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EU EXPORT CREDIT SCHEMES

2014 EDITION

FUNDING CONDITIONS IN EXPORT CREDIT MARKETS



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ABOUT THE EUROPEAN BANKING FEDERATION

Launched in 1960, the European Banking Federation is the voice of the European banking sector from countries in the European Union and the European Free Trade Association. Members of the federation are 32 national banking associations. The EBF represents the interests of some 4,500 banks, large and small, wholesale and retail, local and cross-border financial institutions. Together these banks account for over 80 percent of the total assets and deposits and some 80 percent of all bank loans in the EU alone.

EXPANDING THE TOOLKIT FOR EXPORT CREDIT AGENCIES

This document reports on the approaches of public authorities in the EU member states towards supporting export financing. It is the third in a series of annual reports designed to inform policy-makers about the range and features of the services provided.

The tables set out below provide an overview of conditions and the different schemes in place, based on contributions from the EBF's Export Credit Working Group, under the chairmanship of Ralph Lerch of Commerzbank AG.

Through export credits, banks play an important part in helping EU exporters finance the sale of high-value goods and services abroad. In doing so, the banks work closely both with exporters and with public Export Credit Agencies (ECAs) in the different EU member states. The ECAs make available guarantees and insurance to cover the bulk of the risks involved in the financing, to promote exports, and thereby increase economic growth and employment at home.

The first edition of this paper was issued in 2012 at a time when many European banks faced difficulty in funding the large amounts, over long periods, which characterise export credits. The funding problems arose from the 2008 financial crisis and its impact on perception of EU banks, accentuated by the recession and the euro crisis which followed. Since the start of the crisis, a good number of ECAs have adapted their services to support funding, for example by providing securitisation guarantees which can enable banks to refinance their loans on capital markets.

Nowadays, liquidity is in general abundant, and funding problems have decreased. But there remain important differences between EU member states' banks in terms of financing capacity and cost, which can lead to inequalities of opportunity for their economies. In addition, the new Basel III regulations have become a restraining influence on the aggregate volume of bank finance available, because they limit the size of bank balance sheets. This regulatory constraint makes it more likely that ECA services and bank practices will evolve further in the direction of capital market refinancing.

In some cases, the new ECA products have not seen much use. Nonetheless EBF members consider the changes valuable. They expand the ECA tool-kit, for use in case of need.

A. Funded refinancing solutions by country

Country	Solution
Austria	<p><u>OeKB</u> provides a funding solution only, either based on combined floating and fixed interest rates, or on EURIBOR.</p> <p>Floating and fixed interest rates Credit facilities in euro carry two loan portions, one at a floating interest rate (tranche A) and the other at a fixed interest rate (tranche B). The floating interest rate is determined by OeKB quarterly. The level of the floating interest rate reflects OeKB's prevailing average cost of funding.</p> <p>Credit facilities in euro carry a floating interest rate based on three/six month EURIBOR rate. Depending on the repayment terms, margins are added. The margins reflect OeKB's prevailing average cost of funding and are verified monthly by OeKB.</p>
Czech Republic	<p>The <u>Czech Export Bank</u>, being one of the two Czech ECAs besides EGAP focusing on insurance, is in charge of (i) direct financing as well as (ii) refinancing towards commercial banks. However, the refinancing possibility has not been much used in recent years due to limited demand and rather high costs of the funding.</p>
Denmark	<p>The <u>Export Loan Scheme, ELO</u>, administered by EKF, under which export credit loans can be transferred/assigned to ELO, whereby ELO will fund the full transaction for the full tenor of the loan.</p> <p>ELO loans are off-balance sheet for the Lending Bank. ELO is used as a funding tool, by acting as lender of record. Using ELO has advantages for the arranging bank. Funding is provided for 100 percent through ELO (i.e. no funded loan assets for the bank) but balance sheet usage is also minimal and limited to the residual risk [5-10 percent]. At the time of signing or ultimately before funding, ELO takes over 100 percent of the bank's loan share and acts as lender of record, in exchange for a [5-10 percent] tail end guarantee. This means that after transfer of the loan through assignment / sale (true sale) to ELO, the only asset on the books of the bank is the tail end guarantee. After assignment/ sale of the loan to ELO, the bank remains the ECA agent and paying agent for this loan, for the purpose of administering the loan on behalf of ELO.</p>
Finland	<p>Since 1 January 2012, Finland has legislation to provide officially supported export financing through a new export credit refinancing model.</p> <p>In this case, Finnvera, not the State Treasury, raises the funds, backed by a guarantee from the Republic of Finland. Commercial banks are then able to transfer an export credit to <u>Finnish Export Credit (FEC)</u>, a subsidiary of Finnvera, for financing. Finnvera provides a 100 percent guarantee to FEC, and the financing bank must carry a residual risk of at least 5 percent by providing a counter-guarantee to Finnvera.</p> <p>http://www.finnvera.fi/eng/Exports-and-internationalisation/Export-Credits-and-Interest-Equalisation/Financing-of-Export-Credits.</p>

