Greece 2022: Bank finance for shipping stages a modest recovery

For the top Greek owners, loan terms offered by banks have become keener and there is intense competition

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by Ted Petropoulos

With few financial failures, Greek shipping offers attractive opportunities for ship financiers and competition for clients is often intense

INTERNATIONAL BANKS, OPERATING FROM WITHIN GREECE OR OUTSIDE THE COUNTRY, HAVE PROVIDED THE LION'S SHARE OF LENDING FOR THE GREEK FLEET.

Source: Lightboxx/Alamy Stock Photo

BANK ship finance for Greek shipping has grown as the Greece-owned fleet has expanded, especially in the past four decades.

Support has come from Greek banks but it has been international banks — whether operating from within Greece or outside the country — that have provided the lion's share of lending for the fleet.

The rapid development of Greece-related ship finance by banks is vividly captured by the Petrofin Index, which grew from a base of 100 in 2001 to a high of 443 in 2008.

As a result of the 2009 banking crisis, the index — which is linked to the amount of Greece-related bank ship finance — declined to a low of 301 in 2020, only to stage a modest recovery in 2021.

This was despite the rapid growth of the Greek fleet over the same period, which appears to be a paradox.

The main reason for the decline in bank finance in recent years has been the need of many banks to deleverage and reduce their loans, which has greatly affected Greek ship finance.

Meanwhile, the increase in the size of the fleet reflects the commitment of Greek owners to expand, often with larger vessels, as well as in improving the efficiency of their fleets.

Clearly, the growth of the Greek fleet over the period was managed by drawing on other sources of ship finance, through owners' own resources, refinancing and an active involvement in the sales and purchase market and in newbuilding orders.

Some very prominent banks, such as RBS, Commerzbank, Nord LB and DVB, have departed. Yet there have been other changes in bank behaviour, too.

Today, more international banks are concentrating their lending on clients in their national base, while some others that are still lending to Greek owners are doing so from other centres.

Among recent notable developments, Unicredit and HSBC this year began the process of shutting down their Greek offices. Other banks, such as Standard Chartered and ABN Amro, have redefined their geographical areas of interest.

After the great bank exodus, there have been some new entrants, including Cypriot banks and other minor and local European banks. However, they could not replace lost capacity.

Overall bank departure seems to have slowed down and there are the first signs of a bank finance comeback in Greek shipping. Although aggregate Greek ship finance lending by banks has fallen, the overall number of banks with some loan exposure to the industry has risen.

Greek banks have been an exception to the wider trend, as their market share rose from 18.5% in 2018 to 25.8% in 2021.

They have sought to exploit market opportunities created by the reduction in international bank lending capacity in the Greek market. In contrast to some international counterparts, they see Greek shipping as a core area of interest.

Petrofin Research findings show there are 68 Greek shipping entities with fleets of more than 20 vessels and 83 with fleets of more than 1m dwt. These, together with a number of medium-sized owners, form the potential client list to which many banks aspire.

It should also be noted that Greek shipping has suffered relatively few owner failures and the percentage of loan losses and provisions has been very low. The profile of the Greece-owned fleet thus offers favourable risk/reward opportunities that are attractive to banks.

For the top Greek owners, loan terms offered by banks have become keener and there is intense bank competition. Loan margins for such owners are often as low as below 2%, while loan-to-asset lending has been around 60-65% for modern vessels and newbuildings.

Small to medium-sized Greek owners have less choice among banks but generally they are still able to attract finance and compare terms with other non-banking finance offers.

Each market sector has its own dynamics and prospects, so loan terms vary considerably.

One important feature of the market as a whole has been that banks have avoided "exuberant" lending, such as has been evident in past cycles.

As vessel values have risen in many sectors, secured employment-backed lending has reappeared. The ability of banks to offer competitive loan terms has been affected by regulatory pressures and the need to comply with capital adequacy rules.

Greek banks have been able to lower their margins too and compete with non-Greek lenders, mainly for the small to medium-sized Greek owners.

While Greek banks are emerging stronger than before, there are some inherent challenges and there are limits to their ability to grow.

Many international banks have sought to differentiate their range of services with capital-raising advice and placements, while others have done so by providing private banking.

The new Athens Stock Exchange bond issues by Costamare, Capital Product Partners and Safe Bulkers have been supported by Greek banks and the success of the transactions indicates an opportunity for the future.

Other banks, including Scandinavian institutions, have maintained a strong presence in local shipping and utilised the opportunities their client base offers.

Banks such as Berenberg Bank, Macquarie Bank and others continue to define their market niche areas. Some have sought to combine their knowledge of Greek clients and working together with Eastern lenders while retaining some lending exposure for themselves.

Banks usually participating in ship finance through syndications and club deals are less active as newbuilding orders have abated and due to intense competition from Chinese lessors.

Banks have put increased emphasis on developing their private banking services, offering arguably greater security than unregulated parties.

Leasing finance in shipping has grown exponentially over the past 15 years or so. Chinese leasing has grown from $47bn in 2017 to $77bn in 2021, according to Shanghai-based Smarine Advisors.

Whereas ship finance used to be of lesser importance than aircraft leasing, the difficulties faced by the air travel industry during the coronavirus pandemic prompted leading Chinese leasing companies to reappraise their shipping risk, which fared better than other sectors during the crisis.

Japanese and South Korean leasing has also grown and has begun to include transactions for non-domestic clients ordering vessels at local shipyards.

Overall, leasing has become more competitive compared to bank finance. Whereas banks still offer on average lower margins, leasing more than offsets this by offering higher loans as a proportion of vessel values, longer loan profiles and more flexibility.

Another major development has been the growth of ship finance provided by funds. There are now many experienced shipping funds that can provide fixed-rate loans in US dollars or euros at costs to Greek owners of approximately 6%-7% and involving loan to values of up to 70%-75%. The higher LTV can be seen to justify the higher cost.

Bond financing is currently being affected by the rise of US interest rates and the higher risk environment.

There have been unforeseen events in the past two years, such as the pandemic and the Russian invasion of Ukraine, which have led to increased volatility in markets.

In addition, emissions targets and their effects on shipping have been a concern for some time and present an enormous ongoing challenge to Greek owners and lenders.

Many banks and leasing companies have joined the Poseidon Principles, and many funds have turned exclusively to clients with alternatively fuelled vessels.

Greek owners and lenders alike are still assessing all these factors and how they might impact shipping over the coming decades.

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This article is part of Lloyd's List's 'Greece 2022' special report.

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