International
TRADE FINANCE

Glimmers of hope across Asian trade markets

Asia's trade finance markets are witnessing a resurgence of sorts, as China's $585bn fiscal stimulus package has kicked in and a modicum of growth has been witnessed in inter-Asian trade volumes. Bankers told *ITF* that activity levels are still depressed in comparison to the first half of 2008, but that competition among financiers has picked up in regard to business involving China and Korea.

Even though Asian banks survived the US sub-prime mortgage disaster mostly unscathed, the region's loan markets were rocked in September 2008 as dollar liquidity dried up globally in the wake of the Lehman Brothers catastrophe.

Some of the biggest international lenders to Asian companies in recent years, including Royal Bank of Scotland and Citigroup, have scaled back their activities dramatically, while a number of European lenders such as Bayerische Landesbank and Iceland's Landsbanki, have closed their Asian operations altogether.

Some of those players remaining in the market passed their higher funding costs to borrowers by invoking 'market disruption clauses' in loan agreements, effectively collapsing the Asian loan market.

As with the major Western banking centres, much of the trade finance liquidity in Hong Kong and Singapore disappeared in the fourth quarter, while the wider region's syndicated loan market continued to be hit in the first quarter of 2009. According to data company Dealogic, the volume of new loans signed in Asia Pacific excluding Japan fell by 70 per cent compared with the first quarter of 2008, more than the corresponding 59 and 32 per cent volume falls in North American and western European loans.

"The first quarter was quiet, as lots of banks were still recovering from the liquidity shocks," said Sean Aston, who runs the London Forfaiting Company's (LFC) Singapore office. "Although trends have varied depending on the institution, these have been tough times, in which banks have been engaged in lots of judicious prunings and redundancies. Margins stayed high as people waited for things to get better, and the secondary and primary markets were both quiet as banks kept within their limits."

He continued: "But the second quarter has been different — we are starting to see credit spreads come down and liquidity strengthen. I get the impression that the major relationship banks are putting their hands back in their pockets for prime customers. There is more liquidity going into Korea, and consequently some downward pressure on margins — but of course there is still no evidence on whether the momentum will be sustainable. Some Asian assets were arguably over-priced in relation to risk and have been priced down, but fair market values are still a work in progress."

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Editor's letter

German companies appear reluctant to give up Iran as a trade market, despite the overwhelming sanctions from the UN and US, and now pressure from the German government itself. Ministers have recently attempted to cancel two business conferences on Iran, yet trade umbrella bodies have fought back, citing a potential €20bn level of bilateral trade annually.

German exports to Iran surged by 10 per cent to reach around €4bn last year, as a cluster of German companies participated in major Iranian infrastructure projects, especially in the petrochemical sector. However the recent addition of US sanctions against Bank Melli have reinforced the message to trade financiers that doing business with Iran remains fraught with difficulties, and German companies may find that they are increasingly faced with the choice of open account trade, given the lack of providers willing to look at Iran.

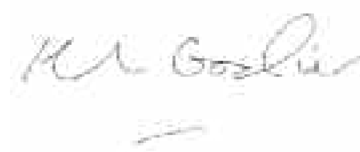
Chinese companies are still able to use forfaiting to discount their Iranian receivables, according to Shanghai-based boutique China Trade Solutions, which has been a recent beneficiary of the credit crisis, according to its managing director Holger Kebernik. "So many banks have stopped providing financing and cut back on exposure that we are actually seeing more transactions than before," he said, citing Iran and Sudan as two among several markets where business is rising.

China's $585bn fiscal stimulus package is one of the factors assisting a modest trade finance revival in the Asian region, aligning with a re-expansion of inter-Asian trade volumes. Even though Asian banks survived the US sub-prime mortgage disaster mostly unscathed, the region's loan markets were hit hard in September 2008, and much of the trade finance liquidity in Hong Kong and Singapore disappeared in the fourth quarter, while the wider region's syndicated loan market continued to be hit in the first quarter of 2009.

"We are starting to see credit spreads come down and liquidity strengthen," said Sean Aston, who runs the London Forfaiting Company's Singapore office. "There is more liquidity going into Korea, and consequently some downward pressure on margins — but of course there is still no evidence on whether the momentum will be sustainable. Some Asian assets were arguably over-priced in relation to risk and have been priced down, but fair market values are still a work in progress."

Pricing has "dropped significantly since the cash crunch at the end of last year for many of the more common countries such as India, Korea, China and so on," said Holger Kebernik, managing director at Shanghai-based China Trade Solutions. "It has been dropping further in the last four weeks with the rally in the stock markets. However as funding costs remain high for many banks and appetite for funded deals is limited, it seems we may have reached a bottom," he observed.

Coface was more pessimistic on 27 April, predicting that the credit crisis "is worsening in all areas", after entering its second phase in the final quarter of 2008. According to chairman Francois David, "the world economy should cease to contract" only in the second half of 2009, paving the way for a sluggish recovery in early 2010.



Kevin Godier

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Pricing has "dropped significantly since the cash crunch at the end of last year for many of the more common countries such as India, Korea, China and so on," said Holger Kebernik, managing director at Shanghai-based China Trade Solutions. "It has been dropping further in the last four weeks with the rally in the stock markets. However as funding costs remain high for many banks and appetite for funded deals is limited, it seems we may have reached a bottom," he observed.

A "less nervous, more stable" market was highlighted by Christian Stauffer, managing director of advisory boutique EuroFin Asia. "Some banks have kept a very proactive stance, and a few have taken advantage of the failure of others. However we do not see in the real economy a true recovery yet, it will probably take time and we see that more on the 2010 agenda than in 2009."

According to another trade financier, employed in Hong Kong by a major European bank, "intra-Asia trade flows are holding up in general, however activity with countries outside of Asia has definitely slowed down".

His point is borne out by recent trade data showing that Singapore's shipments to China jumped 29 per cent in March from February, and those from Japan, South Korea and Taiwan also increased. In terms of March shipments across Asia, Japan's exports advanced 2.2 per cent, and Singapore's increased by 10.8 per cent, the second monthly improvement, both seasonally adjusted. South Korea's non-adjusted exports climbed 10.5 per cent and Taiwan's rose in March by 23.8 per cent to $2.99bn, including $1.31bn from China and Hong Kong. However Japan's overall exports are still plunging, having sunk by 46.4 per cent in March; Taiwan's fell by 35.7 per cent from a year earlier and South Korea's declined by 21.2 per cent.

One theory is that exports from these and other export-dependent Asian countries will start to benefit as companies globally begin to order new stock after having eaten low into their inventories during the past two quarters instead of ordering new stock. Signs that the US economy is recovering may boost further demand for Asia's exporters. Singapore's unadjusted shipments to the US rose by 17 per cent in March from the previous month and China's exports to the world's biggest economy rose 33.3 percent, led by sales of clothes and furniture.

China-based forfaiter sees business increase

The Shanghai-based boutique China Trade Solutions has been a recent beneficiary of the credit crisis, according to its managing director Holger Kebernik. "So many banks have stopped providing financing and cut back on exposure that we are actually seeing more transactions than before," he told *ITF*.

"After a quiet period, we are currently seeing an increase in Iran and Sudan business, as well as for Middle East markets such as Lebanon and Latin America markets including Brazil and Mexico. There is also an increase in trade with Africa, especially Nigeria, and as always there is Bangladesh, Pakistan and so on nearer to home," he said.

After some six years of operations in China's forfaiting market, China Trade Solutions has transacted more than 1,000 deals, racking up a business volume of "around $1.4bn", said Mr Kebernik. Forfaiting is being used more often as a risk tool now instead of merely a means to obtain cash, he noted.

China syndrome

China's stimulus spending on roads, bridges and low-cost housing should contribute "strongly" to growth in Asia, the World Bank said recently, and Goldman Sachs has just raised its 2009 growth forecast for China's economy to 8 per cent from 6 per cent, citing the stimulus.

"There are signs that activity in China is picking up again," noted the Hong Kong-based financier. He commented: "With less business around this has created more competition as banks try to get a greater share which in turn has actually seen China pricing coming down. Also in Korea — as there is less trade business around and more banks have capacity — this is again forcing pricing down. Margins which were as high as 350 basis points (bp) for letter of credit confirmation have fallen to between 250-300bps."

However more funding liquidity is needed, according to David Sullivan, chairman of the Kong Kong-based Trade Finance Corporation (TFC). "Only in China has the second stimulus package prompted banks to provide core services again, although continued lack of orders in many industrial sectors has hugely dampened volumes," he noted.

Trade finance capacity for the region has undoubtedly diminished, said Mr Stauffer. "We have seen a number of institutions — mostly banks — that have either ceased to exist or at least closed their trade finance business. We have seen that in the past but never in the same magnitude and so abruptly. Some of them were seriously involved in the region's trade finance business and this will definitively reduce the liquidity."

The trend has to some extent "gone fairly unnoticed" as prices of goods and volumes have significantly dropped during the period, Mr Stauffer argued. "So the net squeeze on short term financing is not really obvious in the region and the liquidity in local markets remained pretty good. But it will be interesting to see what will happen when both prices and volumes climb again, outpacing the return of liquidity."

