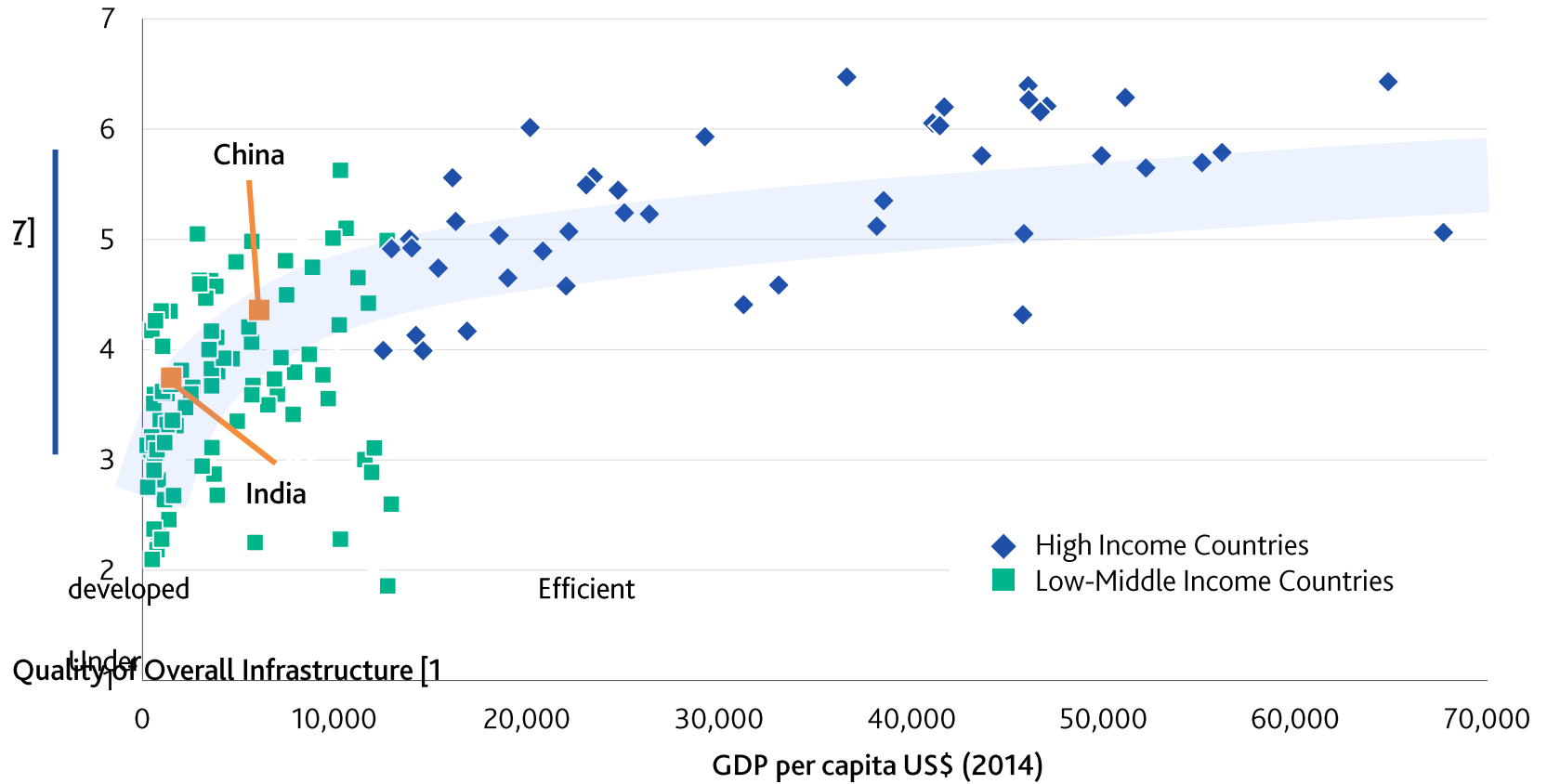


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# Multilateral Development Banks and Asian Investment: Room for More?

Panel Discussion: Infrastructure Needs and the New Silk Road

# Infrastructure Investment to Alleviate Growth Constraints



Source: World Economic Forum Data 2014

# One Belt, One Road: An Ambitious Intra-Regional Plan

- » An ambitious intra-regional initiative, involving potentially more than 40 countries in Central and South Asia, the Middle East, and Eastern and Western Europe, to create an unbroken transport and infrastructure network.
- » The plan is made up of the Silk Road Economic Belt and the 21<sup>st</sup> Century Maritime Silk Road.

