



RECENT TRENDS IN TRADE AND TRADE FINANCE

Impact of the Covid-19 Crisis and Challenges Ahead

March 2022

TABLE OF CONTENTS

- Executive Summary 4**
- 1. Recent trends in trade: The Covid-19 crisis continues to restrain and disrupt international trade 5**
 - a. Merchandise trade: from a deep contraction in 2020 to a steady recovery led by price increases 5
 - b. Services exports: a sluggish recovery as transport and travel sectors remain constrained..... 7
 - c. Global Value Chains: from capacity disruptions to inflationary pressures..... 7
 - d. Reshoring production or challenges to enhance resilience to shocks? 13
 - e. Projections and risks for 2022..... 15
- 2. Recent trends in trade finance: a challenging recovery in an uncertain and unstable environment..... 17**
 - a. Latest policy developments: the surge of credit to the private sector..... 17
 - b. Short-term trade finance dried up in 2020 but medium-term trade finance expanded 18
 - c. Projections and risks for 2021-2022..... 20
- 3. Bibliography 21**
- 4. Annex..... 23**
 - a. ICC Trade Register 23

LIST OF FIGURES

- Figure 1.** Changes in merchandise trade by products between 2019 and 2020, percentage points **5**
- Figure 2.** Exports and imports values, % of 2019 levels **5**
- Figure 3.** Prices of agricultural commodities, January 2019=100 **6**
- Figure 4.** Prices of fuel and metal commodities, January 2019=100 **6**
- Figure 5.** Exports volumes year-on-year growth, n.s.a % change **6**
- Figure 6.** Exports of merchandises by oil producers' countries in 2020-2021, % of 2019 levels **6**
- Figure 7.** Travel and Transport services exports of selected economies **7**
- Figure 8.** Suppliers' Delivery Times index **8**
- Figure 9.** Average percentage of shipments experiencing dwell greater than five days on the U.S West coast, % **8**
- Figure 10.** Top 10 importers of intermediate goods in 2019, % total **9**
- Figure 11.** Backlogs of orders. **10**
- Figure 12.** U.S inventory to sale ratio. **10**
- Figure 13.** CPI inflation, yoy % change. **11**
- Figure 14.** Average contribution to annual inflation in 2021, in percentage points **11**
- Figure 15.** Traders and traded values in selected OECD countries in 2019, % of total **13**
- Figure 16.** Minimum and maximum value of exports with shift feasibility over the next five years, US\$ Billion **14**
- Figure 17.** Top 5 sectoral GDP loss relative to the counterfactual of global vaccination, % sectoral GDP **15**
- Figure 18.** Interbank rates in selected countries, in % **18**
- Figure 19.** Credit to the economy, in % of GDP. **18**
- Figure 20.** Credit to the non-financial private sector vs. trade finance in 2020, % yoy change. **19**
- Figure 21.** Short-term trade finance by product in 2019, % total of total exposure **19**
- Figure 22.** Overall exposure, number of transactions, borrowers, and median transaction amount, % change between 2019-2020 **19**
- Figure 23.** Medium- trade finance by product in 2019, % total of total exposure **20**
- Figure 24.** Overall exposure, number of transactions, borrowers, and median transaction amount, % change between 2019-2020 **20**
- Figure 25.** Defaults rates for trade finance and non-performing loans, % of exposure **20**

Executive Summary

Over the past two years, the pandemic has put a strain on health systems, which led to policy responses that disrupted international trade and triggered a deep contraction of global economic activity. After a severe recession in 2020, international trade experienced a steady recovery in 2021 led by the rebound of trade volumes in China, Europe and the United States as well as soaring energy and food prices. As a result, global merchandise trade has now stabilised above pre-pandemic-levels. Global services trade has also recovered but remains slightly below pre-pandemic levels due to restrictions on travels and fear of contagions. However, behind the strong overall trade recovery, there is significant divergence across countries, with some developing regions lagging.

The pandemic also brought stress on supply chains, highlighting the inter-dependence of countries and industries and the need to strengthen supply chains' resilience. The imposition of stringent measures across the world created supply-side disruptions which hindered the production capacity, thus affecting trade. Accommodative fiscal and monetary policies helped to support households' consumption and to keep business afloat. But strong demand for goods combined with capacity constraints led to rising shipping prices and longer lead times, which further hindered the trade recovery. At the same time, labour and inputs shortages induced by supply chain disruptions amplified the direct contagion effect from tradable to non-tradable sectors and contributed to inflationary pressures.

Trade finance developments reflected trends in merchandise trade as well as in credit to the real economy. Indeed, short-term trade finance contracted in 2020 in response to shrinking trade volumes and restricted supply from credit providers. However, unprecedented and massive policy support in response to the Covid-19 crisis helped to partly compensate for this decline by bolstering and then boosting private consumption growth. Medium-term trade finance partly compensated the decline in short-term trade finance as governments provided additional support with credit insurance or guarantees. Despite turbulences, trade finance remained relatively low risk in 2020. Although global trade volumes rebounded, trade finance remained volatile in 2021 due to supply chain disruptions and surging commodity, manufacturing, shipping and labour prices.

Trade is projected to continue its expansion in 2022, albeit at a slower rate. Trade finance is expected to follow similar patterns. The ease of global supply chain disruptions should resolve supply bottlenecks and help to sustain trade recovery. At the same time, global demand should rebalance with fiscal contraction, exerting downward pressure on general inflation. Inflation should remain elevated at least in the first half of 2022 but gradual and well communicated tightening of monetary policies in advanced countries should also contribute to reduce pressure on prices.

Downward risks to the economic recovery include: (i) emergence of new variants in under vaccinated populations raising additional concerns of supply-side pressures on inflation, (ii) sustained supply bottlenecks for labour and inputs could boost prices and wages, fuelling inflation expectations, (iii) the lack of credible monetary and fiscal policies in emerging countries could exacerbate inflation by de-anchoring inflation expectations, (iv) geopolitical tensions affecting trade and energy prices, and (v) Fed tapering asset purchases could prompt outflows of capitals, causing local currency weakening. These risks make the outlook for emerging countries more uncertain. Fiscal and debt sustainability could be threatened for countries with high levels of public and private debt, foreign exchange exposure, high current account imbalances and low stock of international reserves.

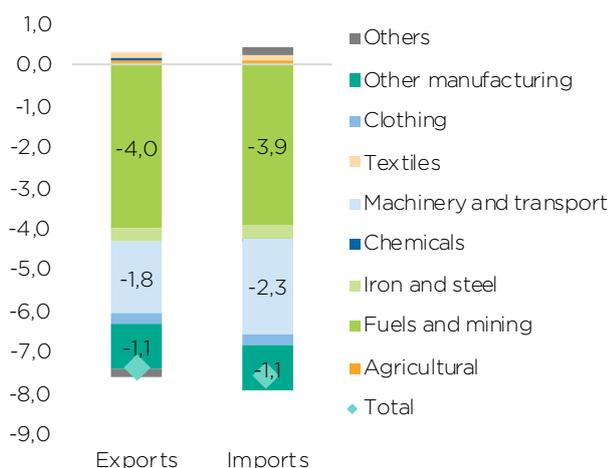
Policymakers should therefore calibrate their policy response to the country specific vulnerabilities and business cycles. Emerging and developing countries should finally address their fiscal and external imbalances and build up buffers to mitigate the negative spillovers of the Fed tapering. Furthermore, fostering the structural transformation of trade through the digitalisation of processes and procedures and enhanced cooperation across borders is essential. It will allow businesses to mitigate the impact of trade disruptions as well as enhance their participation in global and regional value chains.

1. Recent trends in trade: The Covid-19 crisis continues to restrain and disrupt international trade

a. Merchandise trade: from a deep contraction in 2020 to a steady recovery led by price increases

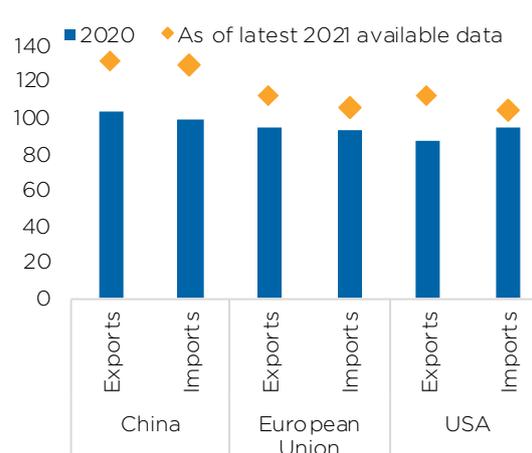
After suffering a deep contraction in 2020, global merchandise trade has recovered in 2021 and stabilised above pre-pandemic-levels. Supply disruptions and weaker demand created by the Covid-19 crisis led to a decline of world merchandise trade in 2020 with the value of merchandise exports and imports falling by 7.4% and 7.6%, respectively (Figure 1). Around 80% of the decline in merchandise exports and imports values in 2020 was driven by contractions in fuel and transport sectors. Global exports and imports volumes started to rebound in 2021, while prices of traded goods skyrocketed due to supply chain disruptions and a strong demand for commodities. Given latest data from 2021, exports from China, the European Union (EU) and the United States (US) accounted for 130, 111 and 112% of pre-pandemic exports levels. Similarly, imports in China were above their 2019 levels, highlighting the strong dynamism of the domestic demand. Imports to the US and the EU reached their pre-pandemic levels at the end of 2021 and stood at 104 and 106%, reflecting the relatively slower recovery of their domestic demand in a context of surges of infections and lockdowns (Figure 2).

