The International Construction Market 2025

Opportunities & Risks from an Export Credit Agency’s Perspective

Erwin Marchhart/OeKB

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OeKB: Who are we?

Austria’s official Export Credit Agency

- approx. 400 employees
- approx. 3,500 clients in export services
- EUR 24.5 bn of covered transactions worldwide as per 31.12.2017 in about 170 countries
- EUR 17.5 bn of financing volume as per 31.12.2017
OeKB: What do we do?

- export credits and investment insurance
- internationalisation support
- export financing

Basis: legal framework and guarantees from the Austrian Ministry of Finance
What do we do for contractors?

- export credits for short and long term projects
- investment insurance
- internationalisation support
  - Refinancing and risk participation for companies exporting and/or investing abroad
What is the market for contractors?

- Global construction output to increase to USD 10.1 trn by 2021 (up from USD 8.8 trn in 2016)
- Asia Pacific USD 4.8 trn, Western Europe USD 2.1 trn, North America USD 1.6 trn, South America USD 0.6 trn, Eastern Europe USD 0.5 trn, Middle East and Africa USD 0.5 trn
- Growth 2017 – 2021: 2.4% in Western Europe vs. 3.3% in Asia Pacific

World Construction Network (The global construction outlook 2021)
What are the challenges?

- Lack of financing in less developed countries
- International Financial Institutions (IFI) financing based on tenders - cost structure of European contractors
- Competition from China with all in packages incl. financing (e.g. USD 100 bn Chinese financing in Africa almost as high as IFIs financing*)

* FAZ 31.1.2018
Where do we provide export credits?

- Cover without restrictions
- Cover with restrictions (e.g. maximum repayment terms, maximum transaction limit or bank securities required)
- Currently no cover available
Export and investment guarantees portfolio by regions – 12/2017

- Asia: EUR 3.7 bn
- Southern/Eastern Europe: EUR 3.5 bn
- Turnover guarantees: EUR 1.1 bn
- Africa: EUR 1.0 bn
- South America: EUR 0.7 bn
Examples of past export credits for contractors

- Hotels in CIS countries
- Hydro power stations in e.g. Turkey
- Infrastructure projects (rail, tunnels, ...) e.g. in Africa
Hydro Power Project Ermenek / Turkey
Export guarantees portfolio by industrial sector – 12/2017

- metal industry: 22%
- energy: 17%
- medical technology: 16%
- traffic: 10%
- other sectors: 7%
- other machinery: 5%
- pulp and paper industry: 4%
- environment/urban infrastructure: 1%
- financial sector/services: 1%
- construction industry: 9%
What are the limitations for export credits?

- construction is a local business
- only special civil engineering capabilities are to be imported

- OECD only allows 30% local content (discussions ongoing on increase to 50%)
- Austrian content should be more than 50% (under special preconditions 25%; for short term business in Cat. 1-4 countries even less)
What are the strengths of European contractors?

- project management
- claim management
- finishing projects in time and within budget
- specialized civil engineering technologies (e.g. tunnelling)
- strong home markets (with low margins)
What kind of markets are there?

- **local markets**: markets operated with local business units, long term market strategy required
- **project markets**: for special civil engineering projects
Local markets

- developed locally
- local partners
- local personnel
- local resources (including financing)

OeKB-support:

- investment insurance and internationalisation support
- e.g. in Russia
Project markets

- projects done by European contractors
- with European resources incl. equipment, engineering and staff, probably also financing

OeKB-support:
- export credits
- eg. in Africa
Opportunities and risks for contractors

- local markets
  - Strengths of European business model implemented locally but adjusted to local requirements (with similar margins to those here)
  - Long-term opportunity and strategy

- project markets
  - Add-ons to European business with presumably higher margins but higher risks
  - Limited to special civil engineering technologies
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