Worldbank Webinar

Use of Cross Currency Swaps in the Belgian debt portfolio

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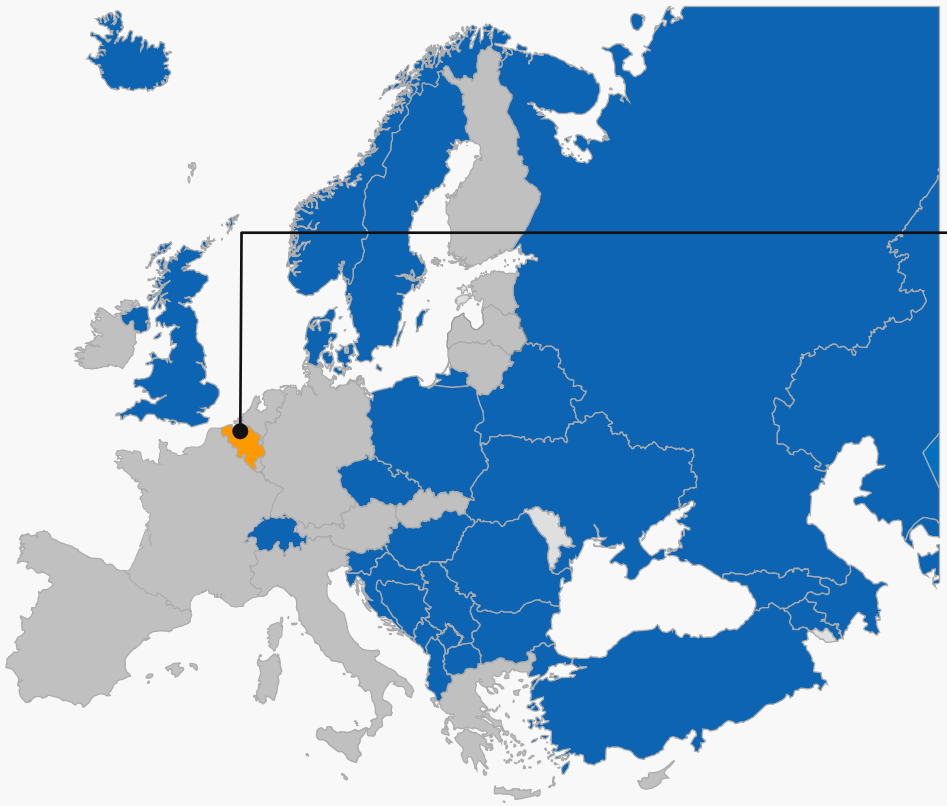
Belgium's is the 6th economy of the **Euro-zone**.

Its 2014 GDP amounted to **EUR 400.64 bn**.

End 2014 Belgium's total debt amounted to **EUR 427.48 bn** representing a debt/GDP ratio of **106.7%.**

Belgium is a medium sized issuer rated
S&P: **AA/A-1+**
Moody's: **Aa3/P-1**
Fitch: **AA/F1+**

Belgium: 3.32% of EA19 population, yet 4.0% of EA19 GDP



	GDP (% EA19)	Population (millions)
Germany	28.7%	81.2
France	21.2%	66.4
Italy	16.0%	60.8
Spain	10.5%	46.4
Netherlands	6.5%	16.9
Belgium	**4.0%**	**11.3**
Austria	3.3%	8.6
Finland	2.0%	5.5
Ireland	1.8%	4.6
Greece	1.8%	10.8
Portugal	1.7%	10.4
Slovakia	0.7%	5.4
Luxembourg	0.5%	0.5
Slovenia	0.4%	2.1
Lithuania	0.4%	2.9
Latvia	0.2%	2.0
Estonia	0.2%	1.3
Cyprus	0.2%	0.8
Malta	0.1%	0.4
EA19	**100%**	**338.3**

Source: Eurostat, population statistics as of 1 January 2015 & GDP at market prices, 2014.

