

## **The Impact of the Covid-19 Crisis on Global Syndicated Loans, M&A and Distressed Debt**

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### **Abstract**

*The Covid-19 pandemic caused a global economic shock and left its "footprint" on the development of international financial markets. The crisis caused by the pandemic and its impact on international financing is not entirely clear-cut. Along with the negatives, the covid crisis revealed hitherto unsuspected opportunities for a boom in the development of some areas such as high technologies, artificial intelligence and telecommunications. The focus of the paper is on trend analysis of some of the most significant forms of global international financing - syndicated loans, M&A financing, distressed debt, and debt restructuring. The analyses reveal specific reflections of the covid crisis on the total volumes of financing, the sectoral distribution of resources, their intended purpose, regional and industrial profile.*

*Keywords: covid-19, crises, syndicated loans, mergers and acquisitions, distressed loans*

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### **Introduction**

The crisis caused by the global covid-19 pandemic has many dimensions. Like any other crisis, it directly or indirectly affected many economic sectors and industries. However, the crisis of the covid-19 pandemic is distinguished by its scope and scale. It has become a real threat to global economic development. In this context, the crisis caused by the global pandemic provokes research interest with its impact on economic activity and business transformation processes in the world economy. In turn, the size and number of deals in the global syndicated loan market can serve as one of the significant indicators of the level of economic activity. Also, ongoing business transformations can be traced through trends in mergers and acquisitions (M&A) deals and distressed debt financing.

Syndicated loans occupy an important place in international lending related to the possibility of providing financing for large deals. They play an essential role in maintaining investment activity and contribute to the realization of real economic growth. Mergers and acquisitions can also serve as an indicator of the development of various economic sectors and industries and the ongoing business transformations. Distressed debt financing and bankruptcy debt restructurings tend to increase in times of crisis as they cause financial turmoil for many companies and industries. Analysis of trends in syndicated loans, M&A and distressed loans could become a source of valuable information about the changes that have occurred as a result of the Covid-19 pandemic. The purpose of this paper is to track and assess the impact of the global pandemic on changes in the development of the syndicated loan market, M&A and refinancing of distressed debt.

The paper is structured in three sections. In the first, a brief overview of the specificity and trends in the development of the global market of syndicated loans is made. This part of the paper analyses the trends in the volume and number of loans granted, their regional and industrial profile, as well as their intended purpose. In the second section, an analysis of the announced and executed global deals on mergers and acquisitions of companies is carried out. In the third section, the analysis is focused on distressed debt & bankruptcy restructuring financing deals. Finally, in the last part the main conclusions of the analysis are systematized.

**1. The specificity of the syndicated loan market and the impact of the global pandemic**

Syndicated loans are provided jointly by a group of banks within a single credit agreement. The participants in the financing are positioned in different hierarchical levels of the formed so-called banking syndicate. The structuring of the syndicate is important from the point of view of negotiation and realization of the deal. Within the syndicate, the participating banks play different roles. The lead banks of the syndicate are usually led by one, and in much rarer cases by several banks, called arrangers or bookrunners. The operational management of deals is undertaken by one or several agent banks. The remaining banks in the syndicate are in the role of lower-level managers or rank-and-file participants.

The successful finalization of the syndicated loan deal is noted as a significant fact not only in the financial history of the borrower company, but is also marked and reflected by investors, experts, specialized financial reports and, in general, by the wider financial audience. A significant number of borrowers and financed projects are from different regions and even continents. The size of the loans is usually so large that they do not "fit" into the risk profile of the credit portfolio of individual banks and go beyond their credit "appetite" (Loan Market Association, 2013).

