0.00	0.38
Q2 2020	0.78	0.00	1.20
Change Q2 to Q3	(0.37)	0.00	(0.82)

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

IFAD spread ²

10. For ordinary term loans approved up to 1 January 2019, in addition to the LIBOR/EURIBOR rate, IFAD applies the following spread:

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

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

- 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 Q3 2020.

Table 2

Variable spread: By loan denomination currency and average repayment maturity applicable for Q3 of 2020⁴
(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 Q3 of 2020⁵
(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

Country income category adjustment of the maturity premium applicable for Q3 of 2020⁵
(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

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

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.

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 special drawing rights (SDR), euros and United States dollars 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>
Q3 2020	2.00	1.21	2.63
Q2 2020	2.00	1.20	2.64
Change Q2 to Q3	0.00	0.01	(0.01)

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 remained constant between Q2 and Q3 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 charge has 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 the 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>
Q3 2020	0.75	0.75	1.31
Q2 2020	0.75	0.75	1.30
Movement Q2 to Q3	0.00	0.00	0.01

Example for the calculation of IFAD's interest rate for Q3 2020 for ordinary term loans

1. 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	0.38%	0.99%	N/A
Reference	Table 1	Table 2	N/A
IFAD interest rate equals 1.37% (0.38% + 0.99%)			

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

2. 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	0.38%	0.69%	0.10%
Reference	Table 1	Table 2	Table 4
IFAD reference interest rate equals 1.17% (0.38% + 0.69% + 0.10%)			
Fixed spread			
Interest rate component	0.38%	0.95%	0.10%
Reference	Table 2	Table 3	Table 4
IFAD reference interest rate equals 1.43% (0.38% + 0.95% + 0.10%)			

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

IFAD's interest rates and service charges applicable for Q2 2020

I. Background

1. At the ninety-eighth session of the Executive Board in December 2009, the Board approved the methodology to set interest rates for loans on ordinary and intermediate terms (EB 2009/98/R.14). Since that date, interest rates for loans denominated in SDR have been calculated accordingly, while interest rates applicable to loans denominated in euros and United States dollars have been calculated in accordance with the decision taken by the Executive Board in 2011 (EB 2011/102/R.11). Once updated, interest rates are published on the IFAD website.
2. A review by IFAD of its loan pricing in 2018, endorsed by the Executive Board on 12 December 2018 (EB 2018/125/R.45/Rev.1) and subsequently approved by the Governing Council on 14 February 2019 (GC 42/L.7), has resulted in changes to IFAD's loan pricing for loans approved after 1 January 2019.
3. Given evolving circumstances, including the adoption of the Sovereign Borrowing Framework at the 114th Executive Board session, it was agreed that Management would explore additional modalities to inform the Executive Board of the interest rates for ordinary and intermediate lending terms. Since 2016, in September of each year the Executive Board is briefed on applicable interest rates for the most recent semi-annual period through an information paper. Beginning in 2019, IFAD will follow the IBRD quarterly rate-setting timeline. Therefore, for completeness, IFAD will submit an information paper at each session of the Executive Board providing the quarterly revised IFAD interest rates.

II. IFAD interest rates applicable for Q2 2020

A. Ordinary and intermediate term loans – approval before 1 January 2019

4. IFAD interest rates for loans denominated in SDR (table 1), euros (table 2) and United States dollars (table 3) for Q2 2020 and the preceding five rate periods are presented below.

Table 1
Loans denominated in SDR
(Percentage)

<i>Lending term</i>	<i>Q1 2019</i>	<i>Q2 2019</i>	<i>Q3 2019</i>	<i>Q4 2019</i>	<i>Q1 2020</i>	<i>Q2 2020</i>
Ordinary	2.63	2.51	2.29	2.23	2.19	1.76
Intermediate	1.32	1.25	1.15	1.12	1.10	0.88

Table 2
Loans denominated in euros
(Percentage)

<i>Lending term</i>	<i>Q1 2019</i>	<i>Q2 2019</i>	<i>Q3 2019</i>	<i>Q4 2019</i>	<i>Q1 2020</i>	<i>Q2 2020</i>
Ordinary	0.99	1.00	1.00	0.99	0.99	0.98
Intermediate	0.50	0.50	0.50	0.50	0.50	0.49

Table 3
Loans denominated in United States dollars*
(Percentage)

<i>Lending term</i>	<i>Q1 2019</i>	<i>Q2 2019</i>	<i>Q3 2019</i>	<i>Q4 2019</i>	<i>Q1 2020</i>	<i>Q2 2020</i>
Ordinary	3.86	3.67	3.22	3.05	2.90	2.18
Intermediate**						

* United States dollar rates have been disclosed since the second semester of 2016 due to the introduction of single currency lending.

** IFAD ceased intermediate terms in December 2011, at which time there were no US\$-denominated intermediate term loans and only one euro-denominated intermediate term loan.

B. Ordinary term loans – approval after 1 January 2019

5. It is important to note that the IFAD reference rate for ordinary loans denominated in SDR, United States dollars and euros approved after 1 January 2019 will no longer be a single standard rate. Instead, the IFAD reference rate for ordinary loans will vary on a loan-by-loan basis, reflecting:

- The loan denomination currency
- An applicable World Bank spread inclusive of:
 - Pricing adjustment, either variable or fixed, for the average repayment period; and
 - Pricing adjustment for the country income category.

(i) LIBOR/EURIBOR

Table 4
LIBOR/EURIBOR
(Percentage)

<i>Lending term</i>	<i>Q2 2020</i>	<i>Q2 2020</i>	<i>Q2 2020</i>
	<i>SDR</i>	<i>US\$</i>	<i>EUR</i>
Ordinary	0.78	0.41	0.00

(ii) IFAD applicable spread

Table 5
Variable spread: average maturity premium by currency applicable for Q2 of 2020
(Percentage)

<i>Currency</i>	<i>Average maturity</i>					
	<i>8 years and below</i>	<i>Greater than 8 to 10</i>	<i>Greater than 10 to 12</i>	<i>Greater than 12 to 15</i>	<i>Greater than 15 to 18</i>	<i>Greater than 18 to 20</i>
SDR	0.48	0.58	0.68	0.78	0.88	0.98
US\$	0.48	0.58	0.68	0.78	0.88	0.98
EUR	0.48	0.58	0.68	0.78	0.88	0.98

Table 6
Fixed spread: average maturity premium by currency applicable for Q2 of 2020
(Percentage)

<i>Currency</i>	<i>Average maturity</i>					
	<i>8 years and below</i>	<i>Greater than 8 to 10</i>	<i>Greater than 10 to 12</i>	<i>Greater than 12 to 15</i>	<i>Greater than 15 to 18</i>	<i>Greater than 18 to 20</i>
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

Table 7
Country income category adjustment applicable for Q2 of 2020
(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

III. IFAD interest rates and service charges applicable for Q2 2020

A. Blend term loans – approval after 15 February 2019

Table 8
Interest rate and service charge for loans approved after 15 February 2019
(Percentage)

Lending term	Q2 2020	Q2 2020	Q2 2020
	SDR	US\$	EUR
Blend	2.00	2.63	1.21

B. Highly concessional term loans – approval after 15 February 2019

Table 9
Service charge for loans approved after 15 February 2019
(Percentage)

Lending term	Q2 2020	Q2 2020	Q2 2020
	SDR	US\$	EUR
Highly concessional	0.75	1.30	0.75