

The way forward

Changing patterns in world trade: opportunities and challenges

Beijing, October 2011

Changing patterns in world trade: some concerns

Short run

- What is going to be the impact on trade finance of the new rise in world risk aversion?

Long run

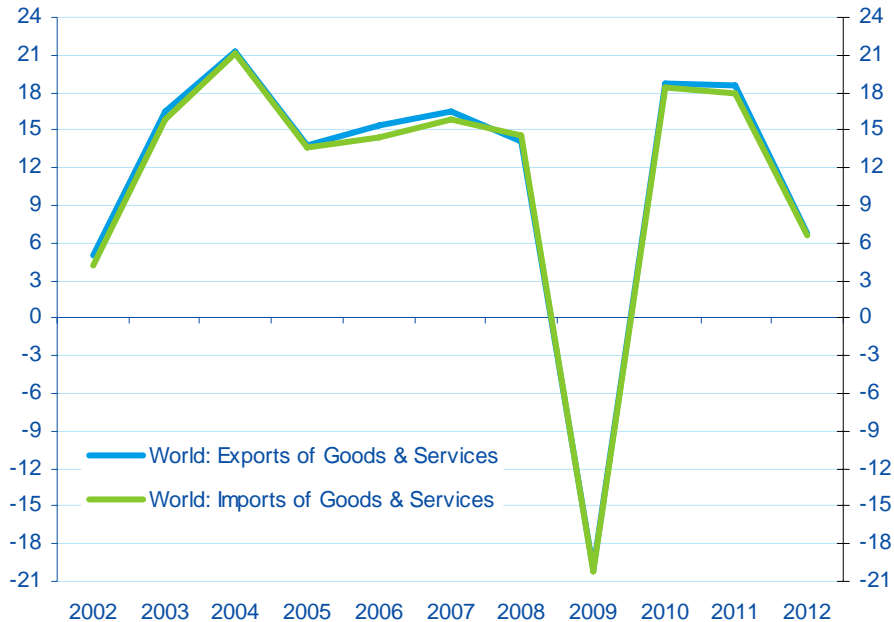
- Multilateralism and protectionism
- Regulation and Basel III

What is going to be the impact on trade finance of the new rise in world risk aversion?

Short run

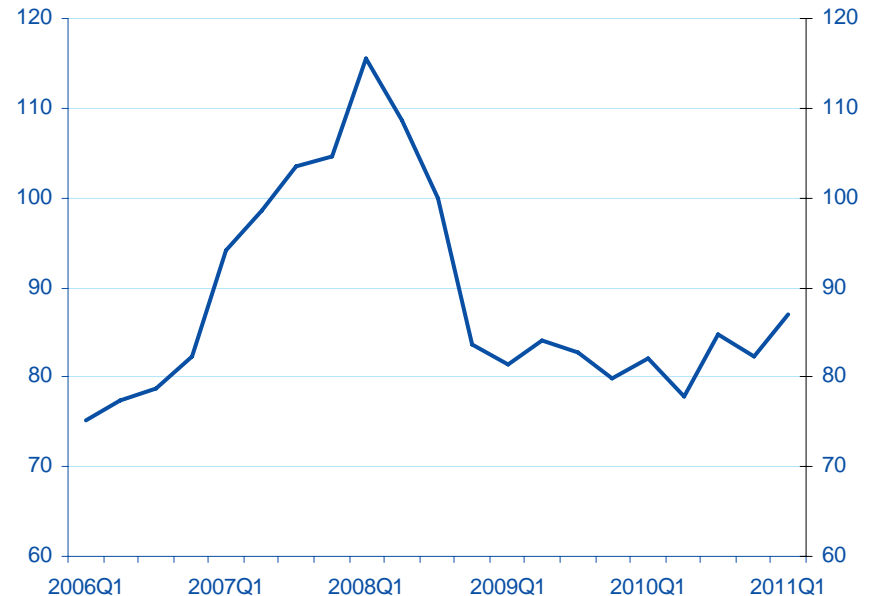
Previous experience from Lehman crisis shows a sudden stop in trade finance which partially explains the collapse of trade that followed the shock

World trade: Exports and Imports
(annual growth rate, percentage)



