Congressional Research Service
Informing the legislative debate since 1914

IN FOCUS

July 18, 2014

Export-Import Bank (Ex-Im) and the Federal Budget

Background

What is Ex-Im Bank and what is the congressional interest? As the official U.S. export credit agency (ECA), Ex-Im Bank finances and insures U.S. exports of goods and services on a demand-driven basis. Ex-Im Bank operates as an independent agency under a renewable charter, the Export-Import Bank Act of 1945, as amended. In 2012, Congress debated and ultimately renewed Ex-Im Bank through September 30, 2014, and raised its exposure cap to $140 billion. Currently, Congress is considering whether to renew Ex-Im Bank's authority and, if so, under what terms.

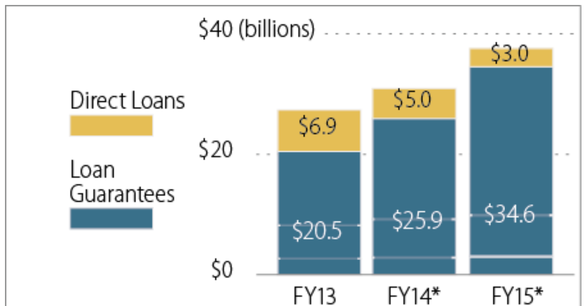
What is the current size of the Ex-Im Bank's portfolio? In FY2013, Ex-Im Bank authorized $6.9 billion in *new direct loans* (export financing and the Tied Aid War Chest) and $20.5 billion in *new loan guarantees* (medium and long term guarantees, short and medium term insurance, and the working capital fund). Total authorizations for FY2014 are estimated at $30.9 billion ($5.0 billion for new direct loans and $25.9 billion for new loan guarantees) and for FY2015 at $37.6 billion ($3.0 billion for new direct loans and $34.6 billion for new loan guarantees). At the end of FY2013, the size of Ex-Im Bank's outstanding portfolio (exposure) totaled $113.8 billion ($33.0 billion for direct loans and $80.8 billion for loan guarantees).

Budgetary Considerations

How are federal credit programs, like Ex-Im Bank, accounted for in the federal budget? Beginning with FY1992, the Federal Credit Reform Act (FCRA) required that the reported budgetary cost of a credit program equal the estimated subsidy costs at the time the credit is provided. FCRA defines the subsidy cost as "the estimated long-term cost to the government of a direct loan or a loan guarantee, calculated on a net present value basis, excluding administrative costs." Before FY1992, the budgetary cost of a new loan or new loan guarantee was reported as its net cash flow for that fiscal year. This arguably places the cost of federal credit programs on a budgetary basis equivalent to other federal outlays.

What are the effects of the Ex-Im Bank programs on the budget deficit? The FCRA methodology described above resulted in an estimated budgetary impact for FY2013 of -$1 billion, or reduction in the budget deficit of $1 billion. A negative subsidy indicates that the discounted present value of cash inflows exceeds the discounted value of cash outflows over the life of the loans, resulting in a reduction in the budget deficit for the fiscal year in which the subsidy estimate is made. This negative credit subsidy is calculated based on the negative credit subsidy rate multiplied by the total dollar value of loans and loan guarantees in that year. The estimated subsidy is -$570 million for FY2014 and -$1.4 billion for FY2015. (These subsidy estimates were taken from the President's Budget documents prepared by the Office of Management and Budget. The Congressional Budget Office utilizes different models and assumptions when making credit estimates for purposes of the appropriations process and CBO's baseline estimates. There are proposals that would change the accounting method for federal credit programs, increasing their cost. These proposed changes are explained in a later section.) Subsidy rates from federal credit programs are subject to re-estimates in future years, resulting in new subsidy estimates that may be higher or lower compared to the original estimate. For example, in FY2012, the original subsidy rate for Ex-Im Bank's direct loans was -9.30%. Currently, it has been reestimated at 7.85%. The original credit subsidy rate for loan guarantees in the same year was -1.66%. It is currently reestimated at -0.02%.

Figure 1. Ex-Im Bank's New Authorizations by Fiscal Year



	FY13	FY14*	FY15*
Total New Authorizations	$27.3	$30.9	$37.6
Direct Loans	**$6.9**	**$5.0**	**$3.0**
Export Financing	$6.9	$5.0	$3.0
Tied Aid War Chest	$0.0	$0.02	$0.0
Loan Guarantees	**$20.5**	**$25.9**	**$34.6**
Long Term Guarantees	$12.2	$16.6	$24.6
Medium Term Guarantees	$0.1	$0.2	$0.2
Short Term Insurance	$5.4	$6.2	$6.7
Medium Term Insurance	$0.1	$0.1	$0.2
Working Capital Fund	$2.6	$2.8	$3.0

*FY14 and FY15 are estimates.

Notes: Totals may not sum due to rounding. Classification of programs based on *Budget Appendix*. FY = fiscal year.

Source: OMB, The Budget for Fiscal Year 2015, *Budget Appendix*. Graphic created by CRS.

