Trends in infrastructure finance

Focus on Greece

George Smyrnioudis
Infrastructure Advisory
Central and Southeast Europe

International Business Congress
30 October 2015

Building a better working world

- Six years of Greek fiscal, debt and economic crisis
- Political instability was a key characteristic
- Three bailout packages with the EU, ECB and IMF
- Banking system
  - Capital Controls
  - Preparing for major recapitalisation

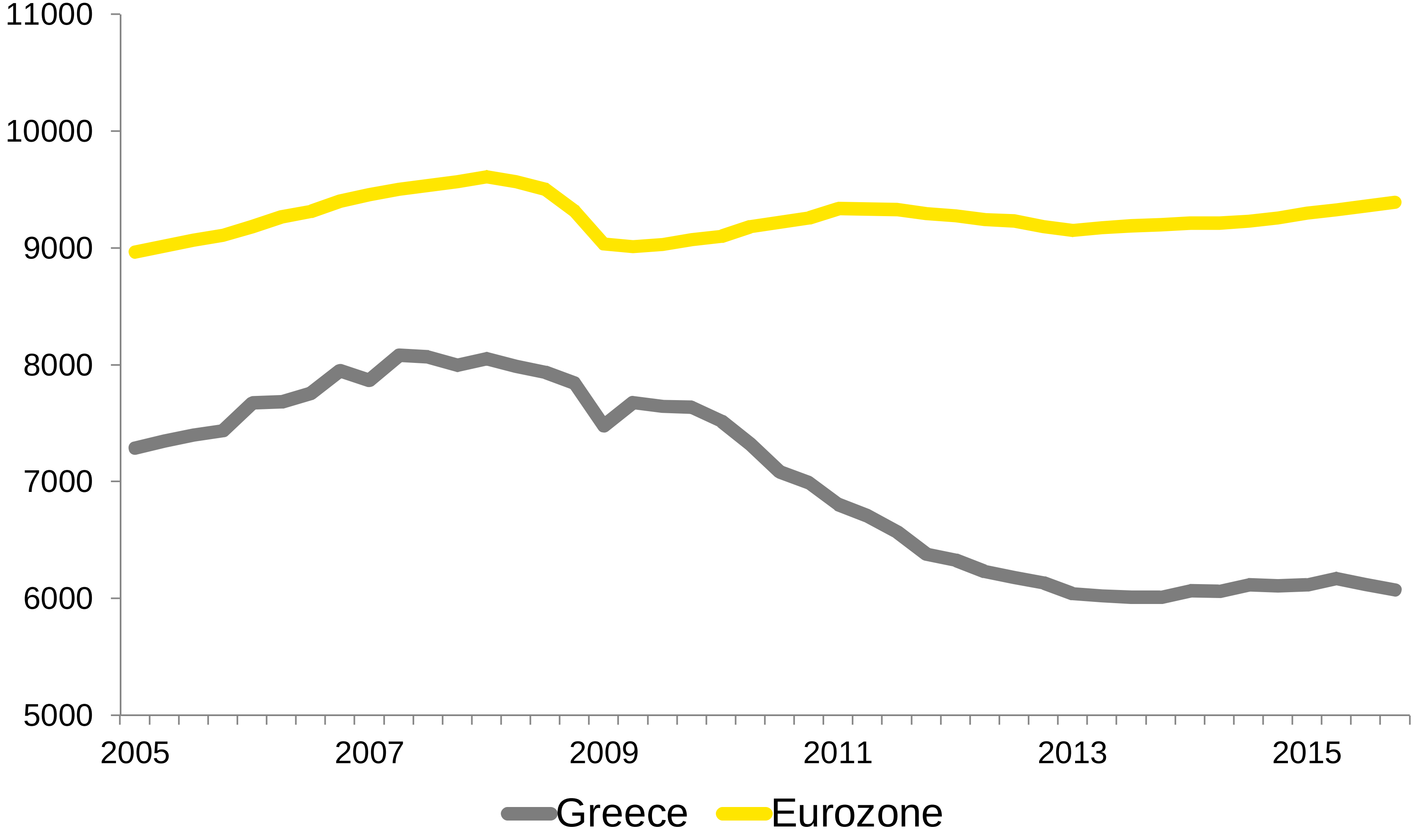
GDP

25 %

Unemployment

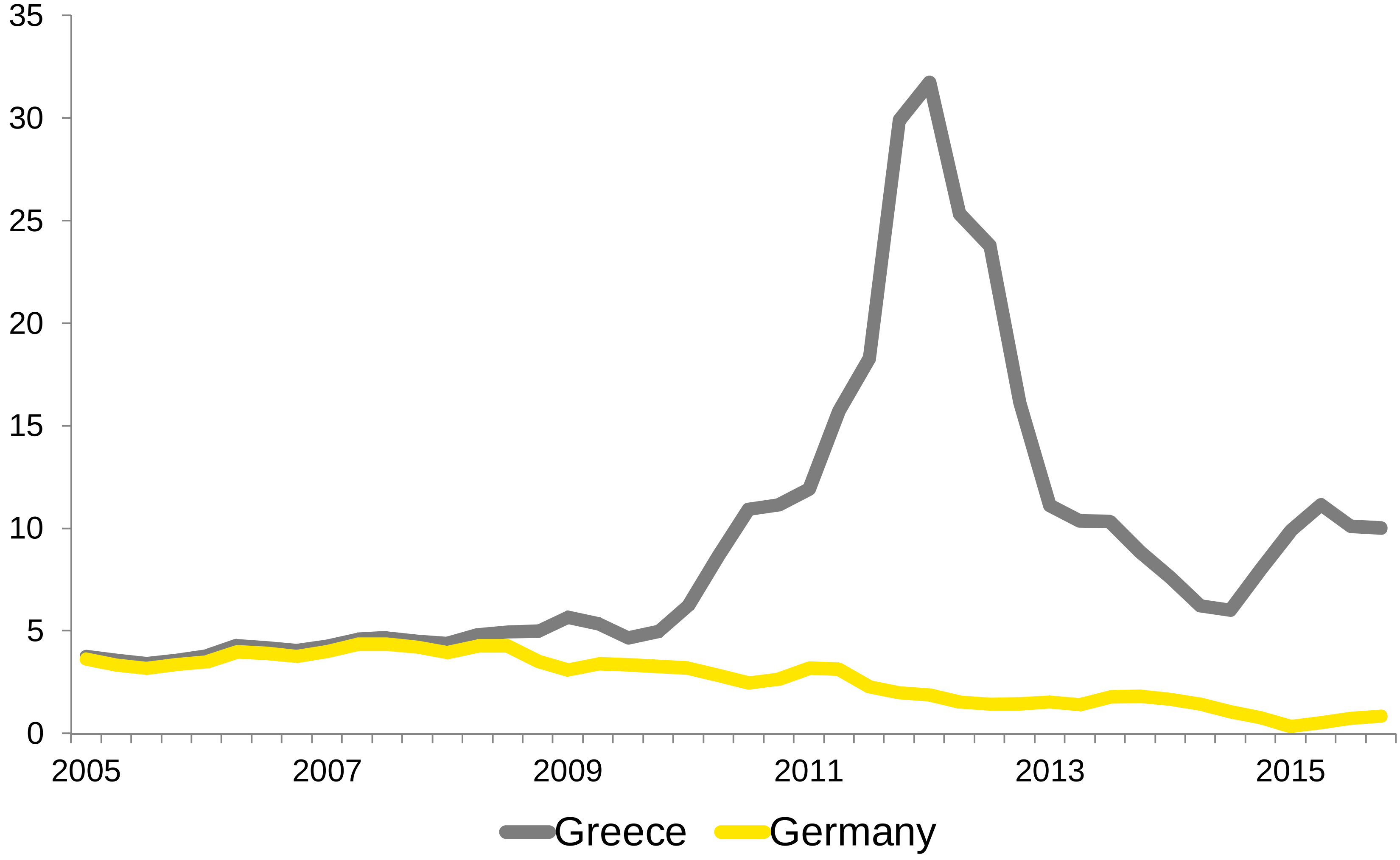
27 %

GDP per capita 2005 – 2015
(USD real, 2010, PPP exchange rate)

