

Memorandum

Subject: IBRD Lending Rates and Spreads Applicable on or after April 1, 2019

I. Introduction

IBRD provides regular updates of the lending rates and spreads applicable to its financing products as set out in the terms of each product.

The structure of lending rates and spreads applicable to IBRD loans can be categorized into (i) variable spreads over a market reference rate (“Reference Rate”) and (ii) fixed spreads over the Reference Rate. The spreads correspond to the (i) IFL Variable Spread and the (ii) IFL Fixed Spread versions of the IBRD Flexible Loan (IFL) as the most prevalent loan product.¹ The IFL resulted from consolidating the previously offered loan categories—Variable Spread Loan (VSL) and the Fixed Spread Loan (FSL)—in FY08.²

The Reference Rate varies by currency, which is currently 6-month LIBOR for USD, JPY and GBP and 6-month EURIBOR for EUR. On November 13, 2018, the IBRD’s Executive Board approved an amendment to the General Conditions for IBRD and IDA financing by expanding the scope of the reference rate replacement provisions to reflect the current benchmark rate reform.³ Management issued the revised General Conditions applicable to IBRD loans and IDA financing for which authorization to negotiate is issued on or after December 14, 2018.⁴

II. IBRD Flexible Loan Rates and Spreads

This note summarizes the lending rates and spreads applicable to IBRD loans with rate setting between April 1, 2019, and June 30, 2019. The interest rates of all loan products are subject to a floor of zero percent on the overall rate.⁵

Since July 1, 2018, as part of the agreed *2018 Capital Package*, IBRD has implemented new loan pricing measures.⁶ The pricing differentiates the maturity premium based on national income and other factors of

¹ In addition, IBRD offers other financial products, including conversions and hedging products, guarantees, and disaster risk financing.

² Aside from VSLs and FSLs, there are a few historic currency pool-based products, which have been discontinued but require rate resetting in IBRD’s portfolio. The only outstanding currency pool loans (CPL) with variable rate terms are the loans to Zimbabwe, which are currently in non-accrual status. There are also IFL and CPL loans whose rates are fixed for the life of loan through conversion and hedging.

³ “Proposed Modifications to the IBRD and IDA General Conditions to add flexibility in reference rate replacement provisions,” R2018-0235, October 18, 2018.

⁴ Currently, there is no impact on IBRD and IDA lending rates caused by these amendments.

⁵ The decision on the “Implicit Lending Rate Floor of Zero on Interest Rate in IBRD’s Loans” was approved by the IBRD’s Finance and Risk Committee (FRC) on June 8, 2016. From 2017, the General Conditions include an explicit zero percent interest rate floor on the overall lending rate.

⁶ “Implementation of IBRD Pricing Measures included in 2018 Capital Package,” R2018-0128, May 31, 2018.

each Borrower (see Annex 2) while retaining the existing maturity premium structure. The maturity premium schedule applies uniformly to both IFL Variable Spread and IFL Fixed Spread products and offers all borrowers the flexibility to choose a desired maturity given the differentiated pricing level.⁷

The new loan pricing increases the maturity premium between 10 and 40 basis points on loans with an average maturity of more than 10 years. Borrowers are classified into four pricing groups, whose applicable maturity premium is differentiated by exemptions, discounts or surcharges specific to each pricing group. Tables 1 and 2 provide the details of the pricing group-specific maturity premium schedule. The classification of the member countries by pricing group is updated annually and becomes effective on July 1 of each year (see Annex 2 for the list of countries in each pricing group effective for FY19).

The rate structure and current pricing of IFLs are provided in sections A and B below.

A. IFL Variable Spread

The pricing principle of IFL Variable Spread is to pass through changes in IBRD's funding cost to Borrowers. The IFL Variable Spread consists of the following components:

$$\text{Lending Rate}_{IFL \text{ Variable Spread}} = rr + \underbrace{afs + cls + mp}_{\text{spread}}$$

where

rr = Reference Rate, which varies by currency choice;

afs = average funding spread relative to the Reference Rate (*rr*), which is calculated every January 1, April 1, July 1 and October 1, based on the actual average funding cost incurred during the preceding six-month period;

cls = contractual lending spread, approved by the Executive Directors and reviewed annually; and

mp = maturity premium charged on loans based on average maturities, Borrower's income and other factors, approved by the Executive Directors and reviewed annually.

