IMF-BAFT Trade Finance Survey

A Survey Among Banks Assessing the Current Trade Finance Environment

INTERNATIONAL MONETARY FUND

BANKERS' ASSOCIATION FOR FINANCE AND TRADE

FImetrix

Market Research & Intelligence for Financial Institutions

Study Overview & Methodology

There is general agreement that the ongoing global financial crisis has produced a serious decline in the availability of trade credit along with increases in pricing.

In order to better understand the current trade environment and develop actions to alleviate some of the problems associated with it, the International Monetary Fund (IMF) and the Bankers Association for Trade & Finance (BAFT) have commissioned FImetrix to conduct a survey among banks worldwide.

An Internet survey questionnaire developed jointly by the IMF, BAFT, and FImetrix was administered March 10 – 23, 2009 using a sample of banks from both BAFT and FImetrix. Altogether, 44 banks completed the questionnaire from 23 countries.

Most of those responding to this study are located in Western Europe and North America. Over half report worldwide assets at over US$100 billion.

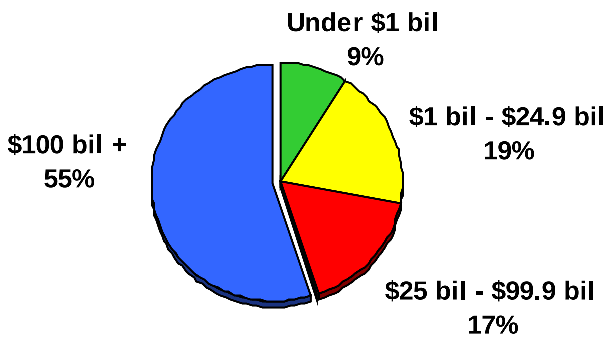
China leads as the most important trading partner, followed by India, Germany, USA, and Korea.

Regions Represented

	Bank Branch or Subsidiary	Global Headquarters
Western Europe	**43%**	**41%**
North America	**33%**	**29%**
Central/Eastern Europe	7%	7%
Latin America	7%	10%
Asia	5%	0%
Australia	2%	7%
Middle East	2%	5%
Africa	0%	2%

Total Worldwide Assets Of Respondent Banks

Expressed in US Dollars



Participating Countries

Australia	Italy	Spain
Canada	Kazakhstan	Saudi Arabia
Chile	Mexico	Switzerland
Denmark	New Zealand	Turkey
France	Norway	U.K.
Germany	Portugal	Uruguay
Greece	Romania	U.S.A.
Ireland	Russia	

Top Countries Mentioned as Most Important Trading Partners

Asia/Pacific Region	
China	**76%**
India	**42%**
Korea	**29%**
Hong Kong	18%
Japan	16%
Western Europe	
Germany	**29%**
U.K.	18%
Spain	13%
France	11%

North America	
USA	**29%**
Mexico	13%
Central/Eastern Europe	
Turkey	24%
Russia	18%
Latin America	
Brazil	16%

Key Findings

- The survey results suggest that decreases in value of trade finance business accelerated between October 2008 and January 2009 in almost all regions. The decline was most significant for Letters of Credit, but other product lines were adversely affected as well. This appears to be consistent with the significant decline in the world economy and credit markets during the fourth quarter.
- Survey respondents cite the primary reason for the recent decline in value of transactions is a fall in the demand for trade activities (73%). This lack of demand may help explain the softening in pricing increases. By comparison, the top reason for declining transaction value in the previous survey was “less credit availability” (35%).
- Compared with the period October 2007 to October 2008, more survey respondents cite increased capital requirements (58%, up from 42%) and increased risk (39%, up from 23%) as the reasons for recent increases in pricing during October 2008 to January 2009).
- Three in four respondents attribute the decline in value of trade transactions to decreasing demand, whereas, nearly six-in-ten attribute it to restrained credit availability. Only one in ten see the cause as economic weakness or rising global risk.

