



The Role of Export Credit in a Financial Crisis

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Page 3

Foreword

Page 4

The crisis in four bullets

Page 6

After the crisis

Page 10

The evolution of an ECA

“Developments in the financial sector have led to an expansion in its ability to spread risk. The increase in the risk bearing capacity of economies, as well as in actual risk taking, has led to a range of financial transactions that hitherto were not possible, and has created much greater access to finance for firms and households. On net, this has made the world much better off.

Concurrently, however, we have also seen the emergence of a whole range of intermediaries, such as hedge funds, whose incentive structures can lead them to take more risk, especially in times of plentiful liquidity and stability.

As a result, under some conditions, economies may be more exposed to financial-sector-induced turmoil than in the past.”

Raghuram G. RAJAN
Professor
University Of Chicago
September 2005

① We live in a global, complex world driven by technological innovation.

- ✓ developments in communication and transportation: disintegration of trade; delocalization of productive assets; exploded supply chain;
- ✓ growth of financial products: from intermediation, to risk management, to arbitraging / speculation
- ✓ financial complexity / engineering: new financial theories, portfolio optimization; securitization; computer technology; acquiring / storing / processing information



In a complex, global world there is no full decoupling

② Distortions are on a global scale due to a macroeconomic policies and deregulation:

- ✓ free trade of goods and services with competition among products, institutions, markets, jurisdictions
- ✓ capital markets open to cross-border financial flows
- ✓ global current accounts not a zero sum game: too much borrowing and too much export; neither too good
- ✓ too much liquidity chasing too few opportunities: benign neglect of asset bubbles



A complex world with no global governance

③ The State as a regulator vs the market self – regulation. Institutional changes have modified the rules of the game.

- ✓ Central Banks and the moral hazards in the commercial banking sector: too much leverage
- ✓ the growth of shadow banking (private equity, hedge funds, money centers) and the lack of national regulators
- ✓ global players and national regulators: a mismatch
- ✓ rating agencies: a conflict of interest and a pro – cyclical role



A global world with no effective controls

④ Micro-behaviors and economic agents:

- ✓ conventional wisdom and bubble mentality in times of plentiful liquidity
- ✓ everybody wants a piece of the cake: housing speculation as a global phenomenon
- ✓ short term incentives vs long term performance inefficient: compensation system



We are all human, after all

- ❖ **Private ownership or public ownership** : the virtues of the State and the vices of the private sector. The pendulum is swinging back.
- ❖ **De facto public ownership or contingent public ownership** : moral hazard comes true. *“Financial crisis bring banks in greater alignment with government risk”* (Moody’s Assessment of Banks; May 11, 2005)
- ❖ **State regulation or self-regulation** : a new regulatory benchmark?
- ❖ **Profit or happiness** : a new debate

First rule:

Do no harm! State interventions can create distortions if they alter the level playing field





Second Rule:

Use public resources efficiently. Negative financial results can easily be justified in terms of hard to measure “economic / social goals”

Third rule:

Do not jeopardize the future of the company : ECAs that run large deficits are politically weak