Among these components, the contractual lending spread (*cls*) and the maturity premium (*mp*) are determined at loan signing and remain constant over the life of the loan; the Reference Rate (*rr*) and the average funding spread (*afs*) are determined on each interest rate reset date and are applicable for the following six months. Since April 2017, the frequency of calculating the *afs* component is on a quarterly basis.⁸ The calculation frequency of *afs* does not affect the schedule of loan interest rate resets which for most loans occur on repayment dates twice a year.

⁷ The current pricing strategy provide more flexibility compared to the income-based pricing which IBRD offered between 1975-2008. In the pre-2008 policy, IBRD limited the above-Graduation Discussion Income (GDI) countries' access to longer maturity terms.

⁸ Pursuant to the Memorandum to the Executive Directors on "Increasing the Frequency of Variable Spread Reset for IBRD IFLs" (R2017-034/1, March 8, 2017). The quarterly reset frequency enhances the cost pass-through mechanism of the average funding spread. A delayed realization of a higher (lower) funding spread in the average funding spread component would cause a decrease (increase) of net interest income, which cannot be fully offset at later reset dates due to compounded interest.

Table 1 below summarizes the variable spreads currently available for new commitments as of April 1, 2019, which have remained unchanged relative to the last update on lending rates and spreads⁹ These spreads will be used for the rate setting dates between April 1, 2019 and June 30, 2019. See Figure A1-1 (Annex 1) for the historical spread analysis of IFL.

Table 1. IFL Variable Spread Applicable as of April 1, 2019 (in basis points)

Average Maturity	8 years and below	Greater than 8 and up to 10 years	Greater than 10 and up to 12 years	Greater than 12 and up to 15 years	Greater than 15 and up to 18 years	Greater than 18 and up to 20 years
Average Funding Spread	0	0	0	0	0	0
Contractual Lending Spread	50	50	50	50	50	50
Maturity Premium (Group C) ¹	0	10	30	50	70	90
<i>Adjustment to Maturity Premium</i>						
<i>Group A (Exemption)</i>	0	0	-10	-20	-30	-40
<i>Group B (Discount)</i>	0	0	-5	-10	-15	-20
<i>Group D (Surcharge)</i>	5	5	10	15	20	25

Total Spread - Current Quarter^{2,3,4}

Group A	50	60	70	80	90	100
Group B	50	60	75	90	105	120
Group C	50	60	80	100	120	140
Group D	55	65	90	115	140	165

Total Spread - Prior Quarter^{2,4}

Group A	50	60	70	80	90	100
Group B	50	60	75	90	105	120
Group C	50	60	80	100	120	140
Group D	55	65	90	115	140	165

Notes:

1. The maturity premium and its associated adjustments are applicable to loans for which an Invitation to Negotiate was issued (i) on or after July 1, 2018; or (ii) prior to July 1, 2018, and which have been approved on or after October 1, 2018.
2. The total spread is applicable to the loans meeting the criteria described under Note 1. The total spread does not include the SBL surcharge applicable for exposure beyond Single Borrower Limit of IBRD.
3. See Table A1-1 (Annex 1) for the complete set of spreads applicable to all active variable spread loans effective April 1, 2019.
4. The lending rate of a loan is determined based on the Reference Rate and the total spread effective on the rate setting date, subject to an implicit floor of zero percent on the overall rate. See Figure A1-1 (Annex 1) for historical IFL spreads and Figure A1-2 (Annex 1) for historical IFL rates inclusive of Reference Rates and the total spread.

⁹ See Table A1-1 (Annex 1) for the complete listing of the variable spreads applicable to IFLs and VSLs for rate resetting dates between April 1, 2019 and June 30, 2019.

B. IFL Fixed Spread

The pricing principle of IFL Fixed Spread is to insulate Borrowers from changes in IBRD’s funding cost in return for the payment of a market risk premium. The IFL Fixed Spread consists of the following components:

$$Lending\ Rate_{IFL\ Fixed\ Spread} = rr + \underbrace{pfs + cls + mp + mrp + bsa}_{spread}$$

where

rr = Reference Rate, which varies by currency choice;

pfs = projected U.S. dollar (USD) funding spread to the Reference Rate (rr) over the life of the loan;

cls = contractual lending spread, approved by the Executive Directors and reviewed annually;

mp = maturity premium charged on loans based on average maturities, Borrower’s income and other factors, approved by the Executive Directors and reviewed annually;

mrp = market risk premium reflecting funding and refinancing risks of providing loans with a fixed spread; and

bsa = projected basis swap adjustment (spread) applied to non-USD loans (currently EUR, GBP and JPY) to adjust the projected USD funding spread for other currencies.