Changes in Value of Trade Finance Business by Product

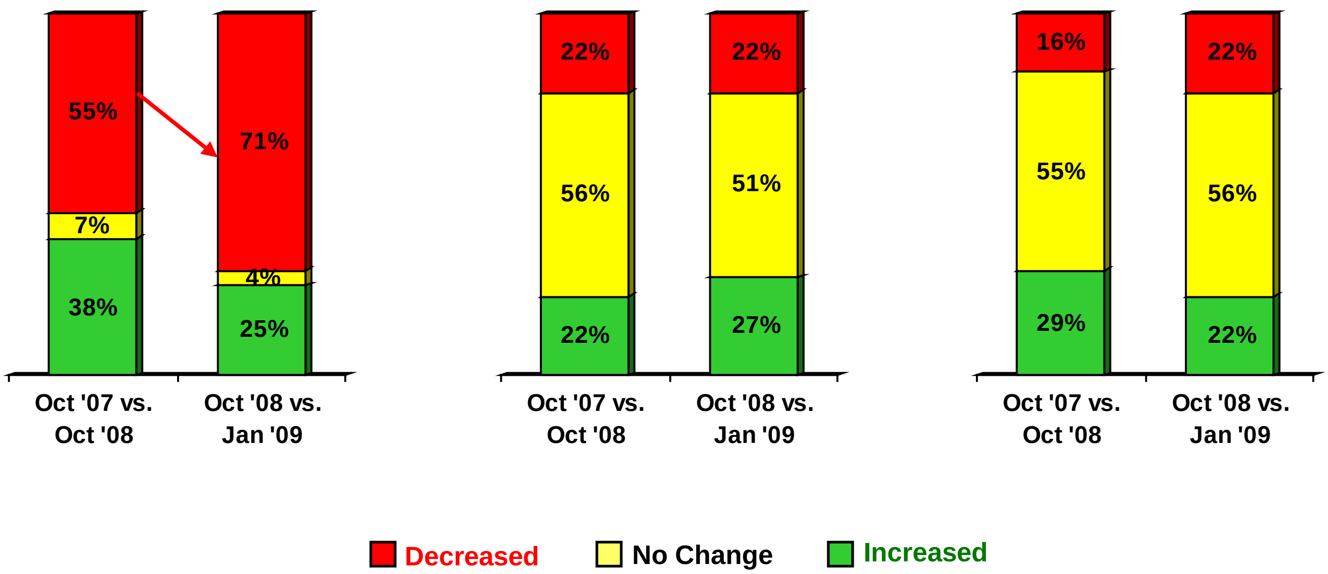
Study participants were first asked how the value of their Letter of Credit, Export Credit Insurance, and Short-term Export Working Capital business has changed over two specific time periods: October 2008 as compared to October 2007, and January 2009 as compared to October 2008.

Of the three product lines evaluated, the value of Letter of Credit has decreased the most in both timeframes, with an average decrease in value in January '09 versus Oct '08 of 11%. Nearly 3 out of 4 banks (71%) reported a decline in L/C value.

Both Export Credit Insurance and Short-term Export Working Capital experienced a slight increase in the overall value of the business in the year over year comparison from October 2007 and October 2008. This trend reversed itself in the last quarter of 2008 with a decline of 4% and 3%, respectively. Overall, there was very little noticeable change in the percentage of banks reporting an increase/decrease in their business for these two product lines between October 2007 compared to October 2008 and October 2008 compared to January 2009.

Product Line

Letters of Credit		Export Credit Insurance		Short-term Export Working Capital	
Overall Change in Value		**Overall Change in Value**		**Overall Change in Value**	
Oct '07 vs. Oct '08	↓ 8%	Oct '07 vs. Oct '08	↑ 2%	Oct '07 vs. Oct '08	↑ 7%
Oct '08 vs. Jan '09	↓ 11%	Oct '08 vs. Jan '09	↓ 4%	Oct '08 vs. Jan '09	↓ 3%



Changes in Value of Trade Finance Business by Region

The overall value in trade finance business has declined in every region when comparing January 2009 to October 2008. The average percent of decline during this time frame is highest in Eastern Europe (down average of 13%) and lowest in the Middle East/Maghreb region (down average of 5%).

It is interesting to note that the Middle East/Maghreb region is the only one where the average percent decline reported was higher in Oct '08 vs. Oct '07 than in the more recent timeframe (Jan '09 vs. Oct '08).