A general picture in the market is that "banks are telling the media they are supporting businesses but they are not", Mr Sullivan said. "Banks are giving bigger trade finance lines to bigger companies and forgetting about the rest of the market, and will typically not even offer transactional secured trade finance unless it fits some government guarantee scheme. Nobody wants supply chain solutions, they want money," he added.

At the TFC's sister company, TFC Brokerage, "the immediate, and increasingly desperate need, is funding", said managing director Mark Cooper. "Our experience has been that government high profile SME 'support' is not trickling down to the drivers of their respective economies." Mr Cooper made the point that several Asian economies — including the Philippines, Cambodia and Indonesia — are not 'majority' export-driven and have therefore maintained an underlying quality. "These are the countries with good trade flows, banks with excellent capital adequacy ratios and small non-performing loan levels; yet for most lenders they are off the radar."

Korean lead

LFC's Mr Aston highlighted Korean transactions as leading the greater trade finance activity around the North Asian market. "Confidence is coming back, and people have sat on their hands before realising that they have a budget to meet. Liquidity is increasing, albeit on a selective basis, as the market is realising that certain issues are well-priced — a handful of Korean issues have been over-subscribed," he said, citing recent issues by the Korean Development Bank, Hana Bank and the Export-Import Bank of Korea (K-Exim), among others.

Liquidity for Korea had at one point become so constrained that the insurance markets were underwriting Korean bank paper, acting in effect as bank of last resort, and earning premiums "far better than they deserve", said the Hong Kong-based banker.

Some Asian structured commodity deals are also re-entering the market, after "the gates came down in the third quarter", when borrowers were told that access to the debt markets would be expensive and difficult given liquidity contraction, said Mr Aston. "This has been evidenced by some very deep discounts on corporate bonds and loans as from the fourth quarter," he stressed, adding that "there is still a view that Asian corporate defaults are coming along the pipeline, although unexpected bank defaults look less likely."

One growing secondary market trend is the sale by banks of export credit agency (ECA)-backed paper. "I've seen a few ECA-backed offers of $10m or so in the last few weeks, which is unusual. Some of the main banks that have been active in Asian ECAs now want some or all of these assets off the balance sheet — we've not seen this offered before in Asia," said Mr Aston. "Some banks are under pressure to reduce assets and release capital back to their head offices in Europe, especially if they have been bailed out by the taxpayer back home. I think some of these banks are actively managing down their Asian lending book and repatriating capacity", he said.

Korean pricing curves baffle banker

From a trade finance perspective, Korea has twice offered the key example of pricing for an Asian market moving way past its fair market value point, said a banker based in Hong Kong. "It occurred in the Asian crisis in 97/98 and happened again following the credit crunch, but I can never quite understand it. Prior to the credit crunch we were getting 20/30bp on l/c confirmations involving Korean banks yet this jumped to 350bp after the credit crunch. Whilst 20/30bp was too low in my opinion there was no reason why it should jump so high. Yes — Korea did have liquidity issues and the government was the last of the OECD countries to come out with support measures but notwithstanding this it remained very irrational to me," he said.

He noted that "the Koreans were and still are prepared to pay — I can only suspect that is because the banks are able to pass these charges on in full and perhaps a little more to their clients."

Finance

EuroFin Asia highlights region's energy and metals sector opportunities

As Asia's trade finance market seeks a more even keel, "energy and industrial metals are probably the sectors where structured deals are assuming more prominence," *ITF* was told by Christian Stauffer, managing director at EuroFin Asia.

"In any liquidity crisis when the money supply through capital market becomes scarce, there is a trend to go back to more classic bilateral structured lending," said Mr Stauffer, who set up the EuroFin Asia Group in 2004 in Singapore, to provide high-end financial services in the commodities and structured trade finance industries in Asia. "It is also driven by the potentially better access to securities from the borrower than in a more liquid market, although this is usually temporary," he said.

The company flagship is its LH Asian Trade Finance Fund, established in 2006 and which "has continued its growth and succeeded in keeping its momentum through the crisis", Mr Stauffer noted. "The Fund is well deployed throughout the region with 15 different assets and an average size of assets of about $5m," he said, adding that the vehicle "has not changed its focus in Asian countries and its main activities are in Singapore, Hong Kong, China and Indonesia with some initial steps in Vietnam."

He commented: "We do not think that this will change a lot in the future since we are seeing opportunities in these markets — and we insist in being never too far from any physical asset that we are currently financing."

The credit crisis has pushed EuroFin Asia to adopt "a very conservative approach" to managing the Fund, including a reduction of some exposures beginning in October 2008. "We maintained this strategy during the first quarter of 2009 and we are now returning to potential new investments. The disappearance of banks should help the alternative means of financing such as ourselves to develop," concluded Mr Stauffer.

Project finance

Dolphin deal revitalises market

The Gulf project finance market has shown robust new signs of life via a major over-subscription by 23 banks to a 10-year debt refinancing for the sponsors of the Dolphin pipeline, which takes Qatari gas to the UAE and Oman. Coming at a time when the deal flow in the Middle East has all but dried up, a total of $3bn in bank commitments for the transaction was described as a "serious morale boost for the market" by a source close to the deal.

The project sponsors — Total, Occidental and the Mubadala Development Company — were targeting just $1.5bn from commercial banks as part of a debt-raising process to replace some $3.45bn in existing bridging loans. The resultant $2.6bn underwriting commitment for the project's commercial loan and a further $400m committed to a tranche guaranteed by Italy's SACE marked the first major financing in the Gulf since Qatar's Ras Laffan C independent water and power project (IWPP) secured a $3.317bn limited recourse deal in August 2008.

Since then, liquidity woes have plagued the international bank markets, and financing delays have been experienced by IWPP sponsors in Abu Dhabi, Bahrain, Oman and Saudi Arabia. In this light, said the source, some close market observers had predicted that the Dolphin refinancing would attract a maximum $1.2bn in commercial debt.

Still to come for Dolphin Energy Ltd — whose financial adviser is Royal Bank of Scotland — are Islamic and bond finance facilities. A request for proposals for the targeted $500m bond was issued to qualifying banks in mid-April. The financing package will be rounded off via a $1.2bn sponsor loan from Total and Occidental.

The source acknowledged that the Dolphin transaction has reaped the benefit of existing cashflows from offtakers, plus a strong sponsor group. For other projects, "$1bn at a time can still be done, on the basis of refinancing that money four to five years down the line", said Jonathan Robinson, head of project finance, MENA, at HSBC Bank Middle East, which is advising on a raft of projects throughout the wider Middle East region.

"Export credit agencies will be the lead factor in all of the upcoming Middle East infrastructure deals," he forecast.

Risk report

Emerging markets less attractive to infrastructure developers

The key OECD economies remain the favoured target for infrastructure developers and investors operating in the current straitened circumstances, according to a new market survey by law firm Allen & Overy. Released in late April, this showed that the US followed by major European markets make up the top five preferred countries for infrastructure investment, in which road, renewable power and rail are the preferred asset classes.

The "Global infrastructure development and delivery" survey, highlighted two clear favourites in terms of countries, with 51 and 45 per cent of respondents interested in infrastructure opportunities in the US and UK respectively. In both countries, the national governments have committed to vast economic stimulus packages, focusing on infrastructure and renewable energy initiatives, as a means of kick-starting their economies out of the downturn.

Germany (31 per cent), the Netherlands (29 per cent) and France (27 per cent) rounded out the top five most attractive countries for infrastructure investment, according to the survey, which was conducted during the last two weeks of March 2009 and represented the views of a sample of just under 300 players in the global infrastructure market, located in Asia, continental Europe, the Middle East, UK and the US.

Beyond these five countries, India was rated the sixth most attractive market, with 24 per cent of respondents expressing interest. In the key Middle East market, for which lending liquidity had dried up until the recent Dolphin pipeline financing, the UAE (22 per cent) was the country of most interest, followed by Qatar (16 per cent) and Saudi Arabia (15 per cent).

Brazil at 14 per cent was the clear leader in Latin America, followed by Chile (9 per cent). South Africa (10 per cent) was of most interest in Africa, followed by Egypt (8 per cent). China, Turkey and Russia attracted interest from 15, 10 and 8 per cent of the respondents.

Among the other findings of the survey were that over three-quarters of respondents predicted that government stimulus packages would have a positive impact, although 70 per cent said that the impact is between one and three years away. 76 per cent blamed lack of long-term debt access as the main impediment to launching or closing projects, while 97 per cent said that the ability to provide a well defined bid process is critically important in choosing opportunities in one country over another.

57 per cent of respondents were looking for higher investment returns this year than those they received before the start of the credit crunch in the 2006-07 financial year.

Anne Baldock, global head of Allen & Overy's Projects, Energy and Infrastructure Group, commented: "Governments that are penny wise over investment returns in the short term, may well find that they end up pound foolish as investors look to sectors or countries that offer higher returns."

Iran maintains attractions for German exporters

Trade finance facilities for Iran may have been all but eviscerated by US sanctions, but German companies appear reluctant to give up one of their more lucrative markets. This is leading to new pressure from the German government to curb business with Iran, exemplified by recent attempts to stop a business conference attended by the Islamic Republic's Oil Minister, Gholamhossein Nozari, according to early May newswire reports.

