EXPORT FINANCE INDUSTRY MARKET REPORT 2019

TXF RESEARCH

Plus ça change for export finance, says TXF industry survey

The export and project finance industry is experiencing much the same trends and challenges as it did last year, according to the TXF's Export Finance Industry Report, 2019. Good news is, it's on the up.

Members of the export finance community believe the market is in a generally healthy state and will continue to be so over the coming year, according to the latest edition of TXF Export and Project Finance Industry Survey.

The survey offers participants of the export finance market the chance to provide insight into the current trends and challenges facing the industry. The 2019 report, the third edition of its kind, garnered the views of 259 individual senior export finance practitioners at banks, export credit agencies (ECAs), importers, exporters, insurers, lawyers and alternative financiers.

'Pretty steady growth'

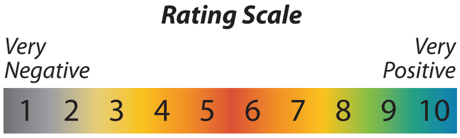
Overall the respondents were relatively content with the health of the market, giving it an average rating of 6.75 out of 10. Fifty-four percent of respondents scored in neutral territory (4-7), with 39% scoring positively (8-10) and 7% negatively (1-3).

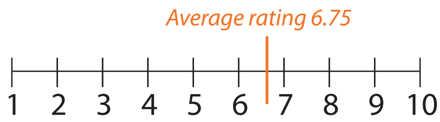
According to TXF Data, there were 404 ECA-supported deals over the course of the year (an increase of 126 on 2017) covering $137.8 billion of financing (an increase of $53.2 billion on 2017). That represented an increase of 63% in ECA-supported deal volume compared with 2017.

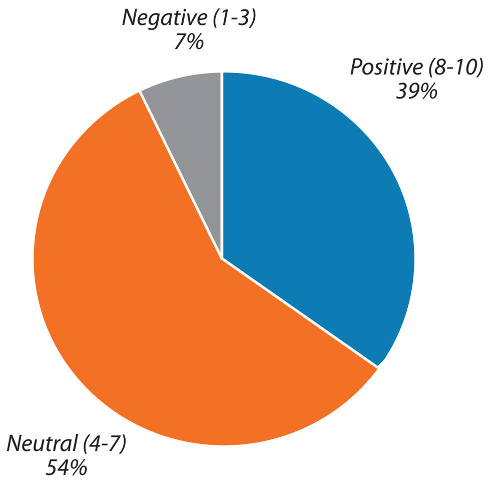
From a regional perspective, 50% of Asia-based respondents rated positively (with an average score of 7.19), as compared to 40% of respondents from Europe (6.96) and 10% from the Americas (5.03).

And from the standpoint of the different types of organisation, 50% from ECAs scored positively (6.67), 44% from importers and exporters (6.86), and 36% from banks (6.81).

Current status of the export finance industry







Regional View		
	% Rating Postive	Average Rating
Asia/ Pacific	50%	7.19
Europe	41%	6.96
Americas	10%	5.03

Organisational View		
	% Rating Postive	Average Rating
ECA	50%	6.67
Exporter/ Importer (net)	44%	6.86
Bank	36%	6.81

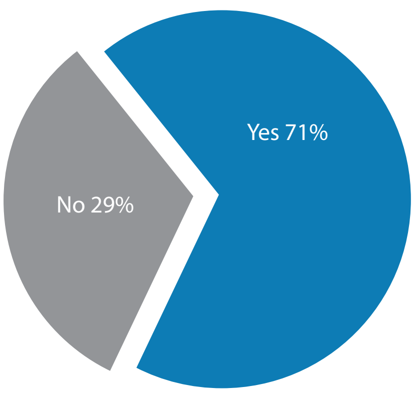
"Even though the market in our country is doing particularly well, most countries are experiencing pretty steady growth," says a Europe-based exporter. "The Netherlands is seeing good returns in offshore wind; the UK performing well with services and even some manufacturing recently; and Germany, well they are always going to be doing well in exports."

Banks are thought to be performing well, according to their market counterparts. Seventy-one percent of respondents thought that banks' export finance skills and expertise were improving. And 91% thought that the banks were currently taking adequate care when considering risks in transactions.