When comparing October 2008 to October 2007, value declines are reported in all but two regions. The exceptions are South Asia, where an average increase in value of 5% is reported and Central Europe, where a very slight increase is reported.

Across each of the eight geographic regions evaluated, there was a double digit change in the percentage of banks reporting a decline in the value of their trade finance business between October, 2008 and January, 2009. The largest reported difference was trade within industrialized countries.

Geographic Region

Change in Percent of Banks Reporting a Decline Oct '08 vs. Jan '09

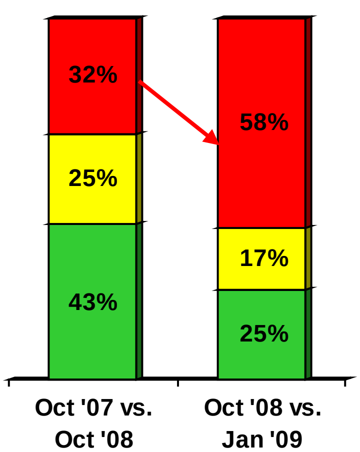
Industrialized Countries	26
Latin America	19
South Asia	19
Emerging East Asia	18
Central Europe	17
Sub-Sahara Africa	15
Eastern Europe	12
Middle East/Maghreb	10

Industrialized Countries

Overall Change in Value

Oct '07 vs. Oct '08 ↓ 1%

Oct '08 vs. Jan '09 ↓ 9%

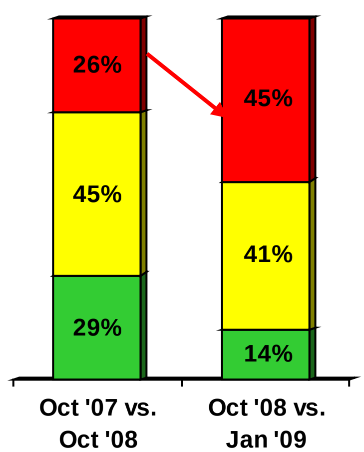


Latin America

Overall Change in Value

Oct '07 vs. Oct '08 ↓ 4%

Oct '08 vs. Jan '09 ↓ 9%



Decreased No Change Increased

Charts continue on next page.

