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External debt and trade: Measuring trade credit by proxy

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1. Overview

This note compares the Berne Union proxy data for external trade credit outstanding in the JEDH (Joint External Debt Hub) with historical OECD data provided there earlier. Since the BU data on JEDH have been compared to trade flows recently, the discussion is expanded to additional Berne Union flow data, which are more suitable for comparisons with trade flow data.

As shown in Graph 1, semi-annual data on officially guaranteed export trade credits were provided by the Organization for Economic Co-operation (OECD) to the JEDH up until the end of 2003, when this data compilation was suspended due to resource constraints. The TFFS (Task Force on Finance Statistics) therefore requested the BIS to investigate potential provision of insured trade credit data by the Berne Union, the International Union of Credit & Investment Insurers (BU). This work resulted in two components of insured trade credit becoming available on JEDH one year later (2005 Q1), with quarterly frequency.

So far, due to confidentiality and resource constraints, the BU have provided the data broken down only into short-term (ST, i.e. insured export credits with credit terms up to and including 12 months) and medium to long-term (MLT) insured amounts outstanding, with a full country breakdown by country of residence of the borrower or guarantor. These two sets of series are discussed further in sections 2 and 3 below.

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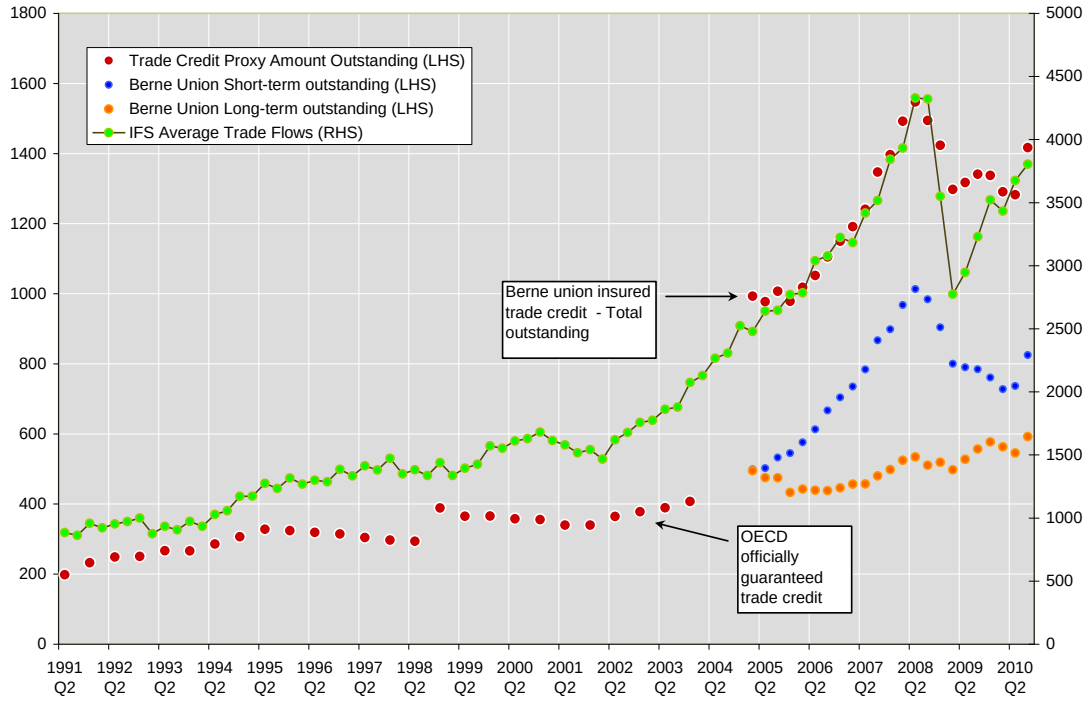
Graph 1: Trade credit outstanding proxies on JEDH; Trade flows; in USD billion



Source: Berne Union; IMF IFS, BIS Data Bank.

2. Medium and long term stock data

2.1 Comparison of historical OECD data and BU stock data

For a comparison of the BU data to the OECD stock data it is important to note that ST credits (up to and including one year) were not included at all in the OECD data. Thus the appropriate comparison series are the BU MLT data. Although there is no overlap in the time series, it appears that the BU coverage is similar and possibly a little wider, because a number of BU reporters are resident in non-OECD member countries (China, Brazil, South Africa, Israel, India and Malaysia).

2.2 Recent developments in BU MLT outstanding (stock) data

As one would expect, the MLT BU amounts outstanding remained practically unchanged during the 2008 crisis. MLT Commitments Outstanding or Exposure (stock data) are slow to react as they represent accumulated amounts linked to physical transactions over the past 10 years or so (and also a few years into the future – see next paragraph).