Germany is one of six major western nations involved in a long-running dispute with Tehran over its nuclear programme, but it has also been one of the biggest exporters to Iran, resulting in what has literally become a national schism over relations with the Islamic Republic.

In late April, the government of Chancellor Angela Merkel urged the German Near and Middle East Association (NUMOV) to cancel two conferences on Iran, according to German daily newspaper *Handelsblatt*. "These events clearly contradict the government's policies and could cause bigger foreign policy damage to Germany," the daily quoted the letter from the economy ministry as saying.

Yet the two conferences, an information event on Iran for German companies in western Dusseldorf, and a meeting by German company representatives with Nozari in Berlin, went ahead. Moreover, the influential President of the Federation of German Mid-Size Companies, Mario Ohoven, said during the Berlin meeting that his group would step up pressure on German decision-makers to end their blockade tactics over trade with Iran.

Mr Ohoven was quoted by the Iranian news agency IRNA as saying that bilateral trade has a potential €20bn volume annually if there was no interference by the German government. He also announced plans for a German business delegation to visit Iran in the near future.

2008 figures have shown economic relations between Germany and Iran to have flourished, despite the imposition of western sanctions over Tehran's nuclear programme. German exports to Iran surged by 10 per cent to reach around €4bn last year, as several renowned German companies — including Linde, BASF, Lurgi, Krupp, Siemens, ZF Friedrichshafen, Mercedes, Volkswagen and MAN — took a hand in major Iranian infrastructure projects, especially in the petrochemical sector.

According to German media, than 12,000 firms have their own trade representatives in the country. Indeed the German Chambers of Industry and Commerce has warned that economic sanctions on Iran could ultimately cost more than 10,000 German jobs, while IRNA quoted a senior German government official in 2008 saying that more than 40,000 German jobs are indirectly affected by German-Iranian trade.

Iran's Mr Nozari has called on German companies to invest in Iran, underlining to *Handelsblatt* in an interview that his country "can become a safe and reliable energy supplier for Germany", and stressing that "the early bird catches the worm".

He said Iran was intensifying plans on a so-called 'Persian pipeline' that would transport gas from Iran to Europe, noting that Iran, which holds the world's second-largest gas reserves, was also ready to co-operate on the Nabucco pipeline project to bring gas to Europe from central Asia.

Trade finance and insurance

Reports have said that Berlin has significantly cut the value of new credit guarantees it offers companies that do business with Iran via national insurer Hermes, indicating that German companies are prepared to do business with Iran even without the safety net of export guarantees.

Questioned by *ITF* earlier this year, Hermes said that it closely follows its obligations *vis-a-vis* Iran under UN and European Union laws, with case-by-case decisions made "for smaller transactions with short terms of payment and with additional securities of accepted Iranian banks" *(ITF 551/4)*.

Despite the window for fresh dialogue with Iran that new US President Barack Obama has hinted at, recent new US sanctions against Bank Melli have made it abundantly clear to trade financiers that doing business with Iran remains fraught with difficulties.

One major factor that has helped international banks avoid the sanctions-focused filters in operation at US banks has been a switch away from the dollar-denominated l/cs that pass through the US Treasury's Office of Foreign Assets Control. The very small handful of banks now active in confirming letters of credit (l/cs) from Iranian banks all hold links to the Iranian banking system *(ITF 533/8; 522/1; 509/1; 505/5; 499/1; 486/1; 485/5)*.

Agencies

Ex-Im Bank extends hefty support to Brazilian/Mexican oil parastatals

The Export-Import Bank of the United States (Ex-Im Bank) has approved a massive $2bn credit line with Brazilian energy giant Petroleo Brasileiro SA (Petrobras) to finance the import of US services and equipment, maintaining a recent focus on Latin America's oil sector. The Petrobras line follows Ex-Im Bank's extension of facilities totalling $1.35bn for Petroleos Mexicanos (Pemex), Mexico's state-owned oil company, and mirrors a general turn to export credit agencies (ECAs) by major Latin American corporates whose access to capital markets has been trimmed back in line with the credit crunch.

OECD export credit rates

Minimum interest rates for officially supported export credits

		15 May 14 June	15 Apr 14 May
Australian $		5.00	4.89
Canadian $	less than 5 yrs	2.40	2.42
Canadian $	5–8.5 yrs	2.89	2.85
Canadian $	over 8.5 yrs	3.13	3.06
Czech koruna		5.55	5.68
Danish krone	less than 5 yrs	3.19	3.08
Danish krone	5–8.5 yrs	4.00	4.01
Danish krone	over 8.5 yrs	4.36	4.35
Euro*	less than 5 yrs	3.05	3.05
Euro	5–8.5 yrs	3.77	3.78
Euro	over 8.5 yrs	4.29	4.30
Hungarian forint		11.95	13.64
Japanese yen	less than 5 yrs	1.54	1.53
Japanese yen	5–8.5 yrs	1.84	1.76
Japanese yen	over 8.5 yrs	2.06	1.89
Korean won		5.43	5.49
N. Zealand $		5.23	5.53
Norwegian krone		4.19	3.94
Polish zloty		6.91	7.02
Swedish krona	less than 5 yrs	3.37	3.17
Swedish krona	5–8.5 yrs	3.65	3.44
Swedish krona	over 8.5 yrs	4.18	3.94
Swiss franc	less than 5 yrs	1.76	1.82
Swiss franc	5–8.5 yrs	2.40	2.41
Swiss franc	over 8.5 yrs	2.83	2.82
UK pound	less than 5 yrs	2.99	2.82
UK pound	5–8.5 yrs	3.57	3.39
UK pound	over 8.5 yrs	3.94	3.77
US dollar	less than 5 yrs	2.32	2.31
US dollar	5–8.5 yrs	2.86	2.82
US dollar	over 8.5 yrs	3.47	3.42

*The reference Euro bond yields are an average of the relevant spot rates for triple-A Euro government bonds in the Euro area in the previous month with the five latest observations getting a double weight. The daily spot rates are published by the ECB on its website www.ecb.int/stats/money/yc/html/index.en.html, under Statistical Data Warehouse.

Rates published monthly, normally around mid–month. A premium of 0.2 is to be added to the credit rates when fixing at bid. Interest rates may not be fixed for more than 120 days.

A CIRR is fixed for each currency, including the euro, that is used by participants in the Consensus. CIRRs are subject to change on the 15 of each month.

The $2bn line was announced by Petrobras in a mid–April statement to investors, which said the facility has a maximum repayment term of 10 years. Under the terms of Ex–Im Bank's preliminary commitment, Petrobras can withdraw separate lines with different tenors over the next two years to finance US imports. "This approval reinforces the diverse funding sources Petrobras has to finance its investment plan," said the company's chief financial officer Almir Barbassa, referring to plans at Petrobras to invest $174bn between from 2009–13 to expand oil output.

At the heart of this plan sits what is perhaps the oil industry's most exciting new frontier, Brazil's massive deepwater, subsalt oil discoveries at the Tupi field in the Santos Basin, where Petrobras began producing oil on 1 May. The Tupi discovery is estimated to hold up to 8 billion barrels of oil, and marked the largest hydrocarbons discovery for more than 30 years in Latin America when first proven in 2007. Moreover the thick layer of salt that stretches for some 800km along Brazil's southeastern coast may contain anywhere between 50bn and 150bn barrels of light crude, according to Brazilian Energy Minister Edison Lobao.

Other ECAs which have supported Petrobras over the past six months include Nippon Export & Investment Insurance (NEXI) and Export Development Canada *(ITF 547/18; 546/8)*. Most recently, China Development Bank extended a $10bn loan to Petrobras, in exchange for guaranteed oil supplies to China *(ITF 550/18)*.

Mexican step-up

Ex–Im Bank has also approved $450m in three 10–year transactions involving Pemex which will support more than $500m of US exports from a range of businesses. The largest transaction comprised a $200m loan guarantee under a small–business facility that will support Pemex's purchases of goods and services from US businesses of 500 employees or fewer. The guaranteed lender is JP Morgan Chase's New York branch.

Ex–Im Bank also guaranteed a $100m loan from JP Morgan Chase to support Pemex imports from the US to be used in the Burgos Basin gas development programme in northeastern Mexico.

The third facility for Pemex was a $150m direct loan to support purchases by Pemex of various US goods and services to be used in its Strategic Gas Programme, which comprises 22 separate programme areas across the Mexican states of Veracruz, Tabasco, Tamaulipas, Chiapas and Campeche, as well as offshore activities in the Gulf of Mexico. Ex–Im Bank said the three transactions consist mainly of engineering services, oil field equipment, offshore platforms, drilling and well services, and upgrade and rehabilitation services.

Over the past 11 years, Ex–Im Bank has approved an aggregate $8.8bn in financing to support US exports for

Pemex's activities. Very recently it approved $900m in long-term direct loans to Pemex *(ITF 553/19)*. NEXI is also a player here, having backed a 12-year, $600m project finance loan to Pemex in November 2008 *(ITF 544/19)*.

