



Photo: Cherry trees Source: Unsplash.com

Allianz Trade: Global Trade Expected to Grow at a Lower Rate Following the War in Ukraine and Covid-19 Outbreaks

Driven by the elevated delivery times due to renewed Covid-19 outbreaks in China and reduced consumer demand, particularly in Eastern Europe following the Russian invasion in Ukraine, Allianz Trade (previously Euler Hermes) has recently adjusted its 2022 forecast for the global trade growth to 4.0% (2pp lower than expected before the war in Ukraine). At the same time, the value of global trade is expected to increase to 10.9% (compared to 7.2% previously expected), fuelled by the increasing prices of oil and other commodities such as metal and agri-food. The current situation shows more than ever that proper monitoring and transparency is essential to closely mitigate risks in the trading industry.

Facilitating Business for Indian Micro, Small and Medium Enterprises (MSMEs)

A number of regulatory acts introduced by the Indian government over the past 10 years with the latest update in January 2022 are improving Indian MSMEs access to cost-efficient working capital cash flows. With MSMEs being the backbone of the Indian economy, the new announcement is a welcome move expected to revive the economy and bring the operating cycles back on track after the contraction during the pandemic by widening the scope for companies that can undertake factoring business. A positive development has already been registered with several non-banking financial companies trying to take advantage of the market opportunity.

FASB Proposes Enhanced Disclosure about Supplier Finance Programs

In December 2021, the Financial Accounting Standards Board (FASB) issued a proposed Accounting Standards Update (ASU) to enhance transparency about an entity's use of supplier finance programs. Under the proposed ASU, a buyer in a supplier finance program would need to disclose key terms of the program such as the outstanding obligation amount, a rollforward of the amount, and a description of where that amount is presented in the balance sheet. The proposed update, which is still subject to finalisation, is welcomed by GSCF in order to increase transparency of buyer's financing.

How Can Supply Chain Finance Mitigate the Effects of Inflation and Rising Interest Rates?

In March 2022, the Consumer Price Index in the US increased by 8.5% year-on-year, reflecting the biggest annual increase since 1981 and being primarily impacted by increasing energy costs, food and housing. To curb the development, the Federal Reserve announced on March 16th the first raise in interest rates since 2018 with six more increases planned throughout the year. However, with US's ban on energy imported from Russia which tightens the supply of oil and further drives up the energy prices, the inflation is not expected to come down for several months. Whilst the situation puts increased pressure on companies by increasing input prices and cost of financing, supply chain finance can offer companies ways to mitigate the effects by releasing liquidity trapped in their supply chain and, if properly structured, unlocking off-balance sheet benefits for suppliers and buyers, hence improving financial metrics, and creating a lower dependence on debt versus traditional borrowing at higher interest.

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