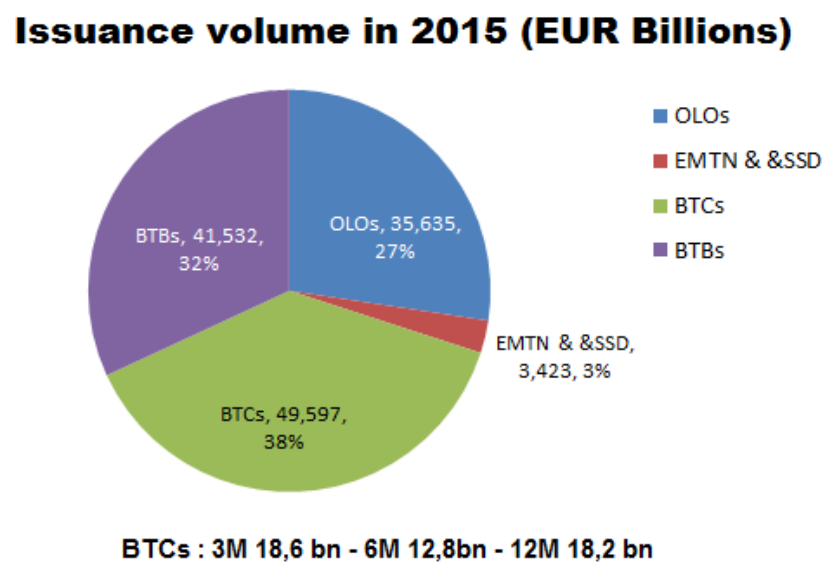
Composition of the debt portfolio in figures

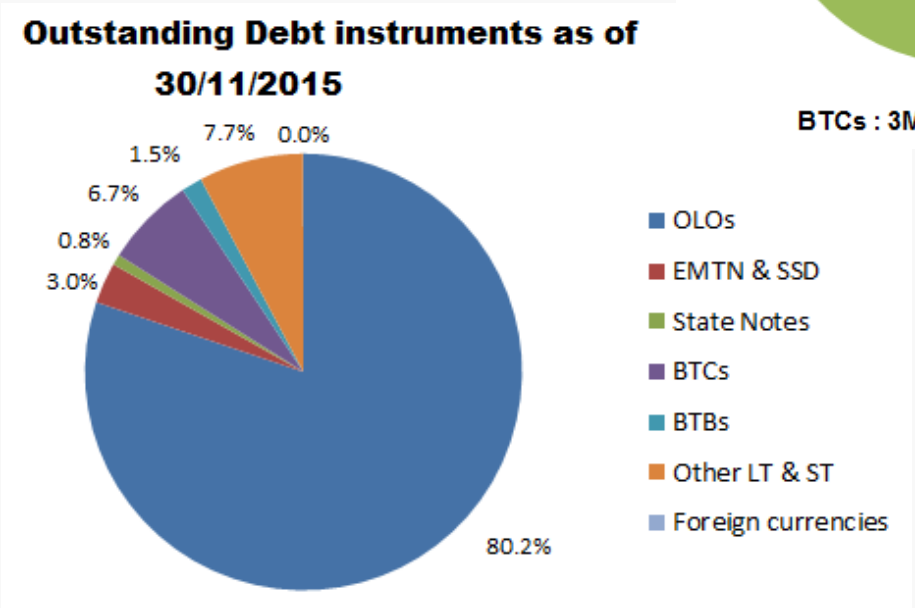
The majority of the financing needs are covered by a **Euro LT financing instrument** called **OLO's**. The current outstanding amount of OLO's is **€312 bn.**

Treasury Certificates, the **Euro ST standardised financing instrument**, represents only 7% of the debt portfolio or **€ 27 bn.**

Standardised Instruments,
both long and short term represent 87% of the total debt portfolio**.**

LT Flexible instruments or Tailor-made instrumenst only amount to 3% or € 12 bn.





Yearly financing strategy : set the framework

Yearly General Guidelines

- **General Guidelines**
  - proposed by the Debt Agency
  - approved by the Minister and Parliament
  - sets the framework for the yearly Financing Plan
    - Proposes the maturities to be issued in the standard product
    - Defines/reiterates the risk parameters
      - the average life target of the debt portfolio
      - Refinancing and refixing risk
      - Foreign exchange risk
    - Defines the objectives to be achieved when issuing tailor-made instruments (essentially EMTN)