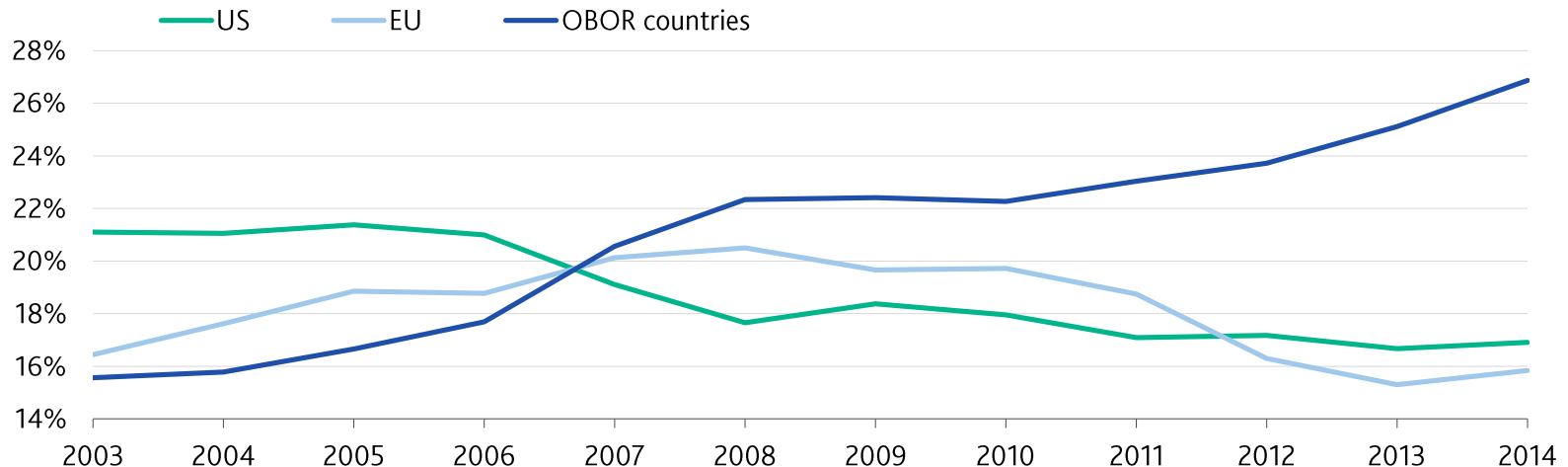


Sources: National Development and Reform Commission, Moody's Investors Service

# Plan Will Enhance China's Trade and Financial Linkages

- » China will gain from greater energy import diversification, as energy supplies from Russia/Central Asia are developed as alternatives to traditional MEA suppliers.
- » Regional integration will also create demand for Chinese capital and consumer goods exports, as well as services, at a time when demand from traditional markets such as Europe and the US remains historically weak.

Chinese Exports by Destination, % of Total

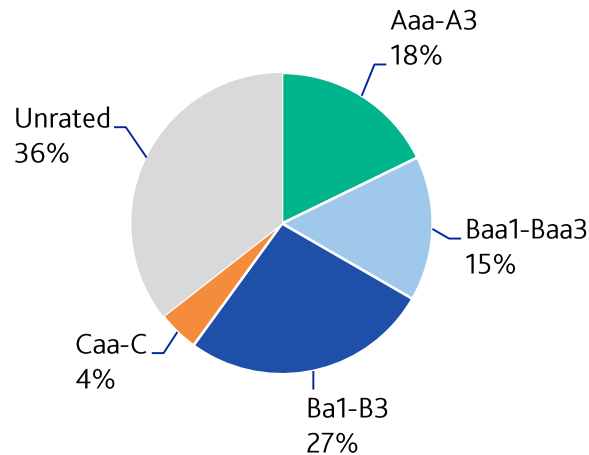


Source: Moody's Investors Service, Wind Information Co.