Country	Solution
Germany	<p><u>KfW refinancing programme</u> Introduced in September 2009, date of expiry: 31 December 2015.</p> <p>Target Group German and foreign credit institutions with access to Hermes' cover provided by the Federal Republic.</p> <p>General features</p> <ul style="list-style-type: none"> • For every loan, a federal guarantee (ECA Hermes' cover) is required. The export loans refinanced by KfW remain on the banks' balance sheets. The loan contract must not date back more than six months. • The transactions concerned are export credits granted for exports to non-EU countries. • The assignment of the claims arising from the export loan to KfW is required. • Total volume of the programme: €1.5 billion annually. • Various currencies are available. <p>http://www.kfw.de/kfw/de/KfW-Konzern/Kreditverbriefung/KfW-Programm_Refinanzierung_bundesgedeckter_Exportkredite.jsp http://www.agaportal.de/en/aga/produkte/verbriefungsgarantie_kfw.html</p>
Hungary	<p>Refinancing is the main strategic direction for <u>Eximbank (EXIM)</u>. Commitments under this line, based on several products, amount to 70 percent of the bank's portfolio.</p> <p>EXIM, established in 1994, is owned 100 percent by the Hungarian State. The facility operates through two alternative channels: a) indirectly, by providing funding to banks (by issuing bonds), which in turn extend loans in favour of their clients; b) directly, by EXIM, for transactions which concern credits granted for exports, provided that there are no commercial banks able to fund such operations autonomously.</p> <p>The <u>Export promoting credit programme</u> (refinancing programme) was introduced in 2014.</p> <p>Target Group EXIM assists exporters and their suppliers indirectly through the provision of refinancing facilities to Hungarian and foreign credit institutions.</p> <p>General features</p> <ul style="list-style-type: none"> • The export loans refinanced by EXIM remain on the banks' balance sheets. • The transactions concerned are export credits granted for exports to EU and non-EU countries. • Total volume of the programme: €1 billion. • Eligible contract currencies: euro, US dollar; available in Hungarian Forint on request. • Cooperation agreement was signed with 18 commercial banks and 3 saving cooperatives. • The margin charged by commercial banks is capped.

Country	Solution
Italy	<p>The <u>Export Banca</u> was established in 2011 between SACE, <i>Cassa Depositi e Prestiti</i> (CDP), ABI and SIMEST and has been renewed and amended yearly since then.</p> <p>The current facility is in force until 30 October 2014. The facility operates through two alternative channels: a) <u>indirectly</u>, by providing funding to banks (by allocating liquidity arising from postal savings), which in turn extend loans in favour of their clients; b) <u>directly</u>, by SACE and CDP, for amounts above €25 million, provided that there are no banks able to fund such operations autonomously. Both Italian and foreign banks with branches in Italy are eligible.</p> <p>According to the current agreement two types of operation are eligible: a) <u>export credit</u> (buyer's credit); b) "<u>internationalisation</u>" operations, such as investments, and other operations in various ways linked to the international expansion of an Italian company. In case of indirect funding, the margin charged by the bank is capped; a first demand guarantee issued by SACE, covering 100 percent of CDP funding, is always required. In order to proceed with direct funding, a preliminary market sounding procedure among banks is required to verify if and to what extent the operation can be funded by the market without recourse to CDP funding. In addition, this process aims at ensuring the most competitive credit conditions. Furthermore, in case of direct lending, CDP requires co-financing by banks with their own resources. The use of the facility has been decreasing in the past six months, due to the increased liquidity of the market. Although the minimum eligible amount is €1 million, the facility is mostly used for large operations (above €10 million). The total volume of the programme is €6 billion and both EUR and USD are eligible.</p> <p>In addition to the above facility, in order to set up a more suitable tool for SMEs, in August 2014 the Italian Banking Association, ABI, signed an agreement with CDP ("Enterprise Platform") which includes a new facility – "Plafond Export". The facility supports exports by providing funding to Italian or foreign banks operating in Italy for letters of credit with post-financing terms, thereby allowing confirming banks to extend credit to issuing banks. The initial volume of the programme is €0.5 billion and each loan cannot exceed €10 million.</p>
Norway	<p>The Norwegian regime for funding export credits based on officially-supported fixed interest rate loans (CIRR-loans) as well as market-based conditions, was taken over by the state-owned company <u>Eksportkreditt</u> (<u>Export Credit Norway</u>) from 1 July 2012. The former administrator of the regime – the private company Eksportfinans – continues to administer its existing loan portfolio.</p> <p>http://eksportkreditt.no/en-gb/ http://www.eksportfinans.no/?ln=uk</p>