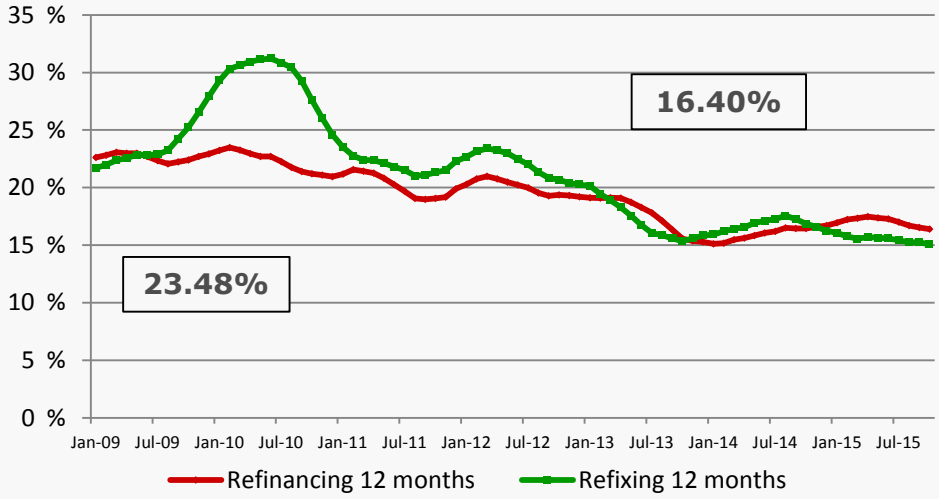
- **Yearly financing plan**
  - Publication of amounts to be financed through different financing instruments : standardized or EMTN

Riskparameters :

1. Refinancing and refixing risk, as a percentage of total debt
2. Average life of the debt portfolio
3. No foreign exchange risk. All risks should be swapped to €. Hence CIRS.

Riskparameters

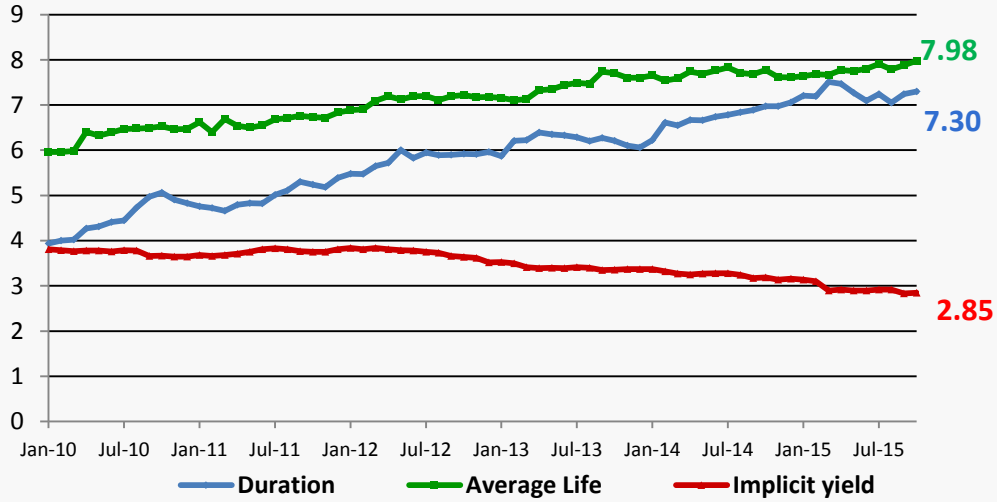
12- month **refinancing and refixing risk** remain near their lowest level ever.



The **average life** of the euro debt portfolio amounts <u>to **7.98 years**</u>, while the **duration** exceeds **7** years,
yet the implicit yield **has declined to 2.85%.**

This year's target in terms of average life is 8 years.

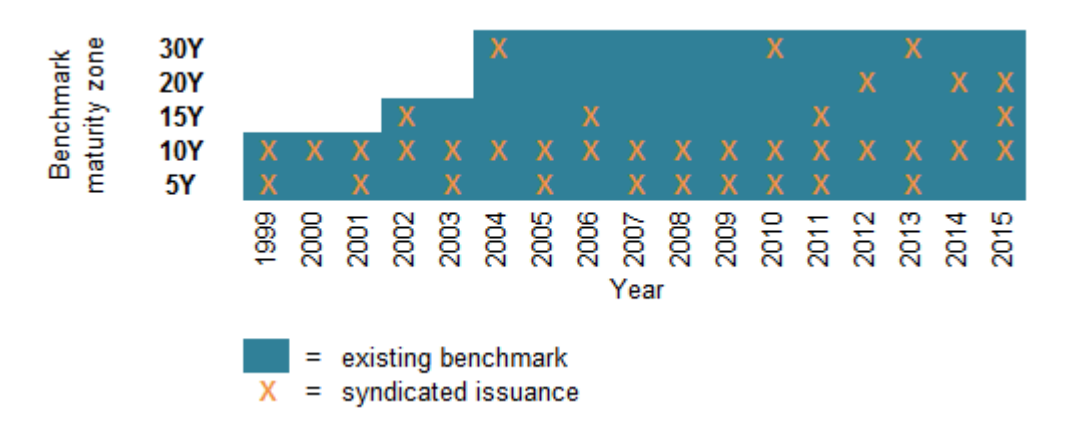
Duration, **average life** and implicit yield