What is the amount of the Ex-Im Bank's offsetting collections and what does it do with any surplus revenues? Offsetting collections are defined as funds collected by government agencies from other government agencies or from the public in businesslike or market-oriented transactions that are credited to an expenditure account. They are classified as negative budget authority. In the case of Ex-Im Bank, revenues are collected from customers, from fees or premia and loan principal and interest payments. Offsetting collections in FY2013 were nearly $1.3 billion after setting funds aside for credit loss reserves. Ex-Im Bank states that nearly $1.1 billion of that amount was in excess of operating costs. That amount is calculated on a cash basis and based on the $1.3 billion in offsetting collections less $90 million in administrative expenses and $108 million that was retained in Ex-Im Bank's accounts to be available for obligation as allowed under law.

The amount of excess revenue calculated on a cash basis, discussed above, is different than the amount calculated on a budgetary basis. For budgetary purposes, the credit subsidy calculation incorporates the expected costs as well as profits (i.e., excess cash). When a credit account generates a negative subsidy rate, as is the case with the Ex-Im Bank, a negative credit subsidy is recorded in the federal budget in the form of offsetting receipts and can be used to offset other costs incurred by the Bank. The negative credit subsidy for this fiscal year indicates that over the lifetime of the obligations made in this fiscal year, Ex-Im Bank is projected to generate more in offsetting collections than what was initially borrowed to provide the direct loan in present value terms.

What are some budget proposals regarding potential reforms to federal credit accounting and how would they affect Ex-Im Bank's budgetary impact? There have been some proposals introduced and considered in the past few Congresses to change the methodology for scoring federal credit programs from a FCRA approach, based on Treasury interest rates, to a fair value approach, based on market rates (i.e., higher interest rates to account for market risk). In the 113th Congress, H.R. 1872, which passed the House but has not been acted on in the Senate, would make such a change. CBO estimated that if this accounting change were to be made for federal credit programs, the 10-year cost of the Ex-Im Bank (FY2015-FY2024) would increase from -$14 billion to +$2 billion. This would mean that Ex-Im Bank's budgetary impact would shift from reducing the deficit to increasing it over the 10-year period.

How would changes to federal credit accounting affect Ex-Im Bank appropriations? The activities of the Ex-Im Bank are classified as discretionary. As a federal credit program, the activities of the Bank are subject to federal credit accounting rules and the calculation of a credit subsidy. The Ex-Im Bank's credit subsidy was negative in FY2013 and is estimated to be negative in FY2014 and FY2015. Therefore, no appropriation is required to cover the cost of the subsidy for budgetary purposes. However, if the credit subsidy calculation resulted in a positive subsidy rate or if the methodology for calculating subsidies for federal credit programs should change (i.e., to fair-value accounting) and lead to a positive subsidy rate, then an appropriation from Congress would be required to cover the credit subsidy amount.

Separately, Congress provides an appropriation for the activities of the Ex-Im Bank's Inspector General and sets an upper limit on its administrative expenses as part of the Department of State, Foreign Operations, and Related Programs appropriations act. These expenses are not included in the credit subsidy calculation, unlike the majority of the bank's activities, but are recorded on a cash basis. Because Ex-Im Bank collects revenues from its customers, classified in the federal budget as offsetting collections, it is able to reimburse Treasury for the costs of those expenses resulting in a net appropriation of zero (administrative expenses $90 million in FY2013; Inspector General $4 million in FY2013).

What are the effects of the Ex-Im Bank programs on the federal debt? The budgetary impact (the credit subsidy) of the Ex-Im Bank's activities is different from its impact on the federal debt. When the Bank issues a new direct loan or has to pay an obligation on a loan guarantee, it borrows money from the U.S. Treasury which Treasury raises in the form of Treasury securities to the extent that it does not have enough incoming revenue to cover the obligation. That borrowing from the Treasury increases the size of the U.S. federal debt in the amount borrowed on a dollar-for-dollar basis. Therefore, while the loan or loan guarantee remains outstanding, the activities of the bank increase the size of the U.S. debt. As these obligations are repaid, the amount of debt outstanding to the U.S. Treasury declines, thereby decreasing the size of the Ex-Im Bank's contribution to the federal debt. The size of the credit subsidy calculated for budgetary purposes should reflect the size of the long-term cost (or debt burden) on the U.S. Treasury, though the estimates are inherently inexact. Outstanding Ex-Im authorized borrowing owed to the U.S. Treasury totaled $18.1 billion at the end of FY2013. (Any repayments to Treasury for outstanding debt do not directly affect Ex-Im Bank's credit subsidy for budgetary purposes.)

For more information see CRS Report R43581, *Export-Import Bank: Overview and Reauthorization Issues*, by Shayerah Ilias Akhtar, CRS In-Focus IN00021, *Export-Import Bank (Ex-Im Bank) Reauthorization*, by Shayerah Ilias Akhtar, and CRS Report R42632, *Budgetary Treatment of Federal Credit (Direct Loans and Loan Guarantees): Concepts, History, and Issues for Congress*, by Mindy R. Levit.

Mindy R. Levit, mlevit@crs.loc.gov, 7-7792

IF00039