Pemex has struggled in 2009. It posted a loss of MXN27bn ($2.04bn) for the first quarter, as both lower oil prices and production hit the company hard, officials revealed during a conference call on 4 May.

Coface flags pockets of emerging market resilience

Although the financial strength of companies continues to decline in most countries, leading credit insurer Coface has maintained its country rating levels for a handful of emerging markets that have resisted the global crisis relatively well.

Coface said on 27 April that the credit crisis "is worsening in all areas" having entered its second phase in the final quarter of 2008. According to chairman Francois David, "the world economy should cease to contract" in the second half of 2009, paving the way for a sluggish recovery in early 2010.

On 9 April, the Paris-based company issued a series of downgrades and negative watches on 47 different countries, after observing declines in its base for the ratings — the average level of risk presented by local companies in their commercial transactions *(ITF 552/7)*. Most countries had their ratings reduced by one notch, or by two in the case of the worst-affected countries, namely Spain, the UK and Ireland, where corporate payments have been seriously affected by the crisis, and confidence in trading has deteriorated as company liquidations have spiked northwards.

However Coface kept unchanged ratings for three of the so-called BRIC countries — India, Brazil and China — as well as the Middle East and North Africa. Indeed India's A3 rating remains unchanged since December 2004, and "Indian companies are facing the most moderate slowdown of the BRIC countries", Coface stressed in a statement which forecast Indian GDP growth of 5 per cent in 2009, down from 9 per cent in 2007. The country "continues to be driven by its internal demand and has been little affected by the crisis due to international trade," Coface said.

Meanwhile Brazil, rated at A4 since December 2006, "has a diversified economy and corporate debt in foreign currencies has not been as detrimental as in Central Europe", Coface noted. The company is maintaining the negative watch placed on China (rated A3) in January, citing the vulnerability of local firms to the growth shock in a context of overcapacity and very stiff competition, which has resulted in reduced margins. "However, the adoption of measures to stimulate the economy and the first quarter's positive signals (an increase in credit and a rise in manufacturing output) mean that Coface is not downgrading this country," it said.

Russia is the worst-affected of the 4 BRIC markets. Coface is forecasting that the country will have to deal with a growth shock of 11 points, the highest of any major economy, comprising a GDP growth fall from 8.1 per cent in 2007 to –3 per cent in 2009. Russian companies have "very substantial foreign currency debts and are therefore badly affected by the credit crunch", said Coface, emphasising that it was "still recording payment defaults at the beginning of 2009" and so decided to downgrade Russia from a B to a C rating.

MENA strength

North Africa, by contrast, "seems to be weathering the crisis", Coface underlined. It highlighted that Tunisia and Morocco have diversified economies and banking systems with little exposure to toxic assets, and that, so far, no deterioration in companies' payment behaviour has been observed across the region. Coface pointed out that the oil-producing countries of North Africa and the Middle East entered the crisis from a position of enhanced financial strength, following the he oil boom of 2003-2008, "from which the whole region has benefited".

Correction on Coface capacity figures

Coface has contacted *ITF* to correct political risk insurance and trade credit per risk capacity ceilings reported in February *(ITF 548/6)*. Coface stressed that it offers a maximum €50m per risk across all of its lines of business, a ceiling that remains unchanged from 2008. For project risks — known generically as confiscation, expropriation and nationalisation (CEN) cover, it offers a maximum 10-year risk tenor, not five years as reported. And it offers a maximum seven years for contract frustration and trade credit, not five as reported.

Insurance

ECGD launches consultation process for l/c confirmation role

The UK's Export Credits Guarantee Department (ECGD) has launched a public consultation on a proposal to offer a scheme to confirm letters of credit (l/cs) for British exports. The consultation was announced by the UK Chancellor Lord Mandelson on 20 April, and was officially launched on 7 May. The consultation closes after eight weeks on 3 July.

The move follows the fall in l/c confirmation capacity among most UK-based trade banks in reaction to the credit crisis.

Private capital eschewing emerging markets, says JPMorgan

Private capital flows to emerging markets have continued to decline, according to a 5 May research note from JP Morgan. This said that net private flows to emerging markets peaked at 5 per cent of aggregate GDP in 2007, and that outflows by banks could now be as high as 5 per cent of GDP in many Central and Eastern European countries, similar to the 1980s Latin American debt crisis and the Asia/Russian financial crisis of 1997-1998. The note said that "cross-border lending continues to fall at an even faster rate than overall credit", highlighting an IMF estimation that a retreat of total cross-border lending to the levels of 2004 would imply a contraction of a further 10 per cent — or $3trn — "which would hit emerging markets countries disproportionately".

JP Morgan stressed that Asia will be the first region to emerge from the global downturn, but observed that downward revisions are ongoing in the Central and Eastern Europe, Middle East and Africa regions. "There are also risks to the downside in countries like Mexico that are being hit by the spread of swine flu," the note said.

The ECGD's Minister Ian Pearson said: "I want to ensure that the support offered by ECGD plays a significant role supporting UK exporters when demand picks up. Under the current difficult circumstances it's right that the government should do all it can to help British exports and the jobs they support. And exporters and banks have told ECGD that this scheme will be of real help."

"As ECGD has not undertaken this sort of business for some time, it is appropriate to seek interested parties' views, and I hope they take advantage of this opportunity to make suggestions for any other new schemes ECGD could introduce to help Britain's economy."

The Aon Risk Services brokerage recently called for the credit insurance scheme announced in the March 2009 budget to be extended to provide export support, at a time when British exporters are faced with underwriting capacity shortfalls for particular countries and sectors as a result of the global downturn *(ITF 553/8)*.

Aon noted at the time that a potentially key reinsurance role could be assigned to ECGD, facilitating additional short-term export credit insurance capacity, as opposed to l/c confirmations.

The ECGD consultation document and supporting material has been made available at *http://www.ecgd.gov.uk/index/public-information/public-consultation.htm*. As well as receiving written submissions, ECGD will arrange meetings with interested parties if requested.

Multilaterals

IFC and G-NEXID join hands to support trade

The International Finance Corporation (IFC) and the Global Network of Exim Banks and Development Finance Institutions (G-NEXID) have agreed to work together to reduce the impact of the global financial crisis on importers and exporters in developing countries.

The partners said on 6 May that the tie-up will seek in two ways to boost international trade in capital goods and services, which has been significantly impaired by the current crisis. Firstly, they will work to develop effective and sustainable financing solutions to assist importers and exporters in developing countries and enhance the capacity of the 24 G-NEXID members to provide services and financing. No details were available of how this will work in practice.

G-NEXID and IFC have also agreed to share information on trade-finance issues, particularly on trade between emerging-market countries. "There is a need for immediate action from the international community to address the severe constraints imposed on international trade by the global financial crisis," said T C Venkat Subramanian, the honorary president of G-NEXID.

IFC has already unveiled its Global Trade Liquidity Programme to address the shortage of trade finance resulting from the global financial crisis *(ITF 552/1)*. It has also tripled the value of its Global Trade Finance Programme from $1bn to $3bn in response to the financial crisis *(ITF 546/6)*.

The 24-strong G-NEXID network was initiated by UNCTAD in June 2004 to support trade between developing countries and investment co-operation, by encouraging bilateral and multilateral agreements among institutions based in developing countries.

Its members are the African Export Import Bank; Andean Development Corporation; Banco Centroamericano De Integracion Economica; Bank Ekspor Indonesia; Banque Nationale d'Investissement; Banque Pour Le Financement De Petites Et Moyennes Entreprises; Central African States Development Bank; Caribbean Development Bank; China Development Bank; Development Bank of Mali; Development Bank Of Namibia; Development Bank of Southern Africa; Development Bank of Zambia; East African Development Bank; Economic Community of Western African States; Exim Banka SR; Export-Import Bank of India; Export Import Bank of Romania; Export Import Bank of Thailand; Industrial Development Bank of Kenya; Industrial Development Corporation South Africa; State Export-Import Bank of Ukraine; Nigerian Export-Import Bank; and PTA Bank.