# One Belt, One Road Is Credit Positive for Most Sovereigns

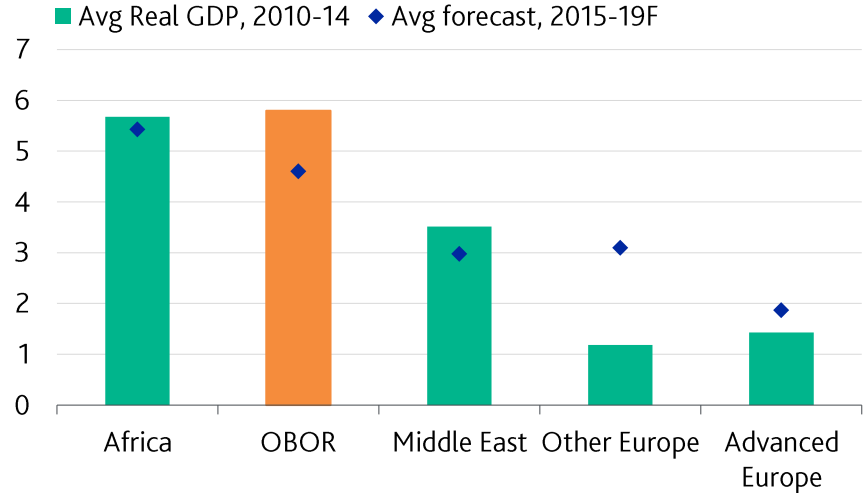
- » More than two thirds of the countries that fall under One Belt, One Road are either unrated or rated below investment-grade.
- » Enhanced trade and investment will ease downside pressures on GDP growth.
- » The net credit impact will be positive for most One Belt, One Road sovereigns.

**Sovereign Ratings Distribution of One Belt, One Road Countries**



Sources: Moody's Investors Service

**Real GDP Growth – Historical Performance and Future Projections (% Year-on-Year)**



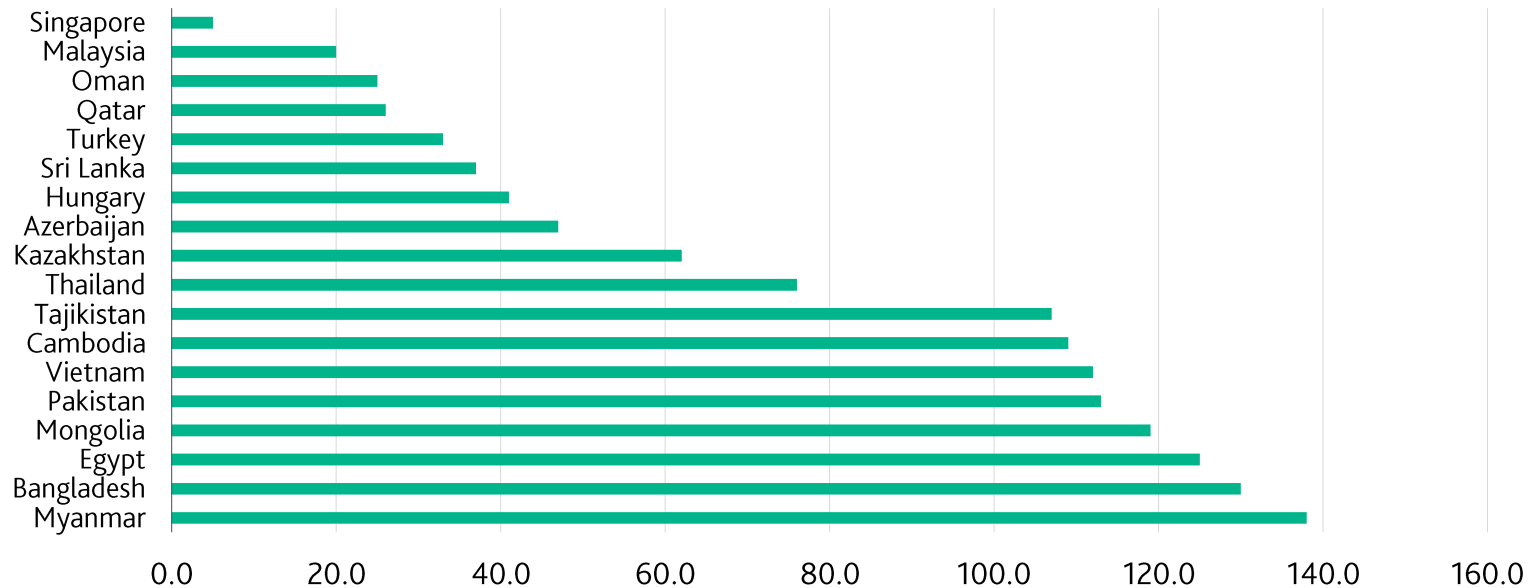
Note: Average GDP growth rates are un-weighted.

Sources: Moody's Investors Service

# S, SE Asia Will Benefit Most from Infrastructure Investment

- » One Belt, One Road will likely have a transformative economic impact, spurring investment and GDP growth, especially for smaller, poorer countries.
- » Among rated sovereigns, Bangladesh (Ba3 stable), Cambodia (B2 stable), Pakistan (B3 stable) and Vietnam (B1 stable) are likely to be the biggest beneficiaries.

