TXF Data Update: Middle East tops export finance market in H1

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12 August 2016 Add comment

The Middle East is the largest export finance borrower market in the first half of the year, with a 35.3% share of the global market; the export finance community cites power, oil and gas, and real estate as the driving factors behind the growth.

The Middle East was the most active region for total export credit agency (ECA) finance transactions in the first half of 2016, with over a third of the market share, according to *TXF*'s H1 Export Finance Report.

There were eight deals closed in the region in the first half of the year, totalling $13.54 billion and accounting for 35.3% of all market deals.

Asia-Pacific (15.2%) ranked second, signing a total of $5.84 billion in deals; while Europe (15%), last year's biggest borrower, followed closely with a total of $5.75 billion in deals.

The ECA market has been heavily weighted to the Middle East primarily due to a number of large power and real estate deals in the region, as well as two large oil and gas deals

Richard Hodder, global head of export finance at HSBC, tells *TXF*: "The reason the Middle East is showing high export finance volumes are mega deals like EEHC Burullus, EEHC New Capital and ORPIC's Liwa Plastics. Multiple ECA deals of this size are not taking place in any other region at the moment.The largest volumes for HSBC's export finance business in the Middle East are in the power sector followed by the construction sector."

According to *tagmydeals*, JBIC closed two very large power deals in H1 of this year: a $2.57 billion loan to Umm al Houl Power and Desalination plant in Qatar; and a $2.53 billion loan to finance the IWPP for the construction of a power plant in Saudi Arabia.

On the oil and gas side, the Oman Refineries and Petrochemical Company (ORPIC) closed a $3.8 billion project finance deal in March while the Abu Dhabi National Oil Company closed a $3.3 billion equipment deal in January.

Hodder says: "The impact of the current oil prices on government budgets of governments has prompted requests for tied ECA financing to be included in EPC tender documents."

However, capital expenditure and diversification away from oil will not stop either, he says, as investments must be made to move downstream with some big deals on the horizon within the carbon sector.

"We don't see a large number of deals in the hydrocarbons sector at the moment - we're typically seeing one deal each year but these tend to be large. We expect this trend to continue over the next few years" says Hodder.

Dubai's rapid growth in the construction sector will most certainly continue too, with plans to build one of the world's largest airport as well as an extension to the country's metro system.

He says: "There are several large capex projects in the pipeline - including the extension of the Dubai Metro and the Al Makhtoum International Airport.

Although Dubai is not the only country demanding ECA financing. Hodder says there are also various mass transit projects in Saudi Arabia and lots of new hospitals across the region.

"It would be reasonable to expect that many of these will tap ECA support so it would not be surprising if the MENA region continued to drive global ECA volumes over the next few years," he concludes.

Potential hotspots: Oman, UAE, Kuwait and Iran

Power and construction will continue to be growth areas in the Middle East, maintains Bruno Gremez, co-founder of the Dubai-based CT&F Consulting. Gremez cites the UAE, Egypt and Oman as three driving countries behind the Middle East's increased borrowing in the ECA market.

He tells *TXF*: "Whether ECAs are involved or not it does not change the overall picture. There have been a small number of very big transactions in the ECA market in the first half of the year. Power is most certainly a contributing sector. There have also been one or two transactions in the UAE and Oman that have totalled a few billion. So just one deal can change the statistics."

Over the next few years Iran will come into the market after a prolonged period of exclusion due to the international trade sanctions, with ECA financing being high on the country's agenda. Gremez says: "I think in terms of pure ECA financing, what is going to change – it may not be next year – is that the market will comeback to Iran. I think the first source of financing for Iran will be ECA financing, but they are not ready yet. When they are there will be a huge deal flow through Iran."

Countries such as Iran are in desperate need for financing to modernise their economies and infrastructure. Due to the geopolitics associated with both countries, they are ideal targets for ECA financing.

The emergence of Oman and Iran, coupled will the continued growth of countries like Dubai and Kuwait, means the Middle East looks set to stay as a hotspot in the ECA market – a welcome relief in a market that has fallen 22.5% in the first of the year.

Note: The TXF Export Finance data report is derived from deal information on tagmydeals.com. The information is collected from a variety of sources including an extensive deal submissions process. Whilst the report is a strong indicator of trends taking place in the sector, there are gaps in the data and we do not claim to have 100% market coverage.

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