EFFECTS ON ECA BUSINESS

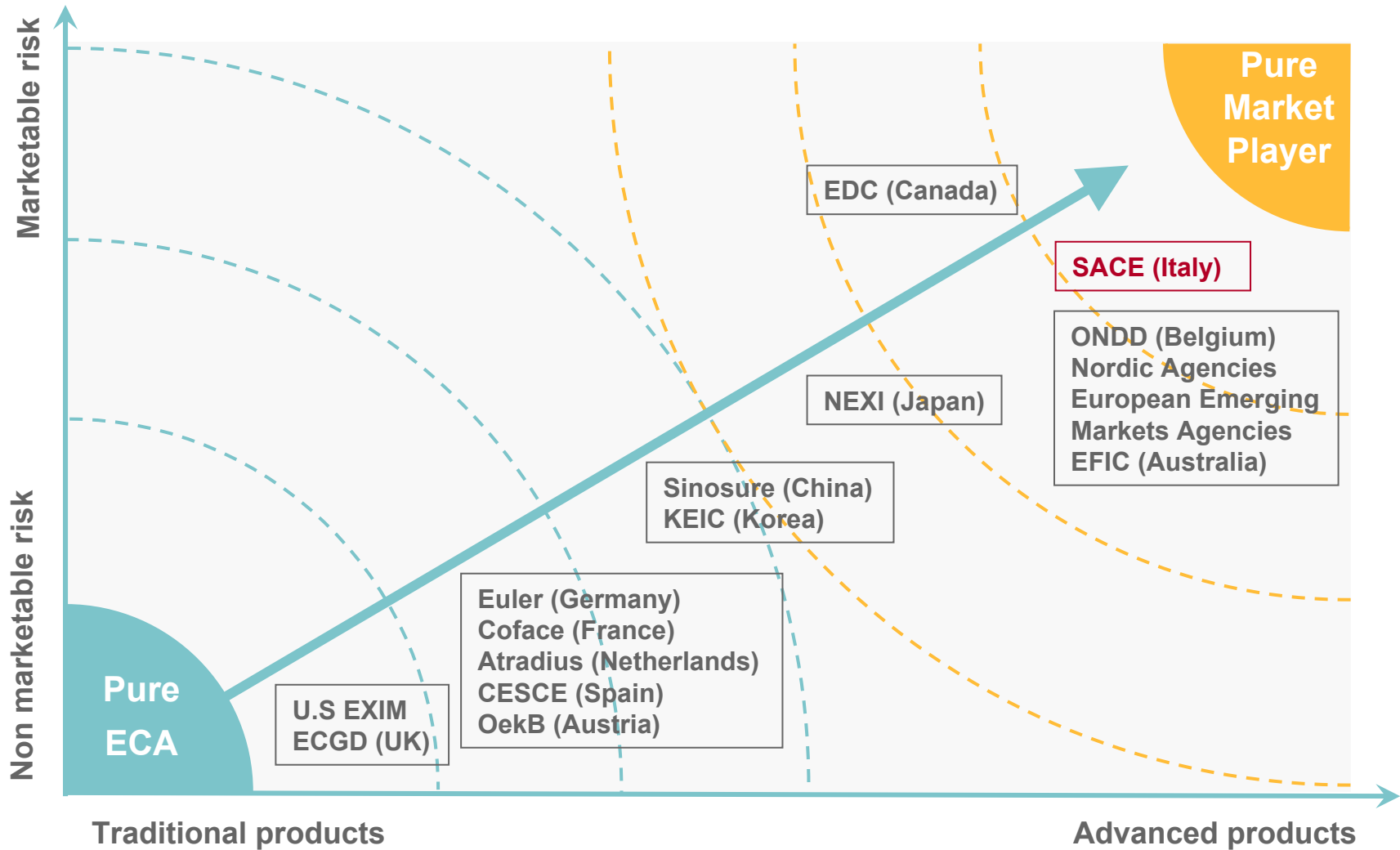
- Global demand collapse causes corporations to scale back and postpone CAPEX. 
- Balance sheet impairment causes banks to reduce new lending, especially for non-key clients, large project financings, etc. 
- Higher risk perception and scarce economic capital raise the demand for risk mitigants, at a time when the financial strength of private risk insurers is deteriorating. 
- Net impact on ECAs 
 - ✓ ECAs are approached at inception of any new project to play a catalytic role in raising the funding
 - ✓ Higher amounts and share of risks to be covered by ECAs (up to 100%)
 - ✓ The increasing number of applications has not yet turned into greater underwritten business because of funding shortage