Source: IMF

Trade Finance: World short term liabilities with BIS banks
(index 2008Q3 = 100)



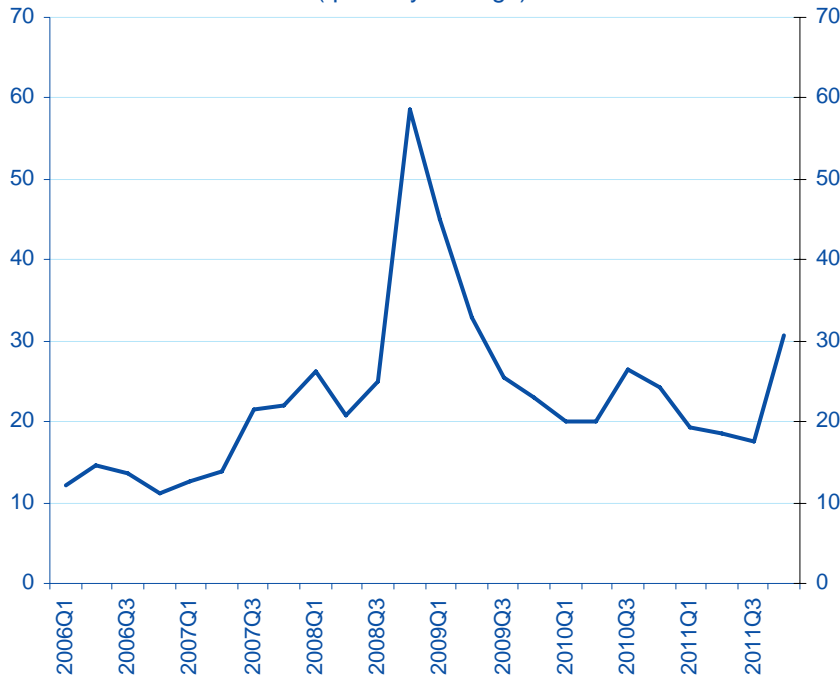
Source: World Bank

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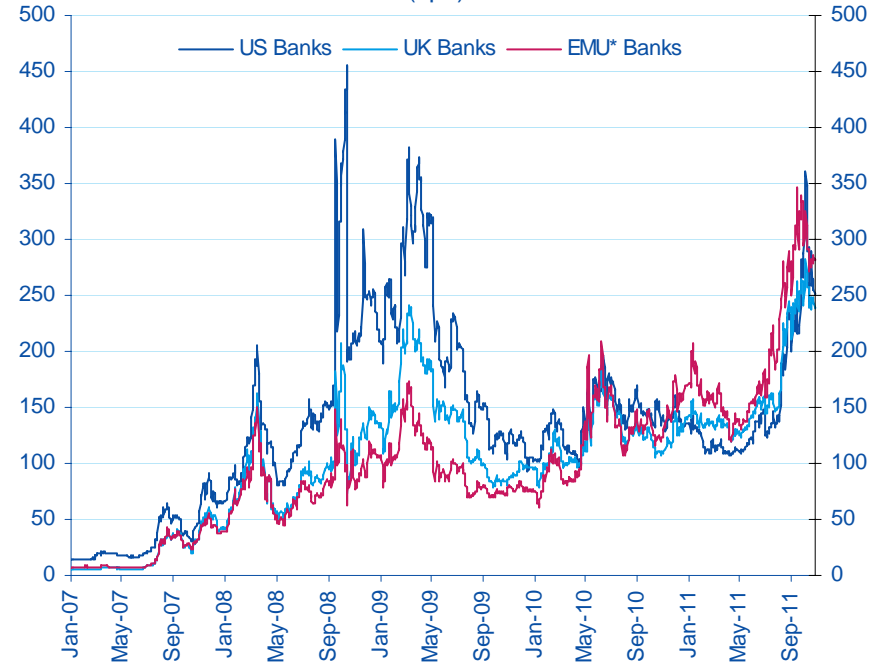
The increase in world risk aversion triggered a shortfall in credit. Bank's CDS are rising again

Vix Index
(quarterly average)



Source: Bloomberg

Banks 5Y CDS
(bps)



