



CENTRE DE DROIT
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« Moral Hazard, Juniority, and Sovereign Lending: The Case of the US Exim Bank »

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Outline of the Paper

- History of the export credit industry
- The US Exim Bank and the resurgence of debtor moral hazard
- The coming battle of the creditors





History of the Export Credit Industry

The Case of the US Exim Bank

- 1920 – 1981: The era of export subsidies and competitive incentives
 - 1920s – 1930s: Programs designed to stimulate exports
 - 1945 – 1950s: Reconstructing Europe and supporting allies
 - 1960s – 1981: The US Exim Bank and debtor moral hazard
- 1981 – 2019: The era of professionalization and multilateralism
 - Preventing distortions through multilateralism: OECD norms as international standards
 - Since the 1980s: The importance of country risk ratings
 - 1980s – 2010s: The decline of the US Exim Bank
- 2019 – Present: The post-globalization era
 - The exacerbation of debtor moral hazard
 - The resurgence of the US Exim Bank





The US Exim Bank and Debtor Moral Hazard

- 1960s – 1981:
 - The junior creditor status of the US Exim Bank
 - The US Exim Bank as an instrument to support US foreign policy
 - The weak country risk assessment performed by the US Exim Bank

- 2019 – Present:
 - The US Exim Bank as a tool to revitalize America's export capacity
 - 2019: USD 5 billion loan for a liquefied natural gas (LNG) project in Mozambique = largest direct loan in the history of the US Exim Bank
 - *Ex post* debtor moral hazard
 - Initiatives
 - 2020: « Program on China and Transformational Exports »
 - 2022: « Make More in America Initiative »





Missions of the US Exim Bank

- Primary objectives:
 - Competitiveness of the US export industry (Export-Import Bank Act of 1945)
 - Contributing to increasing the employment of US workers (Export Expansion Finance Act of 1971)

- Secondary objectives:
 - References made to environmental protection and human rights concerns (Chafee Amendment of 1978)
 - Aspects linked to the promotion of responsible business practices in host countries benefiting from US Exim Bank loans

- Conflicts between export promotion and foreign policy and welfare objectives





Outlook

- The resurgence of debtor moral hazard
- Moving away from multilateralism
- The coming battle of creditors
- Juniority *versus* seniority:
 - The nationality of the creditors is becoming crucial
 - Traditional seniority rules are disregarded

