THE WORLD BANK
Treasury | IBRD • IDA

CASE STUDY

Diversifying Client’s Debt Portfolios Through Japanese Yen (JPY) Financing

Highlights

- IBRD Flexible Loan enables clients to borrow and convert existing loans in a variety of currencies, including JPY.
- After 2022, driven by the widening interest rate gap between USD and JPY, there was an eightfold increase[1] in clients seeking JPY-denominated financing.
- In 2024, IBRD adjusted its JPY pricing to reflect changing market conditions by creating a separate funding pool for Japanese yen and provided approximately USD 2.4 billion equivalent in JPY financing to clients.

Background

In the dynamic landscape of global finance, clients may need to reassess and adjust their public debt portfolio’s financial terms. Usually, clients require currency adjustments in their obligations due to the shifts in their external trade patterns and related export revenues.

Among other considerations for public debt managers, one of the key factors for loans in specific currencies is the availability of favorable interest rates at the time of the borrowing, especially in a high-interest rate environment.

This consideration became particularly relevant in 2022 when the interest rate gap between JPY and USD borrowing widened due to rising dollar rates and yen depreciation amid Japan's low rates. (Figure 1)

Several clients saw their local currencies depreciate against the USD while maintaining stability against the JPY.

Digital illustration, Adobestock/places of art,Canva/icons

For some other clients with a sizable amount of their export revenues in JPY, this prompted a

reevaluation of their USD-denominated debt holdings as the cost of servicing USD debt increased.

As a result, Brazil, Indonesia, Kazakhstan, Uruguay, and India all expressed interest in either financing new IBRD projects in JPY or converting their existing loans to JPY.

Recognizing the growing demand, IBRD separated JPY from the USD-based funding pools, establishing a more efficient pricing structure that reflected market conditions.

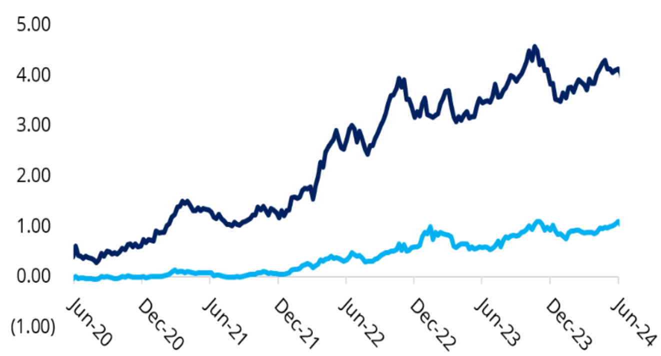

Figure 1: USD SOFR vs JPY TONA 10-yr Swap Rates (%) Source: Bloomberg.

[1] From 2020 to 2023, JPY disbursements totaled USD 302 million equivalent. In 2024, new JPY loans reached USD 1.9 billion, and conversions were nearly USD 500 million equivalent.

14 April 2025

Financial Objectives for Clients

- Explore benefits from IBRD pricing in various currencies;
- Diversify the public debt portfolio and reduce currency mismatches.

Financial Solution

The IBRD Flexible Loan (IFL) provides borrowers with comprehensive features, including currency selection.

At the time of commitment, IFL is offered in most major currencies, such as EUR, GBP, JPY, and USD. Other currencies might be available if the IBRD can efficiently source funding in the market.

The IFL also provides conversion options between hard currencies and even to specific local currencies to mitigate currency risk throughout the loan's duration.

Together with the other Finance Partners within the World Bank, Treasury championed and led the realignment of IBRD's JPY pricing to reflect market conditions better.

World Bank Treasury's Role

Support to the borrowers included:

- **Analysis of clients' public debt profiles** to understand debt servicing needs;
- **Support in cost modeling for the clients** across multiple currencies (USD, EUR, and JPY), while evaluating FX risk;
- **Supported the clients and the World Bank project teams** throughout the loan negotiation cycle for new loans, and throughout the conversion process for existing loans.

Outcome

The enhanced JPY financing options attracted significant client interest, resulting in USD 1.9 billion equivalent in new loans and close to USD 500 million in conversions to JPY. This marked a substantial increase from the previous four years when total IBRD JPY disbursements were only USD 302 million equivalent.

These countries sought to realign their debt portfolio's currency composition to both mitigate currency risk and benefit from lower JPY interest rates. For example, converting a USD 100M bullet loan with a 15-year maturity from USD to JPY could result in significant savings for these countries, assuming all other factors and market conditions at the time of computation remain constant (Figure 2).

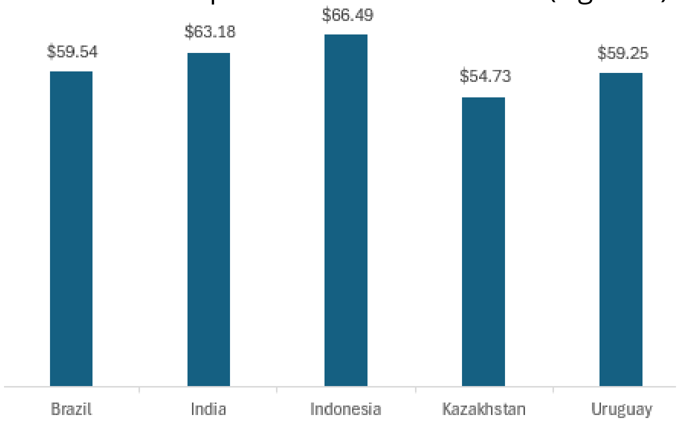

Figure 2: As of March 13, 2025, potential savings USD million by country: The savings assume a fixed rate based on the 15 yrs. swap for SOFR and TONA and an FX depreciation for JPY and local currency based on the 10 yrs. FX history.

The currency of choice for IBRD financing should reflect project contexts and debt management needs. If a country's balance sheet is predominantly USD denominated, then USD financing may be the best way to mitigate currency risks. For clients with local currency balance sheets, exploring JPY financing could be a viable option depending on currency dynamics and trends in monetary policies.

List of Countries – JPY borrowing in 2024

Country	New loan or Conversion	Amount
Brazil	New Loan	USD 541.88 mn eq.
India	New Loan	USD 160 mn eq.
Indonesia	New Loan Conversion	USD 653 mn eq./ 137.83 mn eq.
Kazakhstan	New Loan New Loan	USD 600 mn eq. USD 92.4 mn eq.
Uruguay	Conversion	USD 200 mn eq.

Contact: **Miguel Navarro-Martin,** Manager, Financial Products & Client Solutions, The World Bank Treasury
mnavarromartin@worldbank.org +1 (202) 458 4722 1225 Connecticut Avenue NW, Washington, D.C., 20433, U.S.A.