Country	Solution
Poland	<p>Facilities provided by <u>BGK</u>, <u>Bank Gospodarstwa Krajowego</u>, Poland's only state-owned bank.</p> <p><u>Buyer credit</u> Credit is granted to a foreign bank ("Borrower") approved by BGK, which in turn grants a direct credit to the importer (i.e. buyer of Polish goods/services, "Importer"). Credit is insured by the <i>Korporacja Ubezpieczeń Kredytów Eksportowych S.A.</i> (Export Credit Insurance Corporation, "KUKE").</p> <p>Basic terms</p> <ul style="list-style-type: none"> • Repayment period - depends on the Importer's country and industry - from two to up to 12 years. • The credit may finance up to 85 percent of the value of exported goods/services. Not less than 15 percent of the value of exported goods/services must constitute the importer's own share and should be paid directly to the exporter ("Exporter") in cash as an advance payment, before commencement of contract. • The credit is drawn after partial or complete fulfilment of contractual obligations by the exporter. A disbursement is made to the exporter's account (within 5 banking days from date of presentation of the documents). • The credit is repaid in equal instalments and in equal periods of time, monthly, quarterly or semi-annually, first instalment payable no later than 6 months from date of the fulfilment of contract by the exporter. • Fixed (during the whole period of financing) interest rate, namely the CIRR (Commercial Interest Reference Rate) rate or floating rate EURIBOR/LIBOR increased by a margin covering the liquidity risk of BG. <p><u>Letter of credit (L/C) post-financing</u> BGK transfers funds from the credit to the exporter (the beneficiary of the l/c) as a payment against documents presented under the l/c. The credit is secured by an insurance guarantee issued by <i>Korporacja Ubezpieczeń Kredytów Eksportowych S.A.</i> (KUKE). Post financing may be provided in case of confirmed and unconfirmed letters of credit, both payable at sight and with deferred payment.</p> <p><u>L/C discounting</u> A form of exporter financing. Discount secured by insurance guarantee issued by KUKE. Only letters of credit with deferred payment option, both confirmed and unconfirmed, can be discounted.</p> <p>Basic terms for L/C post-financing and discounting: credit/deferred payment period, up to 2 years; financing/discount of up to 100 percent of l/c amount; seat of issuing bank shall be located in a non-marketable risk country; l/c is subject to the ICC "Uniform Customs and Practice for Documentary Credit"; financing/discount only related to exports of products of Poland; l/c discount is available only for BGK customers.</p>
Portugal	<p>The Portuguese Government has been working on setting up a new institution acting as a <u>Development Bank</u> whose refinancing model has been designed to work upstream of commercial banks by providing them with liquidity to be extended to Portuguese companies, mainly SMEs. This new institution aims at facilitating sources of financing to support SMEs' businesses and at reducing their cost. In the case of export finance, these export transactions may benefit, as hitherto, from the export credit insurance schemes with official support provided by COSEC, the Portuguese ECA, to commercial banks and exporters.</p>
Slovakia	<p><u>Eximbanka SR</u> (Slovak ECA) offers refinancing of commercial banks active in export financing (or financing of Slovak exporters). However, the majority of these transactions are rather short-term, up to 1 year only.</p>

