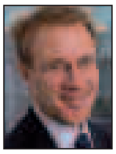
Kick starters need more kick



EXPORT CREDIT AGENCIES ARE THE KEY INSTITUTIONS FOR KICK-STARTING GLOBAL TRADE. YET SOME HAVE REACTED MORE QUICKLY THAN OTHERS IN OFFERING ASSISTANCE TO THEIR MAJOR EXPORTERS, SAYS **JAMES PUMPHREY**.

It's no secret that trade flows have dropped significantly since the onset of the financial crisis and subsequent downturn. Indeed, the World Bank estimates that global trade flows will fall by around 10% during 2009, and the WTO and OECD estimate an even steeper 19% drop from 2008 levels. And while there have been efforts from the multilateral banks and agencies to stimulate the trade finance market, such as the recent Global Trade Liquidity Programme (GTLP), these have largely focused on short-term financing in emerging markets. In many cases, large OECD-based exporters trading between developed economies have to go it alone.

The drying up of some traditional credit lines – the syndicated loan and bond markets, for example, are proving tough to access for all but the highest-rated entities – and the difficulty of obtaining long-term tenors on any forms of trade-backed financing are key issues for these corporates. Indeed, these are the classic situations that require the involvement of the export credit agencies – especially for big-ticket exports of capital goods or project-based equipment.

Few economies survive without an export credit agency, with most linked directly or via a mandate to the national government. They can be private, state-owned or a mix of both, and work with a country's corporates to offer financial guarantees or export financing on capital goods and equipment. Agency-backed financing entails bank-supplied loans to exporters being covered by the export credit agency on an insured or guaranteed basis. This gives the exporter a guaranteed payment and the importer better payment terms.

Given current market conditions, longer-term deals are often difficult, if not impossible, to structure without export credit agency involvement. A great deal of commercial uncertainty remains. Aside from the difficulties in traditional credit markets, the current risk aversion of potential sponsors means that project-based financing is also proving difficult to secure. Even short-term credit insurance from the private market has, in many cases, simply been withdrawn. For these reasons, export credit agency involvement is being viewed by many as the key to a recovery of global trade, and is particularly crucial for large OECD-based exporting corporates.

NORDICS LEAD THE WAY Yet while some export credit agencies has been swift and extremely positive in terms of expanding risk appetites and providing new services, others have been slower to react. In terms of proactivity, the Nordic export credit agencies have been among the leaders in providing assistance to their exporting corporates. For example, the Swedish agency decided over a year ago to double its guarantees framework to the equivalent of $4.4bn, leading to a surge in take-up.

Likewise in Finland. Export-dependent Finland does not have the cushion of a devaluing currency and Finnish

Box 1: Trade trickle

In a report entitled The Global Financial Crisis and its Impact on the Developing Countries, the World Bank concluded that the global economic downturn was much deeper than expected and that recovery would be gradual and uncertain.

During the second half of 2008, the global economy came to a halt. On an annualised basis, the growth of global gross domestic product (GDP) eased back to 2% after an average growth rate of 5% for the period 2003 to 2007. International trade flows collapsed in the last quarter of 2008 (see Figure 1), and world exports were projected to decline during 2009 for the first time since 1982.

The contraction in economic activity was most sharply felt in the advanced economies, which have decidedly entered the biggest slump since the Great Depression of the 1930s. Consumer and investor confidence indicators hit historic lows following the dramatic broadening of the confidence crisis in financial markets in October 2008.

As Figure 2 shows, commodity and food prices have fallen considerably from their peaks in mid-2008, reflecting the sharp downturn in global demand for non-food commodities, the resolution of weather-related supply disruptions in agriculture, and the removal of export restrictions on food products.

Overall, however, commodity and food prices are projected to rise again once global growth picks up, because demand pressures from rapidly industrialising emerging economies will continue to affect world markets.

Figure 2: Commodity price indexes

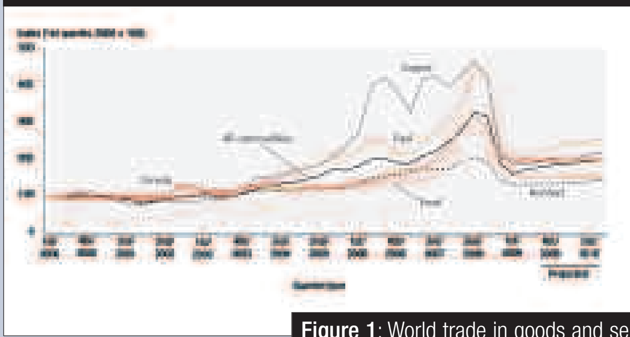
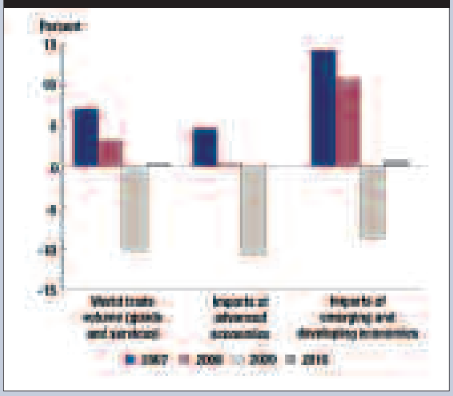


Figure 1: World trade in goods and services



exports are reported to have dropped by around 40% year on year in the first quarter of 2009. In response, Finnvera, the Finnish export credit agency, rapidly increased its limits on lending and has introduced schemes to lend directly to ensure that established export projects remain on track.

Finnvera has also introduced financing products to assist smaller enterprises. These instruments – a counter-cyclical loan and a counter-cyclical guarantee – are designed for corporates that have displayed ongoing profitability but are experiencing temporary difficulties due to the current climate. Finnvera has also been involved in a range of other measures to assist domestic corporates.

The UK's export credit agency, the Export Credit Guarantees Department (ECGD), launched a letter of credit guarantee scheme last year to support UK exporters seeking short-term export finance. By sharing risk with banks, ECGD is seeking to increase the amount of short-term credit available at a time when the overall risk appetite of the trade finance market has not yet recovered to pre-crisis levels.

However, the scheme does not cover exports to other EU countries, as to do so would require approval from the European Commission.

The Nordic agencies' swift response to the crisis and extension of support to domestic corporates has not been matched by other export credit bodies. The German and UK agencies, for example, have started to put in place refinancing programmes and other schemes but there is concern that they may get bogged down in details and bureaucracy, and their effectiveness may be limited by delay in bringing them to market. Indeed, the speed with which the downturn struck demonstrated the need for export credit agencies to be nimble enough to quickly deliver benefits to their domestic corporates under changing market conditions.

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Table 1: Annual percentage change in world output

** = projections*

	2002	2003	2004	2005	2006	2007	2008	2009*	2010*
World output	2.8	3.6	4.9	4.5	5.1	5.2	3.2	–1.3	1.9
Advanced economies	1.6	1.9	3.2	2.6	3.0	2.7	0.9	–3.8	0.0
Emerging markets and developing countries	4.8	6.3	7.5	7.1	8.0	8.3	6.1	1.6	4.0