



Woodrow Wilson
International
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Brazil Institute



V Symposium on International Trade

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Trade and Finance

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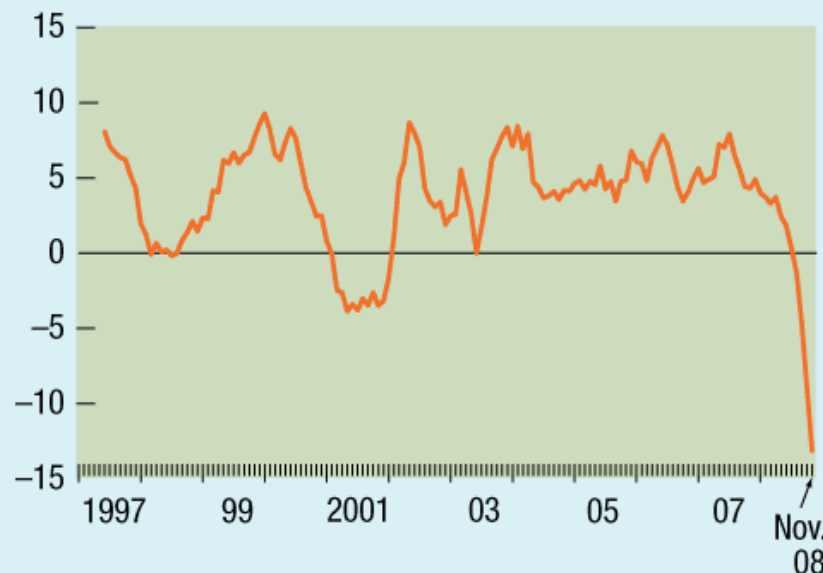
Vice-President for Countries, IDB

Focus on impacts of the financial crisis on trade & possible policy responses

Spiraling downward

Global merchandise trade fell sharply in the final months of 2008.

(annualized three-month percent change)



Source: Haver Analytics; and IMF staff estimates.

The Collapse of Trade

Determinants: shrinking demand and credit crunch

Latest IMF projections

(year over year percent change)

			Projections		Difference from 2008 WEO projections	
	2007	2008	2009	2010	2009	2010
World trade volume (goods and services)	7.2	4.1	-2.8	3.2	-4.8	-2.5
Imports						
Advanced economies	4.5	1.5	-3.1	1.9	-3.0	-1.8
Emerging and developing economies	14.5	10.4	-2.2	5.8	-7.0	-3.6
Exports						
Advanced economies	5.9	3.1	-3.7	2.1	-5.0	-1.8
Emerging and developing economies	9.6	5.6	-0.8	5.4	-5.8	-3.5

Source: IMF, *World Economic Outlook*, January 2009.