IBRD regularly reviews the technical components—i.e., the projected funding spread (pfs), the market risk premium (mrp), and the basis swap adjustment (bsa)—to ensure that they reflect underlying market conditions. The current level of these “technical components” has been in effect since December 5, 2018.

Table 2 below summarizes the fixed spreads applicable to IFL Fixed Spread effective April 1, 2019. The fixed spread for a loan is determined at loan signing and remains constant over the life of the loan. See Figure A1-1 (Annex 1) for the historical spread analysis of IFL.

Table 2. IFL Fixed Spread Applicable as of April 1, 2019 (for USD-denominated Loans)
(in basis points)

Average Maturity	8 years and below	Greater than 8 and up to 10 years	Greater than 10 and up to 12 years	Greater than 12 and up to 15 years	Greater than 15 and up to 18 years	Greater than 18 and up to 20 years
Projected Funding Spread	5	15	15	20	25	25
Market Risk Premium	10	10	10	10	15	15
Contractual Lending Spread	50	50	50	50	50	50
Maturity Premium (Group C) ¹	0	10	30	50	70	90
<i>Adjustment to Standard Maturity Premium:</i>						
<i>Group A Exemption</i>	<i>0</i>	<i>0</i>	<i>-10</i>	<i>-20</i>	<i>-30</i>	<i>-40</i>
<i>Group B Discount</i>	<i>0</i>	<i>0</i>	<i>-5</i>	<i>-10</i>	<i>-15</i>	<i>-20</i>
<i>Group D Surcharge</i>	<i>5</i>	<i>5</i>	<i>10</i>	<i>15</i>	<i>20</i>	<i>25</i>

Total Spread - Current Quarter^{2,3}

Group A	65	85	95	110	130	140
Group B	65	85	100	120	145	160
Group C	65	85	105	130	160	180
Group D	70	90	115	145	180	205

Total Spread - Prior Quarter^{3,4}

Group A	65	85	95	110	130	140
Group B	65	85	100	120	145	160
Group C	65	85	105	130	160	180
Group D	70	90	115	145	180	205

Notes:

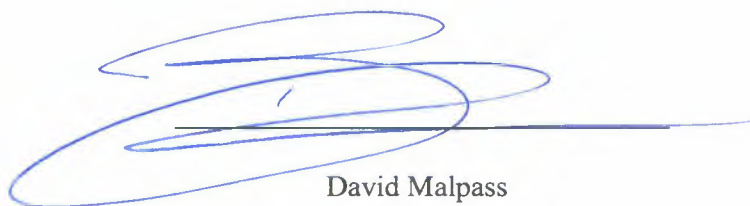
1. The maturity premium and its associated adjustments are applicable to loans for which an Invitation to Negotiate was issued (i) on or after July 1, 2018; or (ii) prior to July 1, 2018, and which have been approved on or after October 1, 2018. Group A pricing applies to the loans not meeting these criteria.
2. The total spread is applicable to USD-denominated loans signed on or after December 5, 2018. A basis swap adjustment of -0.15% is applicable to EUR-fixed spread, -0.35% is applicable to the JPY fixed spread, and -0.05% is applicable to GBP-fixed spread. The total spread does not include the SBL surcharge applicable for exposure beyond Single Borrower Limit of IBRD.
3. The lending rate of a loan is determined based on the Reference Rate and the total spread effective on the rate setting date subject to an implicit floor of zero on the overall rate. See Figure A1-1 (Annex) for historical IFL spreads and Figure A1-2 for historical IFL rates inclusive of Reference Rates and the total spread.
4. The total prior spread applicable as of January 1, 2019 to USD-denominated loans meeting the criteria described under Note 1.

III. Use of IBRD Spreads for IDA18 Non-Concessional Financing

In IDA18, the terms of IDA's non-concessional financing are aligned with the terms of IFLs. Accordingly, the above described IBRD IFL rates and spreads for the pricing group A are applicable to all IDA non-concessional financing.^{10,11}

IV. Notification to Borrowers

IBRD will notify current Borrowers, as required, of the rates and spreads (both inclusive of waivers for eligible borrowers) applicable for the interest periods beginning on or after April 1, 2019.