Rationale for issuing tailor-made products (EMTN)

1999 till 2008 : use of only standardized Euro financing instruments
Trigger for changing the Issuance framework and Strategic decision making process

- 1999 till 2008 Concentrate on building a liquid benchmark curve
  - build sizeable lines over the whole curve
  - improve liquidity of secondary market



- 2008 : Decision to further diversify the financing instruments framework and to capture opportunities according to well–set conditions

Rationale for issuing tailor-made products

❑ Rationale

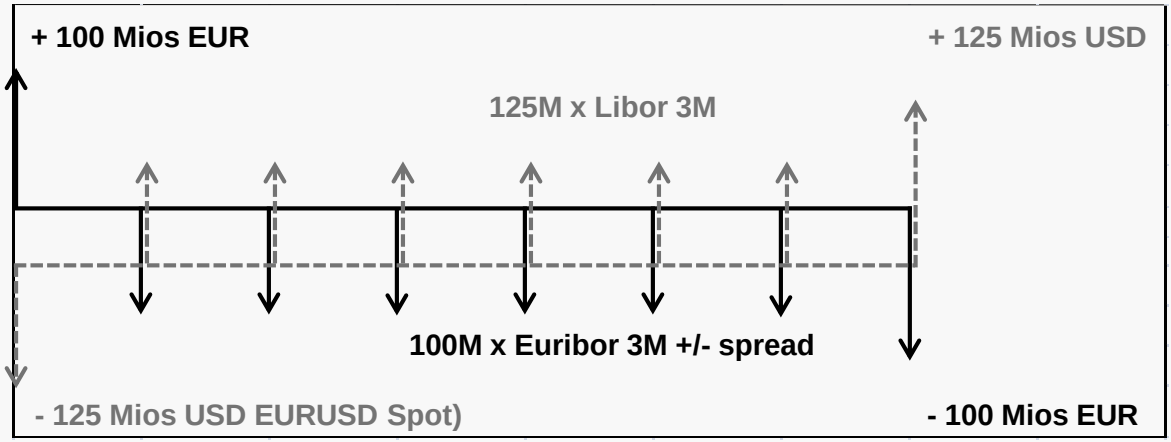
- **Increase the investor base**
  Tailor-made products are used as a TEASER.
  Belgium is medium sized issuer. Attracting investors by offering specific products will induce them to analyze the credit and install credit lines. This could lead to a further investor diversification for the standard products.
- **Cost efficiency**
  In order not to cannibalize the main financing instruments tailor-made products need to be cost efficient versus the curve of the standard financing instrument

❑ Risk management strategy

- **Risk parameters** prohibit any foreign exchange risk
  HENCE : usage of Cross Currency Swaps

What is a Cross-Currency Swap ?

- A solution to transfer liquidity from one currency to another.
- Reproduce a variable rate quarterly loan in one currency against a variable rate quarterly loan in another currency.
- Swap of the nominal amount on the inception date and at maturity.
- A Cross-Currency Swap is not sensitive to the evolution of rates and spot prices.
- Idealy, the basis level would be null.
- In reality, access to liquidity is not equal.
- The basis margin represents these differences and is solely influenced by offer and demand.