Country	Solution
Sweden	<p>Sweden has a permanent scheme for financing of Export Credits. <u>SEK</u> is an independent Corporation owned by the Kingdom of Sweden but it has no explicit guarantee from the government. Rating is one notch below the sovereign, S&P AA+, Moody Aa1. SEK is regulation-compliant and supervised by the Swedish Financial Supervisory Authority, following Basel, IFRS and EU Regulations as any commercial bank. It borrows/lends on commercial terms.</p> <p>SEK funds ECA covered Export Credits, arranged by commercial banks, at market rates or CIRR. It manages the Swedish CIRR system in a separate book on behalf of the government which has resulted in a net surplus since its inception. SEK's lending on market terms is not on the balance sheet of the Kingdom of Sweden since it is handled by SEK as an independent corporation. It has a return requirement and pays dividends and tax. Its strategy is to cooperate with commercial banks and EKN (and other ECAs if applicable) in Export Finance and to be a complement to commercial banks. SEK and EKN have the same definition of Swedish interest and the Swedish Export Interest must be defined in all transactions in which SEK is involved.</p> <p>For further information: http://www.sek.se/en/ and http://www.ekn.se/en/</p>
United Kingdom	<p>In April 2014 <u>UKEF</u> launched its £5 billion <u>Export Refinancing Facility</u> (ERF).</p> <p>The ERF is available to banks funding buyer credit loans, typically with values above £50m that are intended to be refinanced in the debt capital markets (DCM); for example, when the underlying project has been completed and is operational. Such DCM re-financings are expected to be priced competitively as a result of UK Export Finance's guarantee of payments of scheduled principal and interest due under the bonds.</p> <p>Should the DCM refinancing be unavailable, UK Export Finance provides certainty to the borrower and banks that it will fund the loan until such time as markets reopen.</p> <p>More details are available at: https://www.gov.uk/export-refinancing-facility</p>

B. Unfunded refinancing solutions by country

Country	Solution
Belgium	<p><u>Delcredre Ducreire's Export Finance Guarantee</u> has been available since 2013 but has not yet been used by the Belgian banks.</p>
France	<p>A Refinancing Guarantee (<i>Garantie Rehaussée</i>) has been set up through a new Finance law late 2012, with an extension of eligible beneficiaries (investors), voted with the Finance law late 2013, allowing lending banks to obtain refinancing with financial institutions, insurance companies, retirement and pension funds, central banks and sovereign funds (under specified conditions). The refinancing entity benefits from a 100 percent irrevocable, unconditional guarantee from Coface acting on behalf and with the guarantee of the French State. This unfunded scheme is meant to improve access to liquidity for export banks to fund Coface-covered export credits.</p> <p>Banks are also in close discussion with the <i>Banque de France</i> to assess the feasibility of bringing export credits as eligible collateral to monetary policy operations.</p>

Country	Solution
Germany	<p><u>Securitisation Guarantee (Verbriefungsgarantie)</u> A Securitisation Guarantee is applied for in addition to a <u>Buyer Credit Guarantee</u>.</p> <p>Target Group</p> <ul style="list-style-type: none"> • As policyholders: German banks, German branch offices of foreign banks, foreign banks (under certain conditions). • As beneficiary (refinancing institution): German or foreign banks, other refinancing institutions (e.g. special purpose companies) under certain conditions. <p>Special features In favour of the refinancing institution which acquires the covered debt, the Federal Government waives:</p> <ul style="list-style-type: none"> • the waiting periods (guarantee is callable on first demand); • the uninsured portion (100 percent of the covered amount receivable are indemnified); • the right to raise defences or objections on the basis of the General Conditions (unconditional claim to indemnify). <p>From the viewpoint of the beneficiary it is a 100 percent guarantee callable on first demand; in the internal relationship between the Federal Government and the lending bank, the Terms and Conditions of Buyer Credit Guarantees remain applicable.</p> <p>http://www.agaportal.de/en/aga/produkte/verbriefungsgarantie.html http://www.agaportal.de/pdf/produktinfo/e_pi_verbriefungsgarantie.pdf</p>
Netherlands	<p>In June 2012, the <u>Export Credit Guarantee Scheme</u> was introduced. Under the scheme a bank which provides an export credit facility insured with Atradius DSB, can apply for an export credit guarantee (ECG) for the benefit of an investor. The investor provides funding for the transaction. Two options are available: (i) the bank transfers the rights and claims under the export credit loan to the investor by a transfer (disclosed or undisclosed/silent) under Dutch law or (ii) the bank enters into a refinancing arrangement with the investor. The ECG is an abstract guarantee for 100 percent of principal and interest (in case of non-payment on due dates). The bank assumes the “normal risks” under the export credit facility (like the non-insured portion and the documentation risk), while still having the benefit of the Atradius DSB insurance cover. The total volume of ECG deals concluded in the meantime is close to €1 billion.</p> <p>For more information see: http://www.atradiusdutchstatebusiness.nl/dsben/overheidsregelingen/exportcreditguarantee/index.html</p> <p>It is envisaged that some further and minor amendments will be made in order to make the ECG eligible to a broader scope of potential investors.</p>
Spain	<p>In June 2012, the <u>CESCE</u> obtained authorisation to issue <u>first demand guarantees</u> alongside their traditional insurance policies. It issued the first guarantee in summer 2014.</p> <p>Although the issuing of guarantees is not, <i>per se</i>, a refinancing solution (save for the capital markets refinancing), it is understood that strengthening the quality of the cover will provide more liquidity to CESCE-covered assets.</p>