2.3 Comparing MLT BU data with trade (flow) data

As can be seen in Graph 1, there was a major decline in international trade (average of exports and imports reported in the IMF IFS “World” table) during the financial crisis. We note that BU new commitments (flow data) – illustrated on graphs 2 and 3 - are a more comparable indicator than the BU outstanding exposure (stock data) available on the JEDH. In particular, MLT New Commitments (flows), which are compiled quarterly, would be more

closely related to trade flows than MLT Exposure. MLT New Commitments flow data are mainly related to trade in the same period, though they may also to some extent reflect trade in the future (up to 2-3 years) as MLT commitments typically are provided in a lump amount up-front, with actual goods/services deliveries then sometimes taking place in subsequent periods.

3. Short-term amounts outstanding

Since ST stocks of trade insurance are mostly related to trade in the same period, the BU believe that ST Outstanding Commitments (stock data) are a reasonable proxy for short term insured trade flows. Two factors need, however, to be taken into account: First, from a stock perspective, ST Commitments (reported to JEDH as ST Exposure) in fact show the maximum value of actually outstanding insured ST credits, as ST commitments represent insurance policy limits which may or (more often) may not be fully utilised. On average, the BU estimates that commitments (policy limits) are typically utilised by only around one third or one quarter at any given point in time. Second, from a flow perspective, the utilised portion of the commitments is, on average, used several time per year, as the average duration of these credits can be estimated to be around 3 months. Therefore, quarterly ST Commitments data should be divided by 3-4 to give a reasonable proxy for quarterly insured trade, while yearly data should first be divided by 3-4 and then multiplied by around 4 to give a proxy for yearly insured trade. Taking this into account, a first comparison between short-term stocks and quarterly trade flows, might suggest that ST credit accounted for around 6% to 9% of total trade flows during 2005-2010.

4. Combined MLT and ST data comparisons with trade flows

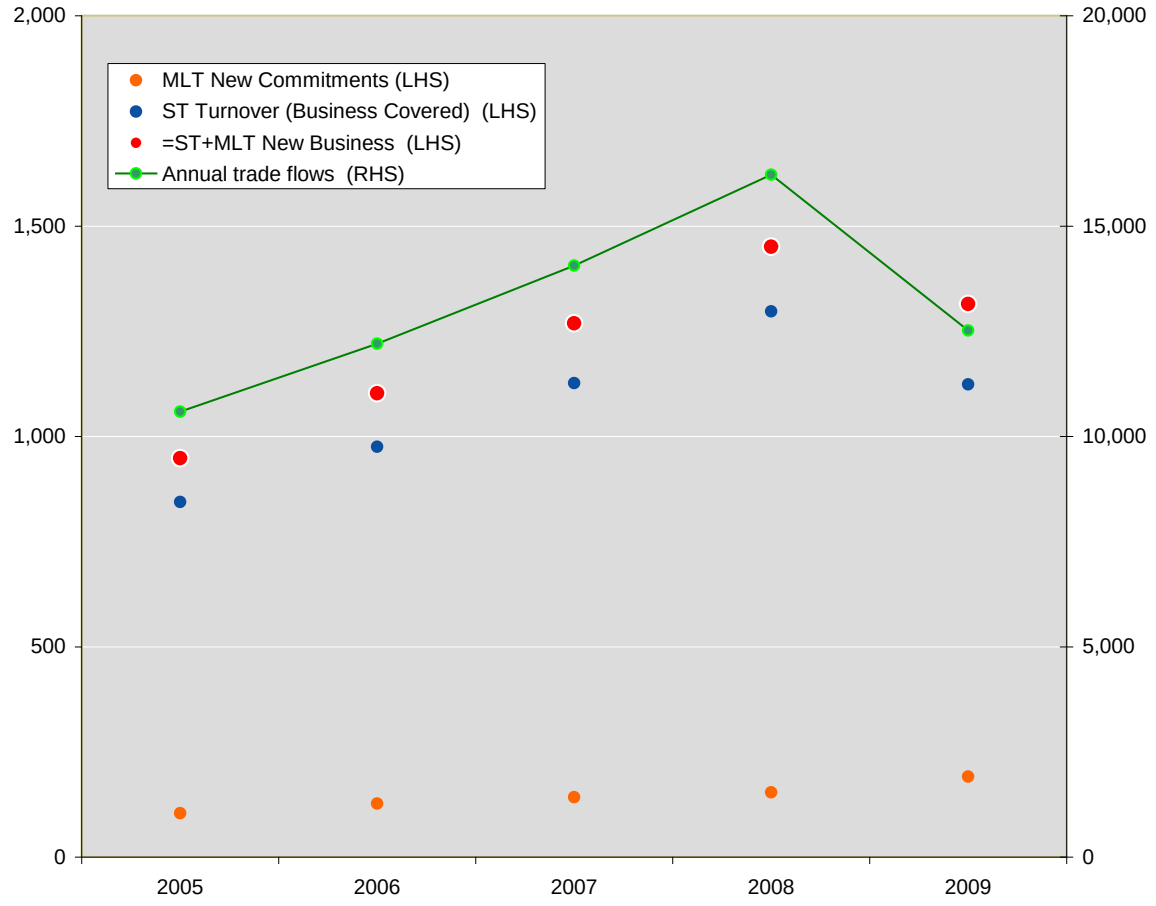
4.1 MLT and ST annual flows and trade flows

We noted above that BU MLT stock data would not be well suited for comparisons with trade flows. Changes in long-term trade insurance are visible more directly in MLT New Commitments (flow data). For example, total (annual) MLT New Commitments were up by 24% in 2009 compared to 2008 (Graph 2).