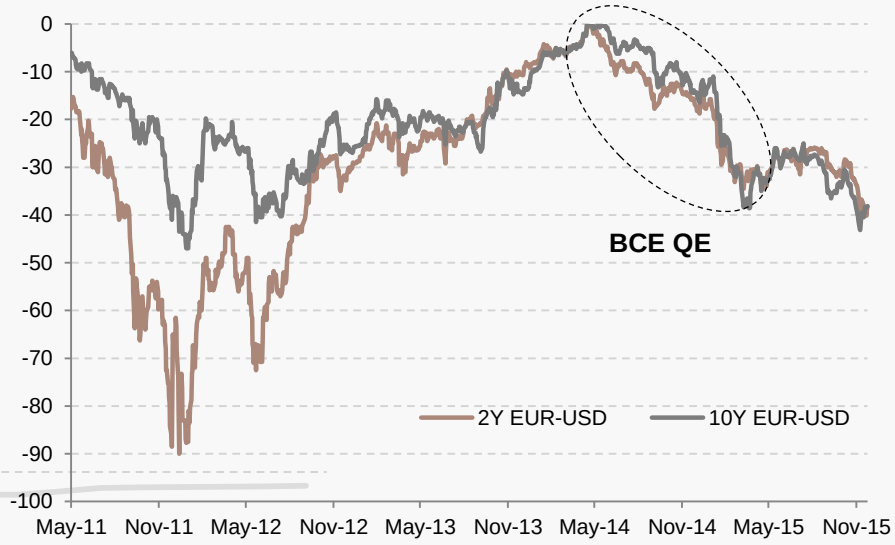


EUR-USD Basis

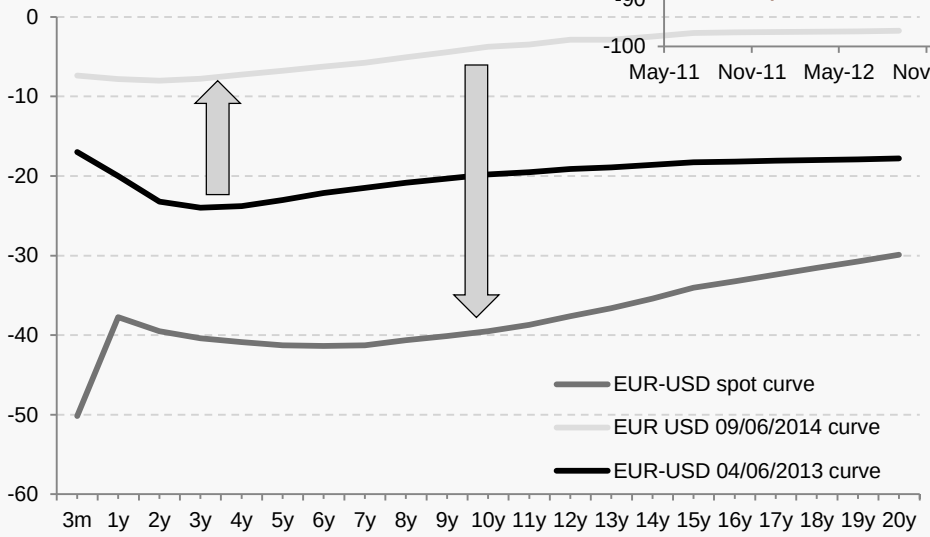
Factors of evolution of the EUR-USD curve

- Short part of the curve efficiently managed by Central Banks.
- 2-to-4-year zone impacted by FX Swaps.
- 5-to-10-year zone affected by the ECB's QE program.
- 20-year+ zone affected by:
  - CSA contract modelling, CVA hedge desks.
  - Foreign currency debt issuance (mainly in GBP and USD) by European companies.

EUR-USD 2-year and 10-year base



EUR-USD curve



Regulatory context

COMPENSABLE CROSS-CURRENCY SWAP?

LEVERAGE RATIO

VOLCKER LAW

NET STABLE FUNDING RATIO (NSFR)