Shrinking Capital Flows to Emerging Market Economies

Emerging Market Economies' External Financing

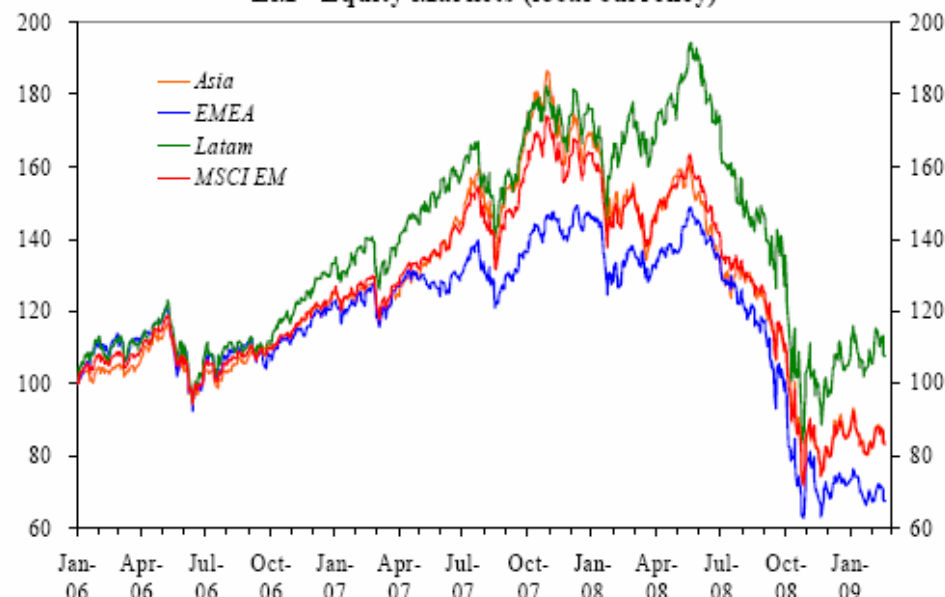
billions of U.S. dollars

	2006	2007	2008e	2009f
Current account balance	383.9	434.0	387.4	322.8
External financing, net:				
Private flows, net	564.9	928.6	465.8	165.3
Equity investment, net	222.3	296.1	174.1	194.8
Direct investment, net	170.9	304.1	263.4	197.5
Portfolio investment, net	51.5	-8.0	-89.3	-2.7
Private creditors, net	342.6	632.4	291.7	-29.5
Commercial banks, net	211.9	410.3	166.6	-60.6
Nonbanks, net	130.7	222.2	125.1	31.1
Official flows, net	-57.5	11.4	41.0	29.4
IFIs	-30.4	2.7	16.6	31.0
Bilateral creditors	-27.1	8.7	24.3	-1.6
Resident lending/other, net ¹	-336.5	-425.3	-449.8	-271.6
Reserves (- = increase)	-554.8	-948.7	-444.3	-245.9

e = estimate, f = IIF forecast

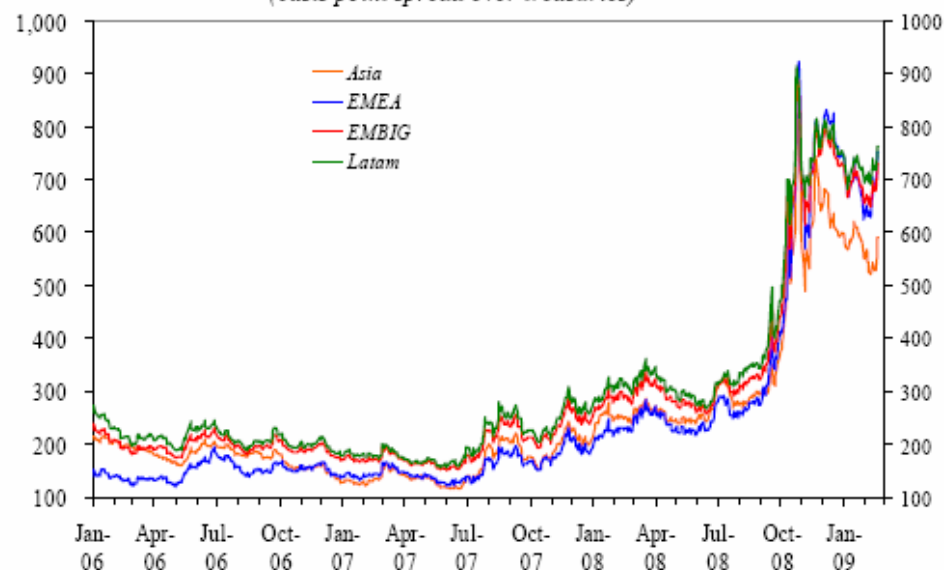
¹Including net lending, monetary gold, and errors and omissions.