## Infrastructure Inefficiencies: Rankings in the World Economic Forum Global Competitiveness Index (Rank of 144 countries)

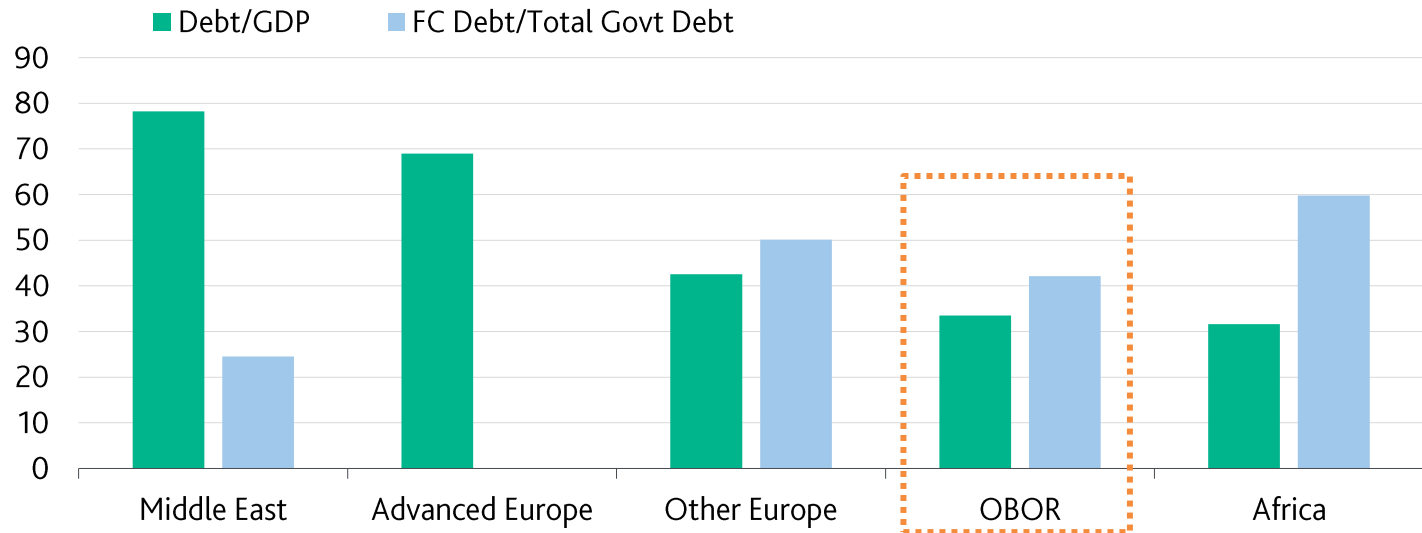


Sources: WEF Global Competitiveness Index, 2014-15

# One Belt, One Road Government Debt Profiles

- » Loans extended by China, either concessional or commercial, will raise government debt burdens.
- » AIIB and the Silk Road Fund will boost China's importance as a source of external finance.
- » Commercial borrowing will raise budgetary pressures in countries with weak fiscal policy.
- » Government debt burdens are moderate, but dependence on foreign financing is high.
- » Domestic capital markets will remain shallow in most One Belt, One Road sovereigns.

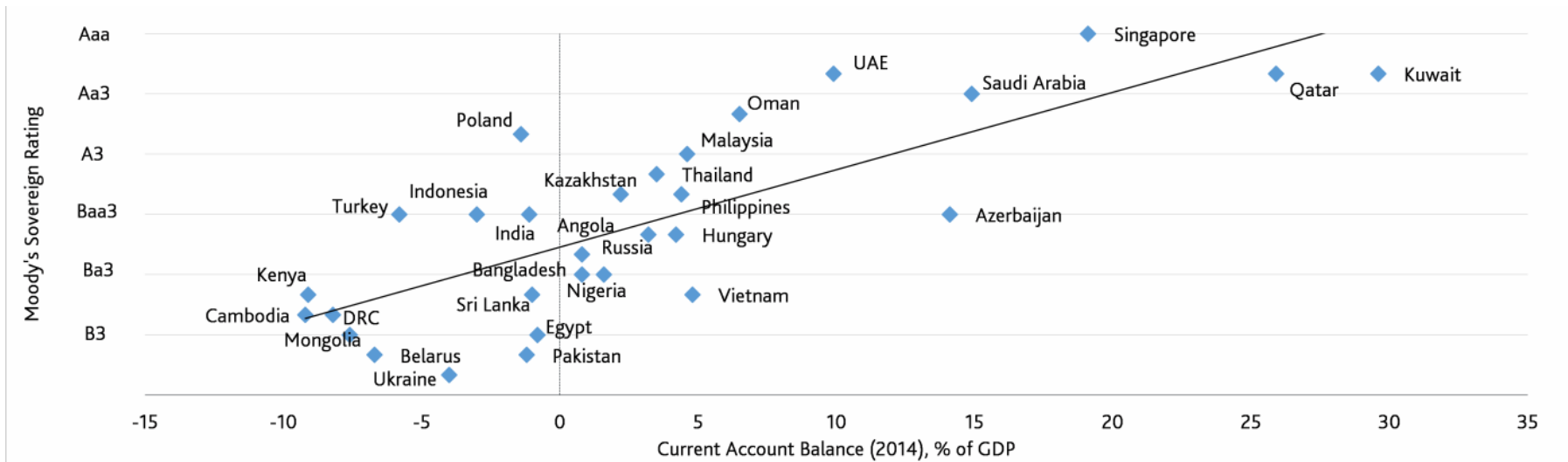
General Government Debt and Foreign Currency-Denominated Debt (%)



