IFC International Finance Corporation WORLD BANK GROUP

WORLD TRADE ORGANIZATION



EMERGING MARKET INSIGHTS

Published by
DEC Private Markets

Trade Finance:
How Volatile Financial Conditions Influence Its Availability and Impact Trade Levels

BY DONAL SMITH (WTO), MARC AUBOIN (WTO), ANA LUIZA DUTRA (IFC), AND TATIANA NENOVA (IFC)

Joint research by IFC and WTO based on the new evidence from global bank data supplied by the International Chamber of Commerce

Global trade opens opportunities for economic growth. However, moving goods across borders, between exporters and importers, involves counterparty risk such as payment and liquidity risk. Trade finance facilitates trade by mitigating these risks. Using a new dataset, we find that volatile global financial conditions constrict the availability of trade finance, especially in emerging markets and developing countries. In addition, the level of development of local financial markets influences the supply of trade finance by global institutions.

The historical record illustrates that open economies tend to grow faster, and more steadily, than closed ones.[1] Increased competition and higher technology adoption both improve productivity and income growth.[2,3]

SEPTEMBER 2026

Although sometimes overlooked, trade finance is closely associated with the rapid expansion of international trade over the past several decades.[4] Access to trade finance is thus essential for countries to fully engage in and benefit from the global economy. Conversely, reductions in access tend to amplify downturns through the trade channel.

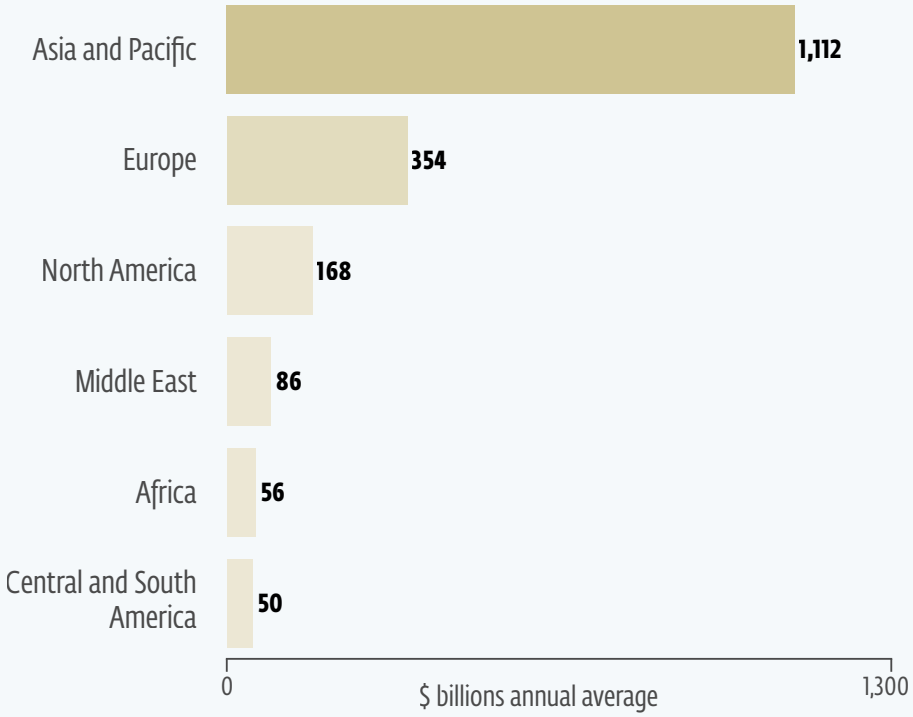
Between 15 and 20 percent of the steep decline in trade during the 2008-2009 global financial crisis was attributable to shortages of trade finance, according to multiple studies.[5] Further evidence on the importance of trade finance in averting a collapse in trade was observed during COVID-19.[6]

Unmet demand for trade finance has been consistently large for at least a decade, amounting to about 7–10 percent of global merchandise trade.[7] More structurally, there is also a well-documented and persistent gap in the provision of trade finance that remains outside acute crises. As a result, many companies cannot access the financial tools they need to capitalize on trade opportunities.

FIGURE 1

The Use of Trade Finance Is Heavily Concentrated in the Asia-Pacific Region

Total value of exposure by region, 2011–2024



Source: ICC data

What Makes Trade Finance Essential?