Forfaiting newsbrief and country list — 2nd Quarter 2009

EUROPE

Country	Years Max
Austria	3
Belarus	1
Belgium	3
Bosnia—Herzegovina	3
Bulgaria	3
Croatia	3
Cyprus	3
Czech Republic	3
Denmark	3
Estonia (deteriorated)	2
Finland	3
France	3
Georgia	*
Germany	3
Gibraltar	3
Greece	3
Hungary	3
Iceland	3
Ireland	3
Italy	3
Latvia (deteriorated)	2
Liechtenstein	3
Lithuania (deteriorated)	2
Luxembourg	3
Macedonia (deteriorated)	2
Malta	3
Netherlands	3
Norway	3
Poland	3
Portugal	3
Romania (deteriorated)	2
Russia	3
Serbia (deteriorated)	2
Slovakia (deteriorated)	2
Slovenia (deteriorated)	2
Spain	3
Sweden	3
Switzerland	3
Turkey	3
Ukraine	*
UK	3

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ASIA PACIFIC

Country	Years Max
Australia	3
Bangladesh	*
Brunei	3
China	3
Hong Kong	3
India	3
Indonesia	1
Japan	3
Kazakhstan	*
Macau	3
Malaysia	3
New Zealand	3
Pakistan	*
Philippines	1
Singapore	3
South Korea	3
Sri Lanka	1
Taiwan	3
Thailand	3
Uzbekistan	*
Vietnam	3

AMERICAS

Country	Years Max
Argentina	*
Bahamas	3
Barbados	3
Bermuda	3
Bolivia	*
Brazil	3
Canada	3
Cayman Islands	3
Chile	3
Colombia	3
Costa Rica	1
Cuba	*
Dominican Republic	1
Ecuador	*
El Salvador	1
Guatemala	*
Honduras	*
Mexico	3
Nicaragua	*
Panama	1
Peru	3
Puerto Rico	1
Trinidad & Tobago	1
Uruguay	*
USA	3
Venezuela	*

MIDDLE EAST

Country	Years Max
Bahrain	3
Israel	3
Jordan	3
Kuwait	3
Lebanon	*
Oman	3
Qatar	3
Saudi Arabia	3
Syria	*
UAE	3
Yemen	*

AFRICA

Country	Years Max
Algeria	1
Angola	1
Benin	*
Botswana	1
Burkina Faso	*
Cameroon	*
Egypt	3
Ethiopia	*
Gabon	*
Ghana	1
Kenya	1
Ivory Coast	*
Libya	1
Mali	1
Mauritania	*
Mauritius	3
Morocco	3
Namibia	*
Nigeria	2
Senegal	*
South Africa	3
Sudan	*
Togo	*
Tunisia	3
Uganda	*
Zambia	*

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Detailed above, is an updated list of countries and credit periods which can currently be considered. For your ease of reference, recent changes are indicated in brackets either (deteriorated) or (improved).

In addition to being able to discount bills of exchange, promissory notes and deferred payment letters in these markets, London Forfaiting can also consider adding their silent confirmation to unconfirmed letters of credit dependent on specific transaction details. For many exporters, premium increases, market rate additions, non availability and additional restrictions continue to make silent confirmations of unconfirmed letters of credit a cost effective alternative to credit insurance.

Please contact London Forfaiting at the office below to discuss indicative terms for any of your current and future business. Alternatively, you can always visit their website at *www.forfaiting.com*, to check the latest Country List on line or obtain general information on forfeiting and the other services they provide.

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Emerging markets risk indicators

Africa — Slowing growth trends

Having averaged 5.7 per cent over the last decade, Africa's GDP growth will slow to 2.4 per cent in 2009, down from 4.9 per cent in 2008, according to the World Bank. This is lower than a forecast for 3.3 per cent regional GDP growth this year from the IMF, which recently advised African countries to maintain spending from their reserves through the current crisis period, to avoid a debt trap. Nigeria has already fallen back on its reserves as the country's oil revenues have tumbled over the past eight or so months. Local banks are currently unable to provide any meaningful liquidity for the raft of Nigerian project finance schemes bubbling under. The World Bank has predicted a difficult year for Angola in 2009, urging Luanda to bolster efforts to diversify its economy away from oil. Other major African oil producers — including Egypt — have been hit hard by the oil price decline since mid-2008.

As private banks have stepped back from Africa, the role of official finance will intensify, according to the European Investment Bank, which has expanded its financing availability for Africa as a counter-cyclical measure to fight recession.

Commodity price falls have meant that countries in central and southern Africa have seen cutbacks in investment plans by mining companies, some of the latest coming in Botswana, where diamonds provide 40 per cent of GDP. Several mines have closed, leading Euler Hermes to predict a GDP contraction of around 2-3 per cent in 2009.

One bright economic spot is Ghana, where the economy grew by 7.3 percent in 2008, and first oil production is due in the next year. However the continent's largest economy, South Africa, is slipping into a recession. January's trade deficit widened to R17.379bn ($1.73bn), the highest on record. South Africa has a large current account deficit in need of financing, so remains prone to a sudden stop to capital inflows and a currency sell-off. However the political situation looks more stable, after the ruling African National Congress party won a clear majority in the 22 April election.

Politics has also come under the spotlight in Kenya, where the coalition government has become increasingly fragile after the Minister of Justice, who was an ally of president Kibaki, resigned in April. Moreover, according to the Central Bank, foreign exchange reserves have declined to $2.6bn, barely covering three months of imports, and the authorities are considering a new IMF programme.

Meanwhile early April presidential elections in Algeria saw the incumbent Abdelaziz Bouteflika securing a third term mandate with 90.24 per cent of the vote. In the short-term, policy continuity and healthy state finances after windfall oil receipts in 2008 should maintain Algeria's strong liquidity. In neighbouring Morocco, a record grain harvest and a narrowing trade deficit are being offset by a fall in exports because of weak EU markets. Euler Hermes is expecting GDP growth in 2009 to be around 3 per cent, following an average of 5 per cent in 2004-08.

Country	Preferred payment terms	Coface grading	Moody's sovereign rating	Fitch sovereign rating	Ducroire Delcredere short-term political risk rating	ONDD medium- to long-term political risk rating
Algeria	ILC	A4	—	—	2	3
Angola	CLC	C	—	—	3	6
Benin	CLC	B	—	B	4	6
Botswana	OA	A3	A2	—	1	2
Burkina Faso	ILC	C	—	—	4	7
Burundi	CLC	D	—	—	6	7
Cameroon	ILC	C	—	B	3	6
Chad	CLC	D	—	—	4	7
Comoros	CLC	D	—	—	4	7
Congo	CLC	C	—	—	4	7
Cote d'Ivoire	CLC	D	—	—	5	7
Djibouti	CLC	C	—	—	7	7
DR Congo	CLC	D	—	—	6	7
Egypt	ILC	B	Ba1	BB+	2	4
Equatorial Guinea	CLC	D	—	—	3	7
Eritrea	CLC	D	—	—	7	7
Ethiopia	CLC	C	—	—	6	7
Gabon	ILC	B	—	BB–	3	6
Gambia	ILC	D	—	—	5	7
Ghana	ILC	C	—	B+	4	6
Guinea	CLC	D	—	—	7	7
Guinea-Bissau	—	D	—	—	4	7
Kenya	ILC	C	—	B+	4	6
Liberia	CLC	D	—	—	7	7

Emerging markets risk indicators

Africa (continued)

Country	Preferred payment terms	Coface grading	Moody's sovereign rating	Fitch sovereign rating	Ducroire Delcredere short-term political risk rating	ONDD medium- to long-term political risk rating
Libya	ILC	C	—	—	2	6
Madagascar	CLC	C	—	—	5	6
Malawi	CLC	D	—	B–	6	7
Mali	ILC	C	—	B–	4	6
Mauritania	ILC	C	—	—	5	7
Mauritius	OA	A3	Baa2	—	3	3
Morocco	OA	A4	Ba1	BBB–	1	3
Mozambique	ILC	B	—	B	4	6
Namibia	OA	A3	—	BBB–	2	3
Niger	CIA	C	—	—	4	7
Nigeria	ILC	D	—	BB–	3	6
Rwanda	CIA	D	—	B–	6	7
Senegal	ILC	B	—	—	4	6
Seychelles	ILC	C	—	—	7	7
Sierra Leone	CLC	D	—	—	5	7
South Africa	OA	A3	Baa1	BBB+	3	3
Sudan	CIA	D	—	—	6	7
Swaziland	ILC	A4	—	—	3	6
Tanzania	ILC	B	—	—	4	6
Togo	ILC	C	—	—	4	7
Tunisia	OA	A4	Baa2	BBB	2	3
Uganda	ILC	C	—	B	3	6
Zambia	ILC	D	—	—	4	6
Zimbabwe	CIA	D	—	—	7	7

Americas — Mexico hogs limelight

By early May, Mexico had 1,204 confirmed cases of swine flu, and 44 confirmed deaths from the illness. The economic impact has included sharp falls in tourism arrivals plus trade and transportation activities, and has put renewed pressure on the peso. JP Morgan has adjusted its growth forecast for 2009 to -5 per cent from -4 per cent, and expects the current account deficit to widen, from 1.4 per cent in 2008, to 2.5 per cent of GDP in 2009.

However Mexico's external vulnerability has been reduced by the IMF granting its first ever Flexible Credit Line worth SDR32bn ($47bn), and through a $30bn swap line with the US Federal Reserve on 21 April to help Mexican companies meet their dollarised financing needs. Mexico now has substantial funds to supplement foreign reserves equivalent to 4.9 months of import, reassuring international markets.

For the time being, the ratings outlook remains stable for most of Latin America, as underlined by not one country from the region appearing in Coface's recent downgrading of 28 global economies. But more countries are likely to approach official creditors, as shown by Colombia's decision on 24 April to seek a $10.4bn credit line from the IMF. This will bolster FX reserves amid a slump in export revenue.

Brazil's capital account experienced significant outflows at end-2008 and in the first quarter of 2009, and losses have occurred in pre-export deals involving the country's beef, soya and grain sectors. But overall credit conditions have started to improve recently with the support of state-owned banks, and a recovery in industrial production and trade surplus figures.

