

IBRD Local Currency Financing

Highlights

- *Converting IBRD loans to local currency reduces currency risk for borrowers*
- *IBRD can convert disbursed and outstanding balances of IBRD loans into local currency, subject to market availability*
- *Local currency offered by IBRD is typically attractive for non-sovereign entities with local currency revenues*
- *IBRD must hedge its own currency risk and intermediates currency transactions with the financial markets*

Currency risk is the risk that debt and debt service payments in hard currency increase (measured in local currency) when the currency depreciates. Economic shocks are often accompanied by currency depreciations. Thus, currency risk tends to impact countries when a shock has already hit them, and the sudden depreciation exacerbates repayment challenges.

IBRD local currency financing is provided as a conversion of the original currency to local currency at the time of disbursement or thereafter. IBRD Flexible Loans (IFLs) are committed in USD, EUR, JPY or GBP. At the time of each disbursement, the interest rate in local currency is set for the disbursed amount. IBRD cannot convert loans to local currency before disbursement because the timing of disbursements is unknown and cannot be hedged by IBRD. The lending rate for each disbursement will reflect rates that IBRD can secure from the markets at the time of disbursement. In addition to loan conversions, the Bank also offers free-standing local currency swaps (see paragraph below).

Local currency conversions have most frequently been provided to non-sovereign entities. IBRD loans are often onlent or lent directly with a sovereign guarantee, for example, to state-owned enterprises ([see South Africa example](#)), state and local governments ([see Mexico example](#)), or government agencies. These entities typically have local currency revenues, are averse to currency risk, and often have neither the institutional capacity nor access to derivatives for hedging the risk. A large portion of World Bank loans to state-owned enterprises is already converted to local currency.

IBRD typically provides local currency conversions through currency swap transactions. IBRD does not take currency risk on its balance sheet and, therefore, IBRD typically hedges local currency conversions by executing mirroring currency swap transactions with market counterparties. Currency swap markets, when available, provide the flexibility to match the hedge with the repayment profile of the loan. However, the long tenors of 10 years or more that characterize IBRD loans are available only for the most liquid emerging market currencies, for example, BRL, COP, IND, INR, MXP, PHP, UYU, and ZAR. A full list of currencies approved for conversion is included in Box 1.

IBRD can also provide local currency through the bond markets. In this case, IBRD simultaneously lends in local currency and issues local currency bonds. The cash flows of the bonds and the loan have to be perfectly matched. Therefore, this approach requires considerable coordination between the borrower, the bond investors, and the World Bank. This approach is most efficient when specific investors, for example, a local pension fund, have the appetite for triple-A-rated IBRD bonds denominated in local currency with a matching repayment profile ([see Uruguay example](#)).

Loan conversion modalities:

- **Automatic Conversion of Loan Currency (ACLC).** The disbursed funds are automatically converted at the time of disbursement at the exchange and interest rates, reflecting current market conditions.
- **Partial amount conversion.** A partial amount is converted into local currency where the borrower wishes to convert less than the full outstanding amount or in cases where a hedge for the full amount of the transaction is not available to IBRD.
- **Partial maturity conversion of outstanding amounts.** The borrower may wish to lock in the interest rate in local currency for a shorter period, or the hedge may not be available in the market for the full tenor of the loan. If a loan is hedged for partial maturity, it may be renewed on a rolling basis, so the borrower remains protected against exchange rate fluctuations.

Requesting loan conversions. The borrower may submit a request for 1) ACLC by selecting the relevant option in the [Loan Choice Worksheet](#) at negotiation and signing the required legal documentation; and 2) conversion of disbursed and outstanding loan balances by submitting the [Conversion Request Form](#) available on the World Bank Treasury website.

Free-standing local currency swaps provide a currency risk hedge alternative to loan conversion. A free-standing currency swap has the same economic implications as the loan conversion, but it is provided under a separate legal agreement. That enables borrowers to convert disbursed and outstanding balances of existing IBRD loans into local currency without changing the terms of the underlying loan. It can also be used to hedge loans from third parties. Borrowers wishing to transact free-standing swaps with the Bank need to enter into a Master Derivatives Agreement (governed by the

International Swaps and Derivatives Association, ISDA) with IBRD. Like loan conversions, it is subject to market availability. See the product note on [Hedging Products](#) and ask your World Bank Treasury Banker for more information. Free-standing swaps can be requested through the [Hedge Request Form](#).

Transaction fees:

<https://treasury.worldbank.org/en/about/unit/treasury/ibrd-financial-products/lending-rates-and-fees#2>

Case studies:

- **South Africa** – [Local currency financing for state-owned enterprises](#)
- **Uruguay** – [Local currency financing to the national government](#)
- **Mexico** – [Local currency financing and risk management for housing finance](#)
- **Mexico** – [Local currency financing to sub-national governments](#)

Box 1: Currencies approved for hedging using currency swaps

Azerbaijan manat	Moroccan dirham
Brazilian real	Nigerian naira
Chilean peso	Peruvian soles
Chinese yuan	Philippine peso
Colombian peso	Polish zloty
Costa Rican colon	Romanian lei
Egyptian pound	Russian ruble
Indian rupee	South African rand
Indonesian rupiah	Thai baht
Kazakhstan tenge	Turkish lira
Kenyan shilling	Uruguayan peso
Kuwaiti dinar	Vietnamese dong
Mexican peso	

[Click here for forms and conversion and hedging guidelines](#)

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<https://treasury.worldbank.org/en/about/unit/treasury>

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