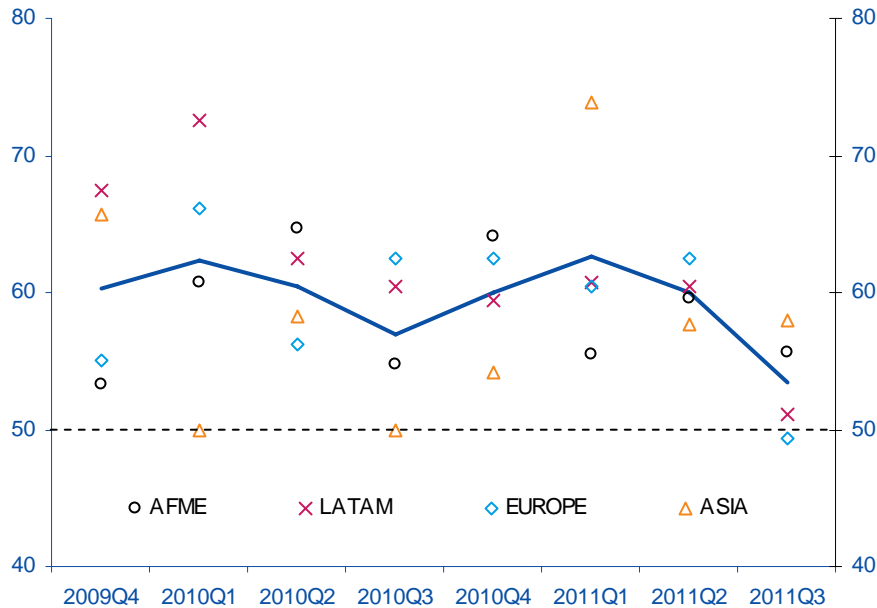
Source: Bloomberg

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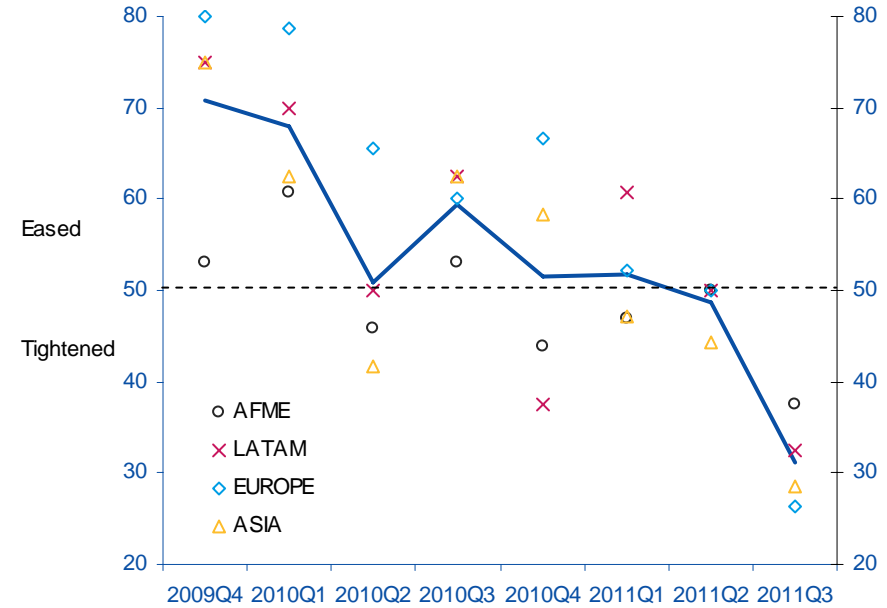
Surveys suggests trade finance conditions are deteriorating in particular in Europe and LATAM. Funding tightening in international markets seems to be a key reason behind this

Trade Finance Diffusion Index
(50 = neutral)



Source: IIF Emerging Markets Bank Lending Condition Survey

Funding conditions in international markets
(50 = neutral)