Given the time-lag between the production of goods, shipment by an exporter, and final receipt by an importer, trade finance is an economic necessity.[8] While it is essential in facilitating trade, it has its own inherent risks: payment risk, delivery risk, and liquidity risk. Trade also crosses different legal jurisdictions, operational environments, and countries with different risk perceptions—all of which are more acute in emerging markets and developing economies.

For example, a coffee supplier in South America requires money to harvest the crop and to ship it to Europe. An importer in Europe would be reluctant to pay upfront as there is a risk the goods don't arrive. From a producer's side, there is a risk of nonpayment when the goods do arrive. A solution is a financial product that

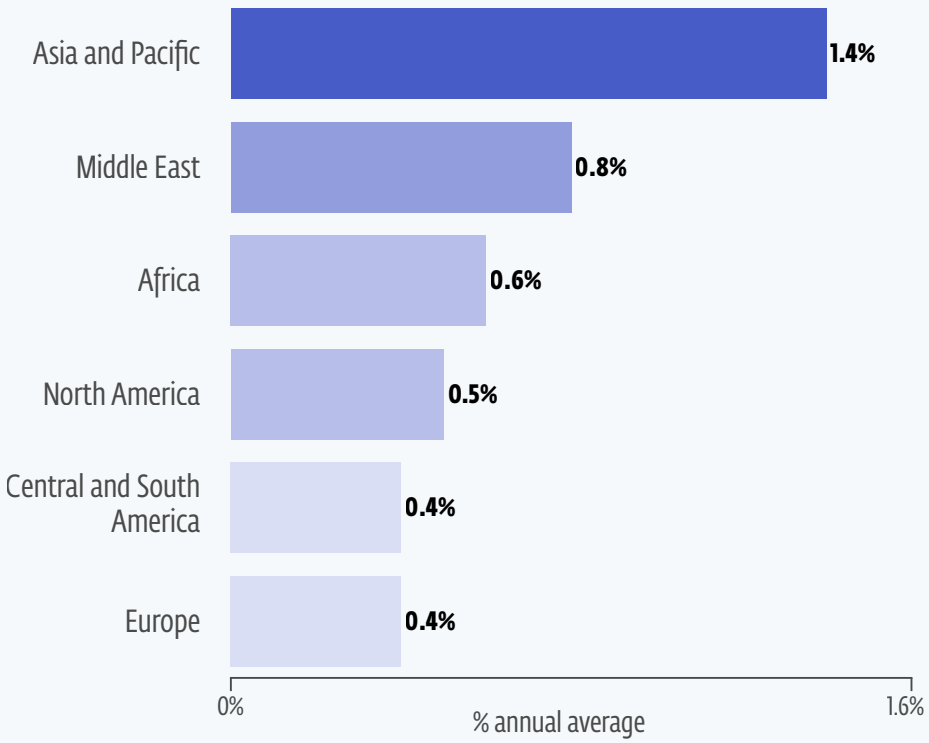
removes the payment risk barrier between importers and exporters.

Trade finance instruments, whether intermediated by commercial banks or between firms, mitigate many of these risks and come in many forms.[i] For example, in the case of a letter of credit, the bank of the buyer provides a guarantee to the seller that it will be paid—regardless of whether the buyer fails to pay. This also addresses the risk of nondelivery by protecting a buyer (importer) from paying for goods that are either noncompliant or never shipped because the exporter (seller) must present documents proving execution of the contract. Trade loans and supply chain finance, such as receivable financing, address the liquidity and financial risks of producing or shipping goods prior to receiving the export receipt.

FIGURE 2

Trade Finance as a Share of Trade Is Most Concentrated in the Asia-Pacific Region

Total stock value of exposure by region as a percentage of annual trade, 2011–2024



Source: ICC data and WTO and IFC analysis

Bolstering the Evidence Base for the Role of Trade Finance

Previous analysis of the relationship between trade and trade finance has been impaired by the lack of a consistent set of statistics covering transactions across countries.[10] Indeed, in 2014, the Bank for International Settlements wrote: "There are no readily available data covering the global bank-intermediated trade finance market."[11]

We analyzed a new global trade finance dataset from the International Chamber of Commerce (ICC) Trade (Finance) Register.[ii] The data spans more than 100 countries and have been collected since 2011 from more than 20 global banks (*Box 1*).