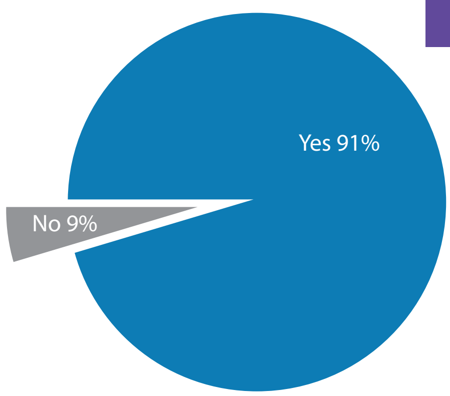
Exporter/ importer perceptions regarding banks

"Even though the market in our country is doing particularly well, most countries are experiencing pretty steady growth."

Are Banks' Export Finance Skills and Expertise Improving?



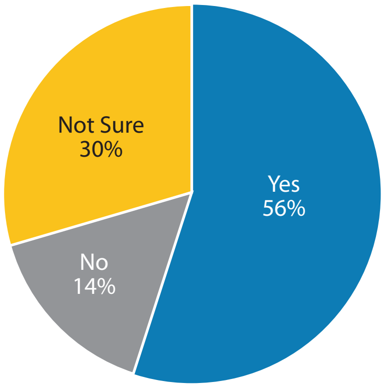
Are Banks Taking Adequate Care When Considering Risks in Export Finance Deals?



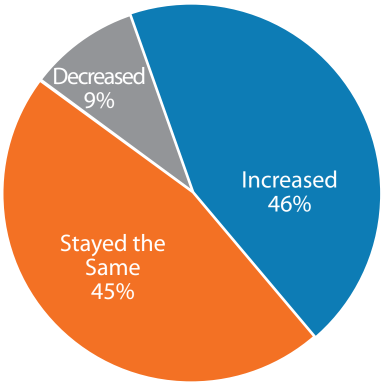
There was also marginal uptick in the use of the private insurance in the market over the past 12 months. Forty-six percent of respondents said they had increased their use of the product, compared to 45% reporting their use had stayed the same and 9% that they had used it less than the year before. Fifty-six percent of those surveyed said they were likely to use the product over the next 12 months, compared to 14% saying they wouldn't and 30% unsure. The majority (42%) agreed that the pricing structures were transparent and easy to understand, compared to 30% disagreeing and 28% unsure.

Use of private insurance

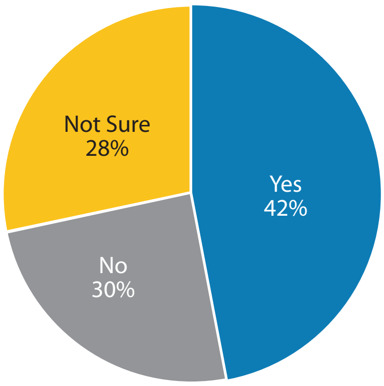
Expected use of private insurance over the next 12 months



Change in Private Insurance in the Past 12 Months



Are Pricing Structures Transparent and Easy to Understand?

