# Acumen
Credit Insurance Brokers

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# RISK ROUND-UP

## INTRODUCTION
Most of the credit insurers who offer export and global trade credit insurance have their own teams of Economists carrying out research and publishing articles, helping Brokers and Clients understand the risk outlook of the economies around the world. As Brokers for the whole trade credit insurance market, Acumen are in a unique position to have access to all this information and so this Risk Round-Up is designed to bring together the key ideas and information in one document. If you are interested in the greater depth of the original articles from which this information is taken, please contact your Acumen Broker (or call 0845 073 8630) and they will be able to provide this.

## UK: A ROCKY TIME AHEAD FOR CONSTRUCTION WITH INSOLVENCIES EXPECTED TO RISE 4-5% IN 2018
The second largest construction company, Carillion failed in January 2018 leaving a reported £1.5 billion debt and pension shortfall of £587 million. Another 4 out of the top 10 construction companies reported profit warnings in 2017 including Mitie and Interserve with Laing O'Rourke further delaying its full-year results in 2018. Much of the blame for this succession of financial announcements is put at the door of forceful sealed contract practices to respond to competitive pressures and significant rises in the cost of raw materials and labour.

The inevitable forecast for some of the 25-30,000 suppliers and contractors caught by the Carillion situation, is increased financial distress at best failure of their own company at worst. Put in to the mix the expectation of further increases in 2018 of the already high level of protracted payments experienced by the industry and an average of 75 days payment, continued difficulties in obtaining bank finance, smaller construction and supply firms could endure considerable repercussions.

A further consideration for this industry is Brexit. 60% of the building materials are sourced and bought from the EU. Any import levies or restrictions following the UK's exit could inflate costs for British construction firms. The European Investment Bank and European Investment Fund, from which the construction sector has received €7.8 billion infrastructure project investment and small business loans totalling €500 million, may no longer be available after the UK's departure from the EU. Should this be the case it could severely impact future completion of strategic projects unless alternative financial support can be secured.

Combine this with the prospect of a skilled worker shortages should immigration restrictions come in to effect, the result could be a reduction in the capacity these companies have to complete new housing, failing to meet the Governments targets.

The Office of National Statistics saw construction performance weakened towards the end of 2017 and output decreased 2.1% September to November in relation to the previous three months. Due to this, an accumulation of reduced orders over a number of years taking effect, the shock waves of Carillion and the uncertainty of Brexit, the level of insolvencies in the construction industry will continue to increase in 2018 and between 4 %and 5% year-on-year.

On the flip side, residential construction sector is expected to grow in 2018 following the housing stimulus package worth £15.3 billion over the next 5 years revealed by the Government which would bring the overall total support to £44 billion. Performance is expected to get better in 2018 thanks to some substantial projects.

As a specialist credit insurance broker with a strong construction portfolio of clients, Acumen was successfully placing cover on Carillion up to the early autumn of 2017. Credit insurers had been concerned over the steady deterioration of the groups fortunes, but it was not until July when the figures confirmed that without further assistance they could not survive that, insurers began to assist their clients in managing their withdrawal from the risk. Underwriters are maintaining close dialogue with the more uncertain risks, but credit insurance is open for business in the construction sector at this time of great uncertainty. Contact one of our specialist construction sector brokers to discuss.

Source: Atradius: Market Monitor Construction 2018

## OIL AND GAS EXPORTERS: RISING DEBT FOR COUNTRIES IN THE GULF COOPERATION COUNCIL

The 6 countries who make up the Gulf Cooperation Council (GCC), Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates continue to remain vulnerable to global changes to oil and gas consumption, today and in the future despite a predicted increase in oil and gas prices to 2025.

Dependency on export revenues for countries in the GCC is as an average 76% with 61% of government revenue coming from these commodities. It also accounts for 27% of GDP. Kuwait sits at the top of the GCC members with 89.7% export relating to 37.4% of their GDP but currently hold the lowest public deficit of the 6 at 27.5%.

To date the lower prices seen over recent years has only slightly dampened the reliance on this revenue by these top fuel exporting countries, which has resulted in any diversification to dependency being slowed.

Focusing on public finances, most have wide annual budget deficits and rising public debt levels, which with the forecast of an improving energy mix and projected reduction in demand for fossil fuels beyond 2025, puts these countries in a position whereby their deficits will continue to grow without applied diversification strategies. Whilst all have engaged in plans to diversify from hydrocarbons as the basis of their economy, they have taken their foot off the accelerator due to recent price rebounds and cheap and easy funding from international capital markets.

It is expected that whilst the long range forecast is more concerning, with predicted prices being below those seen in the early 2010's, the current prices provide some relief and buffer for these countries.

The energy mix is going to be the factor which influences these revenues along with individual countries energy policies, potentially driving down demand and the price for oil from the GCC. Most developed countries are now investing heavily in renewable and low carbon energy sources such as natural gas and more so nuclear, all investing in the technology to bring down the costs associated with these options. China's demand for energy, the Government is now looking for alternatives to reduce the air pollution and the US shale revolution continues to expand.

Despite countries are reviewing their energy mix, prices for oil and gas are expected to grow sufficiently until 2025 due to rising energy requirements, particularly from Asia.

The outlook based on the International Energy Agency's (IEA) New Policies Scenario (NPS) as presented in its World Energy Outlook 2017 suggests the forecasted 25% increase in renewable will not sustain the energy requirements and oil and gas supply would need to be boosted by 7% in order to meet the demand.

Ultimately this projected rise in demand in the short term will provide the members of the GCC some breathing space for their economies and finances. Using the Oxford Economics global economics model, commodity prices for each of the member countries show an increase in price compared to the last few years. However for change in public debt ratios the result is mixed. 50% of the countries show an increase in debt levels which suggests additional measures are required to sure up their country's finances, specifically Bahrain who is predicted to be at nearly 90% public debt in 2025.

These countries need to continue to push for diversity in revenue. Decreasing reserves and more expensive credit may increase financing risks as public debt levels maintain an upward path. No energy exporter should be complacent off the back of recent price increases and potentially the transition to energy mixes may come sooner than expected.

Source: Atradius Oil & Gas Exporters: Debt Continues to Rise



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Acumen Credit Insurance Brokers Ltd
**T:** 0845 073 8630
**E:** acumen@credit-insure.co.uk