



# **BANKERS' ASSOCIATION FOR FINANCE AND TRADE**

## **Trade Finance Market Dislocation**

### **Request for Global Public / Private Coordination**

The Bankers Association for Finance and Trade (BAFT) is concerned about the lack of a globally coordinated response to address the systemic dislocation in trade finance. To foster public- and private-sector exchange on the crisis, BAFT held a Trade Finance Summit in London, January 20, 2009. Summit attendees included leading trade finance banks, export credit agencies, credit insurers, multilateral agencies, and government ministries. Stakeholders exchanged ideas on how to coordinate and improve responsiveness in an effort to ensure that trade finance remains a leading engine of world economic growth.

BAFT requests that the G-20 leaders ensure that this public- and private-sector exchange yields workable solutions so that global trade finance does not suffer further market dislocation. Innovative collaboration between global leaders, key trading partners, and multilateral cross-border bodies is crucial to stem further contractions in global trade.

### **Current Market Trends**

- Reduced access to trade finance—particularly short- and medium-term finance—has caused a significant reduction in import/export activity. Global trade relies upon accessible financing for trade transactions.
- World Bank President Robert Zoellick estimates that the lack of trade finance credit in the market today could account for 10-15 percent of the decline in trade so far.
- The WTO forecast in March 2009 that the collapse in global demand brought on by the biggest economic downturn in decades will drive exports down by roughly 9% in volume terms in 2009. This is the biggest such contraction since World War II.
- BAFT and the IMF released a second joint survey of trade finance institutions recently showing that decreases in value of trade finance business accelerated between October 2008 and January 2009 in almost all regions.

### **Recommendations for Action**

- **Reject Protectionist Measures**
  - Trade-distorting, protectionist measures work against a global recovery.
- **Expand Export Credit Agency Programs**
  - Export credit agencies (ECAs) are well-positioned to increase the flow of trade credit. Expand government guarantee programs for credit risk mitigation and approve increased direct funding.
    - Allow ECAs to accept more risk through programs in developing countries and emerging markets--including trade risk on existing deals
    - Adjust ECA programs to address short- and medium-term market needs
    - Leverage ECA capacity by increasing flexibility for multi-year programs



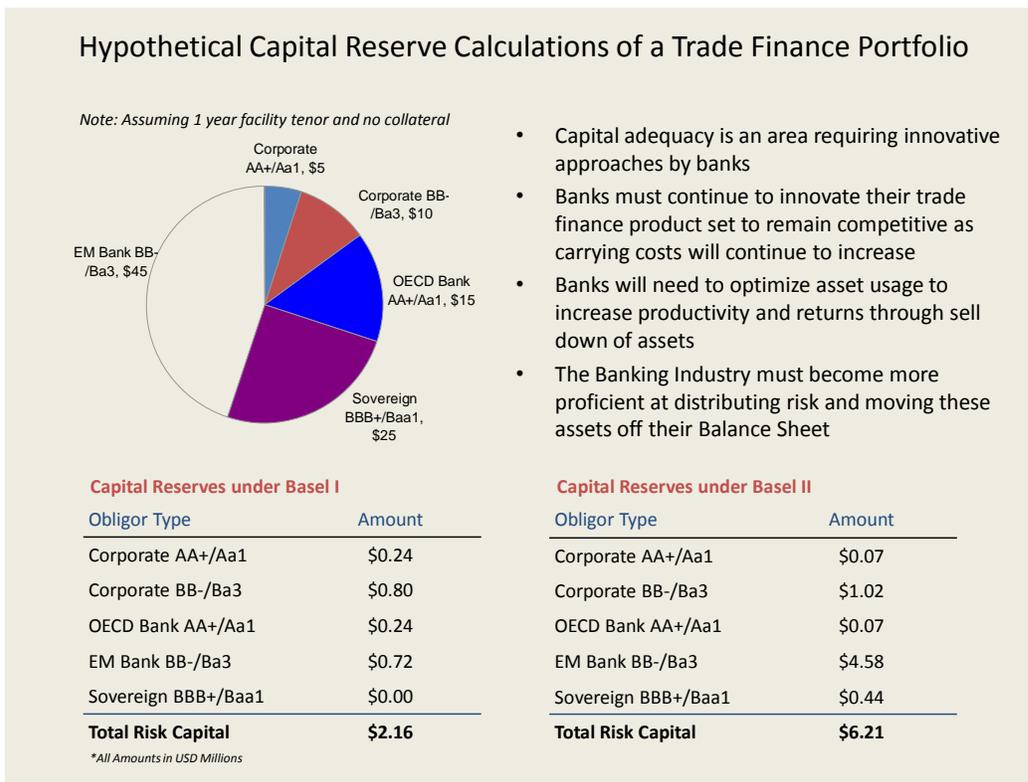
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- Accelerate processing time for all transactions; increase pre-approved institutions
- Develop program to enhance movement of ECA paper from bank balance sheets to secondary market
  
- ECA domestic content requirements should be weighed against the national benefit of banks using those ECA guarantees for prohibited trade transactions
  
- **Preserve Liquidity – Address Secondary Market Impairments**
  - Lack of liquidity for some banks has forced use of scarce funding to support “term” assets rather than self-liquidating short-term trade transactions. Create a public/private mechanism to support the secondary market and enhance trade credit availability (*Examples:* (1) establish trade asset pools in which banks may buy a share; (2) re-establish a discount or rediscount window with central banks, with both a liquidity and capital perspective).
  
  - Sources of liquidity in emerging markets are disappearing to varying degrees. Support emerging market lending to prevent further contractions in credit availability.
  
- **Support Cross-border Efforts on Trade amongst Multilateral Agencies and ECAs**
  - Advocate for shared capacity programs that address trade finance contraction, *e.g.*, collaboration between ECAs and credit insurers, to provide important stop-gap measures.
  
  - Consider accepting insurance as risk transfer for regulatory purposes and perfect credit substitution mechanisms.
  
  - Support new mandates to significantly enhance multilateral programs and accelerate expansion of pre-approvals for bank trade transactions.
  
- **Address Basel II Implications**
  - Basel II does not include the favorable treatment of trade finance instruments as in Basel I. Risk sensitivity under Basel II amplifies business cycle fluctuations, forcing banks to curtail lending in recessionary climates in order to comply with capital requirements.
  
  - International Chamber of Commerce (ICC) released survey March 12 on trade volume flows, current delivery of trade finance, operational impact of the credit crisis, and an outline of future expectations. Implementation of the Basel II charter has increased the capital intensity of trade finance lending and constrained the ability of banks to lend short-term trade credit.
  
  - Trade finance products should be exempt from the maturity floor applied to lending facilities under Basel II. As Basel II implementation looms for some banks, the national policy discretion permitted under Basel II should be adopted. This action should coincide with re-evaluation of how trade credit is risk-weighted under Basel II.



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- A bank's overall portfolio of risk-weighted assets should benefit using Pillar I standards under Basel II, based on a portfolio with high-rated corporate and banks. A global trade portfolio with a concentration of SME obligors and emerging market bank risk will most likely demand higher capital reserves. *(See example below)*



*BAFT is a financial services trade association headquartered in Washington, D.C., whose membership represents a broad range of financial institutions and service members throughout the global financial community. For over 85 years, BAFT has advanced the growth and evolution of international financial services. As a worldwide forum for analysis, discussion, and advocacy in the international financial services community, BAFT plays a unique role in expanding markets, shaping regulatory and legislative policy, developing business solutions and preserving the safety and soundness of the global financial system. The BAFT website is [www.baft.org](http://www.baft.org) and telephone number is 202.663.7575.*