



Reducing Risk. Unleashing Opportunity.

EXIM 2018 Competitiveness Report Review

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Mandates



- › The bank shall consider its average cost of money as one factor in its determination of interest rates, **where such consideration does not impair the bank's primary function of expanding United States exports through fully competitive financing.**
- › “To meet this objective in all its programs, **the Export-Import Bank is directed...to provide guarantees, insurance, and extensions of credit at rates and on terms and other conditions which are fully competitive** with the Government-supported rates and terms and other conditions available for the financing of exports of goods and services from the principal countries whose exporters compete with United States exporters, including countries the governments of which are not members of the Arrangement...”
- › “Not later than June 30 of each year, the Bank shall submit to the appropriate congressional committees a report that includes the following: (1) A description of the actions of the Bank in complying with [second bullet point above]...”

Structure of 2018 Competitiveness Report



- Given third straight year of no quorum, EXIM analysis documents and summarizes competitor ECA programmatic and policy shifts
- Time trend analysis – 10 years from the GFC – offered perspective on the fundamental and now permanent shifts in the role of ECAs in the MLT marketplace

- › Over the last 10 years, the world's official export credit marketplace has changed dramatically and fundamentally, largely in response to (or as a consequence of) the events during and following the Global Financial Crisis (GFC).
- › 3 major influences of GFC:
 1. Emphasis on exports as a driver of national growth (especially in Europe) → Demand for export finance growing rapidly
 2. Regulatory constraints on commercial bank international lending → Supply of commercial export finance retracting
 3. Growth of China's ECAs → Changing nature of official export finance

Emphasis on Exports



- › Fighting the effects of the GFC largely exhausted national fiscal and monetary capacity for OECD countries, esp. in Europe → exports become critical to national growth in many European countries.
- › ECAs become major component of governments' national economic strategies (ECAs become a national strategic tool).
- › ECAs get primary access to resources and are given wide berth within governments to do what is necessary to pursue exports.

Regulatory Constraints on Commercial Bank International Lending



- › Banking regulations put in place following the GFC (e.g., Basel III) have incited commercial banks to pull back when providing MTL export finance.

Bank Capacity without EXIM Guarantee: Then and Now

	2008	2018
Typical Repayment Term	15 – 20 yrs	7 – 8 yrs
Typical Lending Limit per Transaction	\$500 million	\$200 million
Lowest Acceptable Risk Appetite*	B	BBB

Source: EXIM surveys, focus groups, and one-on-one meetings with dozens of commercial banks

**Note: Using S&P risk categories as a reference*

- › As capital goods are central to blue-collar jobs and national production, the retreat of banks from long-term export finance caused official export finance to become a critical tool in the government toolbox for supporting the capital goods sector.

Growth of China's ECAs



- › China has prioritized its use of export credit financing as part of its industrial strategy to create an alternative international financial/trade system.
- › Resulting in weaponization of official MLT export finance globally, as shown by:
 1. **Nature: aggressive export promoter, not just “correcting market imperfections”**
 - Model for revitalized UKEF (UK), Bpifrance (France), SACE (Italy)
 2. **Tools: multiple entities providing massive amounts of financing and creating new programs outside the OECD Arrangement.**
 - Drives Japan/Korea changes → new Germany, UK paradigms
 3. **Point of Chinese government strategic policy spear**
 - Coordination of national policy and use of export credit
 - Supports BRI, Made in China 2025



Today's Export Finance Landscape

- › **Recap – 3 major influences of GFC:**
 1. National strategies - emphasis on exports for growth and elevation of ECAs to a **strategic** tool
 2. Regulatory constraints on commercial bank international lending
 3. Growth of China's ECAs

- › **Net result: These factors have been a major driver in the sea change in how often official export finance is used, and in the nature of official export finance overall, from ECAs being lenders of last resort to proactive creators of exports for national purpose.**

- › **Weaponization of official MLT export credit becoming structural: Several ECAs have introduced a program that guarantees access to high volumes of attractive financing to entice major U.S. exporters to shift parts of their supply chain overseas.**
 - › Exporters say that due to the lack of political credibility that EXIM will be a reliable partner, they have to be responsive to incentives offered by foreign ECAs to shift parts of their supply chain abroad.

Summary



- › **Being fully competitive and providing fully competitive MLT official export credit is EXIM's primary Congressional mandate.**
- › **Over the last 10 years, the world's official export credit marketplace has changed dramatically and fundamentally, largely in response to the events during the GFC that began with the fall of Lehman Brothers in Fall 2008.**
- › **As the export finance market has grown even larger, more extensive in scope, more diverse in details, and quite different in nature, being competitive in 2019/2020 is going to be a much greater challenge for EXIM than it was in 2015.**



EXIM must come back better and bolder to overcome reliability and credibility perceptions if it is to achieve its competitiveness mandate.