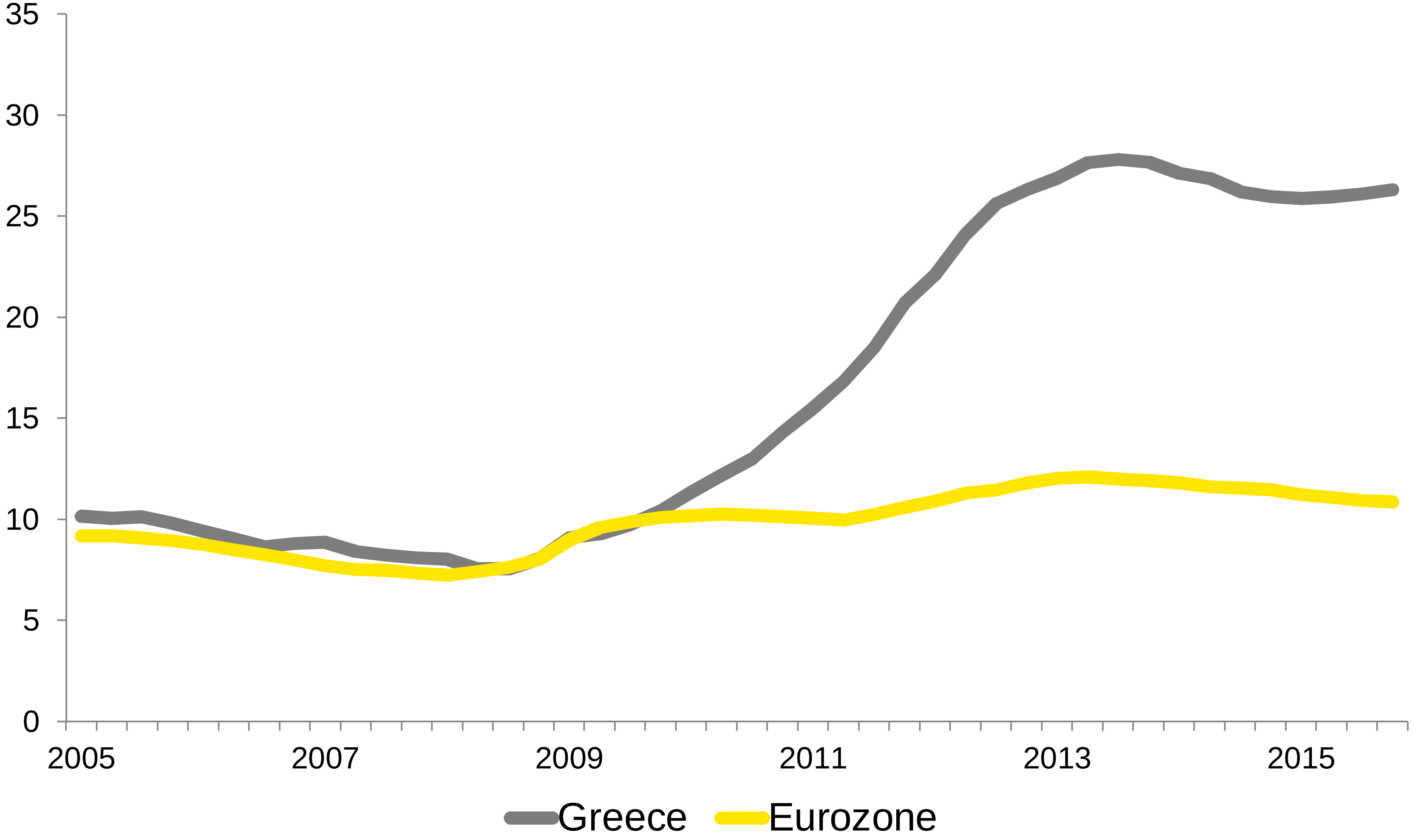


EY

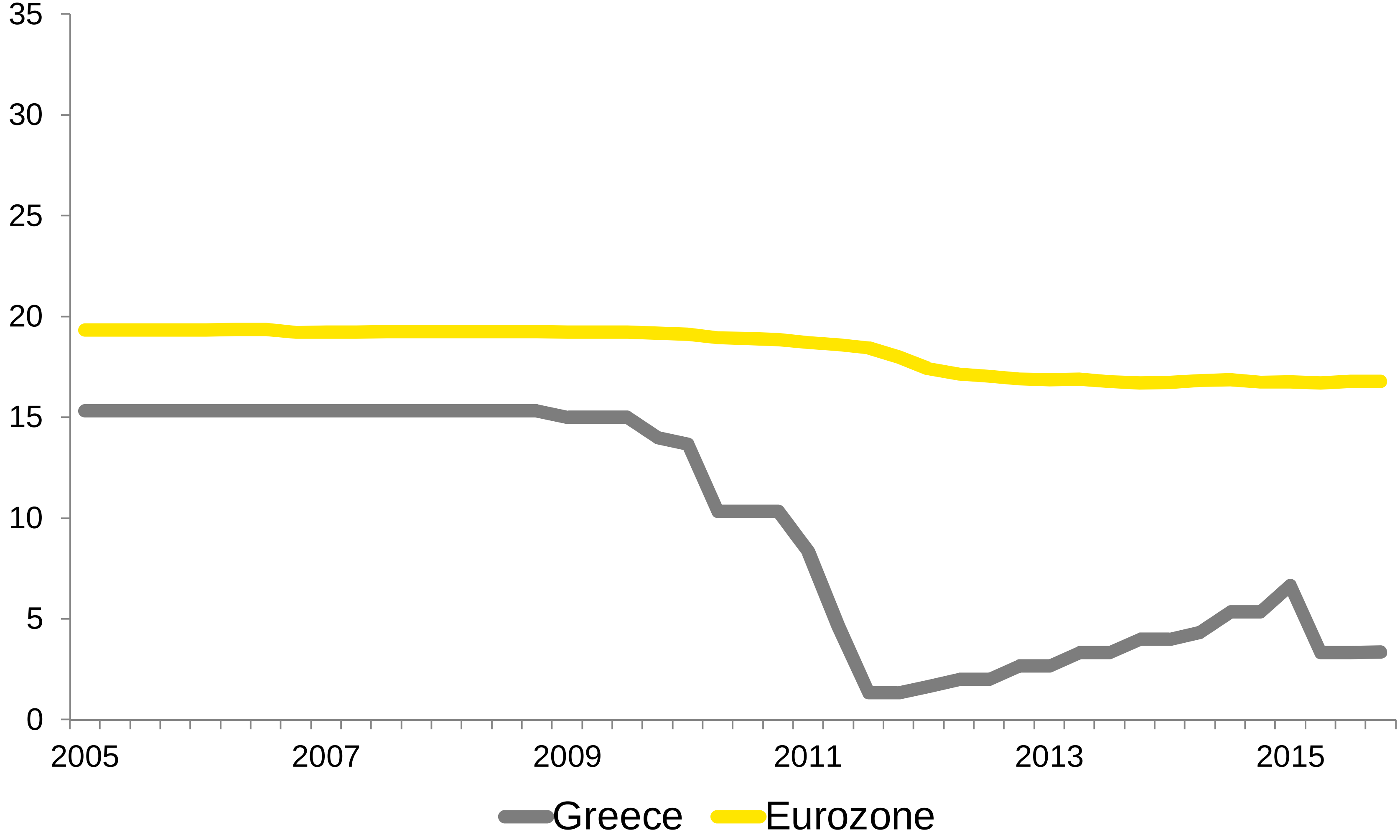
Government bond yield 2005 – 2015
(per cent. per annum, 10 year benchmark)