Figure 1. Changes in merchandise trade by products between 2019 and 2020, percentage points



Source : WTO stats

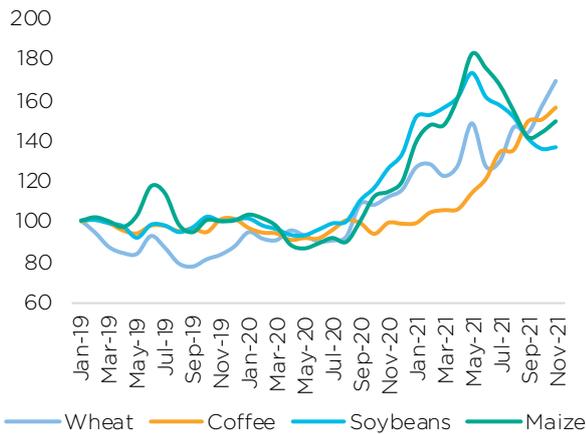
Figure 2. Exports and imports values, % of 2019 levels



Source : WTO stats

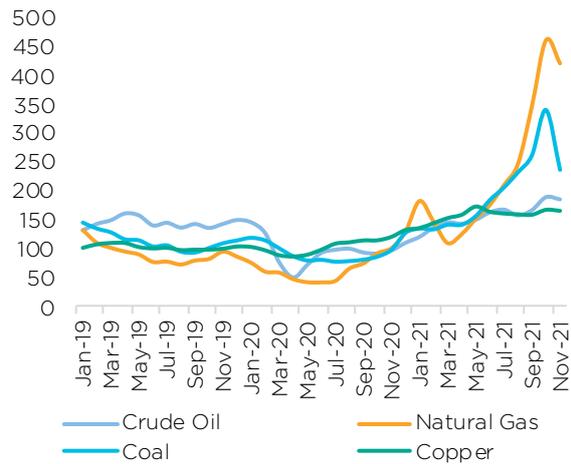
Soaring commodity prices mostly explain the rebound in merchandise trade, as congestion in international shipping and supply disruptions pushed the price of traded goods up (Figure 3, Figure 4). Demand for natural gas and coal, especially from China and India, rebounded sharply as the global economic activity resumed in 2020. Adverse weather conditions impacting the energy production as well as efforts to gradually switch towards cleaner energies led to a reduction of the production of coal and natural gas in 2021. In this context of strong demand and constrained supply of energy, natural gas prices skyrocketed to reach their highest level as prices recorded a sixfold increase while coal prices doubled after experiencing a peak in October 2021 (+ 170% compared to January 2020). Similarly, agricultural commodities prices jumped since January 2020, reflecting supply shortfalls, input cost increases (especially energy and fertilisers), and strong demand for animal feed commodities in China. Among key food commodities, maize experienced one of the largest increases (+45% since January 2020) followed by soybeans (+35%). Furthermore, surging shipping costs (nearly fivefold increase) pushed up the prices of traded goods, leading to a surge of manufactured goods prices (+13% since their lowest point in April 2020).

Figure 3. Prices of agricultural commodities, January 2019=100



Source: IMF primary commodity prices

Figure 4. Prices of fuel and metal commodities, January 2019=100

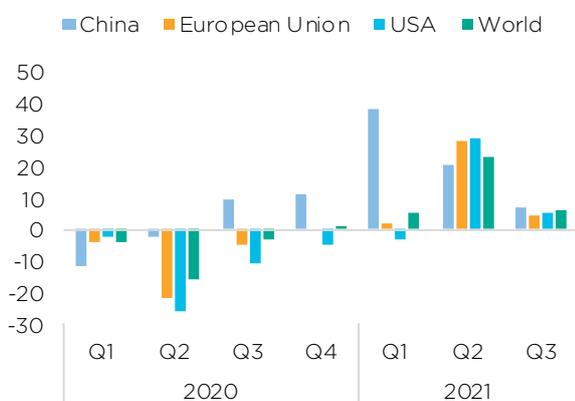


Source: IMF primary commodity prices

Behind the strong overall trade recovery, however, there is significant divergence across countries, with some developing regions lagging.

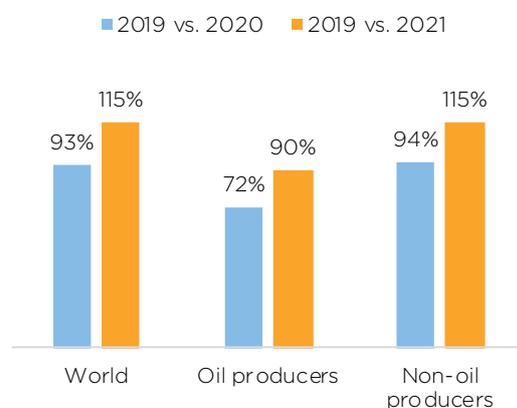
On the import side, the Middle East and Africa met their pre-pandemic levels in the second half of 2021 whereas Asian countries, especially China, recovered faster thanks to their successful strategy to track, trace, and isolate, minimising the impact of additional waves on domestic demand. On the export side, China has led the global recovery as export volumes swiftly bounced back from the contraction in Q2 2020 and grew by 50% since January 2020. Vaccine roll-out in the US and the EU significantly contributed to the re-opening of economic activities (especially in the services sector), boosting exports and imports volumes. Indeed, European export volumes met their pre-pandemic levels in Q2 2021 while US export volumes almost reached their pre-pandemic levels in Q2 2021 after decreasing in Q3 2021 owing a decline in exported goods (Figure 5). Oil-exporting countries suffered large declines in merchandise exports during the 2020 recession (-28% in 2020 compared to -6% for non-oil exporters) due to the collapse of oil prices and have only partly recovered from this fall (Figure 6). Failure to provide access to vaccines against Covid-19 in all countries has led to a two-track recovery, with slower growth in countries with limited access to vaccines. This divergence could spark the emergence and spread of new variants which could result in the reimposition of stringent measures that limit economic activity.

Figure 5. Exports volumes year-on-year growth, n.s.a % change



Source: WTO stats

Figure 6. Exports of merchandises by oil producers' countries in 2020-2021, % of 2019 levels

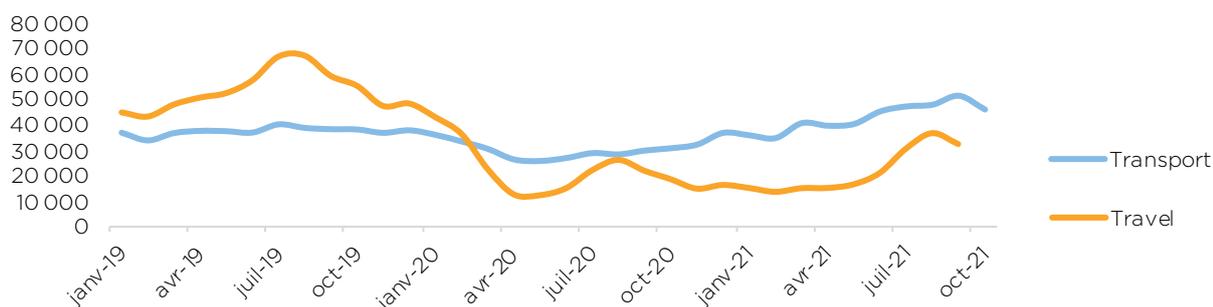


b. Services exports: a sluggish recovery as transport and travel sectors remain constrained.

Global services trade has progressively recovered from the Covid-19 crisis but remains slightly below pre-pandemic levels. Services trade experienced a more pronounced fall than merchandise trade as tourism and air transport were grounded to a halt. Between 2019 and 2020, global services exports contracted by 20% as transport and travel services exports, which accounted for 40% of services exports, plunged by 20% and 63%, respectively. This contraction was mainly driven by the European Union and the United States, which accounted for a third of total services exports and experienced a contraction of 13% and 19% in 2020 of their services exports, respectively. Nevertheless, services exports gradually recovered in 2021, led by the European Union whose services exports grew by 18% year-on-year between January and September 2021. Latest available data suggests that services exports from the European Union are currently at 74% of their pre-pandemic level, while they represent 64% of their pre-pandemic levels for the United States.

The recent surge in services trade is mainly driven the rebound of travel and transport services. Exports of transport services steadily expanded at an average monthly rate of 4.8 thanks to rising shipping costs and the reopening of the main trading economies in May/June 2020 (see section c on Global supply chains). The vaccine rollout allowed countries to lift or reduce some international travel restrictions, contributing to the partial recovery of international travels after reaching one of its lowest levels in February 2021.