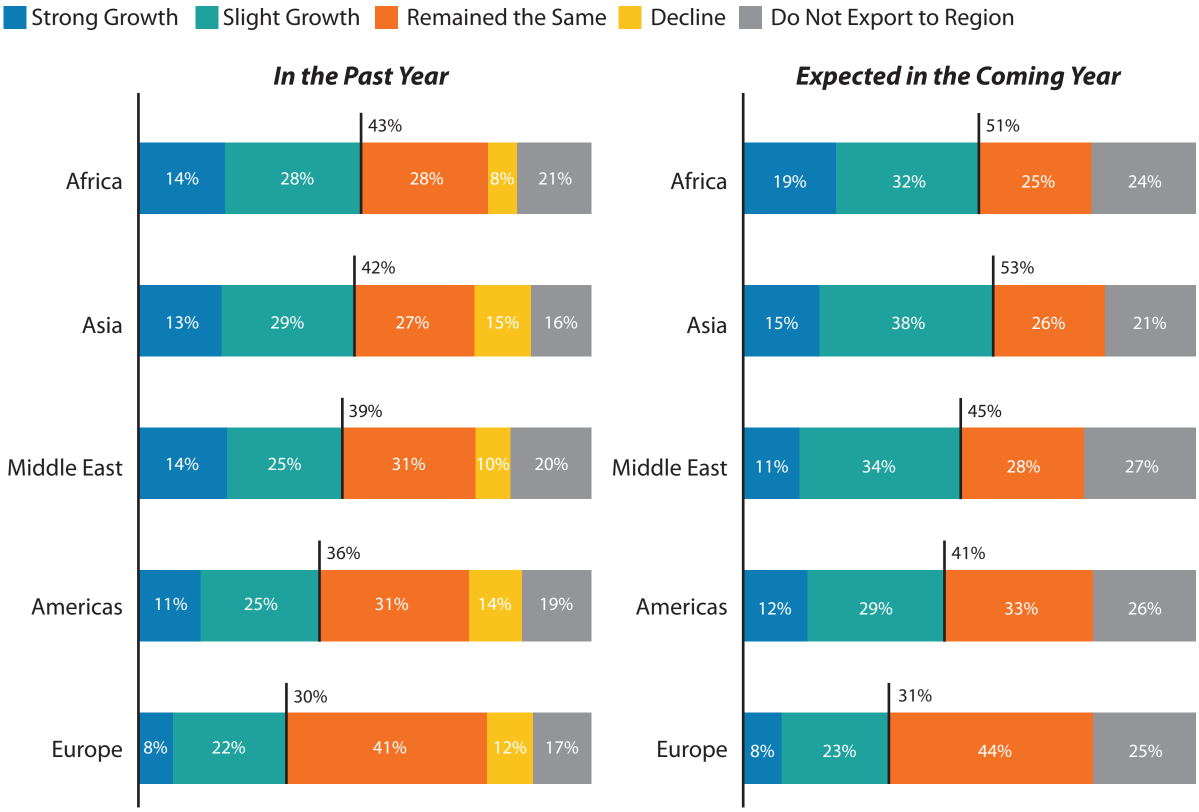


Africa shows good growth

Africa topped the rankings for regional export activity, with the 44% of respondents reporting growth in the continent over the past 12 months. The region saw $16.1 billion of ECA-supported deals over the course of the year, according to TXF Data. Asia came in second with 42%, followed by the Middle East (39%), the Americas (36%) and Europe (30%).

It was a similar picture in regards to expectations for growth over the coming year. However, this time Asia (53%) just pipped Africa (51%) for auspicious forecasts, followed once again by the Middle East (45%), the Americas (41%) and Europe (31%).

Regional export activity



Note: Bases vary by total answering for each region questioned

"Asia is difficult to predict, mainly because China is so hard to predict, but I can really see it growing," says one Europe-based exporter. "South Korea and Japan are both growing their exports," another Asian-Pacific bank reports.

Transport fairs well...

Transport was deemed the most active industry for the export finance market, receiving 15% of the total votes. Coming in just behind were power and industrial production/processing equipment — both industries getting 13% of the total votes. In last year's survey, power transmission headed the list on 16%, followed by infrastructure with 13% and industrial production/processing equipment with 12%.

At $20.4 billion, transport volume — the largest ECA-supported segment in 2017 — jumped $1.1 billion in 2018, but fell in terms of percentage share of the market to 14.8% from 22.9%, according to TXF Data. That reflected much of 2018's $53.2 billion global volume increase being in the oil and gas and power (inclusive of renewables) sectors which together accounted for 45% of global ECA-backed volume.

With the votes separated by region and organisation type, transport boasted top mentions from Europe (16%) and the Americas (24%), as well as from exporters (19%) and the net combination of exporters and importers (17%). Power received the highest votes from Asia (25%) and from importers (26%). The agriculture/food industry came top in the Americas (24%) and for ECAs (21%). And the oil & gas downstream industry was voted the most active industry by banks (21%).

Top sectors for export finance

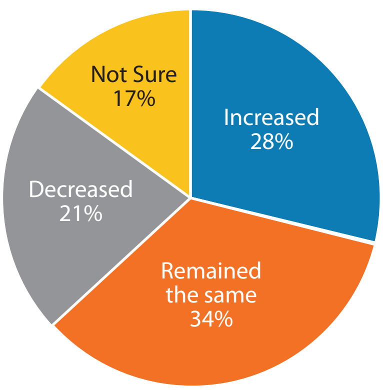
Top Mentions

	Region				Type of Organisation				
	TOTAL	Europe	Asia	Americas	Exporter/ Importer (net)	Exporter	Importer	Bank	ECA
Base	249	152	56	29	138	112	26	39	24
Transport	15%	16%	9%	24%	17%	19%	8%	10%	13%
Industrial production/ processing equipment	13%	14%	10%	11%	15%	16%	8%	10%	16%
Power	13%	10%	25%	7%	15%	13%	26%	15%	13%
Social infrastructure	11%	13%	5%	3%	9%	11%	0%	8%	8%
Agriculture/ food	9%	3%	18%	24%	9%	8%	15%	3%	21%
Oil & gas downstream	9%	11%	7%	7%	7%	8%	4%	21%	13%
Mining & metals	8%	10%	7%	3%	9%	9%	8%	8%	0%
Renewable energy	7%	8%	2%	14%	8%	5%	19%	0%	8%
Oil & gas upstream	6%	5%	4%	7%	2%	2%	4%	12%	0%
Petrochemicals	5%	5%	9%	0%	3%	3%	4%	10%	4%
Communications (telecom/ satellite)	4%	5%	4%	0%	6%	6%	4%	3%	4%