The raw data reveals several features: the Asia-Pacific region is the largest user of trade finance in US$ value and as a share of trade, on average (*Figures 1 and 2*), followed by Europe and North America. Trade loans account for a significant share of trade finance in Central and South America, Asia-Pacific, and North

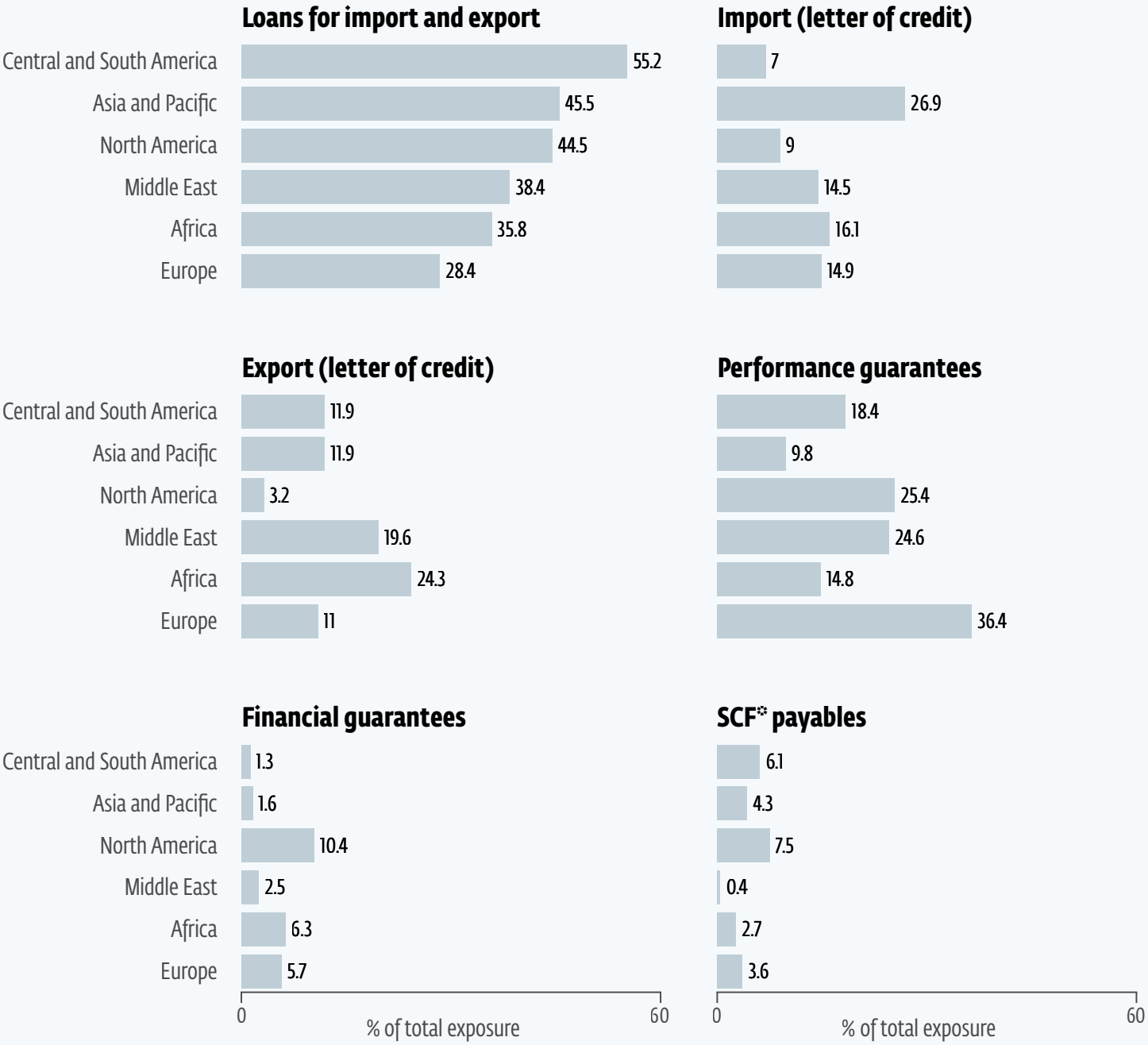
i See Nenova (2026) for an overview and estimates of the main trade credit niche markets.[9]

ii We would like to thank the ICC for provision of the data.

