

Information on the Swedish CIRR rate system

In 1978 SEK was appointed by the Swedish government to administer the Swedish CIRR system. CIRR stands for Commercial Interest Reference Rate and is based on an arrangement agreed by the OECD member states. The arrangement, called the "consensus agreement", provides guidelines for export of capital goods and services. Deficits that might emanate from the CIRR system are absorbed by the government, hence the phrase "government supported interest rate" is sometimes used. Financing is granted in accordance with the consensus agreement guidelines re. credit tenors, advance payments and interest rates.

Government guidelines for SEK

CIRR rates can be offered by SEK for financing of Swedish exports if it can be assumed that a competing foreign exporter, because of foreign government support, can offer preferential conditions and, that such preferential conditions, are a prerequisite for the realization of the export transaction.

The government guidelines also refer to, among other that certain conditions for EKN guarantee cover have to be fulfilled. It is not, however, a certainty that a credit qualifying for EKN cover, can enjoy the benefit of a CIRR rate (or vice versa).

Applying for CIRR rate

Normally the application for CIRR rate is sent directly to SEK. Both banks and exporters may apply. If the applicant does not wish to disclose information about the underlying transaction to SEK, the application can be sent to EKN instead. EKN will convey a limited part of the document to SEK for SEK's decision on the transaction.

Application for CIRR rate should be sent to SEK before the date of signing of the commercial contract. SEK will in such case determine the applicable CIRR rate. SEK will offer a market rate*) if the commercial contract is signed before the date of application.

**SEK's Market rate: SEK Export Finance will give indications for market rates over the phone.*

You can download the application form at www.sek.se/en

Origin of exported goods

SEK finances transactions that directly or indirectly relates to export of capital goods and services and that is carried out by a Swedish company or by a company domiciled abroad with a considerable Swedish interest. Such interest exists if the activity to be financed by the CIRR-credit is considered to be of Swedish national interest or otherwise benefitting the economic development in Sweden.

In order for SEK to decide whether the Swedish interest is sufficient, an application for CIRR financing shall be accompanied by a description, of the positive impact on Sweden resulting from the contract in case the Swedish content is less than 30 percent. The description shall be made by the exporter.

Spare parts are financed only up to an amount specified by EKN - usually 10 - 15 percent in connection with capital goods but never on a stand-alone basis.

CIRR rates for used goods are granted only in exceptional cases, mainly following EKN's decision.

Local costs

Certain local costs e.g. locally purchased services, can be financed at CIRR rate provided that there is a clear connection to the Swedish export. The local costs cannot exceed 30 percent of the export contract value. SEK will offer market rate for any part not qualifying for CIRR rate.

Importing country

Importing countries are divided into 2 categories, **Category I** and **Category II**. The categorization is based on the World Bank's categorization of GNP in the respective country i.e. higher GNP = Category I, lower GNP = Category II.

Interest rates

CIRR rates are available for all currencies of the countries participating in the consensus agreement and SEK publishes the CIRR rates for the currencies offered by SEK. CIRR rates are adjusted the 15:th every month. SEK will always offer a market rate, as an alternative, when offering a CIRR rate. At www.sek.se/en you will find information about CIRR rates.

At the time of application the applicant has to choose between Offer CIRR and Contract CIRR. Offer CIRR is the right choice if one wishes to have a specific interest rate at the time of applying. SEK's offer is valid for 120 days. The CIRR rate carries a surcharge of 0.2 percentage units as compared to the CIRR rates published on SEK's home page.

The Contract CIRR is chosen if one wishes to have the rate prevailing at the date of signing of the commercial contract (without a surcharge of 0.2 percentage units). Also this offer is valid for 120 days but does not constitute a commitment of a specific interest rate.

At the time of prolongation of an offer one can opt between Offer CIRR and Contract CIRR or vice versa. If the commercial contract has not been signed within said 120 days period, it is possible to have the offer further prolonged for consecutive 120 days periods – regarding the Offer CIRR, at the rate prevailing at the time of extension of the offer.

For supplier's credits the interest rate is fixed at signing of the commercial contract. For buyer's credits the interest rate offered, Contract- or Offer rate, will be committed for a further six (6) months period, calculated from the date of signature of the commercial contract, for signing of the loan agreement. A new CIRR rate will be applied if the credit agreement is not signed within this period. The higher of the prevailing CIRR rate and the CIRR rate contained in SEK's offer will be applied.

SEK is only committed to its CIRR rate offer if the offer is accepted in connection with the signing of the commercial contract (supplier's credit) or credit agreement (buyer's credit), normally within one (1) month.