Figure 7. Travel and Transport services exports of selected economies



Source: WTO stats

c. Global Value Chains: from capacity disruptions to inflationary pressures

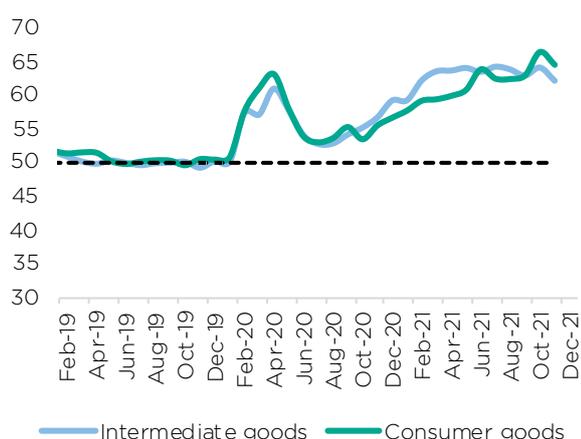
As economies reopened and lockdown measures eased, demand for goods and commodities quickly rebounded in Q2 2020, creating tensions on global supply chains. To address the Covid-19 pandemic, several economies implemented expansionary fiscal and monetary policies to support domestic consumption, reaching on average 12% of the GDP for advanced economies and 6% for emerging economies. As countries started to lift stringent measures, demand for goods and commodities rebounded in May 2020. After falling by 11% between March and May 2020¹, retail sales in the U.S jumped and grew at an average monthly rate of 14% between June 2020 and November 2021. Among key business, motor vehicles and parts grew at an average rate of 21%, furniture and home furniture by 26%, and clothing by 66% between June 2020 and November 2021. As reported by CPB World Trade Monitor, China's import volumes surged by 25% between January 2020 and April 2021, reflecting the surge of domestic demand, and then contracted due to the emergence of the Delta variant.

¹ Compared to the same period in 2019.

On the supply side, operational disruptions on the landslide and supply constraints in ships and containers hampered trade expansion. Asynchronous lockdowns led to differentiated port closures and disrupted shipping activities, especially in China and the US. The weakness of port infrastructure and logistics in several US cities contributed to additional stress on supply chains, creating longer lead times. For instance, several ports in the US did not operate 24/7 and suffered under-investment in modern handling equipment and IT solutions. Furthermore, the lack of trucking capacity and the shortage of skilled workforce in logistics operators and truckers worsened the stress on supply, resulting in longer dwell time. The number of employed truck drivers in the US fell by 87 thousand to 1.43 million between March and April 2020 and only reached its pre-pandemic level in November 2021. Similarly, due to the retirement of many workers in 2020, the number of employed heavy goods vehicle drivers in the United Kingdom fell by nearly 20 thousand between 2019 and 2020 to amount 275 thousand². Between January and November 2021, the number of job vacancies in the transport and storage sectors in the United Kingdom more than doubled to reach 56 thousand. Finally, the shortage of ships (whose production dropped by 12% in 2020) and the repositioning of empty containers (stalled in many locations) created additional stress and limited the shipping capacity.

Strong demand for goods combined with capacity constraints led to rising shipping prices and longer lead times, which hindered the trade recovery. Since more than 80% of consumption goods are transported by sea, any stress on maritime and ports logistics could hamper shipping and delivery of exports and imports. Port closures and disruptions during this Covid-19 crisis affected the circulation of ships. Empty containers, stalled across various locations, needed to be returned to locations where they were needed. Ports backups persist and limit the number of containers each port can accommodate. Increased demand from consumers exacerbated the issue. As a result, traders competed for shipping slots, pushing up shipping rates and making trade more expensive. Spot prices of the Shanghai port, the best-connected port, have skyrocketed since the beginning of the crisis as reflected by the Shanghai Containerised Freight Index which jumped by 1000 to almost 5000. Furthermore, supply chains are becoming slower and less reliable since suppliers are waiting longer lead times to get a shipping slot but are also experiencing delays to export their merchandises (Figure 8). As of end of 2021, nearly half of the imported shipment processes on the US West coast experienced dwell times greater than five days (Figure 9).

Figure 8. Suppliers' Delivery Times index



Source : IHS Markit

Note: Delivery Times Index above 50 signals longer average lead-times

Figure 9. Average percentage of shipments experiencing dwell greater than five days on the U.S West coast, %



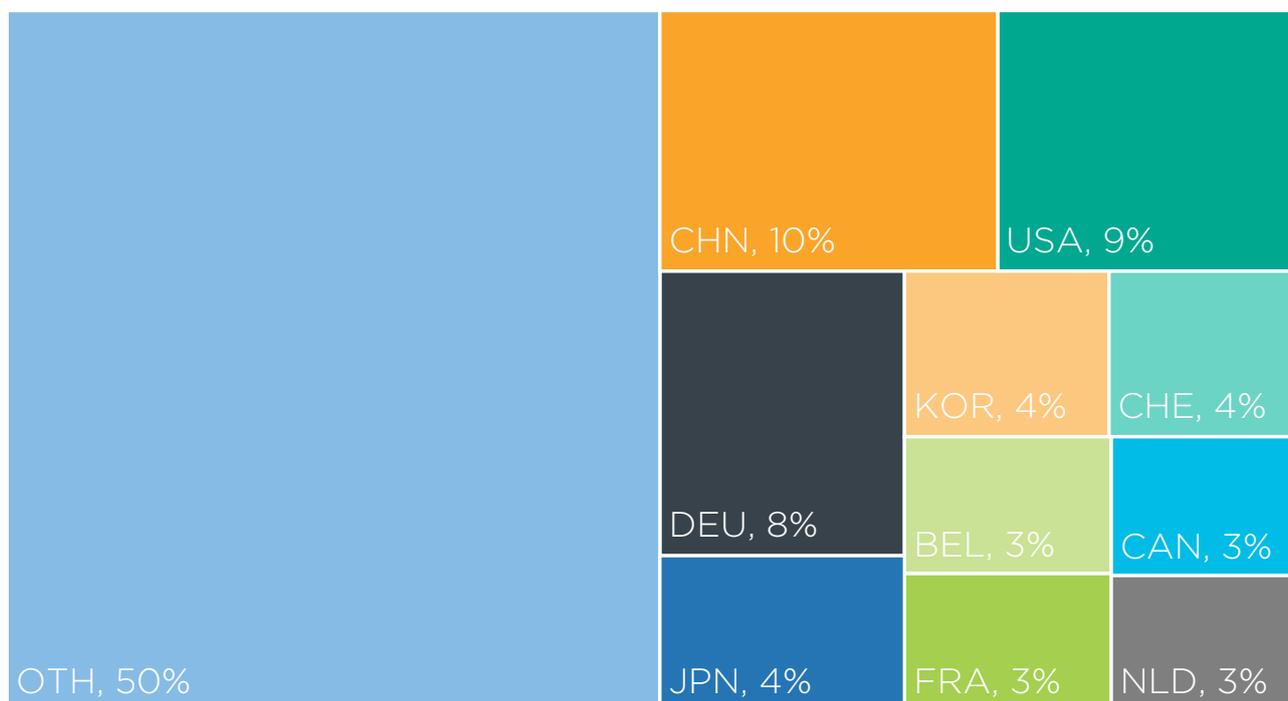
Source: Pacific Merchant Shipping Association

² Data comparison between March 2019-April 2020 and April 2020-March 2021 <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/adhocs/13636hgvdriersbyageandnationality>

Due to their integration and reliance on global value chains (GVC), the USA, Germany and China were more exposed to external shocks. All three countries are the main importers of intermediate goods as they accounted in 2019 for about a third of global intermediate goods imports (Figure 10). On the one hand, China is considered as the main hub for traditional trade and simple global value chain networks such as manufacturing for basic metal, textile, computers, and electronics. On the other hand, the United States and Germany are the most important hubs in complex GVC networks such as motor vehicles. GVC-related trade in the manufacturing sector represents more than 40% of gross trade. Many countries have deep linkages with the three GVC hubs via trade or investment. For instance, the US auto industry is integrated with Mexico and Canada, while Germany has production networks in Eastern Europe. The manufacturing of semi-conductors is concentrated in Taiwan and South Korea. In Europe, GVC account for nearly 30% of output and 50% of gross trade.

The magnitude of supply disruptions depended on the country’s international trade and production linkages as well as the degree of substitutability for inputs. In OECD countries, intermediate inputs account for nearly 50% of the final output value. In addition, about 20% of intermediate inputs are imported, reflecting inter-industry linkages across countries. About 60% of total intermediate goods imports are driven by four industries: (i) mining, (ii) manufacturing of chemicals, (iii) manufacturing of basic metals, (iv) manufacturing of computers and electronics. Intra-industry linkages are also extremely strong for tradable industries such as transport equipment as 40% of inputs are provided by the same sector. Non-tradable sectors such as construction or transport and storage also rely on imported inputs, albeit to a lower extent. Lower degree of substitutability across inputs and higher level of concentration for input production amplified the magnitude of the impact.

Figure 10. Top 10 importers of intermediate goods in 2019, % total

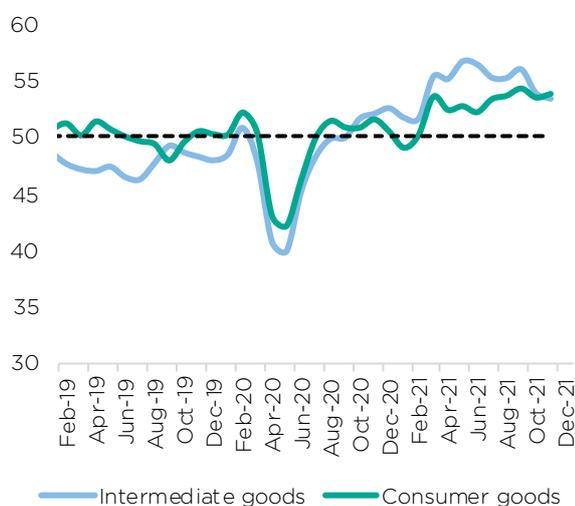


Source: WITs, World Bank

Labour and input shortages induced by the pandemic and supply chain disruptions amplified the direct contagion effect from tradable to non-tradable sectors, contributing to inflationary pressures.