FIGURE 3

Loans for Import and Export Are Typically the Most Frequently Used Trade Finance Instrument

% share of total exposure by product and region



* Supply Chain Finance

Source: ICC data

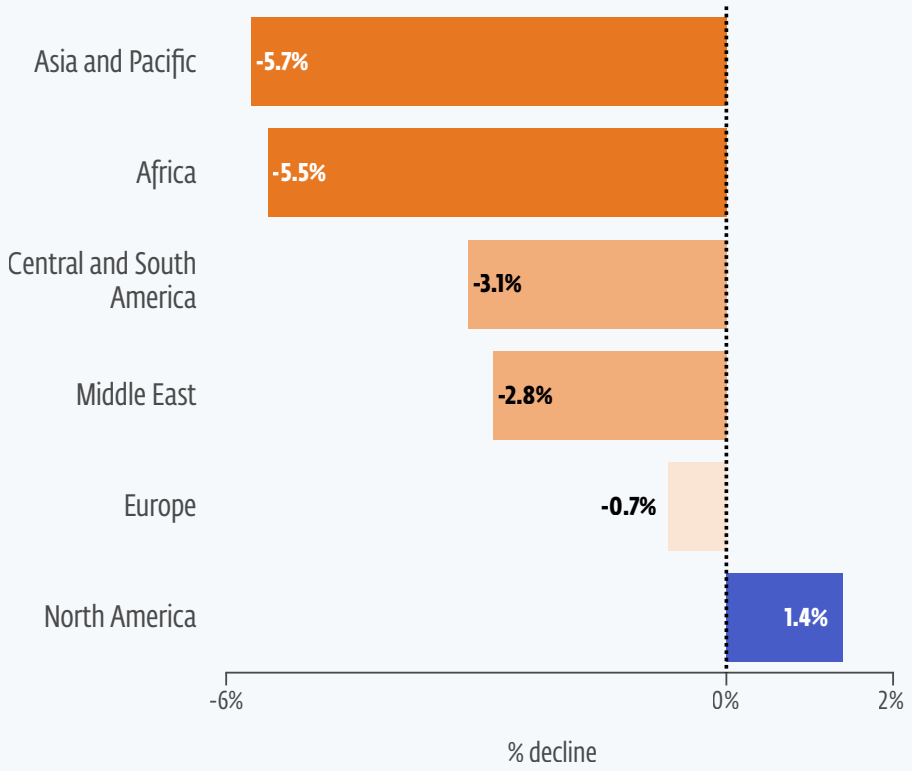
America (*Figure 3*), but less so in Europe and Africa, relative to payment guarantee products (letters of credit and guarantees).[iii] Trade finance, as opposed to interfirm financing, is used more heavily for trade covering longer distances, newly formed trade relationships, and trades involving countries with weaker contractual enforcement, less financial development, and higher political risk.[11,16]

Drawing from the literature, we modeled the evolution of these trade finance flows as a function of a range of explanatory variables, such as country-level trade flows, the breadth of financial market development, GDP, as well as a broader set of global financial variables, since it has been observed that trade finance supply could be sensitive to global financial conditions or volatility.

FIGURE 4

Financial Instability Has a Stronger Impact on Regions with More Emerging Economies

% decline in trade finance growth due to an increase in global financial uncertainty



Source: ICC data

Key Takeaways

First, there is a significant association between a country's trade growth and bank-intermediated trade finance growth (*Figure 4*). This is intuitive. Trade finance is strongly driven by the demand for trade—a result consistent with earlier literature but now supported by wider empirical evidence, robust to the span of a sample of 100 countries. A 1 percent increase in trade growth is associated with a 0.41 percent increase in bank-intermediated trade finance.

Second, the pace of trade finance flows is associated with the level of financial development: A one-point increase in the financial market development index of countries is associated with a 10 percent increase in trade finance growth. The fact that bank-intermediated trade finance expands at a faster rate within more financially developed markets is a key finding. It must be viewed through the prism of the previous finding:

iii Trade finance products are substitutable—product use may depend on product-specific country conditions.

While trade growth is on average associated with an increase in trade finance, large banks in the sample are more likely to accelerate their trade finance supply in countries with stronger financial infrastructure.