Pricing: much of the same

The majority of respondents (36%) reported that pricing of export finance deals had more or less stayed the same over the past 12 months, with 28% reporting an increase, 21% a decline, and 17% saying they were unsure. It represents a levelling off of a downward trend in pricing in recent years. Just over half of respondents in last year's survey reported a decrease in pricing, as did two-thirds of those interviewed the year before.

Changes in pricing/ cost of export finance in past year



Importers (48%), as well as those in Central/ South America (73%) are much more likely to say their export financing costs have increased.

Bankers are significantly more likely to report a decrease in export financing costs in the past year (59%).

North American respondents (58%) are most likely to say their export finance costs have remained the same in the past year.

But much depended on the respondents' region and institution type. North Americans were much more likely to say pricing had stayed the same (58%), whereas bankers were more likely to report a fall in the cost of export finance (59%). Importers (48%) and those located in Central and South America (73%) were more likely to say their export finance costs had increased.

When comparing their cost of financing, importers (44%) were most likely to say that they received better pricing than other players in their market.

Looking forward over the coming year, 62% of respondents predicted ECA premium pricing to stay the same, compared to 26% forecasting and increase and 12% a decrease. The majority (46%) thought that all-in bank pricing would stay the same over the coming year, compared to 38% predicting an increase and 16% a decline.

How do export finance costs compare to others in the same market?

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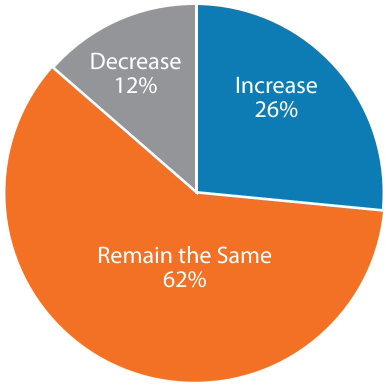
Expectations of ECA premium pricing in next 12 months



"Pricing is not changing much, but that's not surprising," says an Asia Pacific-based importer. "That's because it lacks transparency so even if it is changing, we wouldn't know anyway. I had a deal for our customer for banks and I had three different rates. The premium ranged from 5.5% to 9.5%. So how are you meant to know?"

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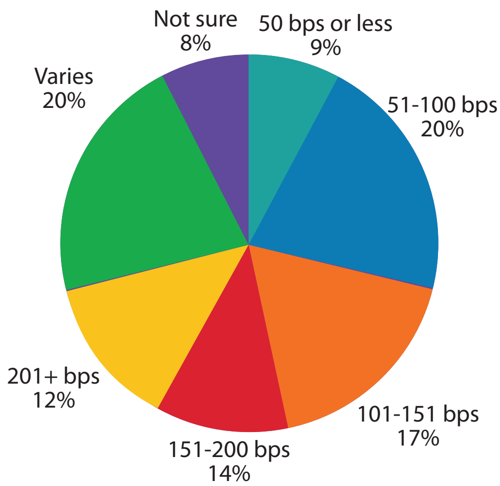
The pricing spread of export finance transactions was most likely (19.5%) to fall in the range of 51-100 basis points (bps) over Libor, closely followed by 101-150bps over Libor (16.8%) and 151-200bps over Libor (14.2%).

Legal and regulatory challenges persist

Current pricing spread on export finance deals



Despite the respondents' optimism, the export finance industry is facing a number of headwinds. Topping the bill for the most prohibitive factors in closing export finance deals was 'legal & regulatory hurdles', receiving 36% of the total votes. Bankers were most likely to complain about the issue (55%).

Coming in as the second most prohibitive factor was the issue of sanctions, which took 34% of the vote and also saw particularly heavy criticism from bankers (50%). "If you look at the global picture of core sanctions in Iran and then later in Russia, of course they bring a lot of uncertainty into the market. And that of course had a limiting effect on export finance," said another respondent.