Due to international input-output linkages, frictions in supply chains reverberated to other sectors through input shortages and delays, leading to sectoral prices increases and general inflation in the short-term. Backlogs of orders increased to elevated levels, indicating high lead times (Figure 12). Amid acute shortages and delays, inventories-to-sales ratios hit record lows, especially in non-tradable sectors (Figure 13). Input-output linkages are known to contribute to producer price index inflation, leading to a synchronisation of inflation across sectors and trading partners (World Development Report 2020). Without bottlenecks in the energy and motor vehicle sectors, year-on-year inflation would have been 2.8 and 1.3 percentage points lower for the US and the Euro area member countries³. Lastly, increasing pressures on the labour market due to temporary shortages of labour force—especially in leisure and hospitality as well as retail sectors—fuelled wage increases, thus general inflation.

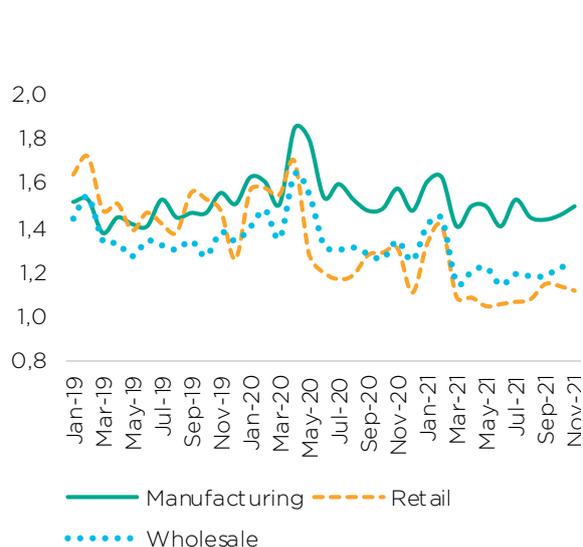
Figure 11. Backlogs of orders



Source: IHS Markit

Note: Backlog of orders above 50 indicates an increase

Figure 12. U.S inventory to sale ratio



Source: Fed St Louis

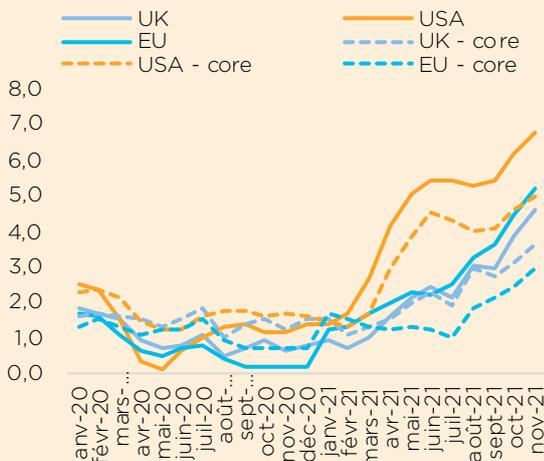
BOX 1. RECENT DRIVERS OF GENERAL INFLATION

On the demand side, unprecedented and massive policy support in response to the Covid-19 crisis led to a pent-up demand and accumulated savings, which fuelled private consumption growth. Additional spending and liquidity support

amounted to 11% of GDP in advanced economies while they accounted for 5-6% of GDP in emerging countries. This spending helped to mitigate the impact of the Covid-19 contraction on private consumption. A large part of excess savings that resulted from this exceptional policy support fuelled private consumption, especially for high-income households. For instance, the personal saving rate in the United States soared from 7.8% in January 2020, peaked at 33.8% in April 2021 and remained well above pre-pandemic levels until September 2021. These additional revenues contributed to inflationary pressures in the housing market, where prices surged between 10-20% since the beginning of the pandemic and led to higher general inflation. About 20% of the US consumer price index (CPI) inflation in 2020 was the result of housing rental prices increases. Finally, shifting household consumption patterns also contributed to price changes and a different perception of inflation across households. The most affected spending categories were food, housing, transport and restaurants (Cavallo, A., July 2020).

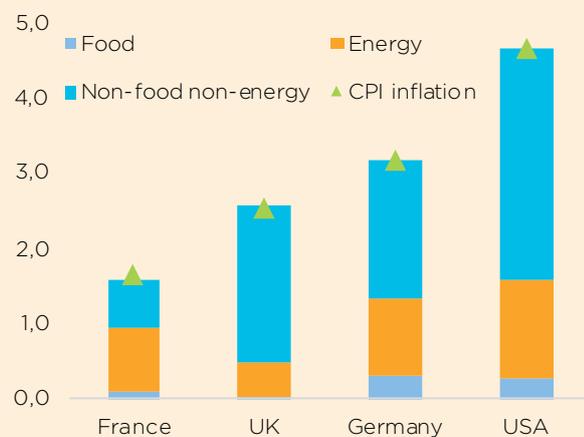
Soaring commodity prices also fuelled inflationary pressures. As previously mentioned, adverse weather conditions and supply constraints led to price increases for fuel and agricultural prices. Food prices have surged by more than 40% since May 2020, when food prices reached their lowest level during the pandemic. Increasing food prices have dire consequences in low-income countries, where spending on food accounts for about 60% of average daily consumption. Between 2019 and 2020, the number of people suffering from moderate or severe food insecurity surged by 320 million to reach 2.4 billion (from 26.6 to 30.4%). Similarly, energy prices have skyrocketed and been multiplied on average by almost 5 compared to their minimum in April 2020. This trend is particularly worrisome for coal and natural gas, which spiked by 840% and 286% between April 2020 and October 2021. About one third to half of the increase in consumer prices in advanced economies in 2021 is driven by energy prices as they push up the energy bill for housing as well as transport costs (Figure 15). Core inflation, which excludes energy and food prices, have been increasing but at a lower rate than headline inflation (Figure 14), highlighting the importance of short-term volatility.

Figure 13. CPI inflation, yoy % change



Source : OECD stats

Figure 14. Average contribution to annual inflation in 2021, in percentage points



Source : OECD stats

Labour and inputs shortages created sectoral mismatch, fomenting sectoral prices increases and contributing to general inflation at least in the short run.

Inputs shortages caused by supply chains disruptions exacerbated supply chain bottlenecks, fomenting sectoral prices increases which contributed to general inflation. Scarcity of intermediary input may halt the production final goods if: (i) this input has no close substitute and, (ii) increasing production requires capital and is time-intensive in the short run. The shortage of semiconductors led in a first phase to a reduction of vehicle production, driving up producer prices for car dealers. Nevertheless, its impact on overall inflation have remained modest due to the small weight of semiconductor in personal consumption expenditure (Leibovici and Dunn, 2020). Even industries without large changes in demand might be forced to reduce supply and increase prices in response to shortages of key inputs. Increasing pressures on the labour market due to temporary shortages in the labour force - especially in leisure and hospitality as well as retail sectors - have also fuelled wage increases, thus affecting the production costs in those sectors.

In response to inflation concerns, Central Banks in advanced and emerging economies already started to tighten their monetary policy.

The Bank of England (BoE) decided to reduce its bond purchase programme and raised its policy rate by 0.4 percentage point to 0.5% between November 2021 and February 2022. This decision is the result of: (i) the tightening of the labour market; (ii) the persistence of domestic costs and prices pressures; and (iii) the emergence of Omicron. The European Central Bank (ECB) announced it will end net asset purchases under the Pandemic Emergency Purchase Programme in March 2022. ECB is expected keep its policy at a low level (at 0% as of end 2021) and will tolerate a transitory period in which headline inflation is above the 2% target. Indeed, the ECB considers recent inflation is mainly driven surge in energy prices as well as demand temporarily outpacing constrained supply in some sectors. In light of inflation developments and further improvement in the labour market, the U.S Federal Reserve said in December 2021 it will further reduce its monthly bond purchase and is expected to raise its 0.1% interest rate at least three times in 2022. Concerns about domestic inflation and foreign capital outflows led several emerging countries such as Brazil, Russia, Mexico and Colombia to start raising their policy interest rate (see Figure 18 in section 2).

Although inflation is expected to return to pre-pandemic levels in 2022 in most countries, there are concerns of persistent inflation, notably in developing countries.

Supply bottlenecks caused by a shortage of equipment, input and labour in some sectors should ease in 2022. This would speed up the economic recovery. At the same time, global demand should rebalance and energy prices stop rising, exerting downward pressure on general inflation. In the United Kingdom and eurozone countries, professional forecasters expected CPI inflation to be close to the policy target in the medium term. In the United States, long-term inflation expectations have increased but remain close to historic averages and thus appear well-anchored. However, uncertainty remains high and there is a risk that inflation could remain elevated for a prolonged period, especially in developing countries. Food inflation in Sub-Saharan Africa is currently outpacing and driving price increases. High food price inflation could persist if inflation expectations become de-anchored or supply chain disruptions continue. The lack of credible monetary and fiscal policies could exacerbate inflation by de-anchoring inflation expectations. Finally, an increase of the Fed policy rate is concerning for developing countries as it would prompt outflows of capitals, causing local currency weakening. Local currency depreciation would pass-through and would contribute to general inflation by increasing imports prices. With record-high levels of public and private debt, local currency depreciation could also significantly threaten fiscal and debt sustainability by increasing debt service, borrowing costs and debt levels.