Third, the volatility of global financial conditions impairs the bank-intermediated supply of trade finance. We used the VIX, a widely used proxy of global uncertainty in the literature, measuring the volatility of S&P 500 equity options indices. We found that a one-point increase in the VIX index is associated with a 3.3 percent decline in trade finance growth.[iv] In general, developing regions are impacted more negatively by global financial uncertainty while, for North America, there is evidence of lower sensitivity to shocks.

Conclusion

Financial conditions matter for access to trade finance both globally and at the country level. The evidence provided by this data supports a policy response that seeks to ease access to trade finance during crisis episodes, and to strengthen local capacity in the medium-to-long run, particularly in emerging and developing economies to improve shock resilience. Broader access to trade finance would boost a country's capacity to access global markets. This has a real economic impact since trade and growth are positively correlated long term ■

Emerging Market Insights is an article series covering business trends in emerging markets and developing economies.

Cover Photo: Cargo ship in a open seaport. Photo © APchanel via AdobeStock

Editing by Scott Wenger
Infographics by Irina Sarchenko

iv The estimates control for the amount of trade, to ensure against the possible alternative interpretation that trade declines drive trade finance declines during crises. These results would be further strengthened if domestic banks were covered in the ICC data, as those lending activities will be additionally affected by domestic factors, such as sovereign risk, trade flows, macroeconomic fundamentals.

BOX 1

Dataset Analysis

$1.6 trillion to $2 trillion in trade finance flows

The underlying transaction-level data in the ICC Trade Register amounts to approximately 40 million observations. While not encompassing the entire universe of trade finance, this large, well-maintained, and consistent dataset does cover $1.6 trillion to $2.0 trillion in trade finance flows annually (by instrument, by country of destination). For comparison, the global trade finance market stood at an estimated $5.2 trillion in 2020, or about 6 percent of global GDP.[v] Importantly, developing countries are well represented, accounting for half of the sample.

Previously the ICC has used the information to publish annual risk performance indicators by instrument in "Trade Register Reports." As part of an agreement among the ICC, the World Trade Organization (WTO), and the International Finance Corporation (IFC), the data can now be used for economic analysis.[vi] The timespan and coverage allow insights to be established on the drivers of global trade finance.

While the dataset provides a unique opportunity for a detailed glimpse into global trade finance, an important caveat is that it is based on the available data, which represents a portion of total trade finance. A feature of the dataset is that the total value of trade finance exposures reported by the sample banks has tended to decline. This can indicate a reduced reliance on banks for trade finance activity, an increased market share of banks not in the sample, or an increased reliance on other forms of trade finance, such as open account financing, trade credit, and credit insurance.[vii] This is difficult to disentangle and is another feature of the complexity of trade finance datasets.

The database contains six short-term trade finance product categories:

1. Issued import letters of credit (L/Cs),
2. Confirmed export L/Cs,
3. Loans for import/export,
4. Performance guarantees and performance standby L/Cs,
5. Supply chain finance, and
6. Financial guarantees.

v McKinsey (2021) using ICC data.[12] Actual global market size estimates are scarce and divergent.[10] BIS (2014) puts the figure at $6.5–8 trillion in 2011, using annual cumulative flows as opposed to more conservative revenue-modelled, or stock-based estimates.[11,13]

vi Alternative data sources to the ICC have limitations. National data are poorly comparable across countries, survey data is imprecise and suffers from volunteer bias, while SWIFT data misses the open account trading which constitutes 70–90 percent of trade finance.[14]

vii The shift from bank to trading partner trade finance has been marked, for example bank-based trade finance grew at 3.7% annualized during 2020–2013, as compared to 11.7% for intra-firm finance.[14] Evidence also suggests that the market share of local banks has grown significantly—global banks now hold only a quarter to a third of the market, down from virtually the entire sector three decades ago.[10] Local banks may serve smaller more local businesses, although bulk lending by global banks may include some SME on-lending.[15]

References

[1] World Trade Organization. "The WTO Can... Stimulate Economic Growth and Employment." WTO, www.wto.org/english/thewto_e/whatis_e/10thi_e/10thi03_e.htm.