EM - Equity Markets (local currency)



EM - External Debt Market Spreads

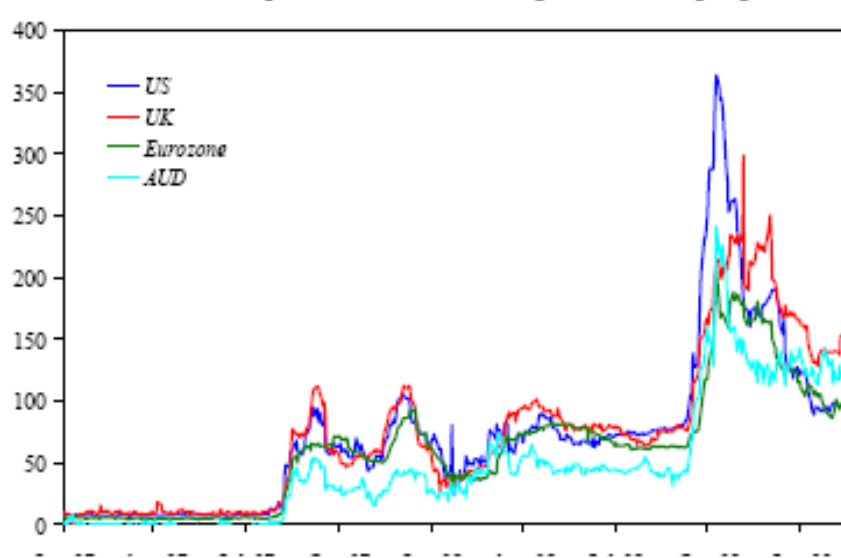
(basis point spread over treasuries)



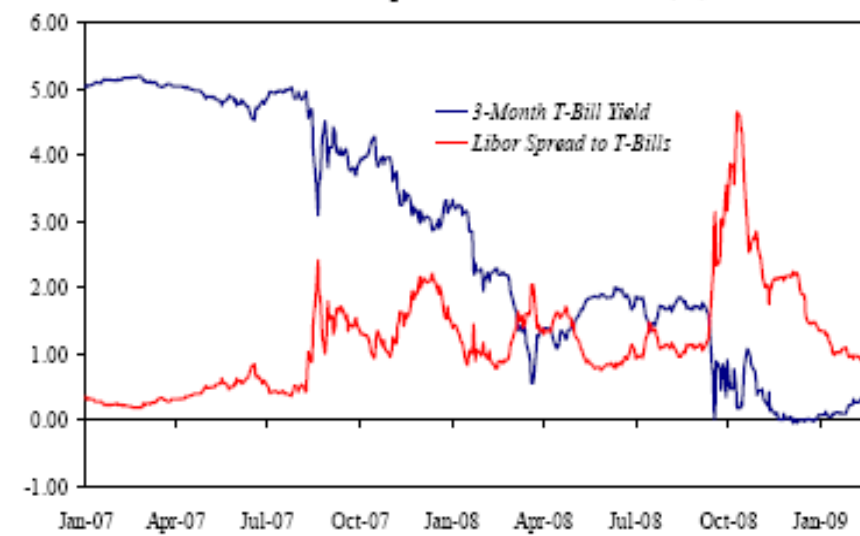
Source: IIF, January 27, 2009

Source: IMF, February 19, 2009

3-Month LIBOR Spreads To OIS (Overnight Index Swap, bps)



3-Month Rate Spreads: T-Bill vs Libor (%)



This is no Business Cycle as usual

- The Great Unwinding (global deleverage)
- At the core: interbank liquidity drought
(bank insolvency risks, confidence crisis & flight to hyper-safety of Treasuries)
- Systemic Sudden Stop of cross-border flows
- Liquidity hoarding at HQs
- National responses aggravating the problem