Yet the scope for pump priming is by and large constrained across the region. Chile and Peru — both countries with a very low level of net debt - have announced fiscal packages of 2.2 and 2.5 per cent of GDP respectively. Peru has already pre-financed its 2009 and 2010 needs through external and domestic issuance earlier this year, but a potential IMF line forms part of Peru's financial umbrella.

Devaluation pressures persist in Argentina and Venezuela, due to falling commodity incomes. The latter — plus Bolivia and Ecuador — are pursuing resource nationalism policies that have triggered claims made to political risk insurers. Ecuador's foreign currency and fiscal revenue have declined sharply following the drop in oil prices, and the country is no longer able to attract private investors following its default on "illegitimate debt" worth $3.2bn and a 70 per cent discount rate proposed for restructuring.

Many Central American and Caribbean nations have been affected

Emerging markets risk indicators

Americas (continued)

by the drop in tourism, in remittances and in lower demand in the US market. Jamaica has been hit by all three factors, plus a fall in bauxite exports. El Salvador and Cost Rica have secured IMF stand-by facilities worth $800m and $735m. Cuba has also indicated it needs to reschedule its external debt payments. Insurers have noted a loss on a political risk policy covering Dominican Republic business.

Country	Preferred payment terms	Coface grading	Moody's sovereign rating	Fitch sovereign rating	Ducroire Delcredere short-term political risk rating	ONDD medium- to long-term political risk rating
Anguilla	SD	—	—	—	5	5
Antigua	ILC	—	—	—	5	6
Argentina	CLC	C	B3	RD	4	7
Aruba	SD	—	—	BBB	1	3
Bahamas	OA	—	A3	—	4	3
Barbados	OA	—	Baa2	—	3	4
Belize	SD	—	B3	—	5	6
Bermuda	30/SD	—	Aa2	AA+	2	3
Bolivia	CLC	D	B3	B–	3	7
Brazil	OA	A4	Ba1	BBB–	2	3
Cayman Islands	SD	—	Aa3	—	2	3
Chile	OA	A2	A1	A	2	2
Colombia	OA	A4	Ba1	BB+	2	4
Costa Rica	ILC	A4	Ba1	BB	3	3
Cuba	CLC	D	Caa1	—	6	7
Dominica	ILC	—	—	—	5	5
Dominican Republic	CLC	B	B2	B	5	5
Ecuador	CLC	C	Ca	RD	4	7
El Salvador	OA	B	Baa3	BB+	2	4
Grenada	ILC	—	—	—	5	5
Guatemala	ILC	B	Ba2	BB+	2	5
Guyana	CLC	D	—	—	5	7
Haiti	CLC	D	—	—	6	7
Honduras	ILC	C	B2	—	4	6
Jamaica	ILC	C	B2	B	4	6
Mexico	OA	A4	Baa1	BBB+	1	2
Montserrat	ILC	—	—	—	5	7
Netherlands Antilles	OA	—	—	—	3	5
Nicaragua	ILC	D	Caa1	—	5	7
Panama	OA	A4	Ba1	BB+	3	3
Paraguay	ILC	C	B3	—	3	5
Peru	OA	B	Ba1	BBB–	1	3
St Kitts	SD	—	—	—	5	6
St Lucia	SD	—	—	—	5	4
St Vincent	ILC	—	B1	—	5	5
Suriname	ILC	—	B1	B	4	7
Trinidad & Tobago	OA	A3	Baa1	—	1	2
Turks & Caicos Islands	SD	—	—	—	2	3
Uruguay	ILC	B	Ba3	BB–	3	4
Venezuela	CLC	C	B2	B+	4	6

Emerging markets risk indicators

Asia — Green shoots appearing

JP Morgan has predicted that Emerging Asia will eke out a small positive GDP growth of 1.1 per cent in the first quarter, making it the first region in the world to return to expansion. China is undoubtedly the key driver, turning in a 5.8 per cent expansion in the first quarter. Despite the contraction in key export markets of Europe, the US and Japan, pump-priming measures involving a whopping 13.3 per cent of GDP will enable China to secure a growth rate of 6.5 per cent this year, the World Bank said. South Korea also turned in a small but positive growth figure in the first quarter. JP Morgan anticipated that the region will pick up notably in the second quarter, lifted by inventory restocking, hefty fiscal stimulus packages, and the revival of trade financing, but will slow again unless private sector demand, particularly in the G3 economies, recovers sufficiently.

Another export-dependent economy, Singapore, contracted by 11.5 per cent in the first quarter. In Thailand, where real GDP contracted by a record 6.1 per cent between the third and fourth quarter, a recession is on the way for the first time since the 1997/98 Asian crisis — and political protests recently caused the government to cancel the ASEAN summit. In Indonesia, capital flight and central bank intervention have reduced FX reserves and cut the exchange rate significantly. The country's private sector external debt-service burden is "very high" in 2009, said Euler Hermes, which predicts that a number of firms will have problems refinancing their debt. In South Asia, Bangladesh's government has announced a $500m stimulus package to offset the global financial recession on the country's economy. Pakistan avoided imminent default with an IMF-led support package in late 2008, backed up recently by a donors' conference that pledged $5.28bn of support over a two-year period. The unstable political and macro situation has led JP Morgan to forecast a fall in real GDP growth from 5.8 per cent in 2007-08 to 3.2 per cent 2008-09. Belgium's ONDD has tightened its cover terms for medium to long term operations on Pakistan, limiting availability to highly profitable and strategically important projects. In neighbouring India, Euler Hermes has predicted that GDP growth will fall 4.5 per cent this calendar year as business confidence, credit creation and investment suffer, and fractious coalition governments remain in place.

Country	Preferred payment terms	Coface grading	Moody's sovereign rating	Fitch sovereign rating	Ducroire Delcredere short-term political risk rating	ONDD medium- to long-term political risk rating
Afghanistan	CIA	D	—	—	6	7
Bangladesh	CLC	C	—	—	3	6
Brunei	ILC	—	—	—	1	2
Cambodia	CLC	D	B2	—	6	6
China	ILC	A3	A1	A+	1	2
Fiji	ILC	—	B1	—	5	4
Hong Kong	OA	A2	Aa2	AA	1	1
India	OA	A3	Baa3	BBB–	1	3
Indonesia	ILC	B	Ba3	BB	2	5
Korea (North)	CLC	D	—	—	7	7
Korea (South)	OA	A2	A2	A+	1	1
Laos	ILC	D	—	—	5	7
Macau	ILC	—	Aa3	—	1	2
Malaysia	OA	A2	A3	A–	1	2
Mongolia	CLC	D	B1	B	2	6
Myanmar (Burma)	CIA	D	—	—	6	7
Nauru	ILC	—	—	—	2	5
Nepal	ILC	D	—	—	3	7
New Caledonia	ILC	—	—	—	2	4
Pakistan	CLC	D	B3	—	6	7
Palau	ILC	—	—	—	4	4
Papua New Guinea	ILC	B	B1	B+	2	5
Philippines	OA	B	B1	BB	1	4
Singapore	OA	A2	Aaa	AAA	1	1
Sri Lanka	CLC	C	—	B+	5	6
Thailand	OA	A3	Baa1	BBB	1	3
Vanuatu	ILC	—	—	—	3	4
Vietnam	ILC	B	Ba3	BB–	2	5

Emerging markets risk indicators

Eastern Europe and the CIS — Baltics still to hit bottom

The contractions underway in the weakest Eastern European economies have drawn parallels with Asia's 1997-98 financial crisis. Already the IMF has provided rescue packages to Latvia, Hungary, Serbia and Ukraine to try to head off outright crisis. Ukraine has been seen as the most critical situation. The IMF is forecasting an 8 per cent GDP contraction in 2009, and has said Ukraine's private sector has $16.4bn in external debt amortisations and $11bn in separate trade credits falling due during the rest of 2009.

But the Baltics are increasingly grabbing the spotlight. Estonia, Latvia and Lithuania hold the dubious honour of being the countries suffering the deepest contraction worldwide. The IMF forecasts the GDP of Estonia and Lithuania to contract by 10 per cent this year, and Lithuania is likely to follow Latvia to the IMF. Latvia's GDP is expected by the Fund to shrink by 12 per cent. According to Belgium's ONDD agency, "the Baltic crisis has probably not yet bottomed out". ONDD commented: "In case future installments of international support are delayed, Latvia even faces bankruptcy. Politically, though, it would be too painful for the EU to let this happen to one of its member states."

Romania has secured a total loan package of $27bn from multilaterals, including $17.5bn in IMF money. Serbia has tapped a $540m precautionary arrangement with the IMF, but has been forced to renegotiate for higher access support from the Fund and other multilaterals worth over $3.6bn.

JP Morgan recently underlined worries about the longer-term growth outlook in Central Europe, where it expects 6 per cent GDP contraction in Hungary, 3 per cent in the Czech Republic, and 1 per cent in Poland this year. Its banking team expects non-performing loans to rise to between 10-20 per cent in same three markets. Poland is now seeking a $20.5bn one-year Flexible Credit Line from the IMF, but is helped by a limited export dependency and a fairly strong domestic demand.

