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IV. Eximbank

A. Methodology

The focus of this analysis is to determine the adequacy of Eximbank's budget authority for FY 83 and the Administration's requests for FY 84, if the Bank is called upon to provide extraordinary financing in response to the international debt problem.

The analysis will first describe Eximbank programs and its response thus far to the debt problem. Secondly, the paper will estimate demand for "normal" Eximbank financing through the end of FY 84, i.e., the level of Eximbank direct credits required to neutralize foreign export credit subsidies and the level of guarantees and insurance required to cover standard commercial and political risk not directly associated with the debt crisis.

The core of the paper is the estimate of demand for extraordinary Eximbank financing to meet contingencies arising from debt problems through the end of FY 84. Two scenarios will be evaluated: (1) estimated demand for extraordinary Eximbank support if one major debtor country and 2-3 medium-sized debtor countries experience severe liquidity problems; and (2) estimated demand for extraordinary Eximbank financing if two major debtor countries and 4-6 medium-sized debtor countries experience severe debt problems. Finally, the paper will evaluate the non-financial, non-budgetrary capabilities and constraints on Eximbank.

B. Eximbank Charter Authority

The primary purpose of Eximbank under its charter is to aid in financing and to facilitate U.S. exports. The charter emphasizes that Eximbank should provide financing for U.S. exports competitive with financing offered by other governments.

The charter is sufficiently broad to allow Eximbank to be used for contingencies which could arise from LDC debt problems. The charter would not prohibit the Bank from (1) drawing on existing programs, (2) tailoring existing programs to respond to debt problems or even (3) establishing new programs, if necessary, provided that the financing supports U.S. exports and offers "reasonable assurance of repayment." To the extent that special programs or large amounts of extraordinary financing would be required to meet the debt problem, it would be essential for the Administration to consult with key members of Congress before implementing any special actions.

C. <u>Existing Eximbank Programs</u>

Eximbank's buyer credit or project financing window provides long-term financing in the form of either direct loans at fixed interest rates and 5-10 year repayment terms, as well as financial guarantees of private source loans for heavy capital equipment and capital intensive projects:

-- Direct credits are "targeted" to where the need is greatest to nuetralize foreign, officially-supported, subsidized export credits.

-- The <u>minimum</u> terms (interest rates, repayment term, cover) of officially-supported export credits are governed by the OECD Arrangement on Export Credits. At the present time, Eximbank's interest rates and repayment terms precisely match the terms of the Arrangement. The current terms of the Arrangement, however, may change, since a new round of negotiations is scheduled for October, 1983.

-- The convergence of commercial interest and the minimum interest rates under the Arrangement has presented an opportunity for Eximbank to make increasing use of its guarantee and insurance programs in the provision of competitive financing.

Eximbank's supplier credit window offers financial support through medium-term commercial bank guarantees, medium-term credits, and short- and medium-term export credit insurance.

-- Eximbank's support for short-term (up to 180 days) export sales has rested exclusively with the export credit insurance program which it has previously operated jointly with the Foreign Credit Insurance Association (FCIA), a group of fifty private U.S. underwriters. Typically, short-term insurance is used for such exports as commodities, raw materials, chemicals and spare parts.

- The program offers insurance covering commercial and political risks on financing that U.S. exporters and banks extend to their foreign buyers.

- FCIA has covered commercial risk (at 90 percent of principal, interest to maturity date at Chase-Manhattan prime rate on date of shipment). As of September, 1983, however, FCIA will no longer participate in Eximbank insurance programs. Commercial coverage will be for Eximbank's sole risk.

- Eximbank has covered all political risk (100 percent of principal, interest to maturity date at Chase-Manhattan prime rate on date of shipment) and has reinsured FCIA commercial coverage beyond specified country and aggregate limits. As of September, 1983, FCIA will no longer participate in new Eximbank insurance; all commercial and political coverage for new insurance will be for Eximbank's sole risk.

-- Medium-term insurance policies, previously operated jointly with FCIA, cover exports of capital equipment and other products generally sold on terms of 181 days to five years, with policies written on case-by-case, seller-to-buyer basis. Such insurance covers capital goods and quasi-capital goods such as power generating equipment, transport equipment, and industrial machinery.

- Eximbank covers 100 percent of political risk and interest up to Treasury bill plus one percent from time of default.

- Eximbank will assume commercial risk coverage (90 percent of principal, interest up to Treasury bill plus one percent) on all new insurance, as of September, 1983.