David Malpass
World Bank Group President

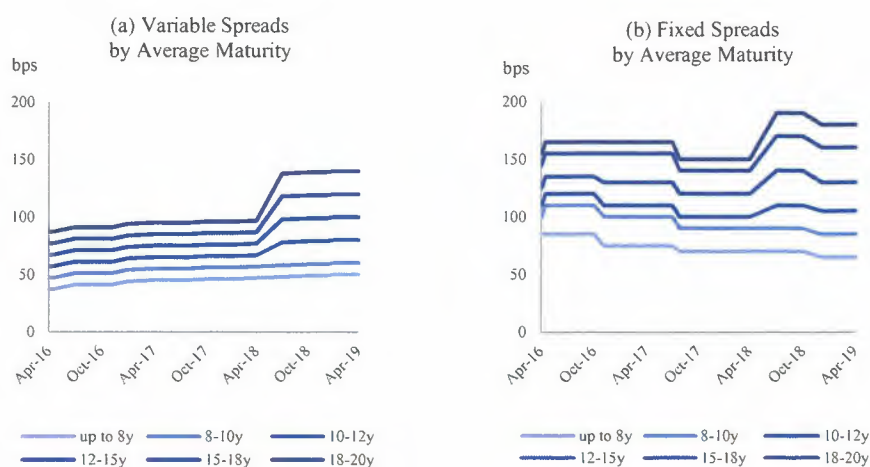
by Bernard Lauwers
Acting Managing Director and WBG Chief Financial Officer

¹⁰ See "Implementation of IDA's Hybrid Financial Model," IDA/R2017-0077, March 23, 2017.

¹¹ See Annex 3 of Bank Policy, "Financial Terms and Conditions of Bank Financing."

Annex 1

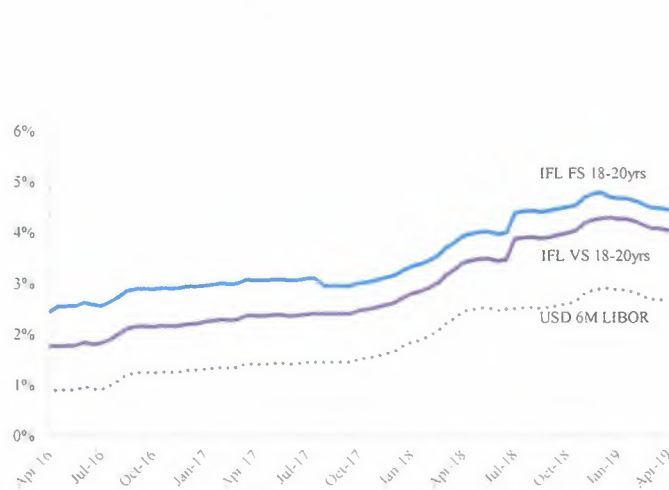
Figure A1-1. Historical Trend of IFL Spreads



Notes:

1. On February 11, 2014, IBRD's Executive Directors approved the extension of the maximum maturity for loans and guarantees to 35 years (and average repayment maturity up to 20 years) together with a revised maturity premium schedule, which increased the number of maturity buckets from three to six. The revision split the existing "up to 12-year" maturity bucket into three separate maturity buckets ("up to 8 years", "8-10 years," and "10-12 years") and introduced a new "18 to 20 years" bucket. This change came into effect on July 1, 2014.
2. On March 23, 2017, IBRD's Executive Directors approved a change in the calculation frequency of the average funding spread component of the IFL Variable Spread from semi-annually to quarterly starting from April 1, 2017.
3. On June 26, 2018, IBRD's Executive Directors approved the implementation of the pricing measures as part of the *2018 Capital Package*. The maturity premium was increased for loans with average maturities longer than 10 years but exemptions, discounts, or surcharges to the maturity premium would apply to eligible countries based on income and other factors. This change came into effect on July 1, 2018.
4. Periodically, Management adjusts the technical component of the fixed spread over the Reference Rate to reflect the changes in the projected funding spread. The current level of the projected funding spread has been in effect since December 5, 2018.
5. The spreads after July 1, 2018 represent the spreads applicable for loans to Group C countries, which are not eligible for Exemptions, Discounts, or Surcharges to the maturity premium.
6. The spreads represented in the right chart (b) exclude the basis swap adjustments and the Single Borrower Limit (SBL) surcharges applicable for exposure beyond SBL of IBRD.