Further East, Russia's country risk has risen "significantly", said Euler Hermes, as a result of rapidly falling oil revenues, a sharp rouble depreciation, a 35 per cent fall in FX reserves since August 2008, bank failures, and looming recession in 2009. The credit insurer stressed that current FX reserve levels "still provide a substantial cushion", but added that "difficulties in refinancing large amounts of maturing external debt leave the corporate sector highly vulnerable in the current crisis."

Country	Preferred payment terms	Coface grading	Moody's sovereign rating	Fitch sovereign rating	Ducroire Delcredere short-term political risk rating	ONDD medium- to long-term political risk rating
Albania	CLC	D	B1	—	3	6
Armenia	CLC	C	Ba2	BB	4	6
Azerbaijan	ILC	C	Ba1	BB+	2	5
Belarus	CLC	D	B1	—	5	7
Bosnia and Herzegovina	CIA	D	B2	—	4	7
Bulgaria	CLC	B	Baa3	BBB–	1	4
Croatia	ILC	A4	Baa3	BBB–	3	5
Estonia	ILC	A4	A1	BBB+	1	3
Georgia	CLC	C	—	B+	5	6
Hungary	ILC	A4	Baa1	BBB	1	4
Kazakhstan	ILC	B	Baa2	BBB–	3	4
Kosovo	CIA	—	—	—	5	NA
Kyrgyzstan	ILC	D	—	—	3	7
Latvia	CLC	B	Baa3	BB+	1	4
Lithuania	ILC	A4	A3	BBB	1	3
Macedonia	CLC	C	—	BB+	3	5
Moldova	ILC	D	Caa1	B–	4	7
Montenegro	CIA/CLC	C	Ba3	—	5	6
Romania	ILC	B	Baa3	BB+	1	4
Russia	CLC	C	Baa1	BBB	2	3
Serbia	CLC	C	—	BB–	3	7
Tajikistan	ILC	D	—	—	6	7
Turkmenistan	CLC	D	B2	—	3	6
Ukraine	CLC	D	B1	B	5	7
Uzbekistan	CLC	D	—	—	3	6

Emerging markets risk indicators

Middle East — Bond issues improve backdrop

The Middle East has felt the global recession in a number of areas, not least the credit profile of Gulf banks, which will deteriorate this year amid tighter liquidity and slumping stock markets, Standard & Poor's predicted recently. But successful new sovereign bond issuance from Qatar and Abu Dhabi has improved the sentiment toward the region. Furthermore the stabilisation of oil prices at around $50/barrel, and some recovery signs in the formerly thriving project finance market have also helped. A recent forecast from the IMF said the Middle East will show the impact of falling crude oil prices and semi-frozen credit markets via a GDP growth decline from 6 per cent in 2008 to 2.5 per cent in 2009, before rebounding to 3.5 per cent in 2010.

Among oil-producing countries, the sharpest slowdown is expected in the UAE, where capital flight has contributed to a large contraction in liquidity, falls in property and equity prices, and banking system fragility. Worries over Dubai's debt profile have been mollified by a $10bn bond issued by Dubai to the UAE Central Bank. At the other end of the spectrum, Qatar is projected to grow by 18 per cent in 2009, in alignment with gas exports expected to double this year.

In many countries — especially Kuwait, Oman, Qatar and Saudi Arabia — high government expenditures are filling the void left by the retrenchment of private sector activity. Bahrain has announced budget deficits announced for 2009 and 2010, due to lower international oil prices and higher public spending, and is to raise over $1bn in bonds.

Iran, Iraq and Israel continue to provide potential regional political flashpoints, with the former now having nearly exhausted its external financing options as nuclear-related sanctions have clamped down harder. Elsewhere, Turkey's large external financing needs and heavy reliance on short-term capital inflows continue to leave the economy highly vulnerable, with a real GDP contraction of 6.2 per cent in Q4 indicating a strong recession in 2009.

Country	Preferred payment terms	Coface grading	Moody's sovereign rating	Fitch sovereign rating	Ducroire Delcredere short-term political risk rating	ONDD medium- to long-term political risk rating
Bahrain	OA	A3	A2	A	1	2
Iran	CIA	D	—	—	5	6
Iraq	CIA	D	—	—	6	7
Israel	OA	A4	A1	A	3	3
Jordan	OA	B	Ba2	—	2	5
Kuwait	OA	A2	Aa2	AA	2	2
Oman	OA	A3	A2	—	1	2
Palestine	CLC	—	—	—	7	7
Qatar	OA	A2	Aa2	—	1	2
Saudi Arabia	OA	A4	A1	AA–	1	2
Syria	ILC	C	—	—	4	6
Turkey	ILC	B	Ba3	BB–	3	4
United Arab Emirates	OA	—	Aa2	—	2	2
Yemen	ILC	C	—	—	3	6

Glossary

CAD = Cash against documents
CIA = Cash in advance
CLC = Confirmed letter of credit
ILC = Irrevocable letter of credit
NA = Not available
OA = Open account
SD = Sight draft; 30/SD to 180/SD — days sight draft

Sources

Coface, EDC, Fitch, Moody's, Ducroire Delcredere, ONDD.

Development finance update

INSTITUTIONS

ASIAN DEVELOPMENT BANK (ADB): The Bank has tripled capital to boost poverty reduction efforts.

The ADB's board of governors has agreed to triple the Bank's capital base to $165bn from $55bn, giving it much-needed resources to respond to the global economic crisis and to the longer term development needs of the Asia and the Pacific region. The 200 per cent increase will allow the ADB to substantially increase its support to countries affected by the global downturn.

COUNTRIES

BANGLADESH: The ADB is assisting in improving irrigation systems

The $750,000 grant from the Asian Development Bank (ADB) will be used to help implement a planned multi-million loan project in 2010, to upgrade irrigation services and improve the country's water sector as a whole. The ADB grant will be used to assess existing irrigation systems' operations, as well as their financing and implementation procedures. Following the assessment, proposals will be made on new service agreements and alternative management models, including private-public partnerships and independent service providers that could manage and operate the systems.

BRAZIL: The Brazilian Development Bank (BNDES) is financing the modernisation of the pharmaceutical industry.

The Bank has approved R$3m ($1.5m) in financing to JP Industria Farmaceutica SA, with headquarters in Ribeirao Preto, Sao Paulo. The funds will be used to modernise the company's plant, in order to comply with the laws established by ANVISA concerning the production of large volume parenteral solutions (LVPS), widely known as serum. The company has been producing and selling this staple product, for the health industry, for over 40 years.

KAZAKHSTAN: The EBRD has approved an $8m loan to provide clean water in Shymkent.

The European Bank for Reconstruction and Development (EBRD) loan, to the private water utility TOO Vodnye Resursy Marketing will be used to improve the water and wastewater. The loan will finance a comprehensive investment programme which has been devised following a feasibility study by international experts which was funded from the EBRD Shareholder Special Fund. The investment programme is focused on improving the efficiency and quality of the service. It includes, among others, the rehabilitation of the water network, the replacement of parts of the sewage system and the installation of frequency controllers.

MOZAMBIQUE: The EIB and EU-Africa Infrastructure trust are working together to help rebuild Beira transport corridor.

The European Investment Bank (EIB) is lending €65m ($88.3m) for the rehabilitation of the Beira corridor. The EIB loan will be complemented by a €29m interest rate subsidy from the EU-Africa Infrastructure Trust Fund. The funding package will support improvements to the Sena railway line and the restoration of the Beira port access channel.

PARAGUAY: The World Bank has approved a new strategic partnership with the country.

The World Bank's new strategic partnership with Paraguay pledges $500m in assistance for 2009-2013. These funds will be used to reduce poverty, foster economic growth and improve governance. The Bank also approved a $100m public sector policy development loan to minimise the impact of the global economic crisis while improving fiscal performance. Overall poverty rates are high compared to other Latin American countries. The country has the fourth highest income inequality rate, while land concentration tops the list worldwide.

REGIONAL: The ADF has approved a $75m loan for an electricity transmission project.

The approved loan of 50m units of account, equivalent to $75m, from the African Development Fund (ADF), will be used to finance the Mombasa-Nairobi electricity transmission line project in Kenya. The project is designed to facilitate the evacuation of power generated in the Mombasa area to Nairobi and into the national grid. The availability of power from Mombasa will help the country meet current shortfalls and future demand growth for electricity nationally.

ROMANIA: The EBRD has invested €200m ($272m) in the country's first private power generation project.

The EBRD loan — to Romania's Petrom will be used finance the construction of a state-of-the-art gas-fired power plant, which will improve environmental standards and increase competition in the Romanian energy sector. A 860MW combined cycle gas turbine at Brazi, north of Bucharest, using latest technology which will provide effective, reliable and economical energy with a low environmental impact. The loan will also contribute to financing to build a new 30km gas pipeline to feed the power plant with natural gas and one new 3km transmission line to connect the new unit to the national grid. Once operational, the plant will account for 8-9 per cent of the installed power in Romania.

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ANGOLA: Spain has extended a $200m infrastructure loan.

Angola did not say how the funds would be used or what Spain would receive in return. The announcement followed a recent trip from Angolan President Jose Eduardo dos Santos to Germany, Spain and Portugal in a bid to increase political and business ties with Europe. Angola has already received over $5bn in oil-backed loans from China to rebuild roads, bridges and communications systems.