-- The Bank Guarantee Program offers protection against commercial and political risks on medium-term debt obligations acquired by banks from U.S. exporters. The program covers capital and quasi-capital goods and insurance coverage is the same as under the medium-term insurance program.

-- The Medium-term Credit Program offers fixed-rate medium-term financing under a discount loan program with commercial banks to neutralize foreign, officially-supported, subsidized credits.

Generally, Eximbank's Direct Credit Program and Medium-term Credit Program are designed to counter subsidized foreign competition. The Bank's various insurance and guarantee programs, on the other hand, are designed to improve access to commercial export financing by covering the export credit against political and commercial risks.

D. <u>Eximbank's Response to the International Debt Problem</u>

Generally, Eximbank has remained open for business in most markets, even in the face of the international debt problem. Eximbank has taken a country-by-country approach to the issue of determining "reasonable assurance of repayment." The Bank implements specific country policies by specifying conditions for long-term lending under its buyer credit window and adjusting its country limitation schedule for supplier credits.

Some examples of the variety of Eximbank approaches to meet each particular country situation are given below:

-- In Chile, Venezuela, Brazil, and Colombia, Eximbank has stayed open under all programs, but modified the country limitation schedules. At this time, Eximbank's short-term country limitation schedule requires an import certificate from the central government to ensure that the transaction is consistent with the government's efforts to control imports. The Bank also reduced the discretion allowed to U.S. exporters under the short-term and medium-term FCIA insurance programs to $50,000.

-- In Peru, Eximbank has decelerated the consideration of new long-term commitments until Paris Club Agreement is negotiated and adopted the same country limitation schedule as above.

-- In Argentina, Eximbank has adopted a very restrictive approach in light of continuing public sector arrearages. Nonetheless, Eximbank has continued to honor major outstanding credits and commitments for major infrastructure projects, including the hydroelectric project at Yacyreta and a large order of locomotives.

-- In Ecuador, Eximbank has deferred consideration of new business until a bilateral agreement is executed on basis of Paris Club agreed minutes.

-- In Nigeria, Eximbank has deferred action on new requests for long-term commitments, but has considered extension of existing commitments on a case-by-case basis. Extensions of commitments have been granted for those projects that are revenue-generating, or essential infrastructure such as water resources, power, transportation and communications. Eximbank has continued to offer shortterm and medium-term insurance, but has adjusted the country schedule to require a 360-day waiting period before the holder of the policy can file a claim for transfer risk.

-- In Egypt, Eximbank has followed a cautious policy in which the Bank avoids the large infrastructure projects and large capital equipment transactions more suitable for concessional financing. In general, Eximbank offers support for modest-size projects with potential to earn foreign exchange to service debt. Eximbank requires a government guarantee for transactions involving public sector entities, and the guarantee of a major commercial bank for private sector undertakings.

-- In Turkey, Eximbank has approved a $200 million limit for new business under its operating arrangement with the Ministry of Finance for the coming year.

-- The Bank has also revised the country limitation schedule for a number of countries in Africa and Central America by reducing discretionary limits and requiring government guarantees.

Eximbank also responded to Mexico's major liquidity crisis by establishing two special $100 million insurance facilities with major Mexican governement agencies (Nafinsa and BNCE), as well as increasing the aggregate limit on its insurance facility with Pemex from $125 million to $275 million, to cover new sales with short term or medium term repayment according to the usual criteria relating to the character of the export. These facilities had the following characteristics:

-- Eximbank required the full faith and credit guarantee of the Government of Mexico for transactions financed under these facilities. Eximbank insurance and guarantee programs to sovereign public buyers cover 100 percent of principal against political and commercial risk. This level of cover makes insured trade finance U.S. risk for the commercial banks engaging in them and effectively circumvented commercial bank exposure limit problems. In addition, an umbrella guarantee would allow Eximbank to show "reasonable assurance of repayment"; governments remain current in servicing their own debt, and Eximbank is likely to recover on any claims arising under such a facility.

-- The BNCE and Nafinsa facilities primarily covered short-term (180 day) exports, which theoretically enables the insurance to be rolled over to cover additional transactions during the year. About one-half of the Pemex facility supported medium-term exports.

-- The facilities allowed maximum flexibility to the Mexican Government in responding to its liquidity problem. The Mexicans could determine the priority products to be covered, as well as which U.S. exporters and banks would have access to the facilities.

-- Mexico had to promote the facility for it to be used. This required identifying interested U.S. banks and concluding loan agreements.