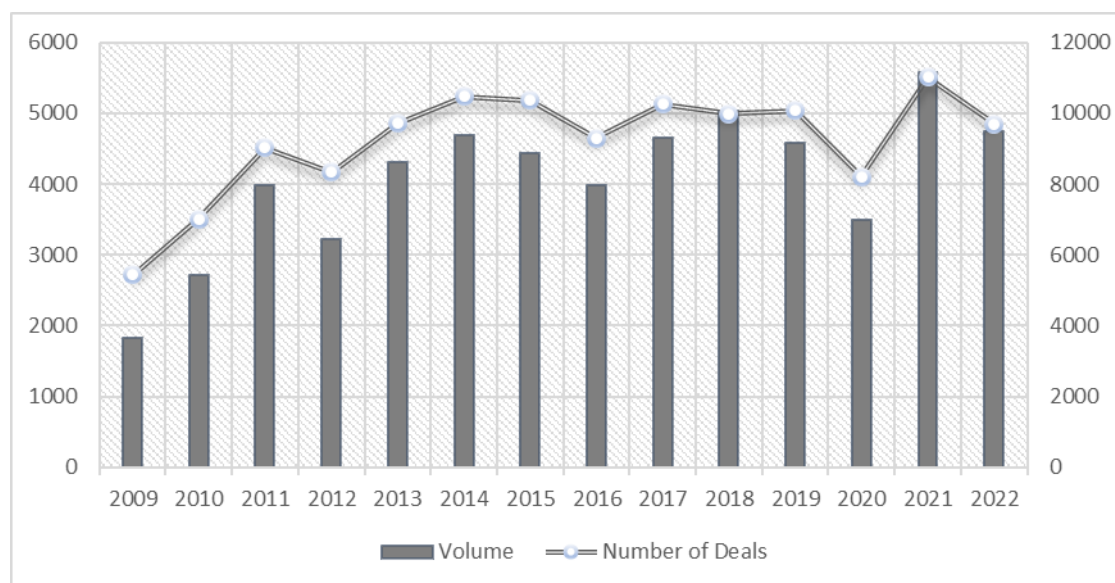
Unofficially, 1968 is considered the year of the birth of syndicated loans, when the first recorded syndicated loan agreement was entered into in the City of London (Loan Market Association, 2013; Rhodes, 2000). A significant boost in the development of the syndicated loan market was caused by deals with acquisitions of companies fully or partially financed with loans (so-called leveraged buyout deals, LBO) in the mid-1980s of the twentieth century (Armstrong, 2003). Syndicated loans relatively quickly became a preferred channel for large companies to access banks and other institutional providers of financial resources. The reason is more than trivial – syndicated loans are both cheaper and more efficient to administer than traditional bilateral individual loans and credit lines.

By region, the leadership in providing syndicated loans belongs to the USA. In Europe, in contrast to the financial practice behind the Atlantic, corporate bank lending enjoys the status of a traditional form of securing loans to European companies (Polenberg et al., 2010, p. 7). With the introduction of the single European currency in 1999, syndicated loans became the dominant instrument for debt financing of large companies. During this period, European leveraged loan markets, as well as debt-financed M&A, registered growth, fueled by increased deal efficiency due to the introduction of the euro.

The analysis of the dynamics in the development of syndicated lending is able to reveal the impact of the global pandemic on changes in the volumes, regional distribution, industrial profile and target purpose of this type of loans. Various aspects of the impact of financial crises on the syndicated loan market are the subject of numerous studies in the specialized literature (De Haas & Van Horen, 2010; Giannetti & Laeven, 2011; Howcroft et al., 2014; Cerutti et al., 2014; Drapeau & Champagne, 2015). Other authors focus their research on the impact of the credit cycle on the development of the syndicated loan market (Ivashina and Scharfstein, 2010). As for the effects of the global Covid-19 pandemic on the syndicated loan market, this is still a new and therefore relatively less researched issue. In this regard, complex studies are still lacking, but there are a number of attempts to analyze the problem in its separate aspects. For example, Hasan et al. (2021) find an increase in syndicated loan pricing spreads during the pandemic. Other authors emphasize the comparison between different forms of financing and find that in the context of the shock of the pandemic, there is a boom in the issuance of bonds, accompanied by a decline in syndicated loans (Goel & Serena, 2020). Other studies have focused on the market reaction to loan announcements before and during the global pandemic (Tampakoudis et al. 2022) and the emergence of delayed repayment problems (Zulyadi et al., 2020).

The impact of the global pandemic on the syndicated loan market can be traced in different directions – such as the volume and number of loans granted, changes in their regional distribution, trends in their target use and their industrial profile.