Changes in Value of Trade Finance Business by Region . . .*Continued*

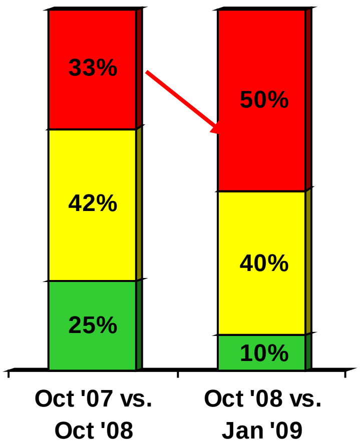
Geographic Region

Central Europe

Overall Change in Value

Oct ’07 vs. Oct ’08 ↑ <1%

Oct ’08 vs. Jan ’09 ↓ 11%

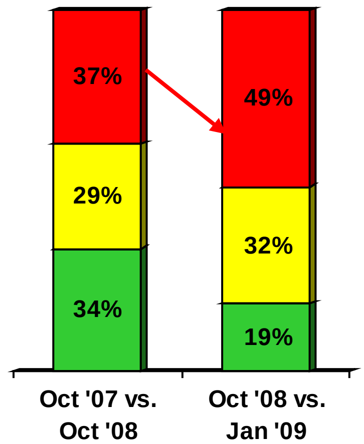


Eastern Europe

Overall Change in Value

Oct ’07 vs. Oct ’08 ↓ 6%

Oct ’08 vs. Jan ’09 ↓ 13%

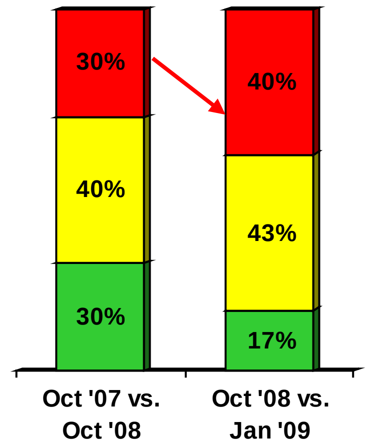


Middle East & Maghreb

Overall Change in Value

Oct ’07 vs. Oct ’08 ↓ 10%

Oct ’08 vs. Jan ’09 ↓ 5%



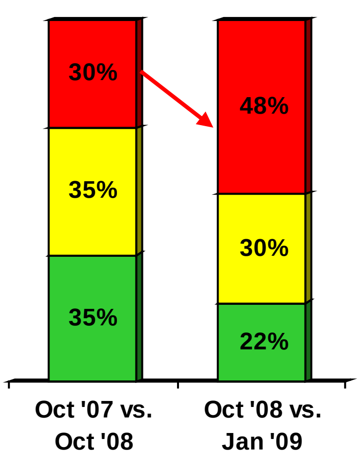
Decreased | No Change | Increased

Emerging East Asia

Overall Change in Value

Oct ’07 vs. Oct ’08 ↓ 3%

Oct ’08 vs. Jan ’09 ↓ 10%

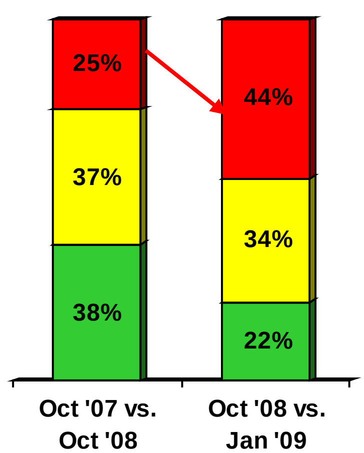


South Asia

Overall Change in Value

Oct ’07 vs. Oct ’08 ↑ 5%

Oct ’08 vs. Jan ’09 ↓ 9%

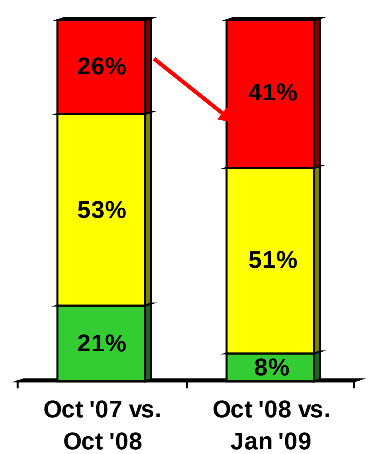


Sub-Sahara Africa

Overall Change in Value

Oct ’07 vs. Oct ’08 ↓ 1%

Oct ’08 vs. Jan ’09 ↓ 8%

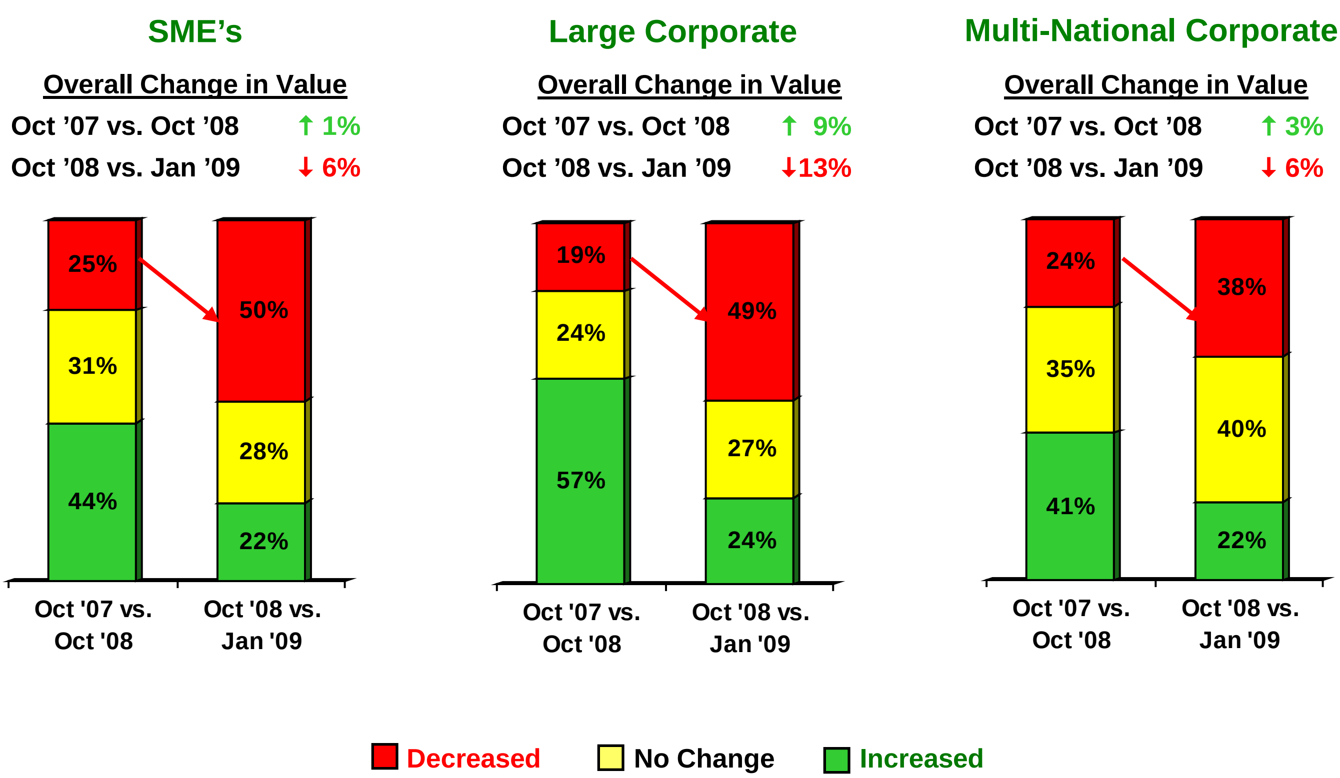


Changes in Value of Trade Finance Business by Corporate Customer Segment

Up until October, 2008, banks were reporting an increase in the overall value of their trade finance business with their corporate customer base. This is particularly true with the large corporate segment, where there was a near double digit increase over the prior year. However, this pattern reversed itself between October, 2008 and January, 2009 when each of the corporate sectors evaluated reported a decline in value. The most noticeable change was within the large corporate segment with a -22 point swing in value. Further, the number of banks reporting a decline in value in their large corporate business was 2.5 times greater than reported in October 2008 (19% versus 49%). This compares to the prior time period when nearly six in ten reported an increase in trade finance with large corporate customers.

The change in value within the other two customer segments is less severe, but still trends downward over the last quarter of 2008.

Corporate Customer Segment



Key Reasons for a Decline in Value of Trade Transactions

Given a list of six factors that can affect a decline in value, nearly three in four say it is a fall in the demand for trade activities that has contributed to this decline. This is followed by less credit availability at their own institution and at counterparty banks. A few also add, in addition to the six factors listed, that the economic crisis in general has contributed to the decrease in value.

Where Value of Transactions has Declined, is this due to . . .?