COST

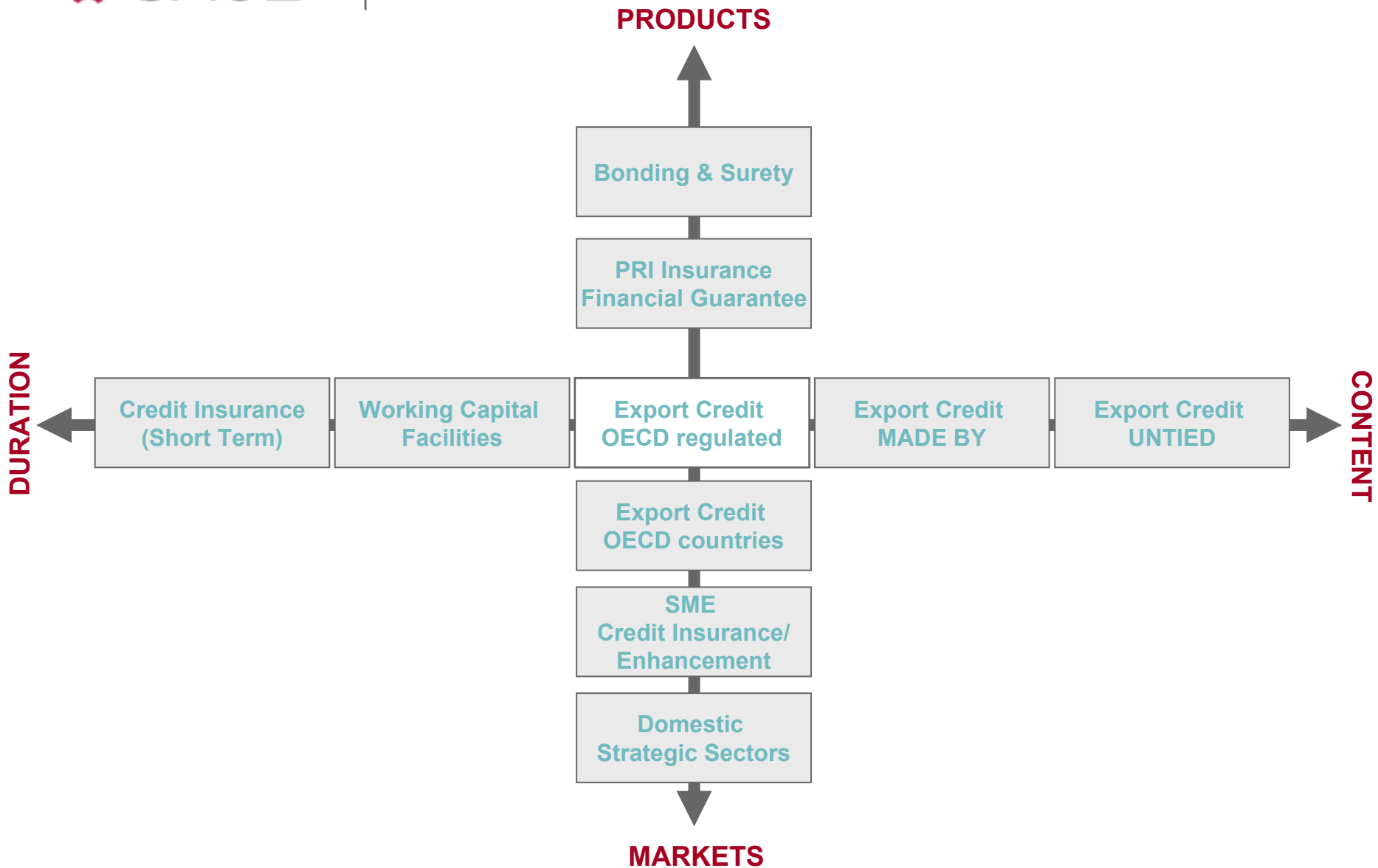
- Borrowing at “Libor flat”: a thing of the past
- The concept of liquidity premium: how to measure it?
- The concept of credit spread: how to disentangle it from the liquidity premium?