The Berne Union do collect ST Turnover (flow data), although these are available only on an aggregate basis (i.e. not country-by-country) and only yearly (not quarterly). This flow measure is naturally more closely related to trade flows than the stock measure.

Taking into account the previous points, the BU estimates that their members insure about 9-10% of world trade each year, in 2009 probably closer to 11% (Graph 2). However, the annual frequency of the data limits their use for analysis of the trade crisis, which played out over some 6 quarters in 2008 – 2009.

Graph 2: Annual trade credit flow proxies; annual trade flows; in USD billion

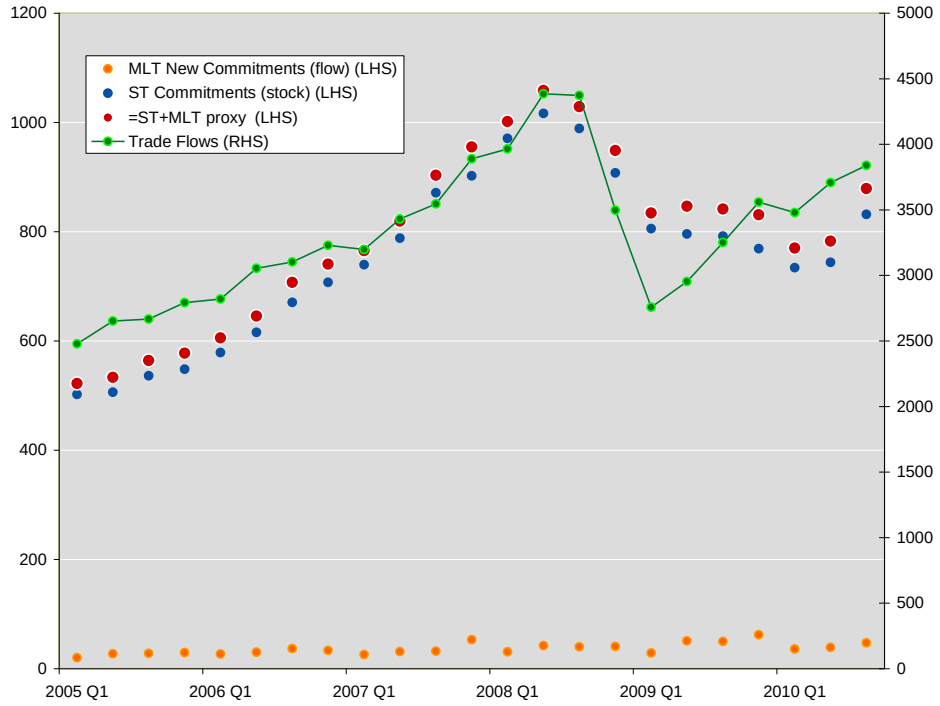


Source: Berne Union; IMF IFS

4.2 Mixed stock and flow data comparison on quarterly basis

To achieve better granularity on the time axis, a combination of quarterly MLT new commitments (flow) and quarterly ST commitments (stock) data could be the most informative source of currently available BU data for understanding the flow of trade credit in relation to trade during the recent crisis (Graph 3).

Graph 3: Quarterly MLT new commitments (flow), ST commitments (stock); annual trade flows; in USD billion



Source: Berne Union; IMF IFS.

5. Conclusions

- It appears that the BU coverage of medium and long term trade credit (as a proxy of trade-related external debt) is similar and possibly a little wider than the historical OECD data, because a number of BU reporters are resident in non-OECD member countries.
- MLT insurance is typically provided for bank credits, which implies the well-known conclusion that there is an overlap with the external debt data reported by BIS banks on the JEDH. BU MLT New Commitments (flow) data (Graph 3) appear to indicate that at least the insured subset of MLT bank credit was rather stable during the crisis.
- Short term BU data provides an important additional component of external debt not previously covered by the JEDH, since they were not included in the OECD data. In addition, there should be little overlap with BIS banking data since insured short-term credits are mainly supplied by exporting companies.
- Graph 3 illustrates that insured short-term credit, while quite volatile, did appear to correlate with the trade data quite closely except during the crisis. During the crisis, insured ST trade credit flows actually fell proportionately less than trade.
- It would be useful to update the metadata for BU ST credit on the JEDH site to inform users that utilization rates of short term credit insurance can be well below 100%.