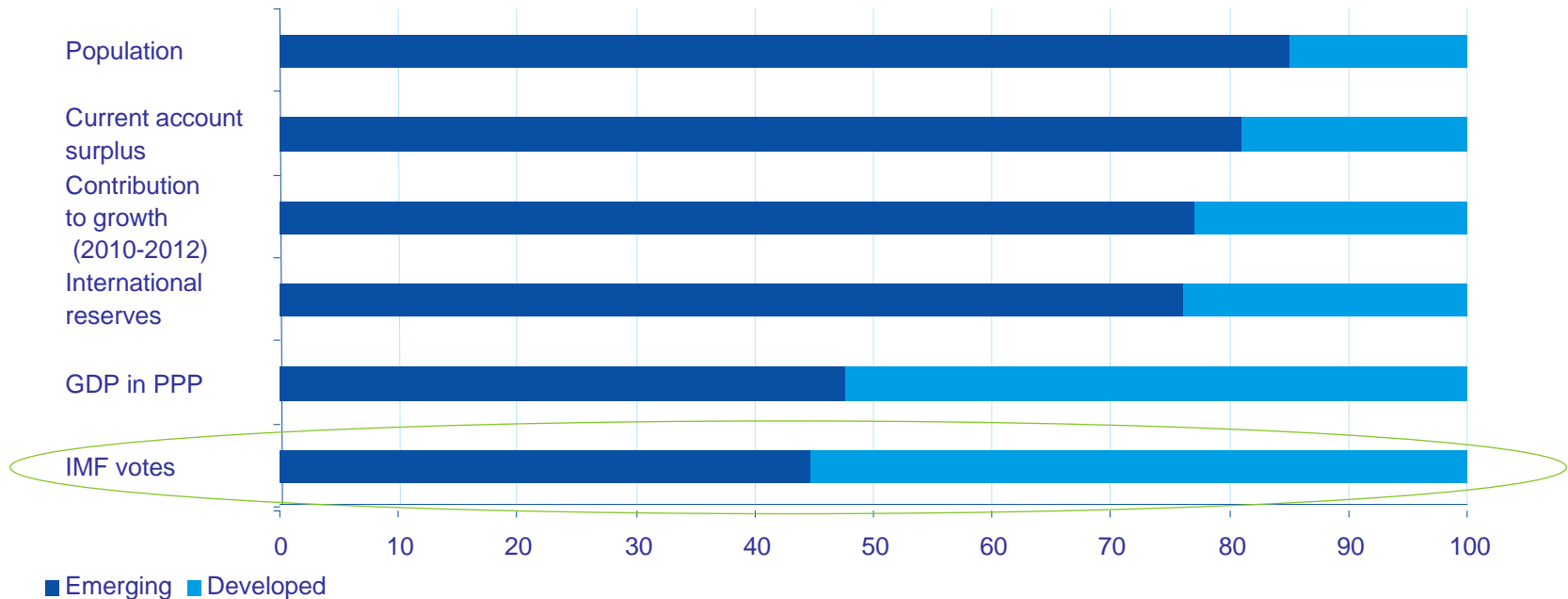


Source: IIF Emerging Markets Bank Lending Condition Survey

Multilateralism and protectionism

Long run

The rise of emerging markets will lead to a rebalancing of power
Currency wars, protectionism and the rise of RMB



Regulation and Basel III: Trade finance is penalized

Basel III

Basel I

- 20 to 50% Credit Conversion Factor (CCF) for most short-term self-liquidating trade-finance products in RWAs calculation (1.6% to 4% capital requirement)

Basel II

Similar CCFs as in Basel I, plus:

~~New 1-yr maturity floor
New sovereign floor~~

October 2011 revision


New waivers for short-term Letters of credit. Fixes most Basel II problems but not Basel III ones

Assessment: TF effectively recognized as one of the safest, most collateralised and self-liquidating forms of finance.

Assessment: Trade-related lending is disadvantaged through higher capital requirements especially for South countries.

Short maturity no longer recognized as a mitigant

- Same CCFs for capital than Basel II, plus

100% CCF for all OBS in leverage ratio (around 3% capital requirements) 

Increased AVC- Apply a 1.25 multiplier to the asset value correlation (AVC) of exposures to banks with assets of at least \$25bn, raising risk weights for trade finance exposures

New Liquidity ratios: trade finance products do not qualify as liquid assets and could be subject to stable funding requirements

Assessment: TF gets further penalized with high capital requirements. not

100% CCF not consistent with low risk nature of Trade Finance (very few trade instruments actually get converted to on-balance sheet)