Although their contribution to global value chains is limited, small-and-medium enterprises (SMEs) were also negatively impacted by supply disruptions and are more vulnerable to those shocks than larger companies. SMEs⁴ in most OECD

countries are actively contributing to exports as they represented more than 90% exporters in 2019, but their contribution is moderate (37% of exports value) due to their relatively low participation in heavy industries such as mining, aviation, or automobile (Figure 16). Nevertheless, SMEs managed in some OECD countries to dominate some niche markets for exports such as textile, apparel and wood manufacturing. In addition to their role as a direct exporter in those markets, SMEs also contribute to global value chains as suppliers to larger exporters as well as input importers (46% of imports value). As a result, disruptions in supply chains also hindered SMEs performance. According to the latest Small Business Pulse Survey⁵, about one third of American SMEs have cash for up to one month. Furthermore, surveyed SMEs reported facing delays from domestic suppliers (44%) as well as foreign suppliers (19%). Their difficulties to find alternate domestic suppliers (22% of surveyed enterprises) prevent them from delivering or shipping to customers on reasonable times (25%). Similarly, European SMEs are mainly concerned by the rise of energy and raw materials, the lack of skilled workers (especially in ICT and green economy) and the increase of labour costs (Eurochambers Economic Survey, 2022⁶).

Figure 15. Traders and traded values in selected OECD countries in 2019, % of total



Source: OECD Trade by enterprise characteristics

d. Reshoring production or challenges to enhance resilience to shocks?

The Covid-19 crisis has highlighted the inter-dependence of countries and industries for global supply chains, prompting a move toward relocating strategic activities. Globalisation has led to a fragmentation of production across countries, but for some industries suppliers are concentrated in a specific country or region due to the country's specialisation or economies of scale. For instance, India is the global supplier for generic drugs while China is the dominant producer for key active ingredients and medical supplies (masks, gowns, test kits among others). China and the Southeast Asian region remain the dominant players in the textile and apparel industries while Taiwan and South Korea are the main producers of semi-conductors. The Covid-19 crisis and geopolitical tensions between China and the US have exacerbated the drawbacks of the inter-dependence. As a result, European countries and the United States, are showing a willingness to move toward reshoring (or near shoring) industrial production to ensure their economic and technological independence in strategic sectors such as health, electronics, agribusiness, industrial 5G applications.

⁴ Defined as enterprises with less than 250 employees.

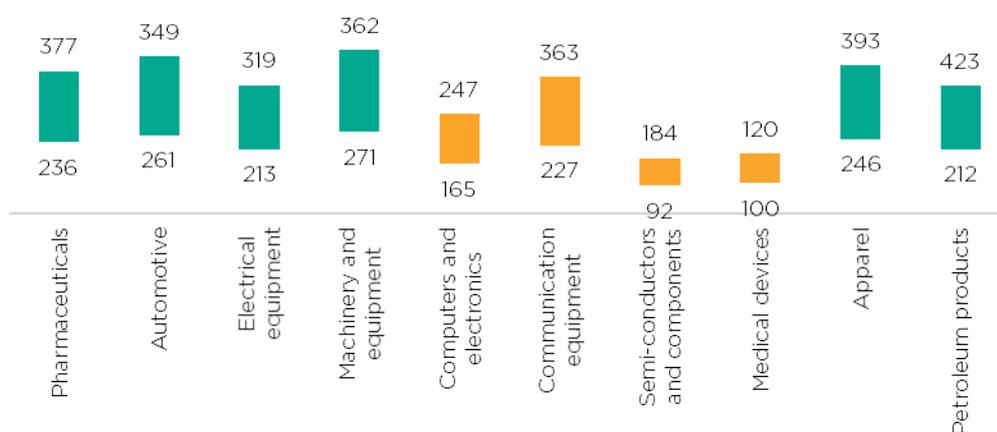
⁵ November 29, 2021 – December 5th, 2021 <https://portal.census.gov/pulse/data/>.

⁶ Published in November 2021.

Despite heated debates, the cost of relocating activities remains substantial and the decision to relocate hinges on several factors.

The McKinsey Global Institute estimated that between US\$2.9-4.6 trillion of exports value could be shifted geographically. They identify six industries where the value of exports with shift feasibility is relatively high: pharmaceuticals, automotive, electrical and machinery equipment, apparel and petroleum products (Figure 17). However, reshoring GVC activities would cut global GDP by 5.5% (nearly US\$5 trillion) and generate more vulnerability to shocks (OECD Global Value Chains, February 2021). The USA and the European Union could lose 6.2 and 4.9% of their respective GDP, while Southeast Asia would experience a contraction of 10.8%. Furthermore, relocating activities can be a lengthy and costly process especially when it involves specific knowledge capital and because building a network of new suppliers takes time. The decision to relocate activities depends on several factors such as the dynamism of consumer demand, labour and input costs and substitutability, relationships with suppliers, quality and access to infrastructure (ports, roads) or natural resources, and access to skilled workforce.

Figure 16. Minimum and maximum value of exports with shift feasibility over the next five years, US\$ Billion



Source: McKinsey Global Institute

Instead of completely relocating production, companies are more willing to increase global supply chains' resilience.

According to a McKinsey survey⁷, only 15% of business leaders would consider nearshoring their own production as a solution to build supply chain resilience. However, 40% consider nearshoring or expanding their supplier base as well as regionalising supply chains as a solution to enhance resilience. Indeed, low diversity of suppliers or customers can increase the probability of disruption and can magnify the propagation of shocks. In the light of trade disputes and supply chain disruptions, there was already a trend towards slower globalisation and regionalisation of production processes and networks. Indeed, participation in global value chains peaked in 2018-2019 before dropping due to the Covid-19 crisis (WTO, Global Value Chain Development Report 2021). Furthermore, as of December 2020, a large share of trade agreements was intra-regional: 60% for Asia and the Pacific, 50% for Central Asia and about one third for Europe and South America. As a result, recommendations to increase resilience include: (i) improving risk preparedness (stress testing, suppliers mapping, enhancing digitalisation of processes), (ii) diversifying and strengthening of supplier network, (iii) improving transportation, logistics, and border process regulations, (iv) increase inventory or safety stock, (v) ensure financial buffers to have enough liquidity when a shock hits.

⁷ McKinsey & Company: *Resilience and rebalancing global value chain*, 2020.

e. Projections and risks for 2022

For 2022, global trade is expected to continue its expansion in line with broader economic recovery, albeit at a slower rate. Merchandise trade is expected to grow steadily as pressure on supply chains should ease. Industry shortages may gradually decline when production ramps-up and aggregate demand stabilises, but it might take some time if production is capital-intensive (e.g. manufacturing sector). Countries where tourism and travel account for a larger share of GDP will continue to suffer travel restrictions. Downside risks to this forecast include: (i) inequitable vaccine distribution or access to testing and therapeutic treatment could foment the emergence of more contagious and/or deadly new variants forcing countries to adopt stringent measures (see Box 2); (ii) additional supply disruptions with labour and input shortages and longer port delays affecting sectoral and headline inflation, (iii) financial instability related to the tightening of monetary policies in advanced countries, (iv) geopolitical tensions affecting trade and energy prices.

BOX 2. THE COST OF INEQUITABLE VACCINE DISTRIBUTION

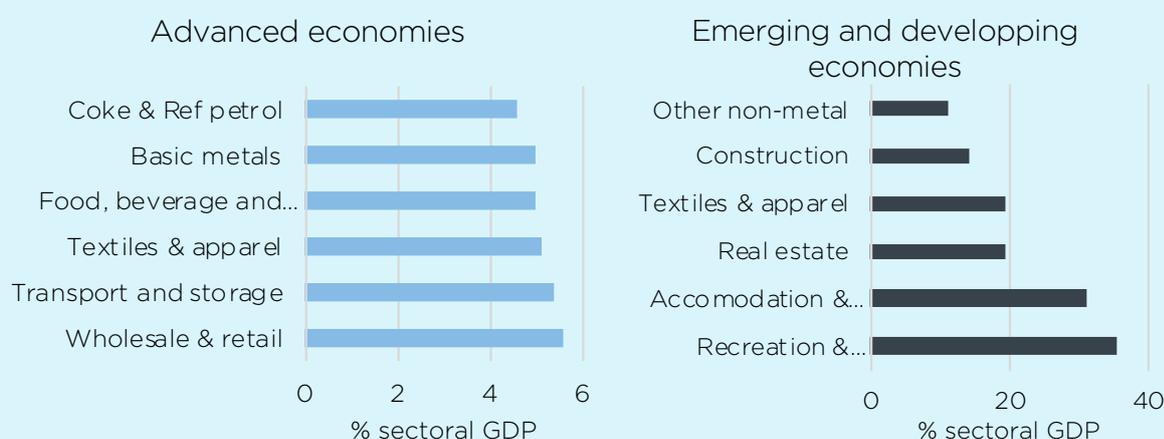
Even if advanced economies effectively vaccinate their populations and contain the pandemic completely, they will still suffer economic losses due to their trade linkages with undervaccinated countries. In comparison to a situation where vaccination is global, failure to ensure an equitable distribution of vaccines will reverberate through the global economy and could cost up to US\$ 3.8 trillion in economic losses (nearly 5% of global GDP), of which almost 50% would be borne by advanced economies. The costs for the USA and Germany could reach 3.1% and 2.1% of their respective GDPs due to their reliance on imports of intermediate goods from emerging economies.

