

What are the implications for credit risk when exports decline?

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When international trade slows, the ripple effects extend deep into supply chains, impacting liquidity, reliability, and the creditworthiness of buyers. For credit managers, understanding these dynamics is vital to [anticipate risk](#), safeguard cash flow, and ensure business continuity.

What drives a decline in exports?

Declining exports remain a plausible scenario that cannot be ruled out in a volatile economy. The 21st century has already seen two major episodes of export contraction: the 2008 financial crisis and the 2020 pandemic. These events show that export declines rarely have a single cause. They often result from a mix of global macroeconomic shifts, financial disruptions, policy responses, and structural vulnerabilities. Understanding these factors helps businesses build more resilient trade strategies and stay ahead of potential risks.

Collapse in business and consumer confidence

Systemic stress often leads to simultaneous demand declines across multiple economies. This is typically driven by falling consumer and business confidence, rising unemployment, and reduced investment. As spending contracts, import volumes shrink, resulting in a synchronised drop in export demand across sectors and regions. The lower investment (especially in capital goods which are largely traded internationally) reduces exports.

Financial market instability

Export downturns frequently coincide with periods of financial turbulence. Disruptions in credit markets can restrict access to trade finance, especially for [SMEs](#). Currency volatility raises hedging costs, while capital outflows and deleveraging reduce investment in export-oriented industries, limiting both capacity and appetite for trade.

Protectionism and policy uncertainty

Governments may impose protective measures such as tariffs or quotas. While aimed at shielding domestic industries, these actions can fragment [global trade](#) and reduce market access. Uncertainty around trade agreements or regulatory changes may also deter long-term investment in export sectors, particularly in geopolitically sensitive industries, like advanced electronics and energy.

Supply chain interruptions

Modern exports are deeply embedded in global value chains. Disruptions, whether due to geopolitical tensions, natural disasters, or health emergencies, can interrupt the flow of intermediate goods and logistics. Exporters may face delays, shortages, or rising costs, all of which erode competitiveness.

Commodity price fluctuations

Exporters of raw materials are especially vulnerable to swings in global commodity prices. Sharp price drops are often triggered by demand shocks or speculative activity. This can reduce export revenues even when volumes remain stable. This affects fiscal balances and external accounts, particularly in economies lacking diversification. Export volumes may also be significantly affected: exporters may cut production or choose to build up stocks rather than sell at lower prices, which would reduce trade flows.

Structural and institutional limitations

Underlying structural weaknesses can amplify external shocks. These include overdependence on a narrow set of markets or products, limited innovation, or weak institutional support. These constraints limit companies' ability to adapt, prolonging the contraction in exports.

How do export declines affect buyer creditworthiness?

Firms that sell less or lose access to essential inputs, such as raw materials, components, or technologies, may face financial strain. This, in turn, poses risks for suppliers extending credit. These effects are shaped by macroeconomic conditions, liquidity constraints, and sector-specific vulnerabilities.

Weakened financial health

Lower trade volumes often mean reduced revenues and tighter margins. Firms that rely on exports or imports may experience declining cash flow, making it harder to meet payment obligations. This can lead to [delayed payments](#) or requests for extended terms, especially in sectors with high fixed costs or limited pricing flexibility.

Liquidity pressures and financing gaps

Economic stress typically brings tighter credit conditions. Banks may restrict lending, and trade finance can become less accessible or more costly. SMEs, which often depend on short-term finance, are particularly exposed. Buyers facing rising costs or declining sales may struggle to pay invoices on time, even if they remain solvent in the long term.

Sectoral and regional variability

The impact of export declines is uneven. Buyers in globally integrated sectors, such as manufacturing, transport, or commodities, are more exposed than those focused on domestic markets. Similarly, firms in regions with weaker financial systems or greater macroeconomic volatility may face additional challenges, including currency depreciation, inflation, or limited access to foreign exchange.

Increased default risk

In severe cases, worsening economic conditions can lead to payment delays or insolvencies, particularly in long-term contracts or high-value transactions. This risk is higher for buyers with thin margins, high debt, or limited diversification. Monitoring early warning signs becomes essential to mitigate potential losses.

Challenges in risk assessment

Periods of trade disruption often bring uncertainty in unfamiliar markets. Limited transparency, fast-changing conditions, and reduced access to reliable financial data can complicate the [assessment of buyer creditworthiness](#). This calls for a more cautious and flexible approach to onboarding and credit evaluation.

Operational shifts and strategic reorientation

Some buyers may respond to export declines by restructuring operations, altering supply chains, or entering new markets. While these moves

may be necessary, they can create short-term instability and execution risk. Suppliers should consider how such changes might affect payment behaviour or contractual reliability.

Export downturns can directly impact the financial health of buyers.

How can exporters protect themselves?

Periods of export decline and economic uncertainty pose significant challenges for exporters, especially those operating internationally or relying on trade-dependent buyers. However, several strategic and operational measures can help mitigate credit risk and enhance resilience.

Stay informed and agile

Keeping up with market trends, regulatory changes, and geopolitical shifts is key to anticipating risk. Exporters should foster a culture of agility to adjust strategies, renegotiate terms, or pivot operations as needed.

Strengthen buyer assessment and monitoring

Robust credit assessment is vital, particularly for new or high-risk buyers. This includes reviewing financial statements, payment history, and sector exposure, as well as tracking early warning indicators such as changes in payment behaviour or market conditions.

Consider trade credit insurance

Trade [credit insurance](#) offers a safety net against non-payment, especially in volatile markets. It provides access to buyer intelligence, enables more confident credit extension, and can support financing access.

Strengthen financial foundations

Maintaining healthy liquidity and access to working capital is essential. Exporters should regularly review cash flow requirements, secure diverse funding sources, and avoid excessive reliance on short-term debt. A strong financial position allows businesses to absorb shocks and adapt to change.

Diversify markets and customers

Reducing dependence on a small number of buyers or regions helps cushion the impact of localised downturns. Firms should explore new markets, expand their customer base, and consider alternative distribution channels. Diversification spreads risk and opens new growth avenues.

Adjust payment terms and credit policies

Flexible payment terms can help manage risk. Exporters might revise credit limits, shorten payment periods, or offer early payment discounts. In uncertain environments, partial prepayment or secured transactions may be appropriate to reduce exposure.