Amortization

The credit shall normally be amortized in equally large installments with a six (6) months interval. Exceptions from this rule can be considered. Six (6) months annuities are allowed for leasing transactions.

Tenor

The tenor is counted from the "Starting Point" (see below) and depends on the type of goods, contract amount, importing country etc. The shortest tenor that can be considered is two (2) years.

The maximum tenor for the respective country category is:

- Category I – normally five (5) years
- Category II – normally ten (10) years

The "Starting point" for the tenor is dealt with below.

Advance payment/Cash payment

At least 15 percent of the contract value should be paid in advance. All payments made before the "starting point" are considered as advance payments.

Financing of advance payments

Advance payments cannot be financed at CIRR rate. This has to be done at market rate. Financing of advance payment can be arranged at market rate and must be documented in a separate credit agreement.

Credit amount

SEK has no formal limit. Amounts below Skr 10 million are rarely seen owing to the impact of the cost of arranging the credit.

It is possible to finance EKN-premium, bank fees and interest during the construction period through an increase of the credit amount.

CIRR rate currencies

Visit www.sek.se/en to see which CIRR rate currencies that are offered by SEK.

Mutual ownership

The exporter's ownership in the importing company (or vice versa) – directly or indirectly may not exceed 20 percent. It is, however, possible for SEK to offer a CIRR rate where the mutual ownership exceeds 20 percent if certain conditions prevail.

SEK will decide in each case if an exception can be granted. It is of importance for such decision process to know the on-selling conditions of the goods. If, for example, a Swedish subsidiary abroad, acts only as agent for the Swedish production company thus just being a link between the Swedish exporter company and the end user of the goods, this might qualify for a CIRR rate.

Acceptance of SEK's CIRR-offer

Buyer's credit: acceptance within one month from signing of the credit agreement. Supplier's credit: acceptance within one month from signing of the commercial contract. A market rate can, however, be accepted at any time during the credit period. The market rate is determined at the date of the acceptance.

Costs/fees/remuneration

The arranging bank receives a remuneration of 0.25 percent p.a. on the outstanding capital amount to cover costs for the arrangement and handling of the credit. The remuneration is paid out at receipt of each interest payment from the borrower.

There is no commitment fee charged for CIRR rate credits. A risk premium is charged for the part of the credit which is not guaranteed by EKN.

The Swedish government does not pay any remuneration to SEK for its administration of the CIRR system. SEK enjoys a margin of 0.25 percent p.a. which is included in the CIRR rate. SEK's general terms and conditions therefore include provisions saying that all costs for the arrangement, enforcement and cancellation of the credit are for account of the applicant, should the borrower or other party not be responsible for payment of such costs.

Starting point

The starting point is the point from which the amortization period is calculated. The starting point is calculated as follows, following international practice:

Capital goods, composed of individual units that can be used independently of each other, have a starting point at mid delivery (often by value) of all units or from the date on which the importer (buyer) takes possession of each respective unit in the importing country.

- a) Capital goods, composed of individual units that can be used independently of each other, have a starting point at mid delivery (often by value) of all units or from the respective date on which the importer (buyer) takes possession of each respective unit in the importing country.
- b) Capital goods, composed of pieces of equipment for the setting up of a factory or similar have a starting point on the date on which the importer takes possession of the complete installation, provided that the supplier does not have any responsibility for commissioning.
- c) Civil work contracts have a starting point on the date of completion of the works, provided that the supplier does not have any responsibility for commissioning.

d) When the supplier/contractor has responsibility for commissioning, the starting point is the date of completion, by the supplier, of the works and when preliminary tests have been undertaken to ensure that the installation is ready for start-up. This irrespective of if the installation has been transferred to the buyer or not and irrespective of any warranty/guarantee undertakings from the supplier.

e) In the scenarios b), c) or d) above, where the installation consists of separate sections, the starting point is the date of completion of each separate section or at the mean completion date of a set of sections. However, if the supplier has a sizeable part of the total delivery contract, the completion of the whole works can be used as starting point.

In all cases, a latest date must be set for the commencement of the amortizations.

Security

SEK requires comforting security for its lending. The security is often in the form of a guarantee issued by the Swedish Export Credits Guarantee Board, EKN or a guarantee from a bank/exporter approved by SEK. SEK can, in certain cases, participate in the credit risk.

Further information

Should you have any queries or just desire to learn more about SEK's financing schemes and conditions, please contact our Export Finance department or your bank (who will connect you with SEK). You can call us on +46 8 613 83 00 or e-mail us at exportfinance@sek.se

Changes/updates

The CIRR rules are subject to constant updates/changes. Therefore - always consult us, or your bank, in each specific transaction.