The costs for the USA and Germany could reach 3.1% and 2.1% of their respective GDPs due to their reliance on imports of intermediate goods from emerging economies.

On a sectoral level, the cost of inequitable access to vaccines would be heterogenous and mostly borne by emerging and developing economies (EMDEs). Services sectors with a low share of teleworkable activities would be severely hit, especially in EMDEs. In advanced economies, the most impacted sectors would be those that rely directly or indirectly on the imports of intermediate goods (especially oil): wholesale and retail, transport and storage, textiles and apparel, and commodity (food, basic metals, petrol). Conversely, inequitable access to vaccines would strongly affect domestic demand in emerging markets and developing economies due to their limited ICU capacity, which will eventually end with stringent measures such as lockdowns. As a result, sectors such as accommodations and food services, arts and entertainment or real estate could lose between 20 and 30% of their sectoral GDP (Figure 17).

Services sectors with a low share of teleworkable activities would be severely hit, especially in EMDEs. In advanced economies, the most impacted sectors would be those that rely directly or indirectly on the imports of intermediate goods (especially oil): wholesale and retail, transport and storage, textiles and apparel, and commodity (food, basic metals, petrol). Conversely, inequitable access to vaccines would strongly affect domestic demand in emerging markets and developing economies due to their limited ICU capacity, which will eventually end with stringent measures such as lockdowns. As a result, sectors such as accommodations and food services, arts and entertainment or real estate could lose between 20 and 30% of their sectoral GDP (Figure 17).

Figure 17. Top 5 sectoral GDP loss relative to the counterfactual of global vaccination, % sectoral GDP



Source: Cakmakli, C. Et al. (April 2021)

Policymakers must therefore carefully tailor their policy response to most recent data and country specific circumstances given the highly unstable and uncertain environment.

Fiscal and monetary tightening should be gradual, credible, well-communicated, and calibrated to the country-specific vulnerabilities and business cycles. Fiscal policies should adhere to sustainable medium-term frameworks. This could help to keep inflation expectations anchored, especially in emerging countries. Policy discussions should also happen at the multilateral level to address spillovers of fiscal and monetary policies of advanced economies in developing economies. Coordination should be fomented, wherever and whenever feasible. Emerging and developing countries with a high level of fiscal or external imbalances (high level of debt or debt service, exposure to currency depreciation; lack of international reserves) should also prepare to the shift in monetary and fiscal policies in advanced countries. Those in fiscal distress could request for debt relief through maturity extensions and interest rate reductions. In addition to macroeconomic policy adjustment, some countries should move toward greater exchange rate flexibility or consider foreign exchange intervention and capital controls if their access to international markets is limited. The built up of international reserves via swap lines with the Fed, regional financing arrangements and Special Drawing Rights is also crucial for countries vulnerable to exchange rate depreciation.

Enhancing digital trade facilitation will be crucial to increase resilience to further trade disruptions and to enhance countries' participation in global value chains.

Trade facilitation refers to measures related transparency of border procedures, institutional arrangements, and transit facilitation. A step further would be digital trade facilitation, which is associated with paperless trade (electronic single window, electronic certificate of origins, electronic payments, among others) within a country and across borders. Structural transformation of trade processes and procedures will be needed to significantly reduce time and costs for trading, especially for SMEs. Digital trade facilitation measures could reduce trade costs by 13% if fully implemented. Pacific islands, South Asia and Sub-Saharan African would benefit the most from implemented these measures as their trade costs could be cut by 20% (UNESCAP, 2021)⁸.

⁸ Digital and Sustainable Trade Facilitation: Global Report 2021

2. Recent trends in trade finance: a challenging recovery in an uncertain and unstable environment

The trade finance industry is highly influenced by factors affecting international trade and the money supply. All things being equal, less trade means less potential business to finance, while at the same time an increase in the perceived risk of trade can foment an increase in demand for risk mitigation instruments, such as credit insurance or guarantees. Similarly, changes in monetary and fiscal policies can affect the aggregate demand and the financing conditions of trading firms. In this chapter, we will first summarise the policies implemented to support households and corporations. Then, we will analyse the evolution of short-term and medium-term trade finance in 2020 in response to those policies but also to changes in international trade.

a. Latest policy developments: the surge of credit to the private sector

Central banks around the world acted with speed and force using an array of policy tools to combat the negative impact of the pandemic on the global economy. These facilities targeted different level of governments (from central to local), various size of businesses (SMEs to large corporations), households and non-profit organisations. They included: (i) interest rate cuts (or kept at historical low levels) and forward guidance on the likely future path of interest rates to stabilise expectations (Figure 18), (ii) Treasury and mortgage-back securities purchases known as quantitative easing, (iii) liquidity provision and credit support (lending to financial firms, purchases of corporate securities, direct lending to nonfinancial firms, international swap lines among others), (iv) regulatory easing (reductions of reserve requirements for lending, lower standards for collateral, expansion the list of possible assets for collateral, defer interest and principal payments among others). All these actions helped to maintain borrowing affordable, support access to credit to business and households, and thus helping spur demand and absorb the pandemic-induced-shock. As a result, assets from the US Fed jumped from US\$4.2 to 8.8 trillion since the beginning of the pandemic, while ECB assets increased from €4.7 to 8.5 trillion.

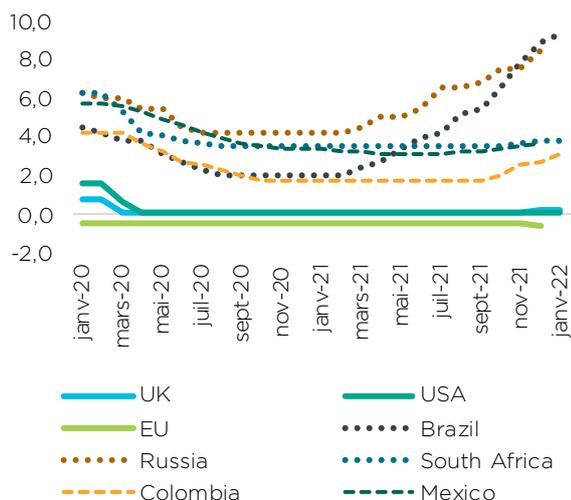
At the same time, households' saving capacity strongly increased thanks to fiscal transfers, short-time work schemes and tax measures implemented in several economies. Governments provided financial support to businesses' cash-flow and households' income and employment through: (i) loans, debt guarantees or equity injections to support businesses activities and employment; (ii) job retention scheme to stem job losses by alleviating firms' labour costs while supporting the incomes of workers whose hours are reduced (subsidising non worked hours, wage subsidies, top up the earnings of workers on reduced hours) but also simplifying and extending coverage to non-permanent workers; (iii) deferral of tax, rent, utilities payments and social security contributions, and debt moratorium, (iv) paid sick leave, (v) direct lump sum payment and increase of unemployment benefit payments.

In sum, accommodative fiscal and monetary policies in most countries helped to keep the business sector afloat and support households' consumption. As a result of these emergency support measures, credit to non-financial corporations increased by 8% of GDP in eurozone countries, 6% of GDP in the United States, and 15% of GDP in emerging economies. To a lesser extent, credit to households surged by 3 and 8% of GDP for advanced and emerging economies respectively (Figure 19). Credit to general government expanded by nearly 15% of the GDP since the beginning of the pandemic to allow government to finance extraordinary spending to mitigate the shock and support the economic recovery. Countercyclical fiscal and monetary policies during the crisis also helped to mitigate temporarily the number of bankruptcies, especially in advanced economies⁹. In the absence of governments' action, SMEs failures would have almost doubled¹⁰.

⁹ OECD SME and Entrepreneurship Outlook 2021

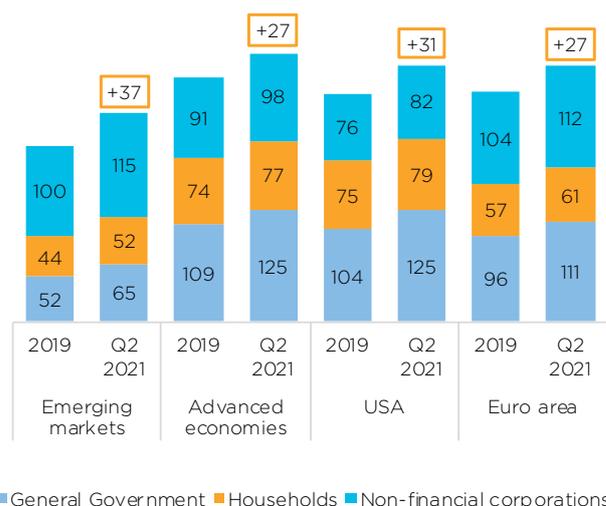
¹⁰ Gourinchas and Kalemli-Özcan, 2020

Figure 18. Interbank rates in selected countries, in %



Source : OECD

Figure 19. Credit to the economy, in % of GDP



Source : BIS

b. Short-term trade finance dried up in 2020 but medium-term trade finance expanded

Demand for short-term trade finance contracted in 2020 as the Covid-19 crisis hit both the demand and supply of merchandises trade.