C. Covered bonds

Country	Solution
Austria	<p>Currently, it is possible to use export credits as collateral for the issue of covered bonds, but restricted to loans covered by EU-ECA's, and fulfilling other qualitative criteria.</p> <p>In addition, the legal framework for a securitisation guarantee has been approved which is expected to improve funding possibilities further. The implementation process is at an advanced stage.</p>
Belgium	Some Belgian banks have been issuing a covered bond and using <i>Delcredre Ducroire</i> -covered export credits as collateral.
Denmark	Possible in principle, based on EKF's Securitisation Guarantee.
France	Export credits can be used as collateral for the issuance of covered bonds (<i>obligations foncières</i>) by <i>Sociétés de Crédit Foncier</i> (SCF) set up by some French banks.
Germany	<p>German export credits, combined with a securitisation guarantee, can be used as collateral for the issue of covered bonds (<i>Pfandbrief</i>). The covered bond programme is not conditional on the ECA having double/triple A rating.</p> <p>With the amendment of the <i>Pfandbrief</i> Act in 2009 export credit agencies domiciled in EU/EEA-countries are also included in the scope of the eligible guarantors according to § 20 par. 1 sent. 1 No. 2 PBA, provided they meet the criteria for a "public sector entity" as defined by the Banking Directive 2006/48/EC.</p> <p>As concerns cross-border public sector lending, it is important that the <i>Pfandbrief</i> creditors' preferential claim in case of insolvency can be enforced in the respective country. For claims in the case of which this preferential claim is not assured, the <i>Pfandbrief</i> Act provides for an upper limit of 10 percent of the total volume. It usually requires an extensive legal research of the respective national law in order to ascertain the existence of such a preferential claim in case of insolvency.</p> <p>http://www.pfandbrief.de/cms/_internet.nsf/tindex/en_32.htm http://www.agaportal.de/en/aga/produkte/verbriefungsgarantie.html</p>
Netherlands	Further amendments to the export credit guarantee scheme might facilitate the refinancing of export credits through the issuance of notes (possibly via establishment of a Special Purpose Vehicle, SPV).
Slovakia	Not in use, the ECA-covered transactions and the ECA-transaction market itself are relatively small and local banks have currently enough liquidity.
Spain	The regulatory development for the ECA-covered bond programme was approved in July 2014 via Royal Decree (<i>Real Decreto</i> 579/2014, 4 July 2014). Banks now have the possibility to issue <i>cedulas de internacionalizacion</i> and <i>bonos de internacionalización</i> in the market. During the coming weeks <i>Banco de España</i> is expected to publish detailed guidelines to issuing banks concerning reporting requirements on the ECA-backed cover pool.
United Kingdom	Export Credits are eligible for Covered Bond programmes launched individually by a number of banks through in-house Special Purpose Vehicles, SPVs.

D. Public capital market transactions

Country	Solution
Austria	Not applicable for individual ECA-covered transactions.
Belgium	Not applicable in Belgium with <i>Delcredere Ducroire</i> cover.
Denmark	Possible in principle, based on EKF's Securitisation Guarantee.
Germany	Several banks have issued public-covered bonds using ECA-covered transactions with various ECAs as underlying assets. The volume of ECA-covered transactions refinanced via public-covered bonds amounted to €8.5 bn by end of 2013 showing an increase of €2.3 bn in comparison to 2012.
France	Several Coface-guaranteed bonds have been issued to finance Airbus deliveries.
United Kingdom	Please refer to the Export Refinancing Facility, section A. UKEF is prepared for its guarantee to be in a format acceptable to debt capital market investors and has a successful track record within the aircraft sector for UKEF-guaranteed US dollar bonds.

E. Direct lending

Country	Solution
Austria	In principle not available (except in very rare cases).
Belgium	No direct lending scheme in place. <i>Delcredere Ducroire</i> opted for the Export Financing Guarantee instead.
Czech Republic	The Czech Export Bank provides direct lending to suppliers / buyers, be it alone or in a syndicate/club with commercial banks.
Denmark	The <u>Export Loan Scheme</u> operates through commercial banks.
Germany	Not available.
France	The Public bank <i>Banque Publique d'Investissement (BPI)</i> has announced it is willing to set up an export credit activity dedicated to SME exports. It is envisaged that it will be operating from end -2014 on. The French Government is still assessing the relevance and feasibility of setting-up a public funding/refinancing entity. Decision to be taken late 2014-beginning 2015.
Hungary	<u>EXIM</u> has also a direct lending activity, but that is not the strategic direction for the bank. Up to 30 percent of the portfolio is direct lending.
Italy	Please refer to the description of the <u>Export Bank facility</u> , section A, which includes a "direct lending" mode.