The importance of syndicated loans and the essential role they play as a resource for the global credit market can be judged by the volumes of funds provided, which are measured in trillions of US dollars. From the data presented in figure 1, it can be concluded that during crises of different nature, a significant drop in the volumes and number of syndicated credit agreements is observed. For example, the "repercussion" of the global financial crisis can be clearly distinguished if we take as a starting point the lowest values in the first post-crisis year and the subsequent recovery of the market, expressed in an upward trend in the period 2009-2011. This trend was interrupted in 2012, when the effect of the raging debt crisis in Europe materialized in a new decline in the volume of lending.



Source: Compiled by author based on data from Global Syndicated Loans Review (2009-2022)

Figure 1. Dynamics in the volume and number of finalized syndicated loans for the period 2009-2022 (left scale – amount of loans in billion USD; right scale – number of deals in the respective year)

In the period from 2013 to 2019, the registered values in the total volume of loans fluctuated between 4 and 5 trillion USD. Against this background, contrast the data for 2020, when the crisis caused by the global pandemic undoubtedly has an impact. In the first pandemic year, a 24% drop in the volume of loans was reported, as well as about 1,800 fewer completed deals compared to the previous year. Also impressive is the sharp jump in the volume and number of loans in the next year 2021, which could be most logically explained by the presence of a compensating effect from the pandemic shock in the previous year.

In a regional aspect, the distribution of loans by countries, economic regions and continents is also of research interest (table 1). The regional profile of deals, depending on the borrower's jurisdiction, is an indicator of the attractiveness of the relevant market/borrower, the degree of investment activity in the region and the interest shown by investors.

Table 1. Regional profile of the deals for the period 2009 – 2022 (in billion USD)

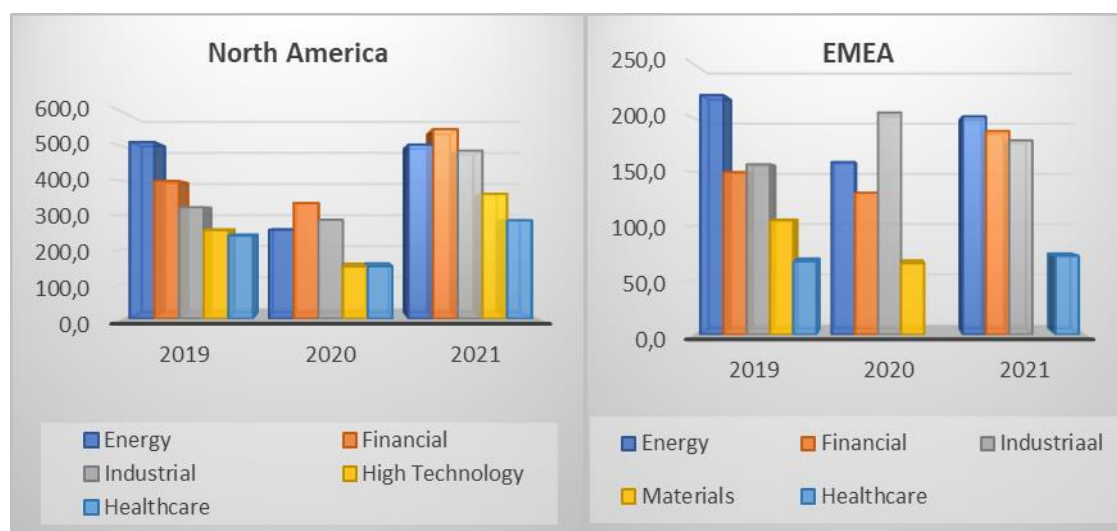
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>America</b>	694	1222	2160	1830	2552	2640	2420	2321	2977	3237	2771	1905	3587	3179
<b>Europe</b>	608	818	1032	648	859	1114	1083	812	846	915	953	776	1012	661
<b>Middle East and Africa</b>	57	70	66	74	105	87	157	123	86	135	105	98	136	119
<b>Asia and Australia</b>	221	356	440	353	440	353	546	498	510	515	523	461	610	580
<b>Japan</b>	249	252	276	322	278	220	221	236	239	233	236	257	240	198

Source: Compiled by author based on data from Global Syndicated Loans Review (2009-2022)

The leading position during the analyzed period belongs to the American continent, as the USA has about 90% share of all executed deals on the market across the Atlantic. The European syndicated loan market is not developing at the same rapid pace as the American market. The regional rivalry is definitely won by the countries across the Atlantic. For comparison, if in 2009 the share of the American and European markets was comparable, after 2016 the overseas market was on average about three times larger than the European one. Moreover, in the last few years of the analyzed period, Asia and Australia are increasingly approaching the values reported in Europe, without observing rapid growth in these eastern markets.