-- Eximbank adjusted its insurance policies to give cover equivalent to an Eximbank financial guarantee. Insurance cover commenced from the time of bank commitment, and cover of interest was extended to include period from date of default to date of claim payment.

-- Eximbank required documentation at the time of each export to trigger cover under its insurance programs. Documentation ensured that the support was for U.S. exports (legislatively required) and set terms of coverage (which differ depending on type of product and amount of deal).

The Mexican insurance facilities are a good model of the type of extraordinary financing support which Eximbank can provide in response to severe liquidity problems. The major advantages of these facilities are:

-- The line would draw on existing Eximbank guarantee and insurance authority, consistent with the Administration's budget policy to put more emphasis on guarantees and insurance.

-- The commodities, spare parts, and capital goods which a debtor country in trouble needs are usually financed on a short-term or medium-term basis through Eximbank's insurance programs.

-- Eximbank can set up an insurance facility very quickly, presuming it has the budget authority and gets the guarantee of the debtor country government.

The key question has been the speed with which these lines could be drawn for specific transactions. As of June 30, 1983, goods totalling $ million have been shipped under the Mexican facilities. The delays arose primarily from internal Mexican allocation proceures. In addition, the negotiation of loan agreements with individual commercial banks proved time-consuming. (The Mexicans reportedly were trying to shave points.) Nonetheless, it is expected that the insurance facilities will be fully used.

E. <u>Eximbank Budget Policy</u>

The President submits the Administration request for Eximbank budgetary <u>authority</u> and Congress sets limits on Eximbank's (1) direct credit authority and (2) guarantee and insurance authority for each fiscal year. The Bank is <u>not</u> permitted to shift direct credit authority into guarantee/insurance authority (or vice versa) without Congressional approval, but is permitted to shift authority among its various guarantee and insurance programs. In terms of the budget itself (as opposed to budget authority), only Eximbank's net direct loan activity (essentially gross loan disbursements minus loan repayments) appears on the loan account of the budget; Eximbank's guarantee and insurance programs are not included in the budget.

For FY 1983, the Administration requested $3.8 billion in direct credit authority and $8.0 billion in guarantee and insurance authority. Congress authorized $4.4 billion in direct credits and $9.0 billion in guarantees and insurance. (For planning purposes, however, OMB instructed Eximbank to use $8.0 billion as its cap on insurance and guarantees.)

For FY 1984, the Administration has requested budget authority of $3.8 billion in direct credits and $10.0 billion in guarantees and insurance. In addition, the Administration pledged that it would request supplemental direct credit authority of up to $2.7 billion, if needed to meet inappropriate foreign subsidized financing.

These requests reflect both the Administration's long-run export credit policy and response to the international debt situation. The level of requested direct authority reflects expected economic trends, as well as an effort to increase use of long-term guarantees. The $10 billion request for insurance and guarantees represents a $2.0 billion increase over the FY 83 request and is $4.0 billion more than the Bank authorized in FY 82.

The FY 84 request for guarantee and insurance authority was specifically designed to encourage the continued availability of credit for U.S. exports in the face of the ongoing indebtedness problems in developing countries.

F. Available Authority for FY 83 and FY 84

FY 83 Authority: Eximbank's projections as of June 28, 1983, indicate that it will have considerable program authority available for extraordinary financing through the rest of FY 83. Remaining direct credit authority will amount to at least $2.0 billion, while remaining guarantees and insurance authority will amount to at least $1.0 billion (based on the OMB guideline of $8.0 billion for FY 83, rather than the $9.0 authorized by Congress). With two months remaining in FY 83, the $3.0 billion in excess authority should be ample for any contingencies which may arise.

FY 84 Authority: The Administration has requested $3.8 billion in direct credit authority and $10.0 billion in guarantee and insurance authority. It is difficult to project exactly how much room there will be for special programs in FY 84, but it is possible to construct rough estimates based on historical levels and projections of U.S. exports (especially capital goods) and the historic ratio of Eximbank activity. The demand for Eximbank resources will be a function of (1) foreign competition, (2) the interest rate environment in the United States, (3) the interest rate matrix of the Export Credit Arrangement, (4) the level of U.S. exports, especially to developing countries and (5) the demand for project finance.

(1) Direct Credits. Eximbank direct credits will continue to be targeted against foreign, officially-supported, subsidized financing. Demand for Eximbank direct credits to support non-aircraft exports to relatively rich countries will be small, given the current level of commercial interest rates and Arrangement rates for relatively rich countries. Eximbank will continue to offer competitive financing for exports to intermediate and relatively poor countries, as well as competitive aircraft, unless U.S. interest rates drop or the new Arrangement eliminates export credit subsidies for intermediate and poor countries.