Figure A1-2. Historical Trend of IFL Rates applied to USD Loans with Average Maturity of 18 to 20 years



Notes:

1. The rates after July 1, 2018 represent the rates applicable for loans to Group C countries, which are not eligible for Exemptions, Discounts, or Surcharges to the maturity premium.
2. The average maturity of 18 to 20 years indicates the maximum rates applied for each rate setting period. The rates do not include the Single Borrower Limit (SBL) surcharges applicable for exposure beyond SBL of IBRD.
3. IFL FS rates applied to newly signed IFL FS commitments. IFL VS rates applied to all outstanding IFL VS loans.
4. USD six-month LIBOR refers to the London interbank offered rate for deposits, published two London banking days prior to the first and fifteenth day of each month.

Table A1-1. Variable spreads applicable to IFLs and VSLs for rate resetting between April 1, 2019 and June 30, 2019. (All spreads are in basis points.)

Loan Product	Eligibility Criteria	Pricing Group	Funding cost/cost of borrowing	Contractual Lending Spread	Maturity Premium	Total Spread*
IFL VS	Loans for which Invitation to Negotiate was issued (i) on or after July 1, 2018; or (ii) prior to July 1, 2018 <u>and</u> which are approved after September 30, 2018 with average maturity of 8 years or less	A	0	50	0	50
		B			0	50
		C			0	50
		D			5	55
IFL VS	Loans for which Invitation to Negotiate was issued (i) on or after July 1, 2018; or (ii) prior to July 1, 2018 <u>and</u> which are approved after September 30, 2018 with average maturity greater than 8 years and up to 10 years	A	0	50	10	60
		B			10	60
		C			10	60
		D			15	65
IFL VS	Loans for which Invitation to Negotiate was issued (i) on or after July 1, 2018; or (ii) prior to July 1, 2018 <u>and</u> which are approved after September 30, 2018 with average maturity greater than 10 years and up to 12 years	A	0	50	20	70
		B			25	75
		C			30	80
		D			40	90
IFL VS	Loans for which Invitation to Negotiate was issued (i) on or after July 1, 2018; or (ii) prior to July 1, 2018 <u>and</u> which are approved after September 30, 2018 with average maturity greater than 12 years and up to 15 years	A	0	50	30	80
		B			40	90
		C			50	100
		D			65	115
IFL VS	Loans for which Invitation to Negotiate was issued (i) on or after July 1, 2018; or (ii) prior to July 1, 2018 <u>and</u> which are approved after September 30, 2018 with average maturity greater than 15 years and up to 18 years	A	0	50	40	90
		B			55	105
		C			70	120
		D			90	140
IFL VS	Loans for which Invitation to Negotiate was issued (i) on or after July 1, 2018; or (ii) prior to July 1, 2018 <u>and</u> which are approved after September 30, 2018 with average maturity greater than 18 years and up to 20 years	A	0	50	50	100
		B			70	120
		C			90	140
		D			115	165
IFL VS	Loans for which Invitation to Negotiate was issued prior to July 1, 2018; <u>and</u> which are approved between July 1, 2014 and September 30, 2018 with average maturity of 8 years or less	ALL	0	50	0	50
IFL VS	Loans for which Invitation to Negotiate was issued prior to July 1, 2018; <u>and</u> which are approved between July 1, 2014 and September 30, 2018 with average maturity greater than 8 years and up to 10 years	ALL	0	50	10	60
IFL VS	Loans for which Invitation to Negotiate was issued prior to July 1, 2018; <u>and</u> which are approved between July 1, 2014 and September 30, 2018 with average maturity greater than 10 years and up to 12 years	ALL	0	50	20	70

