Off the Cliff and Back? Credit Conditions and International Trade During the Global Financial Crisis

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Comments by Philippe Martin[1]

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Federal Reserve Bank of New York, June 4, 2010

Main results of the paper

- Countries with higher interbank rates experienced a larger fall of exports in financially dependent sectors
- This negative effect was more pronounced during the months of the credit crisis

Interpretation of the results:

- Credit conditions in both exporter (interbank rates) and importer (US financial crisis) magnified the effect on trade: this complementarity may be key to understand the trade collapse (not only the addition of the two effects)
- Importance of credit conditions and financial intermediation for international trade: one of the very few papers able to identify and quantify such an effect

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What do interbank rates stand for? (1)

- Interbank rates = Central bank discount rate + spread specific to interbank loans.
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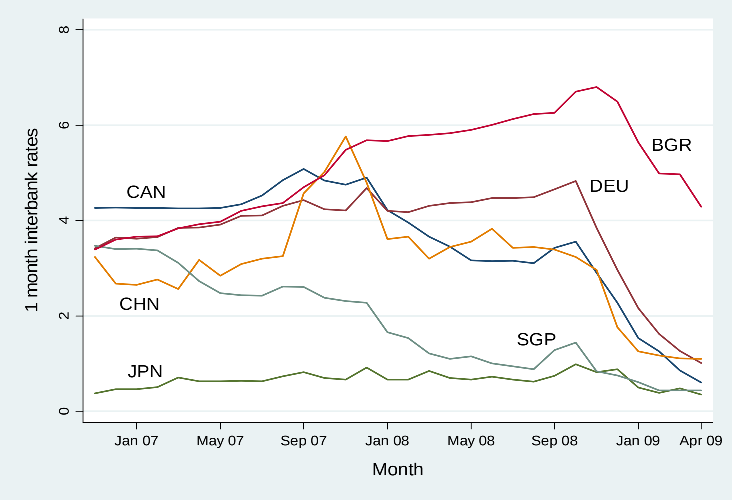
Figure 2
Interbank Rates during the Global Financial Crisis



Source: Thomson Datastream.

What do interbank rates stand for? (2)

- Why not *in addition* use this spread to measure the impact of collapse in confidence on trade?
- The spread is a measure of the collapse of confidence on markets: measures an additional effect not fully captured by interbank rate and crisis dummy
- The spread must be very correlated to the dummy crisis but has a country dimension
- Could indicate more precisely whether it is the increased cost of credit or the increased perceived risk which played a crucial role

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Another channel: time is money?

International transport takes time: when high interest rates and risk are high the opportunity cost of exporting rises

1. Were exporters with long transport time to the US more affected by crisis and higher interest rates?
2. In your data: interact interbank rate with distance (or average time to transport to US)
3. On US imports (Jan 05 - Aug 09; USITC): interact distance to US (proxy for time to transport) with months of crisis (sept 08 - march 09); country-month dummies (seasonality) and time dummies
4. Result: exporters far away from US were more affected than others during the crisis (country-month dummies (seasonality) and time dummies)

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Table 1: Trade in the Current Financial Crisis

Dep. Var.	Log(Bilateral US Imports)	
Estimation	a	b
Log(Bilateral Exchange Rate)	-0.328***	-0.338***
	(0,020)	(0,020)
Log(Commodity Price Index, all)	0,313	
	(0,870)	
Log(Commodity Price Index, energy)	-0,082	
	(0,727)	
Log(US Industrial Production)	0,832	
	(0,843)	
Financial Crisis	4.331**	
	(1,946)	
Financial Crisis*Distance	-0.468**	-0.491**
	(0,216)	(0,218)
Observations	7351	7414
R-squared	0,6	0,6
Country Dummies	No	No
Country*Month Dummies	Yes	Yes
Time Dummies	No	Yes

Panel (within) estimations. Robust standard errors in parentheses. Robust SE in parentheses.
* significant at 10%; ** significant at 5%; *** significant at 1%
Financial crisis: dummy equal to 1 from Sept. 2008 to March 2009, 0 otherwise.

Some results of a recent paper CEPR 7765, Berman and Martin, 2010

Confirms some of the results of present paper on:

1. Importance of financial crises on trade (controlling for GDP, RER, country pair fixed effects...) on past crises (1976-2002)
2. Exporters more dependent on trade credit more affected by financial crisis

Proxy for dependence on trade credit (Ronci, 2004): average level of ST credit in dollars/exports

Figure 1: Exports after financial crisis in partner country

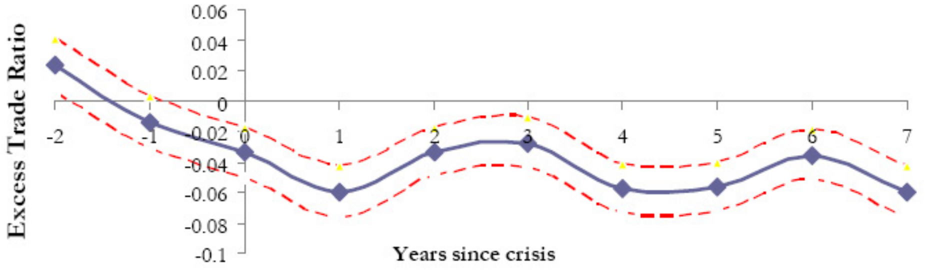
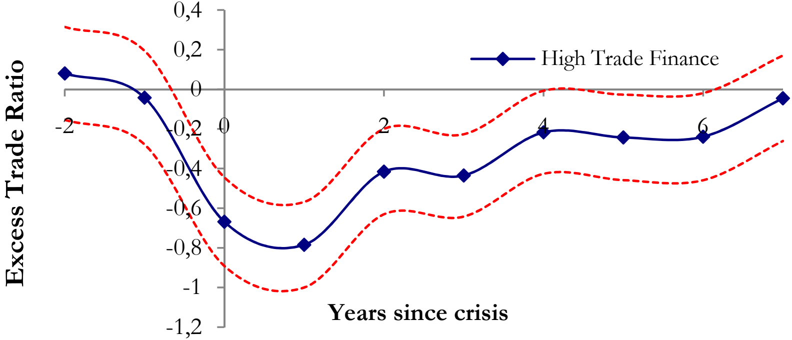


Figure 5b: African exports after financial crisis, high Trade Finance



Concluding remark

Paper points to importance of financial development

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2. Less direct negative wealth effect and bank failures
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