In 2020, the shock of the pandemic caused negative reactions in almost all regions (with the exception of Japan), but with varying intensity. The crisis affects the American continent and Europe to the greatest extent. Syndicated loans in America saw the most significant drop of -31%, in Europe they saw a drop of -19%, and in Asia and Australia only -12% compared to the previous year. The recovery in 2021 is in full force in the Americas, with a growth of as much as 88% compared to 2020. In Europe, growth was also recorded, with a more modest 30%. It can be stated that in America, and in particular in the USA, the crisis caused by the global pandemic has had a greater impact, but in terms of the recovery and compensation process, they are significantly superior to the Old Continent.

The question of the industry profile of syndicated loans in the years immediately before and during the Covid-19 pandemic is essential, as it could reveal which sectors are more or less affected and which industries maintain or even build on their positions in the face of the crisis .



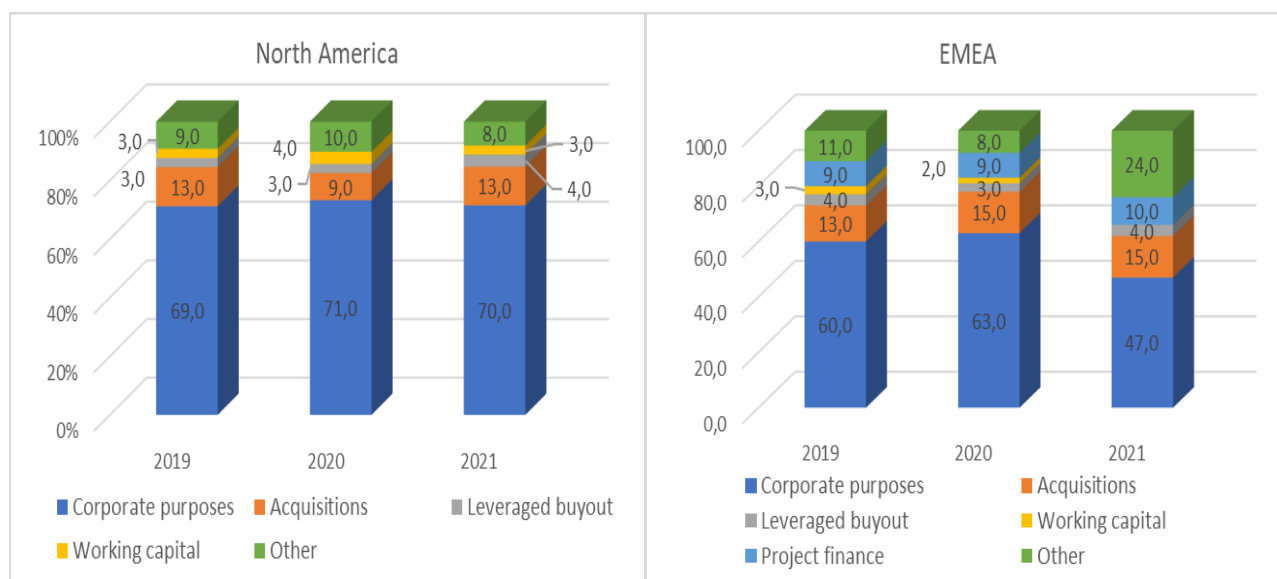
Source: Compiled by author based on data from Global Syndicated Loans Review (2019-2021)

Figure 2. Distribution of syndicated loans by industries in the North America and Europe, the Middle East and Africa (EMEA) regions 2019-2021 (US\$ billion)

Among the leading industries included in the top 5 in North America, the strongest decline in 2020 was registered in energy, while the "Finance" sector experienced the covid crisis "more painlessly" and even in 2021 took the leadership position from Energy sector (figure 2). At the same time in the so-called EMEA region, declines in 2020 and growth in 2021 are running parallel in the two leading industries - "Energy" and "Finance". The growth in loans for industrial production in 2020 is notable, as well as the absence of the High-Tech sector (which is among the leaders in North America) among the top 5 industries in this region.