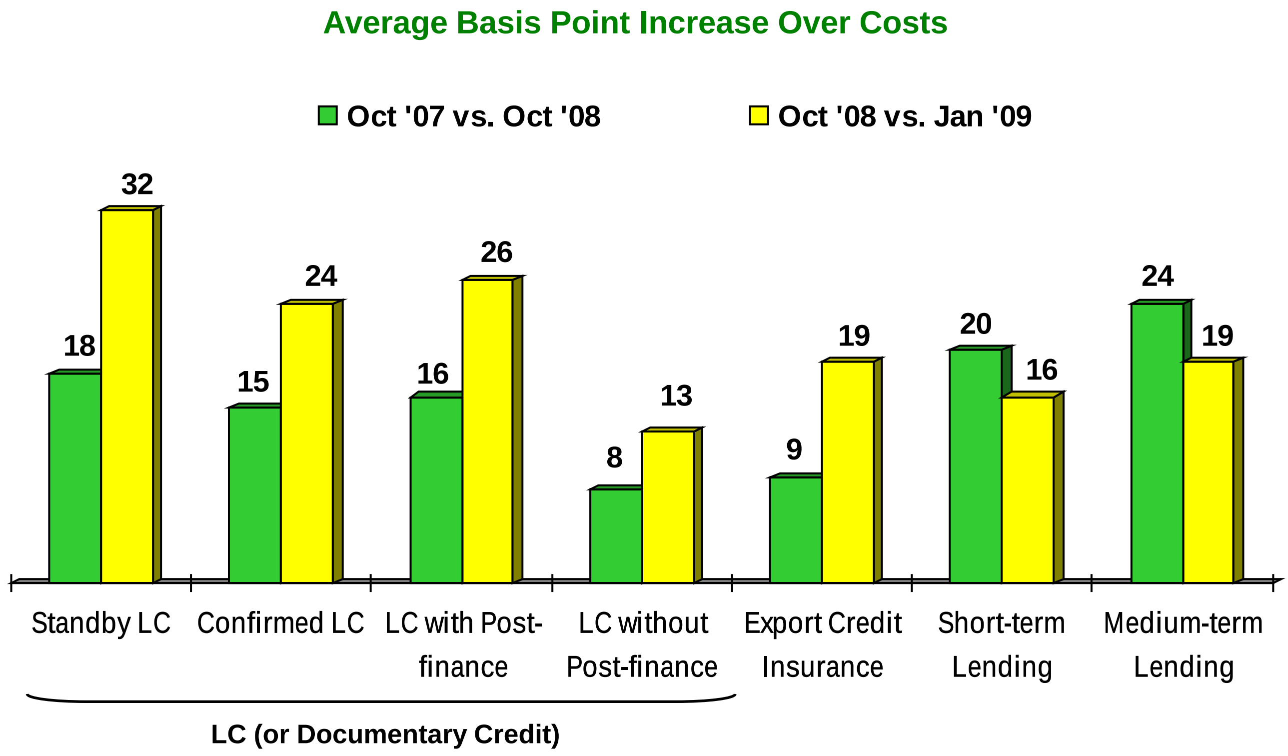
A fall in the demand for trade activities	73%
Less credit availability at your own institution	57%
Less credit availability at your counterparty banks	57%
A fall in the price of transactions	43%
A shift towards cash-in-advance transactions	14%
A shift toward open account	14%
Economic crisis; increased risk at the global level	11%
Other	11%

Impact of Recent Developments on Price of Trade Instruments

Bankers were asked to evaluate the impact of recent developments in October 2008 vs. October 2007 and January 2009 vs. October 2008 on the price of trade finance by indicating the change in basis points over the costs of funds.

Recent developments have clearly affected the price of trade instruments, particularly in the October 2008 to January 2009 timeframe. The average increase in basis points is especially notable with regard to Export Credit Insurance which doubled in price. Across all of the Documentary Credit instruments pricing increased, in some cases nearly double the price compared to October, 2008.

Only pricing on term lending declined (albeit slightly) over the last few months of 2008.



Impact of Recent Developments on Price of Trade Instruments . . . *continued*

In both time periods, the majority indicate that the increase in basis points is mainly due to their own institution's increased cost of funds.

Reflecting the credit market at the end of 2008, increased capital requirements appears to have made a greater impact on price in the October 2008 to January 2009 timeframe.

Those who indicated that pricing increased because of increased capital requirements were further asked how the implementation of Basel II impacted their ability to provide trade finance. Opinions are somewhat divided among the 15 who respond to this question. Four in ten say it has had no impact, while about one-third indicate a positive result and one-fourth a negative impact.

Has Pricing of Trade Finance Increased Because of . . .?