AVAILABILITY

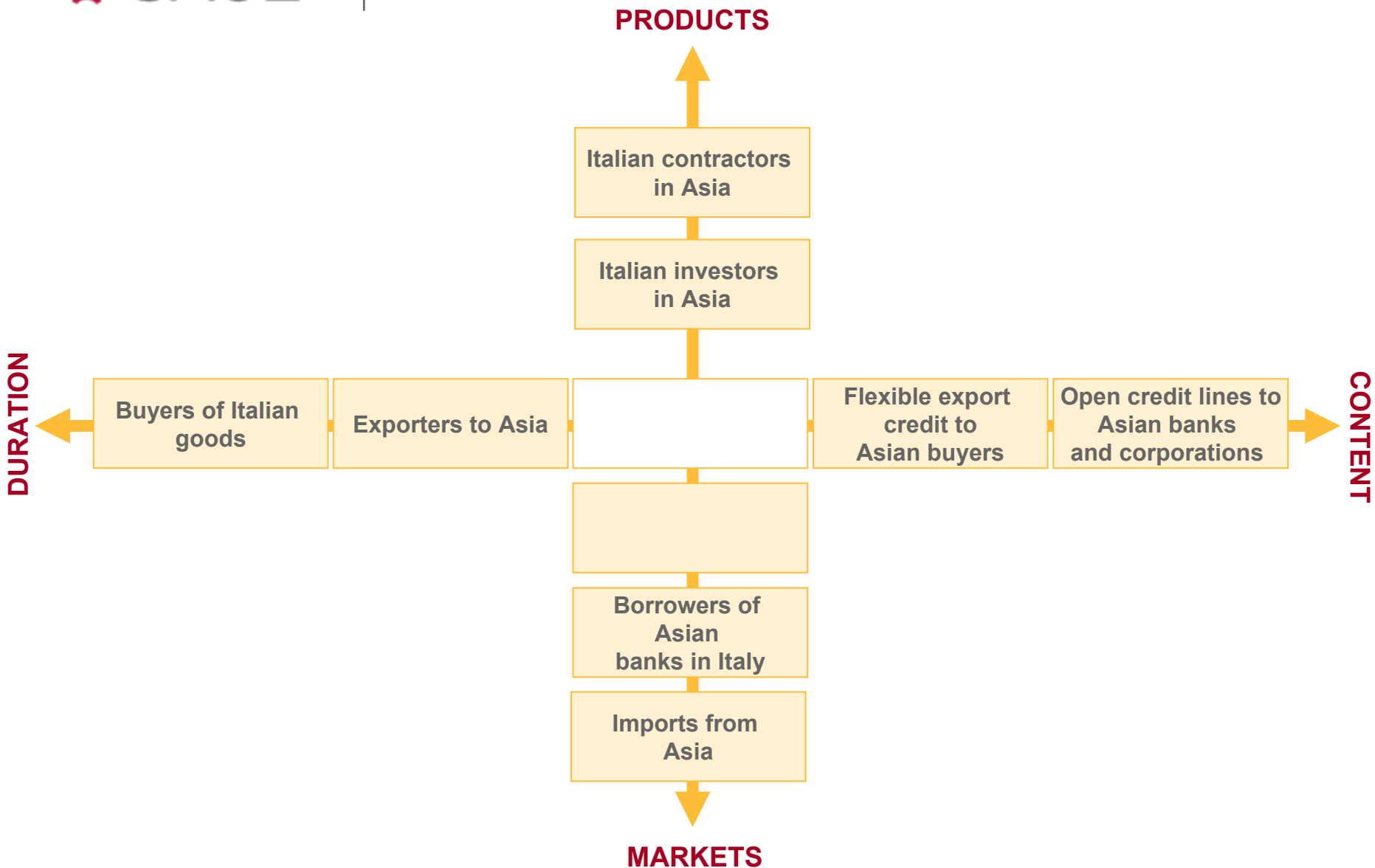
- Small lending facilities (Club deals); greater recourse to bond markets
- Little banks’ appetite for non key – clients, project financing, long maturities, etc
- No appetite for risk - sharing (i.e. looking for maximum cover)



The evolution of an ECA: becoming a global player



SACE as a global player: SACE Asia Office as the hub for the Asian continent.



The last step in the evolution of an ECA: from “pure cover” to lending

- From “pure cover” to lending: Eximbanks are back in business under different models:
 - ✓ Direct lending from ECAs to the final user or intermediaries
 - ✓ The twinning of public players: “pure cover” + lender
 - ✓ Refinancing of outstanding export credits: from central banks facilities to ad-hoc schemes
 - ✓ Other schemes: bond wrapping; bond purchasing

A few notes on the developments in SACE

- **Untied facilities**
- **Bond purchase**
- **Twinning with Cassa Depositi & Prestiti**



Thank you for your attention.

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