Between 2019 and 2020, data from the 2021 ICC Trade Register (see Annex) showed short-term trade finance exposure dropped by 21% to the amount of US\$2,043 billion due to a deep contraction in merchandises imports and exports (see section 1). The main contributors to this contraction were trade loans and import letters of credit, as they decreased by 23 and 29%, respectively. This reflects the contraction of global demand in the first half of 2020, which was associated to a decline of imports. As a result, the share of those two products declined, but they still account for more than half of total short-term trade finance. However, it is worth noting that short-term trade finance was severely hit by trade contraction induced by the Covid-19 crisis, whereas credit to the non-financial sector jumped by 11% as a result of accommodative fiscal and monetary policies implemented by policymakers (Figure 20, see section 2.a).

Financial regulations and low-risk appetite seemingly led banks from the private sector to restrict the supply of short-term finance, exacerbating difficulties traders are facing.

Amid uncertainty and increasing volatility for commodity prices, several banks scaled back their supply for short-term finance products, inducing a flight to quality. Indeed, data from the 2021 ICC Trade Register suggested that the decline in short-term trade finance in 2020 could be associated with a lower supply of liquidity from the banking sector. Although the number of transactions remained broadly constant in 2020, the decline in short-term trade finance exposure was associated with a decrease in the number of borrowers for trade loans (-8%) and letters of credits (-18% for imports, -9% for exports), which account for 75% of total exposure. Furthermore, the median amount for trade loans (which represent 37% of total exposure) dwindled by 30% from US\$169 to 129 million, reducing overall exposure (Figure 21, Figure 22). A rising Treasury-EuroDollar rate (TED)¹¹ spread (from 0.4 in the beginning of lockdown measures to peak at 1.4 as of end of March 2020) in the beginning of 2020 also suggests liquidity withdrawal. Finally, Basel and solvency requirements might also have reinforced this restrictive trend and limited the lending market capacity to the private sector.

¹¹ Difference between 3-Month LIBOR based on US dollars and 3-Month Treasury Bill.

Figure 20. Credit to the non-financial private sector vs. trade finance in 2020, % yoy change

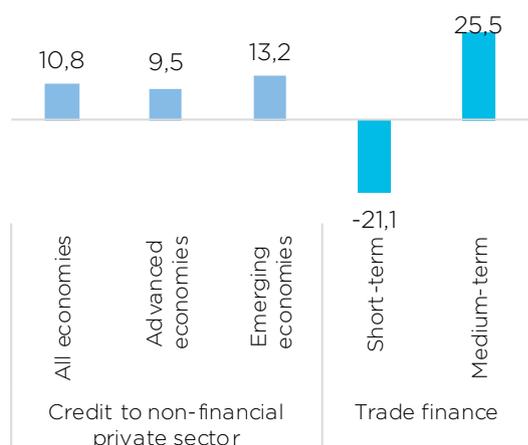


Figure 21. Short-term trade finance by product in 2019, % total of total exposure

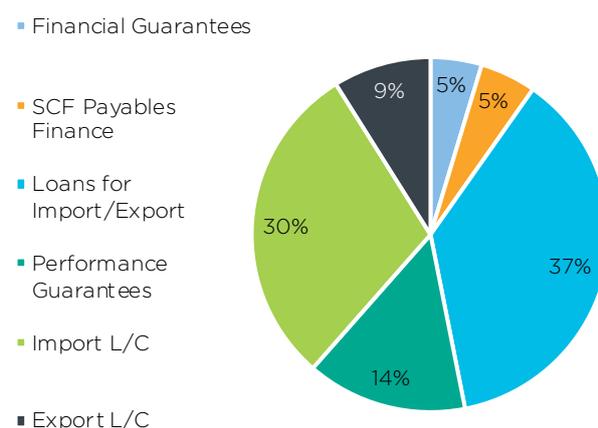
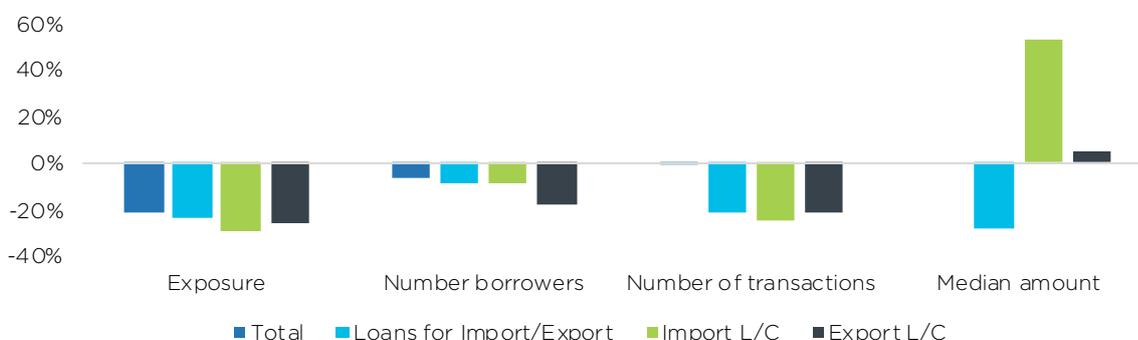


Figure 22. Overall exposure, number of transactions, borrowers, and median transaction amount, % change between 2019-2020



Source: BIS, ICC Trade register

Medium-term trade finance (or export finance) has been relatively more resilient due to government’s additional support with credit insurance or guarantees.

Medium-term trade finance increased by 26% between 2019 and 2020 to reach US\$65 billion. Corporate loans (which accounted for 55% of total exposure in 2019) drove almost 70% of this increase, followed by sovereign loans. While the number of customers remained broadly the same, the median amount for sovereign loans increased by almost 30% (Figure 23, Figure 24). The low-risk appetite of commercial lenders resulted in limited availability of trade finance for exporters but may have contributed to a small shift toward government-backed loans. Governments, through their Export Credit Agencies (ECA), have stepped up to fill the trade financing gap and implemented several measures to support trade including: (i) boosting their working capital support programmes, (ii) introducing new facilities such as export credit insurance or guarantees, (iii) increasing flexibility for repayments, interest rate, fees, claims, (iv) improving processes with a fast-track policy approval, contactless application processes, provided deadline extensions and extended time for notification and filing claims.

Despite turbulences, trade finance remains a relatively low-risk product.

The value of defaults for short-term finance soared between 2019 and 2020 and nearly doubled to reach US\$ 5.5 billion due to severe trade disruptions induced by lockdowns. This trend was mainly driven by trade loans defaults as they contributed to 80% of this increase. Nevertheless, the default rate (expressed as a percentage of total exposure) remains extremely low, especially compared to overall non-performing loans but also to the global financial crisis. The short-term trade finance default rate reached 0.3% in 2020 while global non-performing loans went beyond 6% in 2020 and during the global financial crisis in 2009/2010 (Figure 23).

Figure 23. Medium- trade finance by product in 2019, % total of total exposure

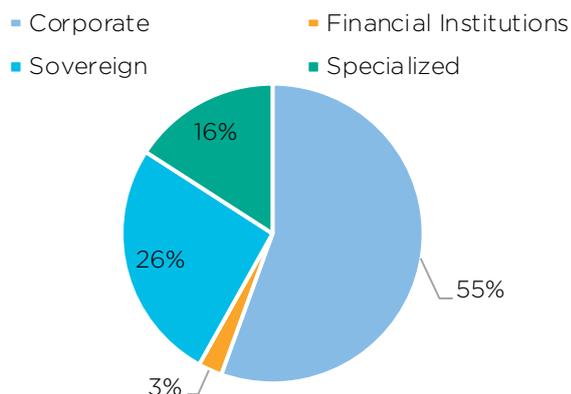


Figure 24. Overall exposure, number of transactions, borrowers, and median transaction amount, % change between 2019-2020

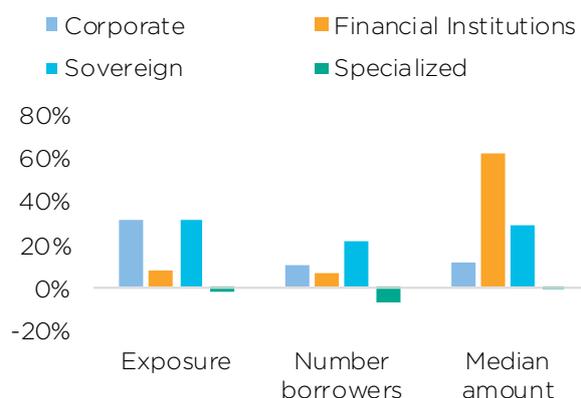
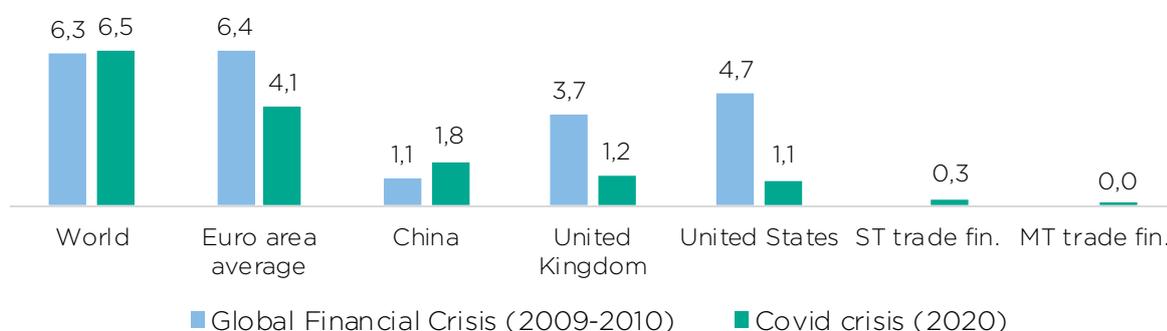


Figure 25. Defaults rates for trade finance and non-performing loans, % of exposure



Source: IMF Financial Soundness Indicators, Eurostats, ICC Trade Register

c. Projections and risks for 2021-2022

With global merchandise trade growing beyond its pre-pandemic levels, trade finance is expected to recover in 2021-2022. The latest report from the Berne Union (November 2021) indicated that credit insurers are increasing their risk appetite in line with positive economic forecasts and rising commodity prices, resulting in an increase of demand for export credit insurance in the three quarters of 2021. In the same time period, the Berne Union estimated that demand for short-term business slightly outran demand for medium-term business thanks to soaring commodity prices but expected a slightly reversed situation in the last quarter of 2021.