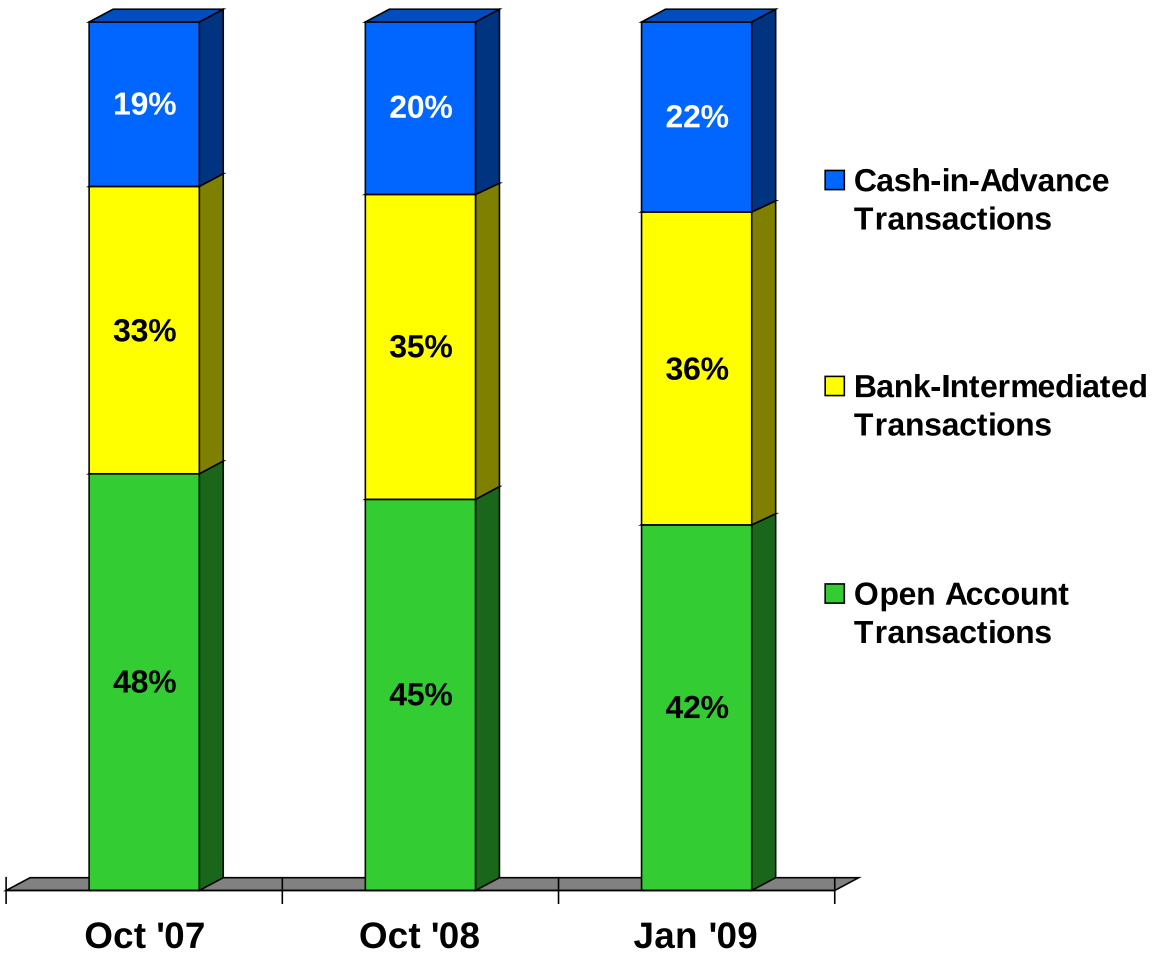
	Oct '07 vs. Oct '08	Oct '08 vs. Jan '09
Own institution's increased cost of funds	**81%**	**71%**
Increased capital requirements	**42%**	**58%**
Increased risk of trade finance products relative to other working capital lending to same non-financial corporate borrowers	**23%**	**39%**

How Has the Implementation of Basel II Impacted Your Ability to Provide Trade Finance?

No impact	**40%**
Negative impact	**33%**
Reduces ability to undertake new business; greater restrictions and more costly	
Positive impact	**27%**
Includes more selective trade finance offerings; risk rating more individual	

Composition of Trade Finance Business

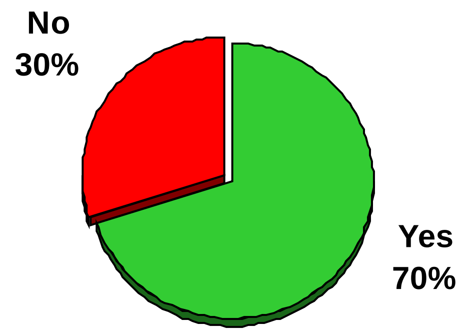
When asked about the composition of trade finance business in each of three time periods – October 2007, October 2008, and January 2009, open account transactions make up the largest percent of transactions in all three time periods. There is a slight decline however from October 2007 to January 2009 in the percent who mention open account transactions and a corresponding increase, though small, in the percent who cite cash-in-advance and bank-intermediated transactions. Overall, however, there is very little change in the way trade finance has been transacted since October, 2007.



