
Recession reports - Project financing in MENA takes a big hit

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Emirates Business 24/7 reported that the global economic distress has smothered project finance in the Middle East and other areas of North Africa and Western Asia after it spearheaded such activity worldwide.

The UN Conference on Trade and Development said in its 2009 report that before the eruption of the financial crisis in mid September 2008, West Asia was the world's biggest market in project finance, largely surpassing such key markets as West Europe and North America. The report said that the local and foreign private sector had played a key role in project financing in Western Asia before the crisis.

Its figures showed that in the January to September of 2008, nearly USD 40 billion in project debt was raised for developments in West Asia and North Africa compared to USD 32 billion in Western Europe and USD 29 billion in North America. In addition, the project finance debt rose in West Asia and North Africa in the whole of 2006 amounted to over 5% of the region's GDP compared to less than 0.25% in Western Europe.

The report said that "However, the deepening global financial and economic crisis has dried up project finance and has also led developers to reappraise projects in light of the new economic outlook. Indeed, falling demand and the worsening outlook for credit markets are affecting project prospects and their financing, especially those that require substantial investments."

It said that "The collapse of the project finance market and the drying up of financing from international banks has put pressure on governments to mobilize local liquidity through increased direct public funding additional local equity or loans from local banks. For example, the Saudi Arabian Government has significantly relaxed its tight monetary policy by cutting both the repurchase rate and reserve requirements for banks to encourage lending."

UNCTAD said that several projects had been either cancelled or put on hold in the MENA region including a USD 10 billion aluminium smelter and 2 refineries with a combined cost of USD 20 billion in Saudi Arabia. 2 other projects including a destination plant and a theme park in the UAE have been delayed.

(Sourced from Emirates Business 24/7)

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