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The importance of local-currency funding during the COVID-19 crisis

The past two months have seen the unexpected and unimaginable spread of the coronavirus pandemic over the world. The pandemic caused a halt of economic activities across the globe, while financial markets struggled.

The COVID-19 crisis increasingly affects low-income households and micro, small and medium-sized enterprises (MSMEs) in emerging markets. Consequently, impact investors that are active in these markets are facing a number of challenges, as their investees struggle to meet payments obligations and find themselves in need for financial support.

The crisis is exacerbated by the depreciation of local currencies against the US dollar and by their general volatility. In just a few weeks, several currencies showed a significant depreciation, largely on the back of a worsened economic outlook combined with a sharp decrease in commodity prices.

Fortunately, the efforts of impact investors to increase local-currency debt financing have, to a large extent, shielded their investees from losses resulting from the recent depreciations. TCX has always advocated for local-currency financing and highlighted its importance, especially in times of crisis. In these challenging times for the impact-investing sector, TCX renews its commitment to work together with its investors and clients to support MSMEs in frontier markets.

To help fight the consequences of this crisis, TCX has adjusted its product offering to provide FX hedging solutions for the refinancing and restructuring of existing facilities. Furthermore, TCX is ready to support new debt investments dedicated to mitigating the economic effects of the crisis.

In the current volatile context, local-currency financing is more than ever essential to responsibly support MSME clients in emerging and frontier markets, by shielding them from adverse movements in their local currencies. Moreover, local-currency funding allows investees to focus on their core activities and to offer safe lending products to their own clients.

TCX remains committed to work side by side with its shareholders and clients. Our hope is that the current challenges will soon be overcome, allowing a return to the healthy growth path the sector has experienced in the past few years.

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