

# Black swan: the consequences of covid-19

Covid-19, also known as coronavirus, has become one of the most harmful global pandemics in history, with it infiltrating and systematically disrupting almost every facet of every country in the world. Aside from its devastating effects on the health of every nation, it has had, and will continue to have, crippling effects on the global economy.

The current covid-19 crisis is known in the financial world as a black swan event, aptly named because of its rarity and obscurity. However, unlike a black swan that personifies majesty and grace, the covid-19 black swan is unpredictable, bringing with it long lasting and severe consequences for everything it comes into contact with.

To understand its effects on the export finance industry so far, TXF Research have conducted an addendum survey to supplement the global Export Finance Industry Report, 2020, scheduled for release at our virtual global event in June.

## Findings

In total, 115 respondents from the export finance industry, including banks, ECAs, exporters, importers, law firms, and private insurers, took part in the short seven question survey. To better understand the data, one banker gave their views.

Figure one shows that the respondents feel the likelihood of severe and long-lasting consequences for the export finance industry is four out of five, with 88% of the sample anticipating a global recession (figure 2). One banker noted:

*“Covid-19 is putting tremendous pressure on the cruise-line and aviation industry, and the drop of the oil price is harmful to the energy sector including the LNG segment. ECAs have significant exposure to all such sectors. Clearly there is an enormous stress in the supply chain finance business where private insurers play a major role.”*

However, when asked about the impact that covid-19 will have on their export finance teams, reassuringly, 85% of the sample believe that they will not lose any members of their team (figure 3).

FIGURE 1:  
THE IMPACT OF COVID-19 ON THE EXPORT FINANCE INDUSTRY

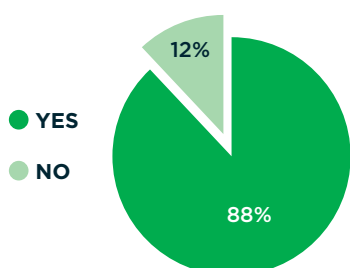
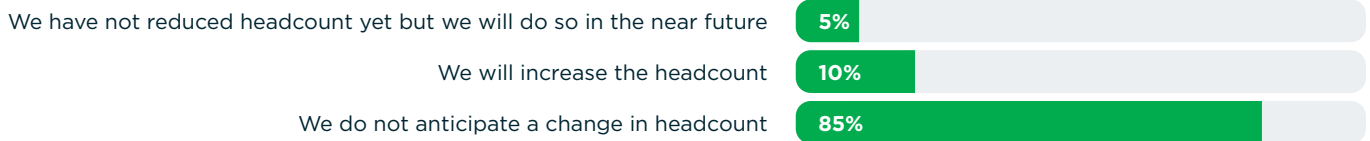


FIGURE 2:  
THE LIKELIHOOD OF COVID-19  
LEADING TO A GLOBAL RECESSION

FIGURE 3:  
**THE IMPACT OF COVID-19 ON YOUR EXPORT FINANCE TEAM**



When respondents were asked to reflect on the impact that covid-19 will have on their business in the future, on average, four out of five cited that it will have severe and long-lasting consequences (figure 4). Two areas that will be particularly hard hit for the banking sector, are revolving credit facilities and the rise in cross currency swaps:

*“There will be a sustained increase in the drawdowns of RCFs alongside credit rating downgrades across several sectors while the strain on consumers will continue to soak up liquidity rapidly. The hike in cross-currency swaps is also making US dollars funding more expensive for the non-US banks active in export finance.”*

FIGURE 4:  
**THE IMPACT OF COVID-19 ON YOUR BUSINESS**



Perhaps unsurprisingly, the likelihood that respondents were prepared for a global event of this magnitude, was two out of five (figure 5). Some may point to the most recent black swan event, the 2008 financial crash, as a precursor to predicting covid-19 and, therefore, we should be better prepared.

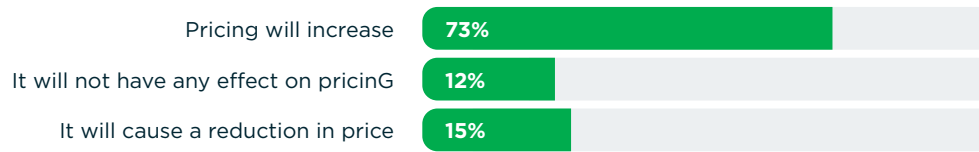
However, the Dodd-Frank Act, a piece of legislation that placed far tighter financial restrictions and regulations on the US banking sector, in an attempt to prevent another global recession, did not have global viral pandemic parameters built into it. While it may be true that US banks now have much stronger balance sheets with far larger sums of cash in reserve, the Dodd-Frank Act does not legislate for what might happen if the global economy shuts down completely; an outcome that several commentators have suggested could happen. Consequently, it stands to reason that very few, if any, were fully prepared for covid-19.

FIGURE 5:  
**PREPAREDNESS OF COMPANIES TO A GLOBAL PANDEMIC**



When asked about the impact of covid-19 on pricing in export finance, nearly three-quarters of the sample predict that pricing will increase (figure 6). While logic may dictate that the surplus of liquidity that has been present in the market may limit the extent to which pricing may increase, the rising cost of bank funding and increased risk resulting from the covid-19 outbreak, is a possible reason why so many of respondents feel that price will increase

FIGURE 6:  
**THE IMPACT OF COVID-19 ON EXPORT FINANCE PRICING**



## Conclusion

While the export finance industry is facing uncertain times ahead, black swan events like this always offer up an opportunity to learn and grow. The best way to achieve this is to better understand the market by speaking to those active in it. TXF Research will continue to be the leading independent voice on the export finance industry.

For more information on this short report, or for information on the full 70-plus page Export Finance Industry Report, due out in June 2020, please contact either:

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