

IBRD Interest Rate Risk Management Solutions

Highlights

- *Converting floating interest rate debt to fixed-rate debt reduces uncertainty in the borrower's debt management strategy.*
- *IBRD can convert disbursed and outstanding balances of floating interest rate of IBRD loans into fixed interest rate loans.*
- *IBRD can also fix the interest rate on non-IBRD loans through the use interest rate swaps.*
- *IBRD offers advisory services to assess and manage interest rate risk in line with the country's debt management strategy.*

Borrowing at a floating interest rate exposes sovereigns and sub-sovereigns to interest rate risk, which can lead to higher debt servicing costs in a rising interest rate environment. As the reference rate changes over time, borrowers who pay floating interest rates will see their interest payments fluctuate depending on market conditions (see Annex 1 for the market environment).

This movement of interest rates can result in greater uncertainty in a borrower's debt management strategy. Rising interest rates can negatively affect economic performance, put pressure on a country's budget, and result in either spending cuts or higher deficits.

Managing interest rate risk for sovereigns and sub-sovereigns

Sovereigns and sub-sovereigns (such as state-owned enterprises or local governments) can mitigate their interest rate risk by reducing the exposure of their floating debt portfolio, either by issuing new fixed-rate debt or by modifying the characteristics of outstanding floating rate debt. The decision to fix the interest rate should be based on a cost-risk analysis as part of a government's robust debt management strategy. Such considerations would also include factors such as currency, tenor, repayment schedule, contractual obligations, and others.

IBRD interest rate risk management solutions

IBRD offers two important financial solutions for borrowers to manage interest rate risks, including:

Interest Rate Conversions: The IBRD Flexible Loan (IFL) is based on a floating reference rate, which varies by currency (SOFR for USD, TONA for JPY, SONIA for GBP, and EURIBOR for EUR) plus a spread that is variable on a quarterly basis. Borrowers can fix the floating reference rate of all or part of the disbursed and outstanding balance of an IBRD loan using conversions that are embedded in the IBRD loan agreement. At the time of IBRD loan negotiation, borrowers can establish a schedule for the floating reference rate fixings automatically (e.g., at each interest payment date, annually, or at some other frequency); or request conversions on an ad hoc basis at any time during the life of the loan. They can also unfix or refix the reference rate on disbursed amounts at any time during the life of the loan by submitting a [request for conversion](#) to IBRD. No additional agreements are required.

Interest Rate Caps and Collars: Borrowers can also use interest rate caps and collars for protection against rising and volatile interest rates. Interest rate caps are individually negotiated transactions that set an upper limit on the interest an IBRD borrower would pay on a floating rate loan. As this upper limit represents an option that the borrower purchased from IBRD (by paying an upfront premium), the borrower maintains open the possibility of benefiting from low-interest rates while staying protected against the adverse increase in rates. In addition to the premium cost of an interest rate cap, the borrower also pays a transaction fee to IBRD. Interest rate collars are individually negotiated transactions that set an upper and a lower limit on the interest a borrower would pay on a floating rate loan. Borrowers can choose this option by [requesting to set interest rate caps or collars](#), available on the [World Bank Treasury website](#). Transaction fees apply (see Annex 2 for details).

Interest rate management for non-IBRD loans

IBRD risk management solutions also allow the borrower to fix the interest rate risk on liabilities to third parties (outstanding bonds or loans with other lenders) through the use of interest rate swaps. Borrowers who wish to use swaps enter into an International Swaps and Derivatives Association (ISDA) Master Agreement with IBRD. Transaction fees apply (see Annex 2 for details). The borrower may at any time submit a request for a swap transaction to fix the interest rate of the principal amount (withdrawn and outstanding) of a loan by submitting a request form for an [interest rate swap for a non-IBRD hedge available](#) on the World Bank Treasury website.

Advantages of working with IBRD to fix interest rates

- IBRD has a Triple-A credit rating, which reduces the country's exposure to counterparty risk.
- Commercial counterparties typically require the country to post collateral or charge additional fees when a country is unable to post collateral. IBRD does not require borrowers to post collateral or charge additional fees in place of collateral.
- Commercial counterparties charge clients for credit risk. IBRD does not charge borrowers for credit risk and provides the same competitive pricing to all borrowers.
- Loan conversions are administratively simple for borrowers. Conversion provisions are embedded in the IBRD loan. No additional documentation is required. Commercial counterparties require countries to sign ISDA, which is expensive, time-consuming, and complex.
- IBRD can provide technical assistance and capacity building in derivative pricing and execution.
- The World Bank Treasury can provide indicative fixed rates for specific loans and execute transactions.

Transaction Fees

For transaction fees, refer to our website for [IBRD Flexible Loan Conversion Options Transaction Fees](#).

Additional information

Please contact your [World Bank Treasury Banker](#) or Miguel Navarro-Martin, Manager, Financial Products and Client Solutions, via email (mnavarromartin@worldbank.org) or telephone (+1-202-458-4722).

Guidelines and request forms for conversion of loan terms, interest rate caps and collars, are available on the World Bank Treasury website. <https://treasury.worldbank.org/en/about/unit/treasury/ibrd-financial-products/guidelines-and-forms#1>