[2] World Trade Organization. (2025). Evolution of trade under the WTO: Handy statistics. WTO. https://www.wto.org/english/res_e/statis_e/trade_evolution_e/evolution_trade_wto_e.htm

[3] Crafts, N. F. R. (2000). Globalization and growth in the twentieth century (IMF Working Paper No. WP/00/44). International Monetary Fund. https://www.elibrary.imf.org/view/journals/001/2000/044/article-A001-en.xml

[4] World Trade Organization. (2016). Trade finance and SMEs: Bridging the gaps in provision. WTO. https://www.wto.org/english/res_e/booksp_e/tradefinsme_e.pdf

[5] Starnes, S. K., & Nana, I. (2020). Why trade finance matters—especially now. International Finance Corporation. https://www.ifc.org/content/dam/ifc/doc/mgrt/ifc-covid-trade-final-11-23-20.pdf

[6] Demir, B., & Javorcik, B. (2020). Trade finance matters: Evidence from the COVID-19 crisis. Oxford Review of Economic Policy, 36 (Supplement 1), S397–S408. https://doi.org/10.1093/oxrep/graa034

[7] Asian Development Bank. (2022). Toward inclusive access to trade finance: Lessons from the Trade Finance Gaps, Growth, and Jobs Survey. ADB. https://doi.org/10.22617/TCS220354-2

[8] Auboin, M., & Engemann, M. (2013). Testing the trade credit and trade link: Evidence from data on export credit insurance, Review of World Economics, 150-4 (2014), pp. 715-743. https://doi.org/10.1007/s10290-014-0195-4.

[9] Nenova, T. (2026). Beyond the bank: New paths to small business finance (IFC Research Note). International Finance Corporation. (forthcoming).

[10] Serena Garralda, J. M., & Vasishtha, G. (2019). What drives bank-intermediated trade finance? Evidence from cross-country analysis. International Journal of Central Banking, 15(3), 253–283. https://www.ijcb.org/journal/ijcb19q3a7.pdf

[11] Bank for International Settlements, Committee on the Global Financial System. (2014). Trade finance: Developments and issues (CGFS Papers No. 50). BIS. https://www.bis.org/publ/cgfs50.pdf

[12] McKinsey & Company, & International Chamber of Commerce (ICC). (2021, November 1). Reconceiving the global trade finance ecosystem. McKinsey & Company Financial Services Practice.

[13] Auboin (2021), "Trade Finance, Gaps, and the Covid-19 Pandemic", WTO Working Paper 2021-05, see in particular Chapter 2 ("What do we really know about trade finance markets").

[14] International Monetary Fund (IMF). (2017). Fintechs and the Financial Side of Global Value Chains—The Changing Trade-Financing Environment (Document No. BOPCOM–17/21). Thirtieth Meeting of the IMF Committee on Balance of Payments Statistics, Paris, France.

[15] Cavoli, T., Christian, D., & Shrestha, R. (2025). SMEs, trade finance markets and instruments: A review of the issues with reference to Asia. The World Bank Research Observer, 40(2), 261–289. https://doi.org/10.1093/wbro/lkae006

[16] World Bank (2026). "Trade Finance Use by Heterogeneous Firms." Policy Research Working Paper 11404, World Bank Group, Washington, DC.

Appendix

TABLE A1

Determinants of Trade Credit Growth

Dependent variable total trade credit value

Δln (Trade)	*0.407**
	(0.219)
GDP per capita	*−3.37e−07*
	(5.52e−07)
Δ Tier *1 capital to risk-weighted assets*	*−0.006*
	(0.025)
Financial market development	*0.099**
	(0.056)
Δln (Commodity price index)	*−0.157*
	(1.480)
VIX	*−0.033****
	(0.006)
Constant	*0.635****
	(0.114)
Observations	*1.338*
Clusters	*120*
R^2	*0.023*
Root MSE	*1.152*
F(6,119)	*5.56*

Notes: Pooled OLS estimates with robust standard errors clustered by country code reported in parantheses. ***p<0.01, **p<0.05, *p<0.10

Variables

Country-level variables

Trade is the total trade volume of a country taken as the sum of imports and exports divided by two. GDP is measured at the country level. Tier 1 capital to risk-weighted assets is a measure of the stability of the banking system. Financial market development is measured by the Financial Markets Depth Index as a measure of a country's overall financial development. The Commodity price index is the Commodity Export Price Index, Individual Commodities Weighted by Ratio of Exports to Total Commodity Exports.

Global variables

The VIX is a measure of investor sentiment and stock market risk. It is the stock market's expectation of 30-day forward-looking volatility based on S&P 500 index options.