Unemployment rate 2005 – 2015



Average credit rating 2005 – 2015
(index: 20 = AAA)



Financing of Infrastructure – mid 2000s

- After three landmark projects (airport, ring road, bridge) were financed as concessions in the 1990s, the Greek State tendered with the same method six transport (road) projects in the early 2000s

Financial Closings: 2007 / Early 2008	**40+ International and Greek banks**	**€ 4+ billion loans**

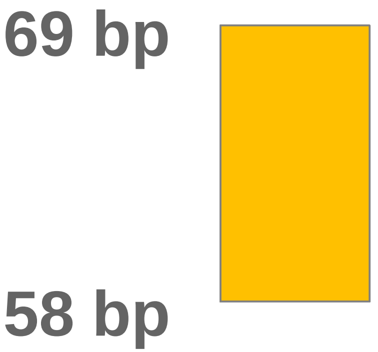
Financing of Infrastructure – mid 2000s

TENOR/ TAIL **25 / 5**

GEARING **80% +**

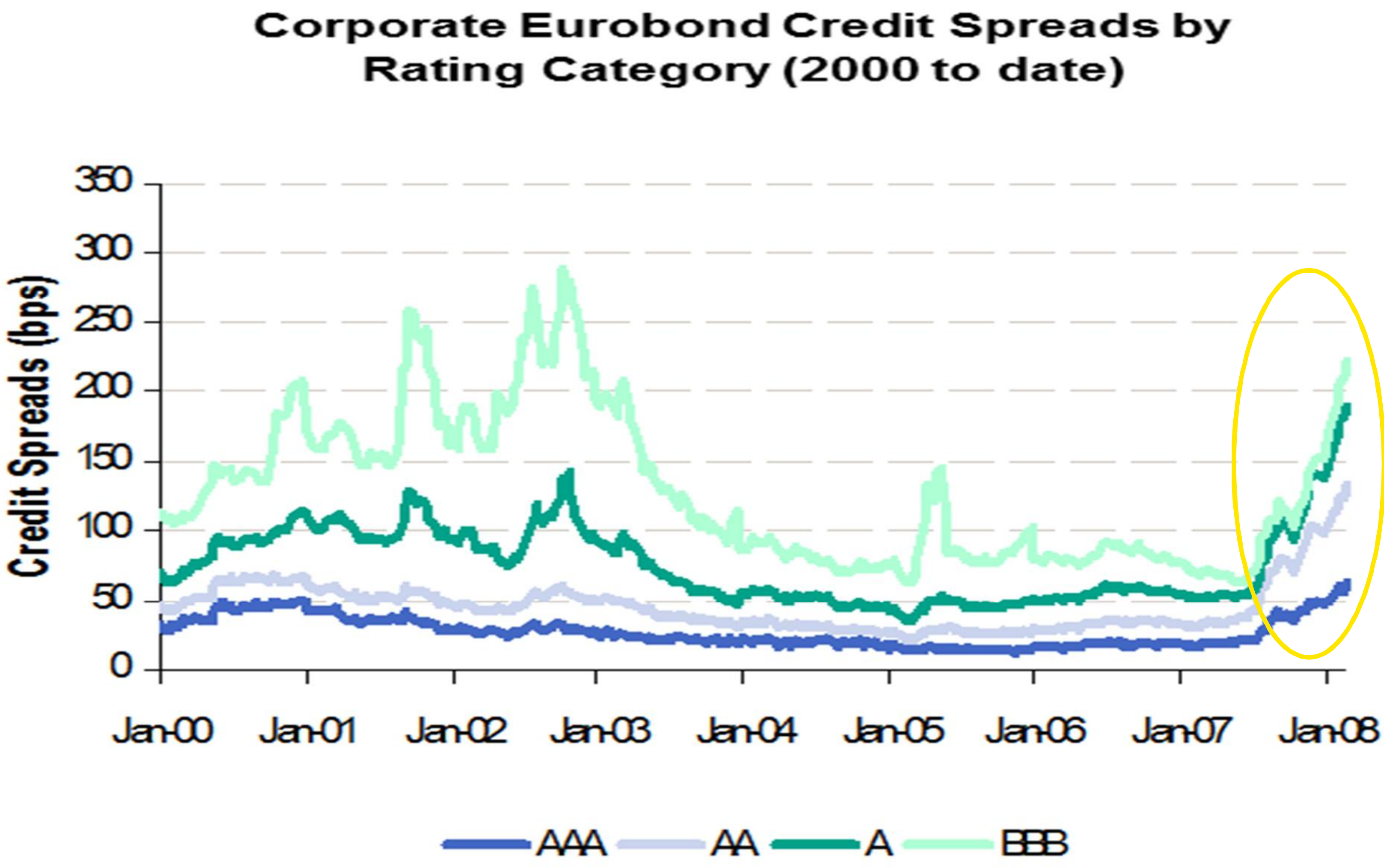
SPREADS **100 bp**

UK Availability Payment PPPs



Feb. 2007 – Dec. 2007

Global crisis – Credit Crunch



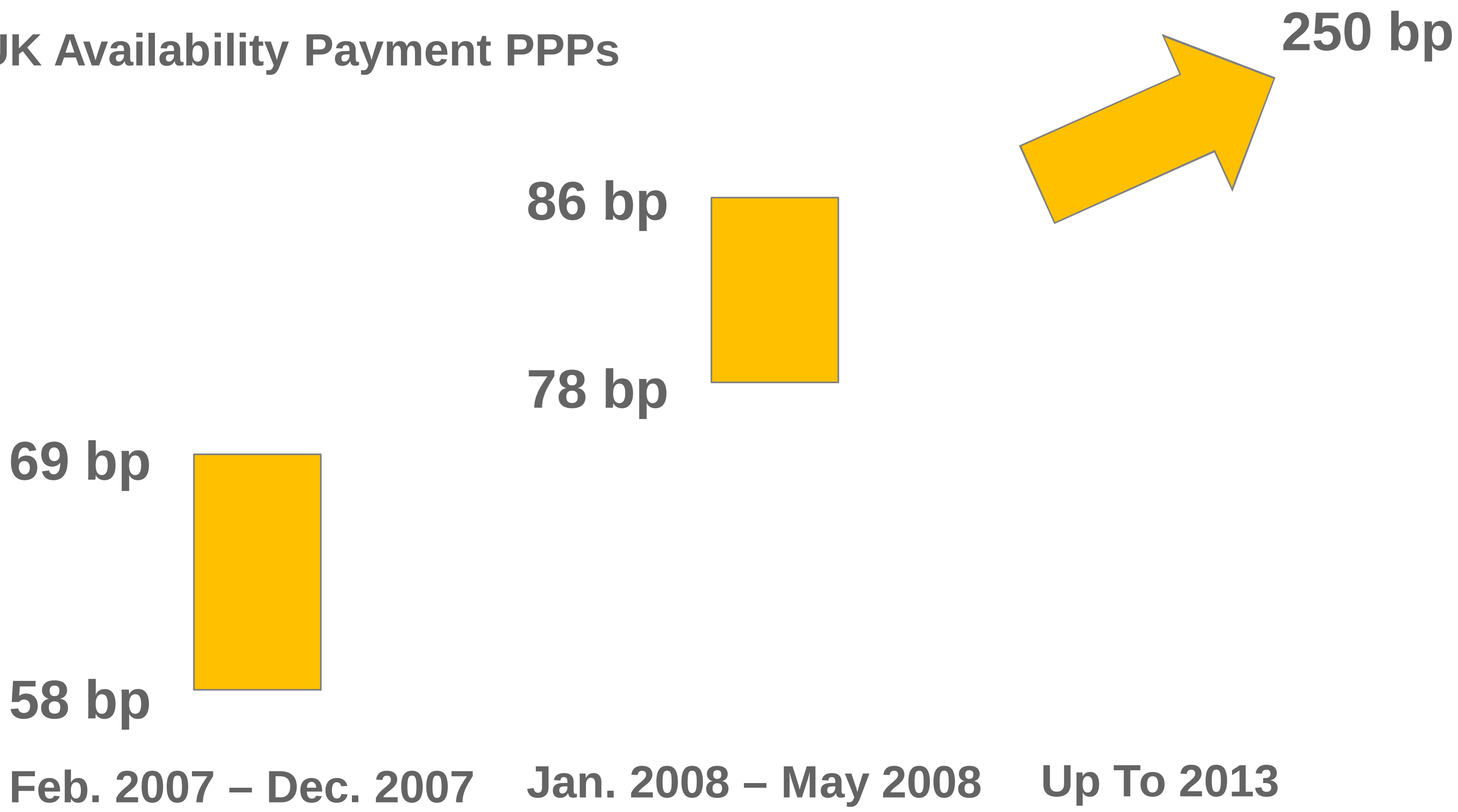
Global crisis – Credit Crunch

- Banks became more cautious about the way they deployed their capital and this led to a reduced level of competition between banks and smaller amounts underwrting capacity on a given project

- The combination of the above, banks’ increased cost of funding and the re-assessment of risk across the market resulted in an increase in the pricing of infrastructure debt

Global crisis – Credit Crunch

UK Availability Payment PPPs



The case of Greece

