



Export Credit Policies in the Financial Crisis : *Opportunities and Challenges*

***World Bank-CEPR Conference
26-27 May 2009 - Brussels***

Jean LE COCGUIC
OECD - Export Credits Division

ISSUES DISCUSSED TODAY

- I. Components of the « financing » of international trade
- II. Traditional role of Export Credits Agencies
- III. International framework which governs export credit support
- IV. Impact of the financial crisis on transactions supported by export credits
- V. Export credits policy responses to the crisis : a typology
- VI. Expected impact of recent export credits policy measures
- VII. International coordination in the area of export credits : what can be expected?

I. Components of the financing of international trade

- **Short-term** financing : *less than 1 year*
 - Commodities, raw material, Ag. products
 - Little or no intervention from public schemes (marketable risk)
- **Medium and long term** export credits: *1 to 15 years*
 - Capital goods/equipment
 - Involvement of ECAs
- **Risks** involved/Risks covered :
 - Commercial risks
 - Political risks
 - Exchange risk

II. Traditional role of Export Credit Agencies

- **Why** are ECAs involved?
 - Different philosophies when operating
 - Different status
 - Degree of government intervention is variable
- **Modes** of official support
 - Direct financing provided to a buyer/borrower
 - Guarantee or insurance provided to a private market export credit
 - Interest rate support

III. International Framework applicable to officially supported export credits

- WTO ASCM *prohibits*:
 - Definition of export subsidies
 - Illustrative List
 - « Safe haven » for some transactions + case-law
- OECD Arrangement on export credits *regulates*:
 - Soft law since 1978
 - Regulates all aspects of a transaction : credit terms, interest rates, risk-premium rates + sector-specific disciplines
 - Transparency and peer pressure

IV. Impact of the financial crisis on transactions supported by export credits

- Effects on **prices**
 - Banks: increase in the banks cost of funding
 - Corporate: increase in the cost of the financing of working capital
 - All: increase in the risk-perception and pricing for buyers/borrowers
- Effects on **volumes**
 - Liquidity constraints/resources allocation/reduction in risk-horizon
 - Corporate to maintain credit flows: intra-firm credits, supplier credits
 - Overall increased demand for ECA-backed export credits
- Direct Impacts
 - Difficulty to finance downpayments : sales contracts deferred
 - Financing of large projects re-assessed/postponed/cancelled
 - ECAs to face arrears/claims

V. Export credits policy responses to the crisis : a typology

- Measures impacting on **potential volumes** of support
 - Cover policy reaffirmed
 - Exposure limits maintained or expanded
- Measures impacting **the forms** of official support
 - Increase in the % of cover (Canada, France, Germany)
 - Support for supplier credits (Japan)
 - Provision of direct financing (Denmark, US)
 - Re-financing facility (Finland)
 - Support for working capital (UK, US)
- **Joint** export support programs (ECAs / IFIs)

VI. Expected impacts of recent export credits policy measures

- Expected impact on **trade**
 - Positive signal to markets (exporters/importers/banks)
 - Measures targeted to fill identified market gaps (temporary/limited)
 - Positive impact increased if the support schemes are open to multi-sourced transactions
- Potential **budget costs**
 - If underwriting policies are too loose
 - If risk-pricing is inappropriate
 - ECAs ready to face their counter-cyclical role
- Potential impact of undisciplined support measures
 - Potential discriminatory effects of « national » support measures
 - Potential for increased export subsidies
 - Potential credit race when direct competition

VII. International coordination in the area of export credits : what can be expected

- **Policy motivations** for a co-ordinated approach
 - Maximise the effect (additionality)
 - Minimise the cost/risk in a riskier environment
 - Trade remains a competitive issue : need for transparency and monitoring at a multilateral level
- **Forms** of coordinated responses
 - April 2009 G20 Declaration : USD 250 bn available for the financing of trade
 - OECD-backed 2008 and 2009 Statements on export credits : disciplines remain observed
 - OECD ongoing mapping exercise of policy responses
 - Re-assessment of prevailing export credits disciplines

Concluding remarks

- Export credit “crisis measures” likely to facilitate trade flows and export projects in a riskier environment
- However cannot completely replace market financing
- Potential for trade distortive measures if unregulated
- Prevailing international disciplines remain suitable
- Need for coordination transparency and discipline



Thank you!

www.oecd.org

Xcredsecretariat@oecd.org