Country	Solution
Poland	<p>Direct buyer's credits are intended to finance purchases of Polish capital goods and services made by foreign buyers under contracts concluded with Polish exporters. They are granted by <u>BGK</u> directly to the foreign buyers. Each credit is insured by <u>Korporacja Ubezpieczeń Kredytów Eksportowych S.A.</u> (Export Credit Insurance Corporation, KUKE). The KUKE insurance premium can also be financed by the buyer's credit.</p> <p>Basic terms: see those for Buyer's credit underfunded refinancing solutions, section A.</p>
Portugal	<p>Among the different credit lines promoted by the Portuguese Government, <u>PME Crescimento 2014</u> includes a specific subdivision aimed at boosting export capacity. This programme, created in 2013 and revamped in 2014, is directed mainly at SMEs for the anticipation of export orders (global total amount €500 million). <u>PME Crescimento</u> has the following characteristics:</p> <ul style="list-style-type: none"> • maximum amount per company: up to €1 million, limited to ¼ annual export sales of previous year; • term of 3 years; • maximum spread of between 4.7 percent and 3.7 percent, according to the client's risk analysis; • collateral, coverage by Mutual Guarantee Societies of up to 55 percent of the capital; • fees, according to price list in force, maximum of 0.5 percent per year on the credit amount. <p>Additionally, every bank in the system has a complete and ample variety of direct lending solutions, both for import and export needs.</p>
Slovakia	<p><u>Eximbanka SR</u> offers direct loans to Slovak exporters in the form of pre-export finance. For the post-shipment period there is also a forfaiting or invoice/note discounting scheme available (financing of the supplier's credit). <u>Eximbanka SR</u> also offers short-term and medium and long-term financing, financing of the investments of Slovak legal entities abroad, as well as the issue of guarantees.</p>
United Kingdom	<p><u>UKEF</u> relaunched its <u>Direct Lending Facility (DLF)</u> under the terms of the OECD Arrangement (including CIRR) in June 2014 when the scheme cap was increased to GBP3bn. The UK exporter will need to confirm to UKEF's satisfaction that banks are not prepared to provide export finance for the transaction, or, are prepared to do so, but only at an interest rate that would jeopardise their prospects of winning the export contract.</p> <p>In October 2014, UKEF announced the list of initial partnering institutions (20 banks and financial services companies in the UK and elsewhere) to act as Arrangers and Agents. As a general guideline (and whilst there is no formal upper or lower limit) the DLF is suited to financing requirements between £5m and £50m (or foreign currency equivalent). Above £50m, there is an expectation that the funding will be a combination of DLF and a traditional Buyer Credit or Export Refinancing Facility involving commercial banks as lenders.</p> <p>More details can be found at https://www.gov.uk/direct-lending-scheme</p>

Technical comments on capital market funding mechanisms

Public and private initiatives are helping to liquefy this market. For the future, it will be important to achieve greater harmonisation, to aid investor understanding, and to deepen the market. On the issuer side, experience in structuring transactions (e.g. collateral levels required) can be exchanged, to aid in building momentum. In the case of public covered bond programmes, access should be open to other EU ECA-covered export credits, to enhance the functioning of these markets.

Securitisation guarantees may be used for a number of purposes: to ease the issuance of covered bonds, as a recourse for investors in a direct refinancing, or enabling the eligibility at a Central Bank of ECA-insured loans as assets supporting short-term liquidity cover.

Most schemes in place are designed for refinancing purposes only and do not allow for off balance sheet solutions, which might be a limiting factor for bigger transactions.

FUNDING CONDITIONS: LOOKING TO THE FUTURE

Refinancing and covered bond solutions – maximizing liquidity

It may be necessary for governments and ECAs to address some policy issues, to aid the liquidity of ECA-covered assets.

Certain risks are not being covered by standard ECA insurance policies, such as the potential freeze on payments from debtors outside the EU to banks - or assignees of assets from those banks - due to claims by a third party with reference to a national court in the debtor's country, e.g. in the event of an insolvency of the lender.

Most ECAs are trying to adapt to new market circumstances with schemes whereby the assignment of ECA-covered assets is being transformed into a means for banks to secure funding for new export credit deals. However, further flexibility in their policy provisions is needed in most cases, to allow for proper mobility of the assets.

In private markets, increased issuance of covered bonds collateralised with export credits should, over time, lead to greater consistency in structuring and aid market liquidity.