Changes in the target purpose of syndicated loans in crisis periods can serve as an indicator of the presence of financial difficulties and problems. The comparative analysis of the target purpose of the loans shows the presence of opposing trends in the two leading regions - North America and EMEA (figure 3). In North America, loans intended for general corporate purposes

maintained their relative share during the analyzed period. In 2020, the share of loans for the purpose of company acquisitions decreased, which can be defined as a manifestation of caution by investors in response to increased risk.



Source: Compiled by author based on data from Global Syndicated Loans Review (2019-2021)

Figure 3. Comparative profile by target purpose of syndicated loans in the North America and EMEA (Europa, Middle East and Africa) regions for the period 2019-2021 (% of the provided resource)

In the EMEA region, during the pandemic year 2020, a slight increase was observed in the share of loans for corporate purposes and those intended for financing acquisitions (figure 3). A distinctive feature here is the presence of loans for project financing (about 9-10% share during the period) due to the presence in the region of countries with developing economies (in Africa and the Middle East). In 2021, however, significant changes occur in the region in contrast to North America, where in the same year the status quo is maintained at the levels of the year before the pandemic. More specifically, this refers to a significant reduction in the share of loans for corporate purposes. This decline is emerging against the background of maintaining the relative shares of loans for financing acquisitions, leveraged buyouts and project financing.

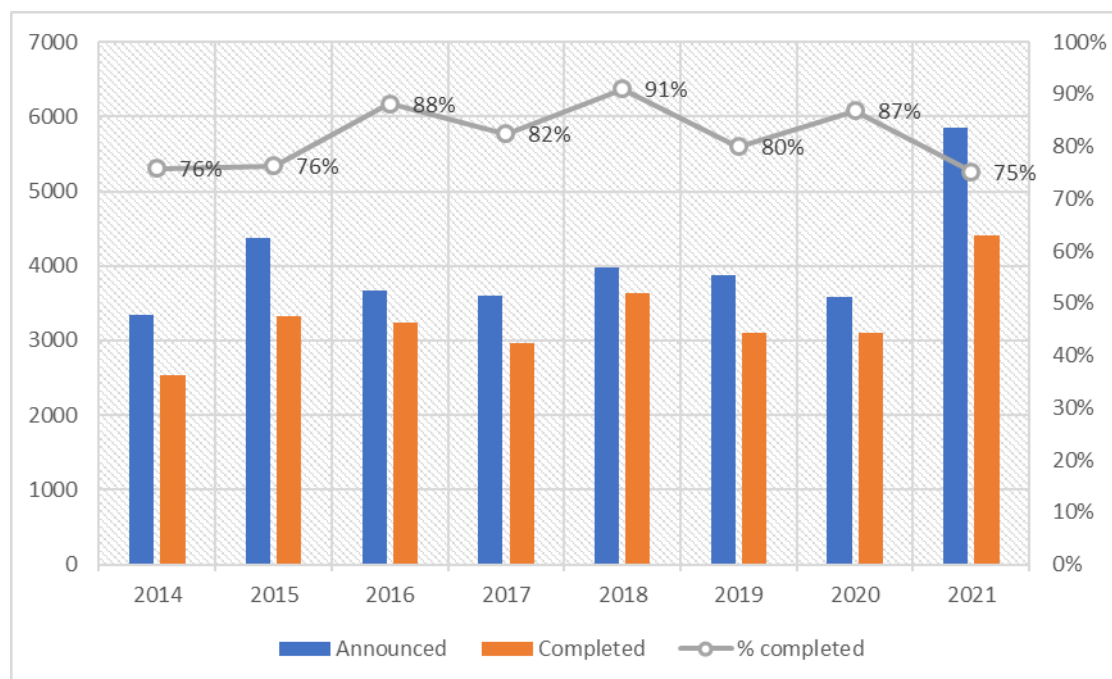
At the same time, it is noticeable that in 2021 the share of loans included in the "Other" column (24%) is increasing. The data show that 10% of the total share of all loans are those that are intended to refinance borrowers' debts. This fact is an eloquent confirmation, firstly, of the existence of debt repayment difficulties, possibly caused by the Covid-19 crisis, and secondly, of the "more painful" economic recovery and the more serious problems due to the consequences of the crisis in this region compared to the post-crisis development processes in the regions beyond the Atlantic Ocean.