The demand for Eximbank direct credits for FY 84 is roughly estimated to be no more than $3.8 billion, the amount which the Administration requested. This estimate is based on the following:

-- The demand for Eximbank support for non-aircraft, non-nuclear capital is estimated at $2.4 billion for FY 84. This estimate is based on the typical share of capital goods exports supported by Eximbank and Chase and DRI projections that capital goods exports will remain basically flat during FY 83 and FY 84. This estimate is further substantiated by demand estimates based on a forecast of major projects likely to require Eximbank support in FY 84.

-- The demand for Eximbank support for nuclear projects is likely to be only $250 million low in FY 84. The low level of demand is due primarily to the low level of activity in the nuclear sector.

-- The demand for Eximbank support for aircraft is estimated at only $400 million, due to the sluggish recovery of the world economy.

-- Demand for other programs (discount loan and medium-term credit) is expected to rise to $600 million. The medium-term area is expected to show a quicker recovery than the long-term credits, because of the shorter project lead time.

(2) Guarantees and Insurance: It is more difficult to estimate demand for guarantees and insurance. Nonetheless, the following table shows the traditional levels of Eximbank

guarantees and insurance:

Guarantees and Insurance Authorizations
($ millions)

FY	Guarantees	Insurance	Total
1978	589.4	3362.4	3951.8
1979	907.9	4108.4	5016.3
1980	2509.7	5521.7	8031.4
1981	1513.2	5910.0	7223.2
1982	716.3	6983.9	7700.2
1983	(estimated)		7000.0

The demand for Eximbank guarantees and insurance peaked in FY 1980. During the past three years, the annual demand for guarantees and insurance has settled at $7.0 to $7.5 billion. If the world economic recovery is sluggish, normal FY 84 demand for insurance and guarantees is likely to be the same as the demand in FY 83 -- less than $7.0 billion. Most of the problem debtor countries are in Latin America, which accounts for about 35 percent or $2.5 billion of the Bank's normal guarantee and insurance authority.

It is likely that Eximbank will have about $3.0 billion guarantee and insurance authority available for extraordinary financing during FY 84, over and above the normal levels of available financing.

G. Extraordinary Eximbank Support by End of FY 84

It is difficult to estimate of the demand for extraordinary Eximbank financing to meet contingencies arising from the debt problems through the end of 1984, particularly since it is not possible to predict with certainty which countries will require extraordinary financing and which countries will not. At best, two scenarios can be evaluated: (1) estimated demand for extraordinary Eximbank financing if one major debtor country and two medium-sized debtor countries experience severe liquidity problems; and (2) estimated demand for extraordinary Eximbank financing if two major debtor countries and four medium-sized debtor countries experience liquidity problems. Individual indicative countries will be evaluated in order to get some sense of the order of magnitude of the problem.

For purposes of analysis, indicative major debtor countries include Brazil, Korea, Mexico, and Venezuela. Indicative medium-sized countries include Argentina, Chile, Indonesia, Nigeria, Peru, Philippines, and Yugoslavia. It must be emphasized that these lists are indicative lists based on size of the Eximbank market; the appearance of any country on this list as well as the analysis that follows does not necessarily mean that the country is having severe liquidity problems which would require extraordinary financing.

Trade Account Analysis: A rough method to estimate the outer limits of country demand for extraordinary Exim financing is to evaluate that country's trade account with the United States. Table 2 summarizes the maximum estimate (i.e., total disaster scenario) of extraordinary Eximbank support by country, reflecting 1982 trade patterns and potential eligibility for (1) short-term insurance and (2) medium-term insurance and guarantees, as well as long-term Eximbank financing. (See annex for detailed country break-down.) The amounts hypothesized are based on the following assumptions:

-- Short-term insurance is for six months and is assumed to be cycled twice per annum.

-- Hypothetical coverage for most categories is based on an assumed use of Eximbank support for no more than 50 percent of total U.S. export volume. The 50 percent figure is only indicative, but nonetheless based on the view that (1) it would be administratively impossible to mobilize trade finance for all exports under a special facility and (2) private sources of finance will continue to share the burden in a major liquidity crisis as they have during 1983.

-- The estimates assume that Eximbank would not support agricultural commodities because of the availability of support from the Commodity Credit Corporation.

-- Extraordinary finance would only go for priority products. Items such as passenger cars, TV sets, and consumer goods are not included in the estimates.