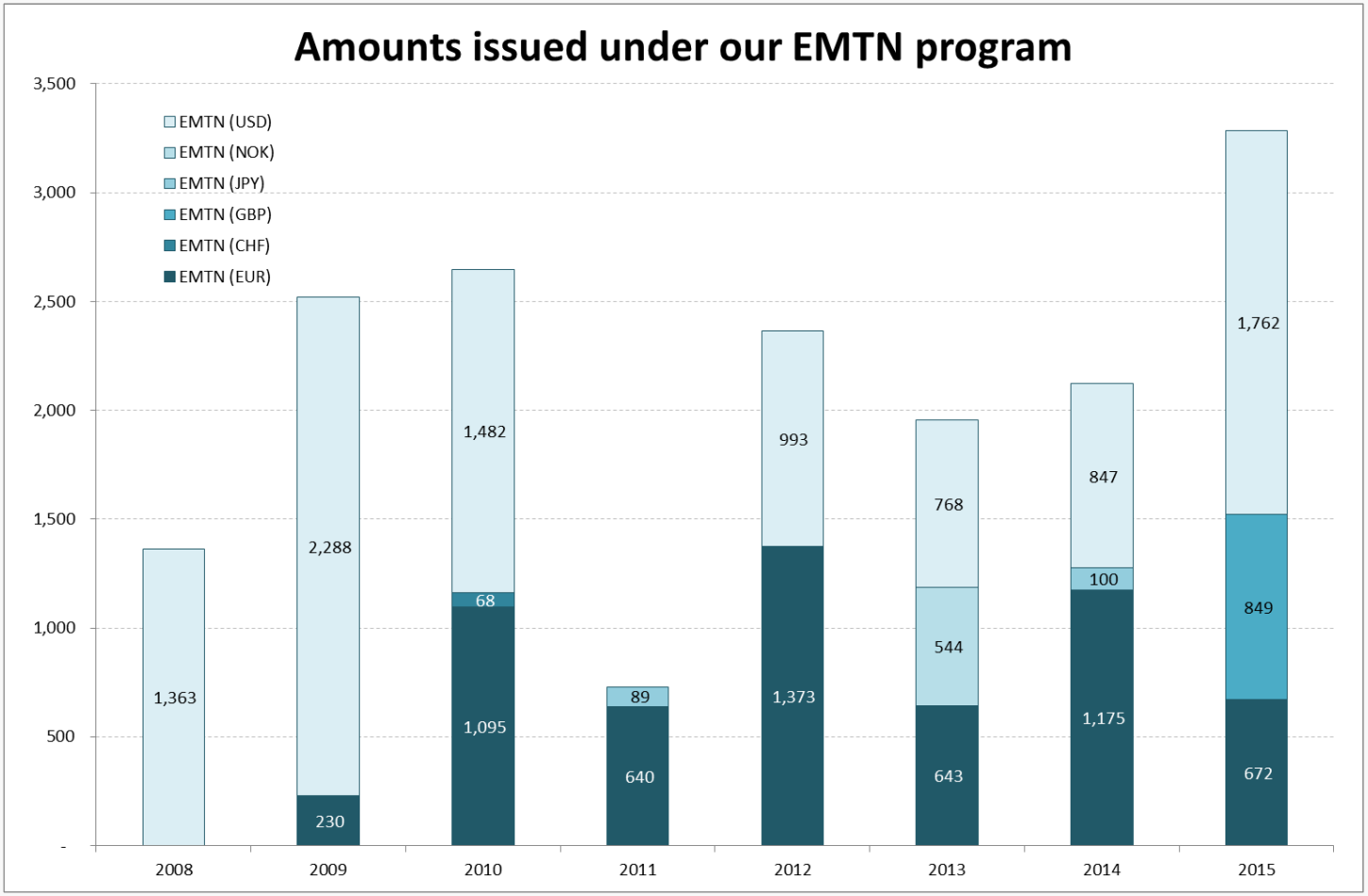
EMTN issuance

The total amount issued under the EMTN format and in foreign currencies since 2008 amounted to 11.154 bn, with US $ representing 85% for 14 transactions.

Current outstanding in foreign currency transactions amount to 4.3.bn or 1.5% of total debt.

Small but interesting given the cost efficiency and the investor diversification.

EMTN issuance since 2008



Issuing flexible instruments : set the framework

Pre-trade legal and credit requirements

- **Documentation**
  Choice for EMTN program :
  - Multi-product, multi-currency, multi-maturity, multi-dealer program
  - Each transaction which be represented by a pricing supplement
  - Advantage : Ready-to-tap the market with a well-known documentation.
  - Disadvantage : impressive work to set-up and regular updates

- **Credit requirements**
  - Negociation of ISDA and CSA with all Primary Dealers

Issuing flexible instruments: monitor the market

Continuous monitoring of the market by Debt Agency and Primary dealers

- **Input dealers**
  - Market changes or inefficiencies in €/$ or €/£ or other currencies
  - Calculate the cost of a possible transaction on a given maturity including FVA and CVA charges

- **Input Debt Agency**
  - Indicate the value of the OLO curve
  - Indicate the cost efficiency required for the transaction

Thank you for your participation.

www.debtagency.be