AUSTRALIA: Export Finance and Insurance Corporation (EFIC) helped Tescorp Hydraulics finance its largest ever export contract.

Cairns-based Tescorp secured an A$1.5m ($1.15m) contract to supply a purpose built system for the laying and feeding of cable through underground systems to a UK-based customer responsible for the delivery of the Woodhead Tunnel Project in northern England. EFIC said it is providing an EFIC Headway working capital guarantee to Tescorp's bank, the Commonwealth Bank. Tescorp's customer is part of the UK's National Grid's 'Electricity Alliance'. Tescorp's managing director Terry Steen said a financing package was put together "with only a few days' notice".

CANADA: National Bank of Canada adopted Export Development Canada's (EDC) enhanced Export Guarantee Program.

The bank was the first major Canadian financial institution to adopt the programme, which will enable it to advance more loans to Canadian small- and medium-sized enterprises (SMEs). Eric Siegel, President of EDC, said the programme can help its "SME clients expand exports and investments abroad". The programme provides greater coverage to Canadian banks on qualified loans to their exporting clients, guaranteeing up to 90 per cent of the loan value and up to 100 per cent on Canadian direct investment abroad. By having their risk reduced, Canada's financial institutions can take on more transactions for their customers. In 2008, 314 SMEs benefited from EDC's export guarantee products, up from 172 in 2007.

CHINA: JP Morgan Chase opened its fourth branch on the mainland.

JP Morgan established the branch in Guangzhou on 4 May, the *China Securities Journal* reported. It said the aim is to make the branch the hub of JP Morgan's business expansion in the Pearl River Delta region. The bank will also provide local and multinational corporations as well as financial institutions with a wide range of wholesale financial services including cash management, trade finance, liquidity and risk management, foreign exchange trading and investment banking services. "The launch of the Guangzhou branch will help JP Morgan maintain the rapid growth momentum since it was incorporated in China in 2007," said Du Qiming, chairman of JP Morgan in the Asia-Pacific region. The bank's other three mainland China branches are located in Beijing, Shanghai and Tianjin.

DEMOCRATIC REPUBLIC OF CONGO: Katanga Mining entered into a $50m bridge loan agreement and a rights offering plan.

The provider in both cases was natural resources company Glencore Finance (Bermuda). Katanga said the bridge loan will address its immediate solvency risk as the funds are urgently required to fund its ongoing operations. It said the rights offering will address its need for an additional $250m in capital. In addition to paying back the bridge loan, the funds received from the offering will provide funding for the second phase of its African Kamoto/Dima mining project, and allow for ramp-up of production at the project. Katanga has been experiencing financial difficulties since at least the third quarter of 2008. In January 2009, Glencore tapped an additional $100m in debt financing to Katanga through the amendment and restatement of its existing $150m exchangeable credit facility.

EGYPT: Export credit agency (ECA) support was sought for the Mostorod refinery.

MEED reported on 8 May that South Korea's GS Engineering & Construction Corporation and Japan's Mitsui & Company are seeking financing for the $2bn plus project from their national ECAs after each firm was offered a 30 per cent stake in the scheme. The contractors won the main engineering, procurement and construction contract for the refinery, which is being developed near Cairo, as a joint venture in 2007. But the client, Egyptian Refining Company (ERC), has repeatedly delayed the scheme because of difficulties in finalising what will be the largest ever project finance package in North Africa. *MEED* said GS Engineering is in talks with the Export-Import Bank of South Korea and Mitsui with Japan Bank for International Co- operation.

GERMANY: Deutsche Investitions-und Entwicklungsgesellschaft (DEG) committed around €1.22bn for projects in 2008.

DEG said this represented an increase of around 1.6 per cent. At year-end, DEG's portfolio at risk rose by 24 per cent to €4.4bn. Profit came to €19.1m after tax, well below the 2007 result of €117m. DEG attributed the fall

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to lower equity returns and higher provisions for risk in view of the economic deterioration. As in previous years, DEG will contribute the net retained profits to the retained earnings with a view to strengthening its equity. Despite a cautious start during the first quarter of 2009, when new commitments came to around €100m, DEG said it assumed that "in times of crisis, it will be particularly in demand as a development finance institution".

GEORGIA: The International Finance Corporation (IFC) helped Bank of Georgia engage in its first interest-rate swap transaction.

The IFC said the move could strengthen the Georgian financial system by reducing interest-rate risks during and after the global financial crisis. Both parties signed an International Swaps and Derivatives Association (ISDA) legal agreement that provides Bank of Georgia with an additional risk management tool, allowing it to hedge dollarised interest-rate risk on the bank's outstanding long-term borrowings.

GLOBAL: The World Trade Organisation (WTO) reappointed Pascal Lamy as its Director-General.

The decision followed Mr Lamy's presentation "on his vision for the WTO and a question-and-answer session held the day before", the WTO said on 29 April. Mr Lamy has been heading the multilateral agency since September 2005, helping in the efforts to conclude a global trade deal. The reappointment was take effect from 1 September. Before joining the WTO in Geneva, Mr Lamy was chief negotiator for Europe as European Trade Commissioner. A French national, he will remain engaged in trying to bring a consensus among 153 nations on concluding the much-delayed Doha Round of negotiations.

GLOBAL: The International Islamic Trade Finance Corporation (ITFC) aims to extend at least $2.5bn in trade financing this year.

During the first quarter, ITFC approvals totalled $900m, exceeding last year's $700m, the agency's chief executive officer Waleed Al-Wohaib said at a media briefing in Kuala Lumpur on 6 May. Dr Waleed said demand for funding from the trade arm of the Jeddah-based Islamic Development Bank was still strong despite the dull global outlook, as trade among OIC countries has expanded by more than 25 per cent. Last year, ITFC approved $2.5bn worth of financing. More than half of this was for Asian countries, while about 40 per cent went to the Middle East and North Africa area. Dr Waleed said ITFC has inked a memorandum of understanding with Export-Import Bank of Malaysia Bhd to extend trade financing to importers of Malaysian goods from among the 57 IDB member countries.

GUATEMALA: Banco G&T Continental joined the IFC's Global Trade Finance Programme (GTFP).

The International Finance Corporation said this marked the first Guatemalan bank entry into the GTFP. Banco G&T Continental is already supporting two import and pre-export financing transactions totaling $20m under the GTFP, involving trade in food products, including sugar and sesame, and machinery such as turbo generators and excavating machines. IFC said it "expects to strongly increase its role in the Guatemalan trade finance market with a focus on SMEs and the agribusiness and infrastructure sectors." It said over 40 per cent of its GTFP guarantees in the Latin America and Caribbean region have benefited local small- and medium-sized businesses and supported interregional trade flows between emerging market nations.

JORDAN: The International Finance Corporation invested $40m in the Electricity Distribution Company (EDCO).

The IFC said the proceeds will help upgrade EDCO's distribution network and implement a plan to improve the availability of electricity and quality of services for customers. EDCO was recently privatised "and needs to rapidly demonstrate the benefits of those reforms to the public," said the IFC. The IFC said it worked closely with EDCO to develop an environmental and social action plan for the project. EDCO serves the southern and western parts of Jordan. In 2008, it was acquired by the Kingdom Electricity Company, a consortium of investors from Jordan and the Arabian Gulf countries.

LUXEMBOURG: The European Commission authorised a measure to provide top-up credit insurance coverage for local companies.

The commission said the measure provides up to €25m in coverage for companies that cannot buy all the trade credit insurance they need through the open market. Under the plan that would be in effect until 31 December, 2010, the state-backed export credit agency, Ducroire Luxembourg, will provide higher limits than private credit insurers in cases where there is evidence that private credit insurers have reduced their limits. In a statement, the commission said Luxembourg authorities had provided sufficient proof that there was insufficient coverage available through the

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private market. "This measure enables the public authorities to take action in an area from which private market players have temporarily withdrawn, to help export firms to continue to create value," Neelie Kroes, the European Union competition commissioner, said.

SOUTH AFRICA: Barclays Capital arranged a Finnvera-backed R915m ($101m) export financing for Transnet.

Barclays said the transaction was Transnet's first rand-denominated financing facility to carry support from an export credit agency (ECA). The 10-year financing comprises four separate loans that will be sued for procuring equipment for three ports, in Durban, Cape Town and Ngqura. The supplier of all the equipment is Finland's Kalmar Industries. The investment is part of Transnet's five-year R80bn capital expenditure programme.

Transnet has also signed a ¥35bn ($353m) loan with the Japan Bank of International Co-operation to fund the widening and deepening of the entrance to the Durban harbour, and has secured R5.7bn in funding from Standard Bank.

ZIMBABWE: The government tapped $265m from the regional Eastern and Southern African Trade and Development (PTA) Bank.

Harare said the fresh credit will be used to fund mining and agriculture and provide liquidity to its banks. "There are two facilities — one for $185m — and already $82m has been drawn for the mining sector and for the agro industries," said Finance Minister Tendai Biti. He added: "There is also a second facility of $80m for banks, there has been a draw-down of $5m. So all in all there is a fresh line of credit of a total of $178m."

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