Export credits as collateral at Central Banks

There is a single initiative which could improve the perceived value, and therefore liquidity, of ECA-covered assets over a wide range of markets, if not all, in the EU. This would be for Central Banks to recognise ECA-covered export credits as eligible to serve as part of the short-term liquidity buffer, as is the case currently in the US, UK and Denmark. (In the euro area, credit claims are only eligible if the debtor and guarantor (if relevant) are also established in the euro area.¹) Such an option would be short term and could not provide normal and stable refinancing. But it would give a special value to export credits for bank Treasurers under the CRD IV's Liquidity Cover Ratio.

Whereas sole ECA loans qualify for the Central Bank repo window only in exceptional cases, most public covered bonds with 100 percent ECA-covered transactions as underlying assets are already repo eligible.

¹ Guideline of the European Central Bank of 20 September 2011 on monetary policy instruments and procedures of the Eurosystem.

EXPORT CREDITS AND THE INTEREST RATE DISCIPLINES OF THE OECD ARRANGEMENT

The OECD Arrangement on Export Credits² provides the framework for orderly market conditions in publicly supported export finance among OECD countries. Its provisions include the system of minimum rates for official financing support for fixed rate loans: the Commercial Interest Reference Rate, or CIRR.

Within the EU – and more widely – there are marked differences in CIRR availability and terms.

F. Commercial Interest Reference Rate (CIRR)

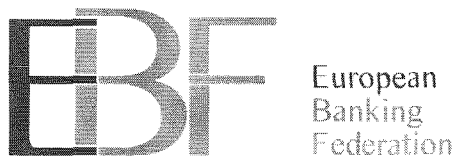
Country	Description
Austria	CIRR is offered on a case-by-case basis in foreign (non-EUR) currencies only, and restricted to fulfilment of qualitative criteria, <i>inter alia</i> , of the transaction and the underlying cover. CIRR is extended as a funded solution with an additional margin of 0.5 percent p.a.
Belgium	The CIRR is provided by Finexpo (a Government Agency under the Ministry of Foreign Affairs) and can be requested for all <i>Delcredere Ducroire</i> -covered financings, mainly provided for a fixed interest rate in EUR. The applicable CIRR is that which is valid at the date of signature of the commercial contract.
Czech Republic	The Czech Banking Association has recently re-opened a debate with the Ministry of Finance regarding the preparation of a detailed legislation that would allow for common use of the CIRR-based funding for commercial banks. The Czech Export Bank already provides CIRR-based lending.
Denmark	CIRR is not obtainable.
France	CIRR in France is designed as an interest make-up scheme (not funded), operated by <i>Natixis Direction des Activités Institutionnelles</i> (NDAI) on behalf of the French Treasury. All commercial banks domiciled and regulated in the EU may benefit from the CIRR once referenced with NDAI. Since 2008, commercial banks are used to charge additional margins on top of the CIRR rate. As such, direct lending at the CIRR rate by some ECAs is seen as distorting competition. CIRR is widely used in Coface-covered export credits, and is generally appreciated by borrowers as it is considered as a “natural” hedge, including during the construction period.

² <http://www.oecd.org/trade/xcred/theexportcreditsarrangementtext.htm>

Country	Description
Finland	<p>CIRR is provided by Finnish Export Credit Ltd (FEC). It is an Interest Make-Up scheme. CIRR rates are frequently used in larger ECA transactions despite the current market conditions. In 2013 about 75 percent of the Finnvera-backed loans were with FEC funding, and over 80 percent of these funded loans were with CIRR.</p> <p>Access to CIRR requires two agreements with Finnish Export Credit:</p> <ol style="list-style-type: none"> 1. co-operation agreement with Finnish Export Credit, which requires: <ol style="list-style-type: none"> a. investment grade rating for long-term funding; b. sufficient public supervision in home country; c. sufficient knowledge and experience of officially supported export credit arrangements; d. competence to implement financing arrangements for export transactions. 2. ISDA agreement with Finnish Export Credit. <p>Banks have to charge additional margins on top of the CIRR rate. So far, no risks, or any other factors to be taken into account in a CIRR review.</p>
Germany	<ul style="list-style-type: none"> • CIRR-loans are financings at fixed interest rates, with Hermes' cover, for medium and long-term financing (minimum 4 years beginning with the starting point) of German deliveries and services (upper limit is generally 85 million EUR), in EUR or USD, to selected countries registered in the DAC List. • CIRR-loans are provided by KfW IPEX and AKA export finance bank (on behalf of its shareholding banks). The exporter applies for the CIRR financing through his bank which contacts either KfW or AKA. • CIRR-rates are newly fixed at the middle of each month. • The interest rate prevailing on the day of conclusion of the financing agreement will be in force during the entire financing period, unless the borrower opts for a reserved interest rate according to section 3a (however, the latter may contain a premium commensurate with market conditions). • Information leaflet published by KfW (only in German): https://www.kfw-ipex-bank.de/PDF/%C3%9Cber-die-KfW-IPEX-Bank/Unsere-Rolle-in-der-Au%C3%9Fenwirtschaftsf%C3%B6rderung/ERP-Exportfinanzierungsprogramm/Merkblatt_KFW_ERP-Exportfinanzierungsprogramm.pdf.
Hungary	<p>The CIRR appears as a basis of pricing for the bank. It serves as a basis also for the Interest Make-Up scheme. Access to EXIM's CIRR-based refinancing is available for all commercial banks. EXIM has concluded refinancing agreements with 21 banks, but besides this channel any other bank may apply for refinancing for single transactions, too. Banks may or may not decide to charge additional margins on top of the CIRR rate.</p>