## 2. Financing mergers and acquisitions

Deals involving mergers and acquisitions of companies can be heterogeneous in nature. According to the methodology of Thomson Reuters and Refinitiv, which are the main providers of financial information on these types of deals, the latter include "rank eligible mergers, acquisitions, repurchases, spin-offs, self-tenders, minority stake purchases and debt restructurings. A tender/merger transaction is considered to be effective at the time of consummation of the merger or the date on which it is declared wholly unconditional" (Thomson Reuters, 2015-2018; Refinitiv, 2019-2021).

Transactions not denominated in US dollars are converted to the US dollar equivalent at the time the terms are announced. The data is based on the acquired company's declared core business and includes all planned, pending, partially completed, fully completed, pending regulatory and unconditional transactions.

Analysis of trends in mergers and acquisitions on a global scale could become a source of valuable information about the changes that have occurred as a result of the Covid-19 pandemic. The trends of this specific segment of the financial markets for the period 2014-2021 can be traced in figure 4.



Source: Own calculations based on data from *Global Mergers & Acquisitions Review (2014-2021)*

Figure 4. Comparative profile of announced and completed mergers and acquisitions in the period 2014-2021 (volume in billion USD - left scale; implementation rate - right scale)

During the period 2014-2020, the size of the announced deals fluctuates between 3.3 and 4.3 trillion USD, and of the completed deals - between 2.5 and 3.6 trillion USD. During this period, not a single trend is outlined in relation to the announced and completed deals, nor that which refers to the finalized deals and the percentage of their execution. Against this background, contrast the data for 2021, when a sharp jump in announced and finalized deals is observed. In 2021, the amount of the announced deals is 2.3 trillion USD. more than the previous year 2020, which means a one-year growth of 64%. Completed deals in 2021 exceed 1.3 trillion. US e. those in 2020, which in percentage terms is 42% growth.

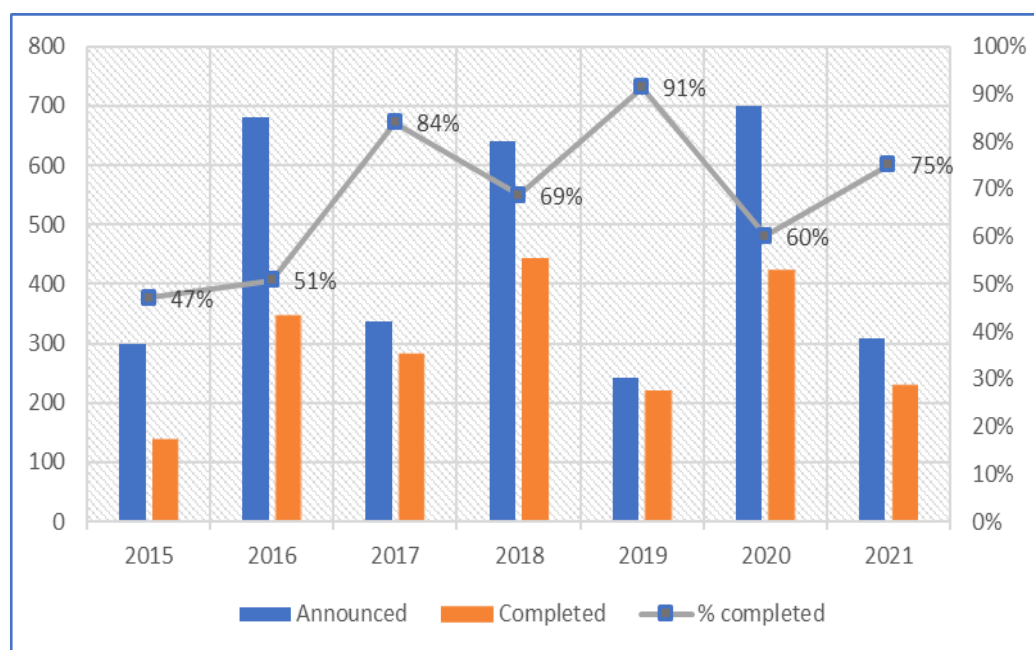
What could be the logical explanation for the sharp spike in deals in 2021? With a high degree of probability, the main reason is the shock of the pandemic. Many businesses and industries were faced with tough decisions – bankruptcy, debt restructuring or takeover. Taking such steps carries risks not only for companies experiencing financial difficulties. This is no less true for investors considering whether to fund these deals. This also explains the large difference (\$1.5 trillion or 75% implementation) between the initially announced and subsequently completed deals in 2021 (figure 4).