The trade finance industry will be facing several challenges in the coming years due to factors affecting the underlying environment for international trade. The ease of global supply chain disruptions should resolve bottlenecks and help the financing industry to recover. However, the tightening of fiscal and monetary policies will slow down the growth of demand for goods, thus affecting imports and exports of goods. Downward risks also include increasing input and shipping prices, higher volatility for currency and commodity prices, a surge in trade tensions and protectionism among others. In addition, the lack of digitalisation among SMEs can lead to high costs of service for lenders due to manual handling costs, translating subsequently into a lower appetite to finance SMEs' activities. Digitalisation of trade processes and moving toward global interoperability within the trade finance industry has the potential to reduce transaction costs significantly, streamline processes, boost revenues, and increase access to liquidity for SMEs.

3. Bibliography

Asian Development Bank, “Integrating SMEs into global value chains challenges and policy actions in Asia”, 2015

Asian Development Bank, “Global Value Chain Development Report 2021: Beyond Production”, November 2021, <https://dx.doi.org/10.22617/TCS210400-2>

Bank of England, “Monetary Policy Summary and minutes of the Monetary Policy Committee”, December 2021, <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2021/december-2021>

Cavallo, Alberto, “Inflation with Covid consumption basket”, NBER July 2020, https://www.nber.org/system/files/working_papers/w27352/w27352.pdf

Cakmakli, C. Et al., “The Economic Case for Global Vaccinations: An Epidemiological Model with International Production Networks”, No. DP15710, Centre for Economic Policy Research, April 2021 https://cepr.org/active/publications/discussion_papers/dp.php?dpno=15710#.

Eurochamber Economic survey 2022 <https://www.eurochambres.eu/publication/eurochambres-economic-survey-2022-ees2022-2/>

European Central Bank, “Press release Monetary Policy Decisions”, December 2021, <https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.mp211216-1b6d3a1fd8.en.html>

Fernando Leibovici and Jason Dunn, “Supply Chain Bottlenecks and Inflation: The Role of Semiconductors,” Economic Synopses, No. 28, 2021. <https://doi.org/10.20955/es.2021.28>

Gourinchas, Pierre-Olivier, Sebnem Kalemli-Özcan, Veronika Penciakova, and Nick Sander, “Covid-19 and SME failures”. No. w27877. National Bureau of Economic Research, 2020.

International Chamber of Commerce, Trade Finance Global, and World Trade Organization, “Accelerating Trade Digitalization to Support MSME Financing”, March 2021

International Chamber of Commerce, “2021 Trade register report, Global risks in Trade Finance”, 2021

International Monetary Fund, “World Economic Outlook: Recovery During a Pandemic Health Concerns, Supply Disruptions, and Price Pressures”, October 2021

International Monetary Fund, “World Economic Outlook Update: Rising Caseloads, A Disrupted Recovery, and Higher Inflation”, January 2022

Kim, Kijin, Steven Beck, and Ma Concepcion Latoja. “2021 Trade Finance Gaps, Growth, and Jobs Survey.” (2021).

McKinsey Global, “Resilience and rebalancing global value chain”, 2020

McKinsey, “Reconceiving the global trade finance ecosystem”, 2021

OECD, “Coronavirus (COVID-19): SME policy responses”, 2020

OECD, “Job retention schemes during the COVID-19 lockdown and beyond”, 2020

OECD, “Global value chains: Efficiency and risks in the context of COVID-19”, 2021

OECD, “Trade finance in the Covid area – Current and future challenges”, 2021

OECD, “Trade finance in times of crisis – Responses from Export Credit Agencies”, 2021

OECD, “Statistical Insights: Consumption shifts and inflation measurement during COVID-19”, 2021, <https://www.oecd.org/sdd/prices-ppp/statistical-insights-consumption-shifts-and-inflation-measurement-during-Covid-19.htm>

OECD, “OECD SME and Entrepreneurship Outlook 2021”, OECD Publishing, Paris, 2021, <https://doi.org/10.1787/97a5bbfe-en>.

- Pacific Merchant Shipping Association**, “*West Coast Trade Reports*”, January 2022
- Sheremirov, Viacheslav**. “*The Drivers of Inflation Dynamics during the Pandemic:(Early) Evidence from Disaggregated Consumption Data.*” *Current Policy Perspectives* 92827 (2021).
- TXF Intelligence and HSBC**, “*Global Commodity Trade Finance Research Report*”, 2021
- UNESCAP**, “*Digital and sustainable Trade facilitation: Global Report 2021*”, 2021, <https://unescap.org/kp/2022/untf-survey-2021-global?ref=untfsurvey.org#>
- UNCTAD**, “*Review of Maritime Transport*”, 2021
- U.S Federal Reserve**, “*Summary of Economic Projections*”, December 2021
<https://www.federalreserve.gov/monetarypolicy/files/fomcprojt20211215.pdf>
- World Bank**, “*Global Economic Prospects: A Strong but Uneven Recovery*”, June 2021,
- World Bank**, “*Trade watch*”, Volume 16, November 2021
- World Bank**, “*Trade watch*”, Volume 17, December 2021
- World Bank**. “*World Development Report 2020 : Trading for Development in the Age of Global Value Chains*”. Washington, DC: World Bank. 2020
- World Trade Organization**. “*Global Value Chain Development Report 2021: Beyond production*”. 2021.

4. Annex

ICC Trade Register

The ICC Trade Register is a database that collects granular information on trade finance from 22 financial institutions. The Register presents a global view of the credit risk profiles of short-term trade and export finance.

The combination of import letters of credit, export letters of credit, performance guarantees, and supply chain finance exposures in the Trade Register is equal to approximately 28% of global traditional trade finance flows and 12% of all global trade flows.

Medium-term finance (or Export finance) refers to products for which Exporting Credit Agencies has provided a state-backed guarantee or insurance to trade finance bank.

TRADE FINANCE PRODUCTS	
Issued import letters of credit (Referred to as import L/Cs)	Documentary letter of credit issued by the participating bank, covering the movement of goods or services.
Confirmed export letter of credit (Referred to as export L/Cs)	Documentary letter of credit confirmed by the participating bank but issued by another bank also including 'silent confirmations'. Consequently, apart from few rare exceptions, the exposures in this product category constitute bank risk.
Loans for import/export	All loans classified as 'trade' including but not limited to clean import loans, pre-export finance and post-import finance.
Performance guarantees and performance standby L/Cs (referred to as performance guarantees)	Guarantee instruments issued by the participating banks, representing an irrevocable undertaking to make payment in the event the customer fails to perform a non-financial contractual obligation.
Supply chain finance – payables finance	Buyer-led program within which sellers in the buyer's supply chain can access finance by means of receivables purchase.
EXPORT FINANCE ASSET CATEGORIES	
Sovereign	This category covers all exposure to counterparties treated as sovereigns under the standardised Basel approach. This predominantly includes sovereigns and their central banks. However, certain Public Sector Entities (PSEs), such as regional governments and local authorities identified as sovereigns in the standardised Basel approach, are also included in this category.
Financial Institutions	Banks and non-bank financial institutions, including leasing companies.
Corporate	In general, a corporate exposure is defined as a debt obligation of a corporation, partnership or proprietorship. This excludes 'sovereigns', 'financial institutions' and 'specialised' as separately defined. Contrary to 'specialised', the source of repayment of the loan is based primarily on the ongoing operations of the borrower, rather than the cash flow from a project or property.
Specialised	<ul style="list-style-type: none">> The economic purpose of the loan is to acquire or finance an asset such as include project finance, income producing real estate, object finance (e.g. ships, aircraft, and satellites), commodities finance> The cash flow generated by the collateral is the loan's sole or almost exclusive source of repayment> The subject loan represents a significant liability in the borrower's capital structure> The primary determinant of credit risk is the variability of the cash flow generated by the collateral rather than the independent capacity of a broader commercial enterprise

ABOUT THE INTERNATIONAL CHAMBER OF COMMERCE (ICC)

The International Chamber of Commerce (ICC) is the institutional representative of more than 45 million companies in over 100 countries. ICC's core mission is to make business work for everyone, every day, everywhere. Through a unique mix of advocacy, solutions and standard setting, we promote international trade, responsible business conduct and a global approach to regulation, in addition to providing market-leading dispute resolution services. Our members include many of the world's leading companies, SMEs, business associations and local chambers of commerce.



33-43 avenue du Président Wilson, 75116 Paris, France
T +33 (0)1 49 53 28 28 E icc@iccwbo.org
www.iccwbo.org [@iccwbo](https://twitter.com/iccwbo)