Country	Description
Italy	<p>SIMEST (a company belonging to the CDP group) offers Italian exporting companies the possibility to benefit from OECD-term export credits (either buyer or/and supplier credit). The facility has been in place for several years.</p> <p>Eligible exports are capital goods and related services (i.e. studies, design projects, works).</p> <p>In the case of supplier credit, SIMEST grants the exporter a form of interest support in a lump sum equal to the difference between the net proceeds of the discounting of the notes at the eligible rate and their present value at the CIRR paid by the foreign buyer. (The eligible rate is calculated by adding the cost of funding for the currency used in the transaction to a spread which ranges between 1 and 1.125 percent depending on the amount of notes to be discounted).</p> <p>In the case of buyer credit, an Italian or a foreign bank grants a medium/long-term loan to a foreign buyer at the fixed CIRR. For each interest period, regarding the difference between the floating interest rate (Libor/Euribor plus the eligible spread) and the fixed interest paid by the borrower to the bank (CIRR), SIMEST pays the difference to the bank if it is positive, whereas it cashes it in, if it is negative. The maximum eligible spread ranges between 1 and 1.50 percent depending on the length of the repayment period.</p> <p>Financing may be denominated in EUR or any other major currency. SACE insurance is not obligatory for eligibility.</p> <p>The amount benefitting from this must not exceed 85 percent of the export contract value, while it is required of the buyer to make a down-payment of a minimum of 15 percent of the export contract value.</p>
Netherlands	CIRR is not available.
Poland	<p><u>The DOKE Programme (Commercial Interest Reference Rate)</u></p> <p>Export transactions with repayment terms of at least two years from delivery, which cover capital goods and/or services, may receive support from BGK with the use of funds from the state budget. Financing for such transactions may only be provided at CIRR fixed rates. Buyer's credit is a widely used form of financing export transactions. Alternatively, in case of supplier's credits, exporters may finance them with bank credits and thus have contracts fully paid immediately after delivery. Both buyer's credits and supplier's credits, as the case may be, have to be insured against commercial and political risks by <i>Korporacja Ubezpieczeń Kredytów Eksportowych</i>, KUKE S.A. (Export Credit Insurance Corporation). In the DOKE Programme, BGK acts on behalf of the State Treasury as the administrator of the system and the support provider. In this capacity, BGK carries out settlements of interest differences with the financing banks. See also section A of this table.</p>
Slovakia	<p><u>Eximbanka SR</u> has the possibility to provide CIRR financing based on the Interest Make-Up scheme. However, due to lack of interest on both exporter and importer side it is currently not in use.</p>

Country	Description
Spain	<p>The <i>Instituto de Crédito Oficial</i> / Ministry of Economic Affairs and Competitiveness has raised the margins associated with the CIRR rate, following the banks' request over previous years.</p> <p>From 15 April 2014 they are as follows:</p> <ul style="list-style-type: none"> • 150 basis points (bps) for repayment tenor above 5 years; • 130 bps repayment tenor between 3 and 5 years (included); • 125 bps repayment tenor up to 3 years. <p>Furthermore the Ministry is preparing a Decree to provide for the possibility to request additional margin recognition in CIRR interest rate transactions. This is expected to take a very general form, providing for case by case consideration, after analysis of the key arguments / considerations presented by the bank.</p>
United Kingdom	<p>CIRR (flat) is available to borrowers, eligible for a direct loan from UKEF under its new Direct Lending Facility, mentioned above. (It is not available <i>via</i> a buyer credit structure where a commercial bank is lender on a standalone basis or as a co-financing alongside a direct loan from UKEF.)</p>



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