The table reveals that Mexico would require the most Eximbank support under the disaster scenario -- $3.1 billion, which is about $1.8 billion more than 1982 Eximbank authorizations. The maximum Eximbank support ranges from $ 1.0 to $1.5 billion in Brazil, Venezuela and Korea, which is about $500-700 million more than "normal" annual authorizations. For medium-sized countries, maximum extraordinary financing ranges from $150 million to $500 million, on average $100 million more than normal authorizations per country.

These figures are clearly overestimates, perhaps by a large margin:

-- During Mexico's recent financial crisis, it clearly did not require such huge levels of Eximbank support. Eximbank's special insurance facilities amounted to $350 million in suppport and have been drawn down slowly. Eximbank estimates that total demands by the end of CY 83 will probably be no more than $700 million.

-- The trade account analysis is inflated by including mineral fuels (which are subject to existing commitments) and crude materials (which may be difficult to finance under a facility because of the diversity of suppliers).

-- It would be difficult for most of these countries to administer and absorb Eximbank support under insurance schemes for such large amounts.

Nonetheless, these figures indicate the following maximum extraordinary financing requirements over and above normal Eximbank authorization levels:

Scenario I: If one major country and two medium-sized countries need extraordinary financing, the absolute maximum additional demand on Eximbank resources would range from $1.0 billion to $2.0 billion, depending on whether Mexico was the country with in liquidity crisis.

Scenario II: If two major countries and four medium-sized countries required extraordinary financing, the absolute maximum additional demand on Eximbank resources would range from $2.0 billion to $3.0 billion.

Since Eximbank will have $3.0 billion in excess budget capacity for the remainder of FY 83 and is likely to have $3.0 billion in excess budget authority for FY 84, the Bank should have enough budget authority to cover the need for extraordinary financing through the end of 1984. The Administration will not have to seek additional Eximbank authority for FY 84 in order to cover the most likely contingencies.

H. <u>Policy Framework for Special Eximbank Facilities</u>

(1) Special Eximbank programs should be based on a reasonable economic rationale, particularly to satisfy the Congress. For example, the Administration should have projections which indicate the magnitude of the gap in import financing available to a country designated to receive the special assistance before

determining how much special Exim support is needed. Alternative gaps could be defined according to different assumptions as to growth rates in that economy and likelihood of various sources of financing. In the past such estimates have varied from later reality, so that the special Exim programs may not be susceptible to precise need projections. Based on reasonable ranges of estimated need the special programs should be sufficiently large and flexible as to (1) inject funds immediately and (2) help instill medium term confidence in private sources of financing to that country.

(2) Criteria should be established which can discriminate among recipient countries. Once a program is announced for one country, e.g. Mexico or Brazil, the U.S. can expect many countries to argue why they also qualify. These criteria could include conditionality measures such as satisfying IMF-IBRD programs, or additional measures which the USG (and other cooperating governments) might require.

(3) The special actions might be unilateral U.S. actions in some cases, depending on the character, but for others coordination with IMF and IBRD actions and other governments and private banks will be required.

(4) Exim actions should be coordinated with those of other agencies such as Agriculture, Treasury, AID, which can contribute resources to an intergrated U.S. Government approach.

(5) The Exim special actions should be structured toward (1) demonstrable benefits to U.S. exporters and (2) "bailing in" not "bailing out" the banks.

(6) Actions to bring in the banks would call for maximum use of Exim insurance and guarantees to cover bank commitments to exporters.

(7) Exim will need to address the requirement for reasonable assurance of repayment. This requirement presumably could be met by the conditionality provisions and evidence of parallel actions by other governments, international financial institutions and private banks.

(8) Reschedulings - in the event of a multinational rescheduling the issue arises as to how Eximbank's special support efforts be treated. Short-term support efforts might, for example, be rescheduled into a much longer repayment term than originally intended.

ESTIMATE OF MAXIMUM EXIMBANK EXTRAORDINARY FINANCING

($ million)

Country	Maximum Eximbank Support			Authorizations	
	Short-term	Medium-term/ Long-term	Total	FY 82	FY 83
Large Debtors					
Brazil	500	500	1000	347	189
Korea	684	742	1426		
Mexico	1377	1795	1426	1376	412
Venezuela	436	1088	1524	545	242
Medium-sized Debtors					
Argentina	134	311	445	659	22
Chile	69	143	212		
Indonesia	179	453	632		
Nigeria	63	233	296	153	44
Peru	75	225	300	198	101
Philippines	229	224	453	73	272
Yugoslavia	81	51	132	103	31

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