### 3. Financing of distressed debt and bankruptcy restructuring

Economic and financial crises of different types and nature usually cause severe financial problems for various businesses, accompanied by a rise in outstanding debts and cause mass bankruptcies of companies. The crisis caused by the global pandemic is no exception in this regard. It affected entire industries, causing damage and financial difficulties in many economic spheres and sectors. For many companies, overcoming the crisis was a matter of survival.

On the other hand, the recently popular paradigm of a non-unilateral perception of the concept of "crisis" not only as a threat, but also as an opportunity, finds its confirmation in the socio-economic and financial consequences of the Covid-19 crisis. It really turned out to be not only a challenge, but also provided hitherto unsuspected opportunities and an impetus for the development of certain areas and activities, such as high technologies and artificial intelligence, as well as their application in business and people's lives - the shift to remote work, the boom in the development of electronic platforms, automation of processes, social networks, etc.

Analysis of trends in problem debt financing and bankruptcy debt restructuring reflects only the negative side of the Covid-19 crisis. Thomson Reuters and Refinitiv provide their interpretation of the concept of "distressed debt & bankruptcy restructuring" and a corresponding data collection and processing methodology. Included in this category are debt swap offers, debt tender offers, bankrupt and distressed sales, loan transformations and debt restructuring transactions through the proceeds of equity issues. To be considered eligible, the debtor company must be either bankrupt or a distressed company with problematic debt (Thomson Reuters, 2015-2018; Refinitiv, 2019-2021).



Source: Own calculations based on data from *Distressed Debt & Bankruptcy Restructuring Review (2015-2021)*

Figure 5. Comparative profile of announced and completed deals for financing problematic debt in the period 2015-2021 (total volume in billion USD - left scale; implementation rate - right scale)

The data from figure 5 show that during the analyzed period years with high values (the even years) and with low values (the odd years) alternate successively. It would be difficult to give any logical explanation for these results, especially since the data for 2020 does not stand out significantly against the background of the previous years 2018 and 2016. However, the peak value of USD 700.5 billion of announced deals in 2020 can be noted. What is essential in this case is that the percentage of their implementation is too modest - only 60% of them have actually been completed. From this point it can be concluded that in the crisis year of 2020, there are many

problem debts that cannot be serviced and for which deals have been announced for their purchase or restructuring. The fact that 40% of the announced deals remain unfulfilled testifies to the increased uncertainty in the global financial market and causes understandable reticence among potential investors. On the other hand, in crisis conditions, it is quite likely that few investors have free funds and are willing to invest in an unstable market situation and increased investment risk.

### **Conclusion**

The analysis of the impact of the pandemic on the selected forms of global international financing reveals the specifics of the trends in their development and provides valuable information about the nature of the changes. The pandemic has affected both credit activity in the global syndicated loan market, as well as business transformation deals and debt restructuring or buyout deals.

The shock of the pandemic caused a decline in syndicated loan deals in almost all regions, but with varying intensity. The post-crisis recovery is also progressing at different rates across regions. Analysis of the industry and target profile of the deals reveals the degree of concentration of financial difficulties and problems in different economic sectors and businesses. In turn, the reduction in acquisition deals and the large gap between announced and completed deals during the global pandemic can be defined as investor caution in response to increased risk. The data on the financing of distressed and restructured debt shows the presence of difficulties with repaying the debts caused by the Covid-19 crisis and also of investor reticence.

The impact of the covid-19 crisis and its lessons will undoubtedly continue to be the subject of disputes and discussion. In this aspect, the conclusions of the analysis in this paper can serve as a basis for future more detailed and in-depth studies.

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