From: The President April 26, 2018

Memorandum

Subject: IBRD Lending Rates and Spreads Applicable on or after April 1, 2018

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 two groups: (i) variable spreads over a market reference rate ("Reference Rate") and (ii) fixed spreads over the Reference Rate. The spreads correspond to the most prevalent loan product, the IBRD Flexible Loan (IFL), which is offered as either (i) IFL Variable Spread or (ii) IFL Fixed Spread.[1,2] The IFL resulted from consolidating the previously offered loan categories—Variable Spread Loan (VSL) and the Fixed Spread Loan (FSL)—in FY08.

Since April 2017,[3] the frequency of calculating the average funding spread component of the IFL Variable Spread is on a quarterly basis. The calculation frequency does not affect the schedule of loan interest rate resets, which for most loans occurs on repayment dates twice a year.

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, 2018, and June 30, 2018. Interest rates of all loan products are subject to a floor of zero on the overall rate.[4] The rate structure and current pricing of IFLs are provided in sections A and B below.

[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] Pursuant to the Memorandum to Board on "Increasing the Frequency of Variable Spread Reset for IBRD IFLs" (R2017-034/1, March 8, 2017), the reset frequency of the average funding spread component of the IFL Variable Spread was increased from semi-annually to quarterly starting from April 1, 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.
[4] The "Implicit Lending Rate Floor of Zero on Interest Rate in IBRD's Loans" was approved by the World Bank Finance and Risk Committee on June 8, 2016. From 2017, the General Conditions for IBRD Financing include an explicit zero floor on the overall interest rate.

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:

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

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 with average maturities greater than 8 years, 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. Table 1 below summarizes the lending rates and spreads as of April 1, 2018.[5] These spreads will be used for the reset dates between April 1, 2018 and June 30, 2018. See Figure A-1 (Annex) for the historical spread analysis of IFL.

Table 1. IFL Variable Spread Applicable as of April 1, 2018 (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
Actual Funding Spread	-3	-3	-3	-3	-3	-3
Contractual Lending Spread	50	50	50	50	50	50
Maturity Premium	0	10	20	30	40	50
Total Spread – Current Quarter	47	57	67	77	87	97
Total Spread – Prior Quarter	46	56	66	76	86	96
Reference Rate for April 1, 2018*	244	244	244	244	244	244
Indicative Total Lending Rate**	291	301	311	321	331	341

* USD 6-month LIBOR applicable to loan rates. The reference rates for IFLs are the 6-month LIBOR in their loan currencies mostly. All euro-denominated loans for which the invitation to negotiate is issued on or after July 31, 2010 have EURIBOR as the reference rate.

** The total lending rate is only indicative. The lending rate of a loan is determined based on the Reference Rate effective on the reset date subject to an implicit floor of zero on the overall rate. See Figure A-2 (Annex) for historical IFL rates.

[5] See Table A-1 (Annex) for the listing of the additional variable spreads applicable to IFLs and discontinued products for rate resetting dates between April 1, 2018 and June 30, 2018.

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 with average maturities greater than 8 years, 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., projected funding spread *(pfs)*, the market risk premium *(mrp)*, and the basis swap adjustment *(bsa)*—to ensure that they reflect underlying market conditions. Effective July 27, 2017, the projected funding spread decreased for all maturities of loans signed on or after July 28, 2017.

Table 2 below summarizes the lending rates and spreads applicable to IFL Fixed Spread, which have been in effect since July 27, 2017. The fixed spread for a loan is determined at loan signing and remains constant over the life of the loan. See Figure A-1 (Annex) for the historical spread analysis of IFL.

Table 2. IFL Fixed Spread Currently Available for USD Denominated Loans[a]
(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	10	20	20	30	35	35
Market Risk Premium	10	10	10	10	15	15
Contractual Lending Spread	50	50	50	50	50	50
Maturity Premium	0	10	20	30	40	50
Total Spread – Current[b]	70	90	100	120	140	150
Total Spread – Prior[c]	70	90	100	120	140	150
Reference Rate for April 1, 2018[d]	244	244	244	244	244	244
Indicative Total Lending Rate[e]	314	334	344	364	384	394

a. The current spread is applicable to loans signed on or after July 28, 2017.
b. Total spread for USD denominated loans only. 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.

c. Total spread as of October 1, 2017 for USD denominated loans only. 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.

d. USD 6-month LIBOR applicable to loan rates. The reference rates for IFLs are the 6-month LIBOR in the relevant loan-denomination currencies mostly. All euro-denominated loans for which the invitation to negotiate is issued on or after July 31, 2010 have EURIBOR as the reference rate.

e. The total lending rate is only indicative. The lending rate of a loan is determined based on the Reference Rate effective on the reset date subject to an implicit floor of zero on the overall rate. See Figure A-2 (Annex) for historical IFL rates.