- From mid-2008, the Greek banking sector has been severely hit by the combined effects of :

  - The cut-off from international markets and deposit outflows
  - Significantly increased sovereign and national bank solvency risks
  - The restructuring of the Greek sovereign debt through the PSI

- The combination of a difficult international market with the critical situation of the Greek economy and the banking sector impacted adversely financing of infrastructure

The case of Greece

- Between the onset of the crisis and today, very few infrastructure projects have reached financial close
- Funding was provided primarily by the European Investment Bank and JESSICA (EU funds)
- Greek banks had limited role in funding short term bridge facilities and international banks are still absent

The case of Greece

TENOR/ TAIL	**15 / 10**
GEARING	**65% +**
SPREADS	**500 bp**

EY

The current situation

- Today, European and global infrastructure finance is becoming cheaper as there is a surplus of funding available and a limited number of eligible projects

- During the last two years, spreads in Europe have de-escalated

150 bp

- Other parameters such as tail and cover ratios have also tightened

EY

The current situation

- Greece has not followed this trend as its economy's problems continue to be acute

- Pre-requisites for recovery of the infrastructure funding market:

  - Political stability
  - Fiscal and other reforms implementation
  - Banking sector recapitalisation

Current Opportunities

- Extensive privatisations and concessions / PPP potential
  - Power
  - Oil & Gas
  - Waste
  - Transport
  - Real Estate / Tourism
- Renewable Energy Sources





What is needed

- Return of confidence
- Mature projects
- New Liquidity
- Innovative financing structures
- Competitive terms

THANK YOU

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

About EY's Transaction Advisory Services

How you manage your capital agenda today will define your competitive position tomorrow. We work with clients to create social and economic value by helping them make better, more-informed decisions about strategically managing capital and transactions in fast-changing markets. Whether you're preserving, optimizing, raising or investing capital, EY's Transaction Advisory Services combine a set of skills, insight and experience to deliver focused advice. We can help you drive competitive advantage and increased returns through improved decisions across all aspects of your capital agenda.