The third most prohibitive factor was a three-way split between 'lack of knowledge of the export finance product among borrowers', 'liquidity and access to credit', and 'political instability' — all of which were cited by 30% of the respondents. 'Existing competition' was mentioned by 27% of those surveyed, and 'concentration on currently engaged markets' and 'fear of corruption' received 14% and 13% respectively. At the bottom of the list, mentioned by 11% of participants, was 'insufficient knowledge of markets'.

In last year's survey, legal issues and regulatory hurdles were also top of the list, chosen by 54% of respondents. The second most prohibitive factor was a lack of knowledge of the export finance product among borrowers (46%).

Most prohibitive factors in closing export finance deals

Top Mentions	TOTAL	Region: Europe	Region: Asia	Region: Americas	Type of Organisation: Exporter/Importer (net)	Type of Organisation: Exporter	Type of Organisation: Importer	Type of Organisation: Bank	Type of Organisation: ECA
Legal & regulatory hurdles	38%	32%	52%	35%	33%	31%	42%	58%	38%
Sanctions	34%	44%	25%	8%	30%	33%	19%	50%	46%
Liquidity & access to credit	33%	34%	34%	27%	30%	31%	27%	45%	29%
Lack of knowledge of the export finance product among borrowers	31%	32%	32%	15%	31%	32%	27%	29%	38%
Political instability	30%	30%	32%	31%	36%	35%	39%	16%	21%
Existing competition	28%	30%	29%	15%	27%	30%	12%	45%	29%
Concentration on currently engaged markets	14%	17%	9%	15%	12%	13%	8%	18%	25%
Fear of corruption	13%	15%	9%	8%	10%	11%	8%	26%	13%
Insufficient knowledge of markets	12%	9%	20%	8%	9%	7%	19%	13%	17%

Same old barriers for institutional investors

Liquidity in the export finance market remains an issue, and one of the primary challenges in that regard has been an inability to attract a sufficient level of institutional-investor funding into the space.

The leading impediment to attracting more institutional investors to export finance is a general lack of understanding of the product and the risks involved, according to 44% of the survey's respondents. Another key issue, according to 41% of those interviewed with surveyed, is that investors are demanding higher yields than the product actually offers. Pricing issues came in third (31%), just ahead of the lack harmonisation and standardisation (30%).

One Europe-based banker says: "Products not being standardised means they are difficult to price; it makes the industry harder to navigate and worst of all the lack of standardisation across the [legal and regulatory] documents just makes everything so slow."

Twenty-nine percent of those surveyed cited concerns over the liquidity of the assets and 19% the lack of pooling options. Fifteen percent also pointed to issues to do with prepayment. "Institutional investors always want to know that they've got cash flow so that they know they will be paid out over life rather than prepaid," says one interviewee. "ECAs have the ability to guarantee either way. However, it is entirely at the ECAs discretion in almost all cases, which creates a great deal of uncertainty principally because everyone operates in different ways."

It was much the same picture in last year's survey, where some 64% of respondents cited a lack of understanding of the product and the associated risks, with low yields coming in as the second biggest challenge for investors, followed by pricing and then once again by a lack of harmonisation and standardisation of the product.

Top Mentions	Region							Type of Organisation					
	TOTAL	**Europe**	**Americas**	**North Americas**	**Central & South America**	**Asia Pacific**	**MENA**	**Exporter & Importer**	**Exporter**	**Importer**	**Bank**	**ECA**	**Other**
Lack of understanding of the product	44%	48%	38%	31%	46%	40%	36%	38%	40%	31%	58%	50%	50%
Investors wanting higher yield	41%	41%	41%	38%	46%	46%	27%	36%	34%	46%	58%	30%	46%
Pricing	31%	29%	35%	32%	39%	38%	19%	26%	25%	31%	39%	40%	35%
Lack of harmonisation of the product	30%	35%	21%	31%	8%	18%	55%	25%	26%	19%	44%	45%	23%
Concerns over liquidity	29%	27%	28%	25%	31%	37%	19%	31%	28%	42%	28%	15%	23%
Lack of pooling options	19%	19%	14%	12%	16%	18%	19%	18%	18%	15%	28%	20%	12%
Prepayment	15%	13%	14%	19%	8%	36%	36%	10%	10%	8%	33%	15%	8%
Less need for banks to distribute	13%	15%	11%	19%	-	18%	19%	7%	6%	4%	36%	10%	23%
Pushback from corporate clients	7%	4%	-	-	-	18%	19%	6%	6%	15%	11%	-	8%

So, as was the story for most of the 2019 edition of the TXF Export and Project Finance Industry Survey... Plus ça change.