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 are applicable to IDA's financing under the scale-up facility and transitional support credits.[6]

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

IV. Notification to Borrowers

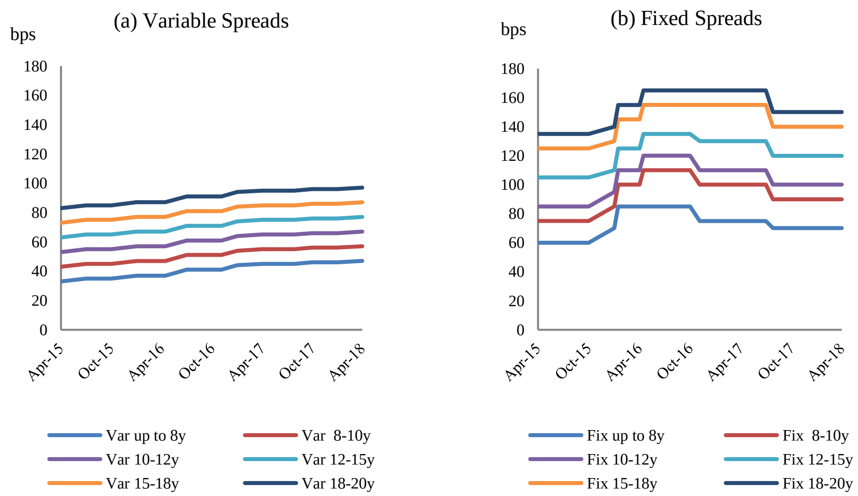
IBRD will notify current Borrowers, as required, of the rates and spreads (both inclusive of waivers for eligible borrowers) applicable for the interest periods beginning on or after April 1, 2018.

Jim Yong Kim
President

by Joaquim Levy
Managing Director & WBG Chief Financial Officer

Annex

Figure A-1. Historical Trend of IFL Spreads



Notes:

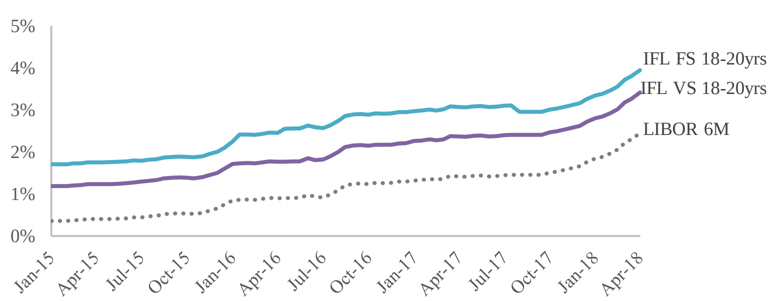
(A) On February 11, 2014, IBRD's Executive Directors approved the extension of the maximum maturity for loans and guarantees to 35 years (average repayment maturity up to 20 years) with the revision to the maturity premium schedule resulting 6 maturity buckets from the prior 3 maturity buckets. The revision of the maturity premium schedule 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.

(B) 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.

(C) The changes in the variable spread in the past 3 years were due to changes in the actual funding spreads.

(D) Periodically, Management adjusts the technical component of the fixed spread over the Reference Rate to reflect the changes in the projected funding spread. The changes in the fixed spread in the past 3 years were due to changes in the projected funding spreads.

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



Notes:

1. Rates for average maturity of 18 to 20 years are selected for indicative maximum rates applied for each rate setting period.
2. IFL FS rates applied to new IBRD loan commitments. IFL VS rates applied to all outstanding IFL VS loans.
3. Six-month LIBOR spot rate at the 1st and 15th of each month.

Table A-1. Variable spreads applicable to IFLs and discontinued products for rate resetting between April 1, 2018 and June 30, 2018

Loan Product	Eligibility Criteria	Funding cost/cost of borrowing	Contractual Lending Spread	Maturity Premium	Total Spread/Rate
IFL VS[a]	Loans approved between June 30, 2010 and June 30, 2014 with average maturity of 12 years or less	-3 bps	50 bps	0 bps	47 bps
IFL VS[a]	Loans approved between June 30, 2010 and June 30, 2014 with average maturity greater than 12 years and up to 15 years	-3 bps	50 bps	10 bps	57 bps
IFL VS[a]	Loans approved between June 30, 2010 and June 30, 2014 with average maturity greater than 15 years and up to 18 years	-3 bps	50 bps	20 bps	67 bps
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	-3 bps	50 bps	N/A	47 bps
IFL VS	Loans for which Invitation to Negotiate was issued Prior to July 23, 2009, and which were approved by November 30, 2009	-3 bps	30 bps	N/A	27 bps
VSL[b]	Loans signed on or after September 28, 2007	-3 bps	30 bps	N/A	27 bps
VSL[b]	Loans for which Invitation to Negotiate was issued: On or after July 31, 1998 and signed before September 28, 2007	-3 bps	74 bps[c]	N/A	71 bps
VSL[b]	Loans for which Invitation to Negotiate was issued: Prior to July 31, 1998	-3 bps	49 bps[c]	N/A	46 bps

Notes:

a. Includes loans for which the invitation to negotiate was issued before December 31, 2014 and that have been approved by Executive Directors on or before September 30, 2014.

b. 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.

c. Effective 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). The total spread for other variable spread loans is adjusted to account for the different day conventions between borrowing transactions and IBRD's loans.