IFL VS	Loans for which Invitation to Negotiate was issued prior to July 1, 2018; <u>and</u> which are approved between July 1, 2014 and September 30, 2018 with average maturity greater than 12 years and up to 15 years	ALL	0	50	30	80
IFL VS	Loans for which Invitation to Negotiate was issued prior to July 1, 2018; <u>and</u> which are approved between July 1, 2014 and September 30, 2018 with average maturity greater than 15 years and up to 18 years	ALL	0	50	40	90
IFL VS	Loans for which Invitation to Negotiate was issued prior to July 1, 2018; <u>and</u> which are approved between July 1, 2014 and September 30, 2018 with average maturity greater than 18 years and up to 20 years	ALL	0	50	50	100
IFL VS**	Loans approved between June 30, 2010 and June 30, 2014 with average maturity of 12 years or less	ALL	0	50	0	50
IFL VS**	Loans approved between June 30, 2010 and June 30, 2014 with average maturity greater than 12 years and up to 15 years	ALL	0	50	10	60
IFL VS**	Loans approved between June 30, 2010 and June 30, 2014 with average maturity greater than 15 years and up to 18 years	ALL	0	50	20	70
IFL VS	Loans for which Invitation to Negotiate was issued (i) on or after July 23, 2009; or (ii) prior to July 23, 2009, and which were not approved by November 30, 2009	ALL	0	50	N/A	50
IFL VS	Loans for which Invitation to Negotiate was issued Prior to July 23, 2009, and which were approved by November 30, 2009	ALL	0	30	N/A	30
VSL***	Loans signed on or after September 28, 2007	ALL	0	30	N/A	30
VSL***	Loans for which Invitation to Negotiate was issued: On or after July 31, 1998 and signed before September 28, 2007	ALL	0	74†	N/A	74
VSL***	Loans for which Invitation to Negotiate was issued: Prior to July 31, 1998	ALL	0	49†	N/A	49

Notes:

* Total spread does not include the SBL surcharge applicable for exposure beyond Single Borrower Limit of IBRD.

** Includes loans for which the invitation to negotiate was issued before June 30, 2014 and that have been approved by the IBRD Board of Directors on or before September 30, 2014.

*** Rates do not take interest waivers into account for loans signed before September 28, 2007. Interest waivers do not apply on loans signed on or after September 28, 2007.

† The contractual lending spread is adjusted to account for the different day count conventions between borrowing transactions and IBRD's loans. Since July 1, 2008, as part of the migration into a unified loan product (IFL), all loans under the IFL program, and VSLs signed on or after September 28, 2007, have a contractual lending spread that is not adjusted for day count (see "Proposal to Extend Maturity Limits for New IBRD Loans and Guarantees and to Simplify and Consolidate IBRD Loans into a Unified Single Product Line," R2008-0007, January 18, 2008).

Annex 2

FY19 Pricing Groups for Lending Rate Purposes

Group A: Blends, Small State Economies, Fragile and Conflict-Affected Situations, recent/new IDA graduates

Angola (Recent IDA Graduate)	Georgia (Recent IDA Graduate)	Palau (Small State)
Antigua and Barbuda (Small State)	Grenada (Small State, Blend)	Papua New Guinea (FCS, Blend)
Armenia (Recent IDA Graduate)	India (Recent IDA Graduate)	Seychelles (Small State)
Belize (Small State)	Iraq (FCS)	Sri Lanka (Recent IDA Graduate)
Bolivia (Recent IDA Graduate)	Kenya (Blend)	St. Kitts and Nevis (Small State)
Bosnia and Herzegovina (Recent IDA Graduate)	Lebanon (FCS)	St. Lucia (Small State, Blend)
Cabo Verde (Small State, Blend)	Libya (FCS)	St. Vincent and the Grenadines (Small State, Blend)
Cameroon (Blend)	Mauritius (Small State)	Suriname (Small State)
Congo, Republic (FCS, Blend)	Moldova (Blend)	Timor-Leste (Small State, Blend)
Dominica (Small St, Blend)	Mongolia (Blend)	Trinidad and Tobago (Small State)
Equatorial Guinea (Small State)	Montenegro (Small State)	Uzbekistan (Blend)
Eswatini (Small State)	Nauru (Small State)	Vietnam (Recent IDA Graduate)
Fiji (Small St)	Nigeria (Blend)	Zimbabwe (FCS, Blend)
	Pakistan (Blend)	

Group B: Countries below Graduation Discussion Income (GDI)

Albania	Gabon	Peru
Algeria	Guatemala	Philippines
Azerbaijan	Indonesia	Serbia
Belarus	Iran, Islamic Republic of	South Africa
Botswana	Jamaica	Thailand
Colombia	Jordan	Tunisia
Dominican Republic	Morocco	Turkmenistan
Ecuador	Namibia	Ukraine
Egypt, Arab Republic of	North Macedonia	Venezuela, RB de
El Salvador	Paraguay	

Group C: Countries above GDI and below High-Income Category

Argentina	Croatia	Romania
Brazil	Kazakhstan	Russian Federation
Bulgaria	Malaysia	Turkey
China	Mexico	
Costa Rica	Panama	

Group D: Countries in the High-Income Category

Chile	Poland	Uruguay
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Source: "Bank Directive, Financial Terms and Conditions of Bank Financing," November 12, 2018 (Updated April 2019).