Policy responses: the case of Brazil

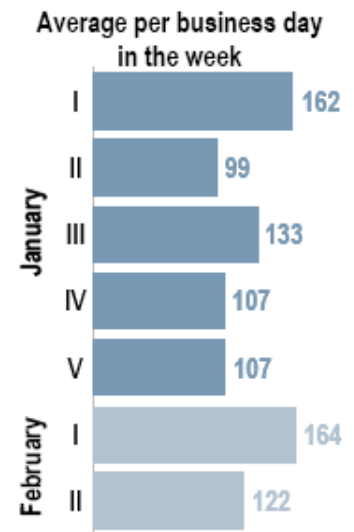
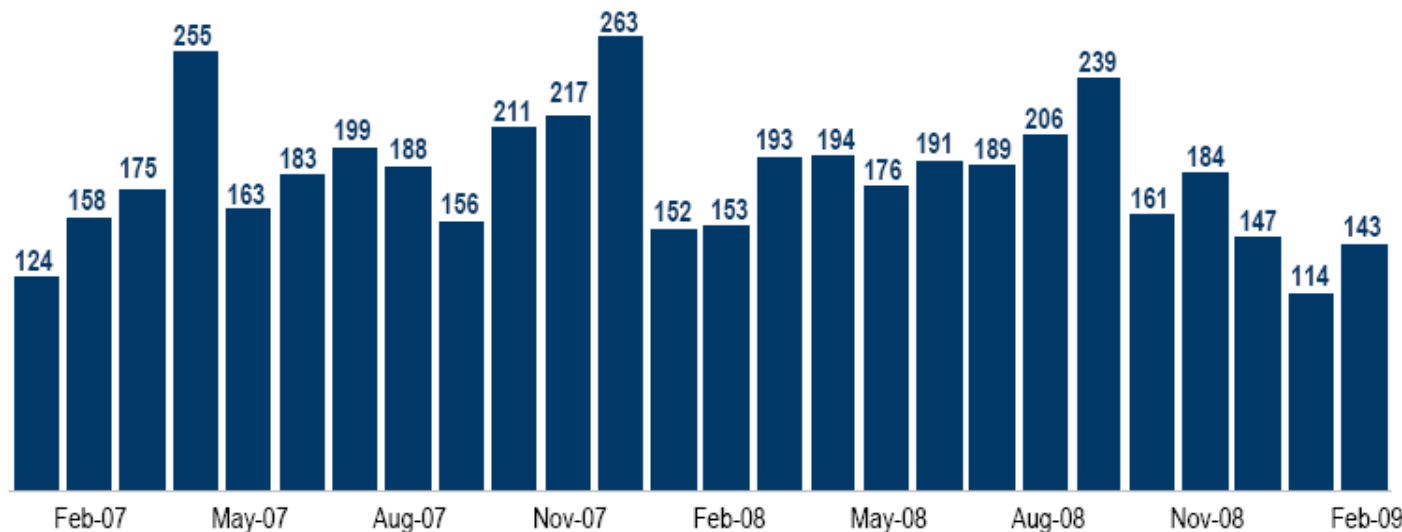
Exhibit 1: FX inflow

US\$m per business day

	Feb-09 1 st half	Jan-09	Dec-08	Nov-08	Oct-08	Sep-08	Aug-08	Jul-08
Exports	483	490	518	675	629	875	763	743
Imports	410	462	523	518	559	557	568	628
Trade balance	73	24	-5	157	70	318	195	115
Inflows	921	876	1609	935	1263	1369	2250	1943
Outflows	891	1043	1891	1449	1535	1559	2352	2166
Financial balance	30	-171	-286	-515	-272	-190	-102	-223
Net flow	103	-143	-291	-358	-202	127	93	-108

Exhibit 2: Advances on Foreign Exchange Contracts (ACC) operations

average per business day in the month, US\$m



Source: Central bank, Credit Suisse

Fed Swap Network

US\$ Market

- US\$ Spot sales
- US\$ Derivative sales
- Repo in the spot Market
- Special Repo (Global/ACC/ACE)
- Financing external debt of the private sector

BRL Market

- Easing on RR
- Fiscal stimulus

Final Remarks

- Adverse effects of trade-credit crunches on developing countries and on globalization
- Financial protectionism
- Heterogeneity of initial conditions among developing countries
- (Limited) capacity of response by IFIs
- Risks associated with bilateral and regional arrangements
- 1930s: trade-policy wars or breakdown of the gold standard?
- Towards an agenda