Changes in Trade-related Lending Guidelines

Seven in ten say that trade-related guidelines have changed since October 2008. Of them, more that three in four say these guidelines have become more cautious with certain countries and certain sectors and two-thirds say they requested shorter tenors.

Have Trade-related Guidelines Changed Since October 2008

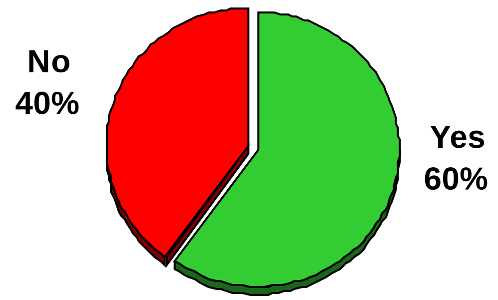


How Guidelines Have Changed

More cautious with certain countries	83%
More cautious with certain sectors	77%
Requested shorter tenors	67%
Requested more collateral	47%
Requested more DC or LC	43%
Requested more Export Credit Insurance	37%
Requested stronger covenants	20%

Underscoring the change in lending guidelines to become more cautious, six in ten of those who say trade-related guidelines have changed since October 2008 also say they have seen a change in the probability of defaults in trade finance instruments.

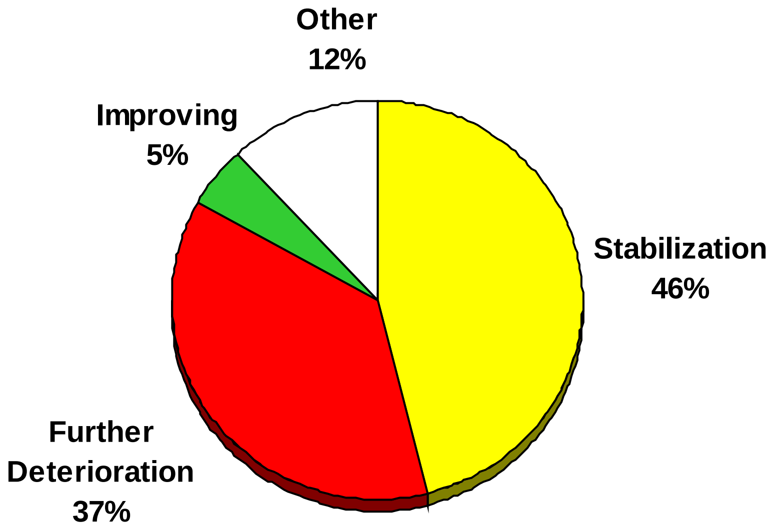
Have Seen a Change in the Probability of Defaults in Trade Finance Instruments (Jan '09 vs. Oct '08)



Trade Finance in 2009

Bankers responding to the survey are split on their forecast for the coming year. While few expect an improving environment for trade finance in 2009, slightly more than four in ten lean toward expecting trade finance to stabilize this year, though a high percent – nearly four in ten – expect further deterioration.

How Do You See Trade Finance Evolving in 2009?



What Official Sectors Should Do with Respect to Trade Credit Financing

In an open-ended question, respondents were asked what the official sector (government and international financial institutions) should do with respect to trade credit financing.

Most offer suggestions which center around greater government involvement in providing credit, support, and policies specific to the trade finance industry.

Provide more credit lines through official bodies; take a more active role in alleviating credit pressures through ECAs; more lending support; MCAs provide more funding	**29%**
Government schemes should target trade finance specifically; preferential treatment of trade transactions; more flexible support of trade products; more pro-active policies; stronger assistance for trade	**26%**
Expand government guarantee programs; stronger guarantees; flexible, creative guarantees	**17%**
Provide insurance/funding at a lower price; more involvement of government credit insurance; increase trade insurance	**14%**
Simplify, reduce criteria; process requests more efficiently and less bureaucratically	**11%**
Government should control it thoroughly; greater government involvement; consider government owned or backed international trade bank	**9%**
Avoid protectionism	**9%**
Facilitate and accelerate financing to emerging markets	**6%**
Other	**20%**
No answer	**9%**