Sources: Moody's Investors Service

# Greater Financing Required for Lower-rated Sovereigns

Lower-Rated Sovereigns Typically Require Greater Foreign Financing  
Correlation between Moody's Sovereign Credit Ratings and Current Account Balances



Sources: Moody's Investors Service, International Monetary Fund

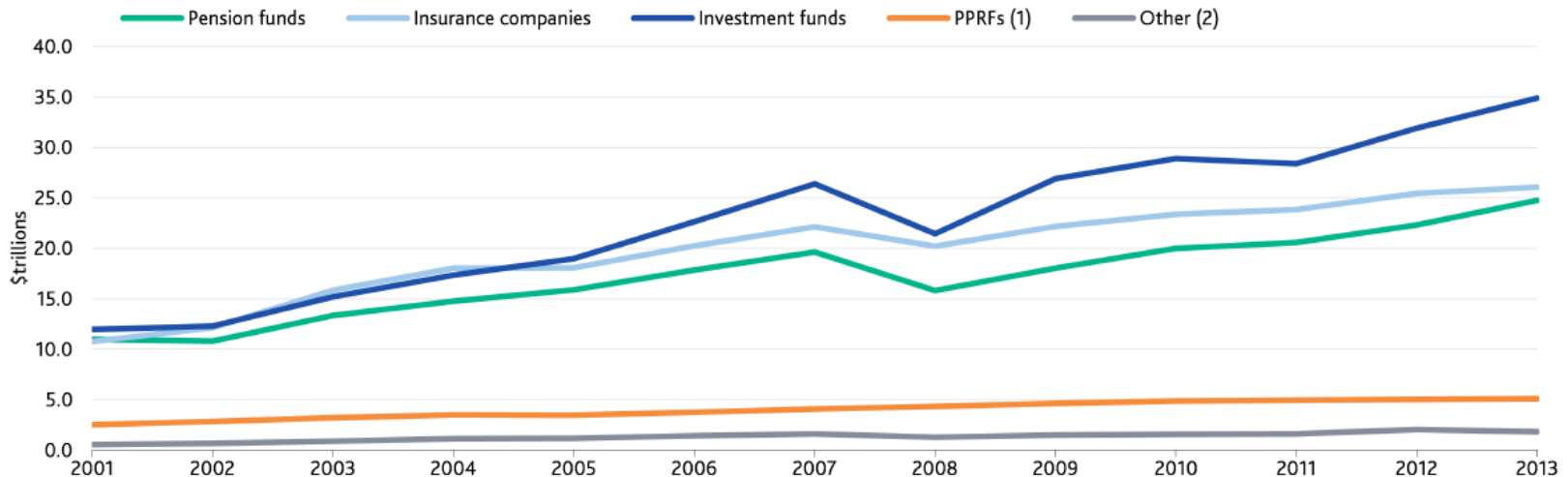


# Project Implementation Faces Numerous Challenges

- » As an ambitious initiative that seeks to integrate Eurasia, constructing the Belt and Road will be a challenging exercise in diplomatic coordination.
- » Most recipient governments have weak policy and project implementation capacities that lengthen project execution.
- » Other impediments to implementation include political risks, from unstable governments or internal political instability and insurrections.
- » In addition, One Belt, One Road projects may encounter political sensitivities to high-profile or large-scale investment by Chinese firms in foreign markets.

# Assets held by Institutional Investors

## Assets held by institutional investors across the OECD region



(1) Public Pension Reserve Fund (PPRF).

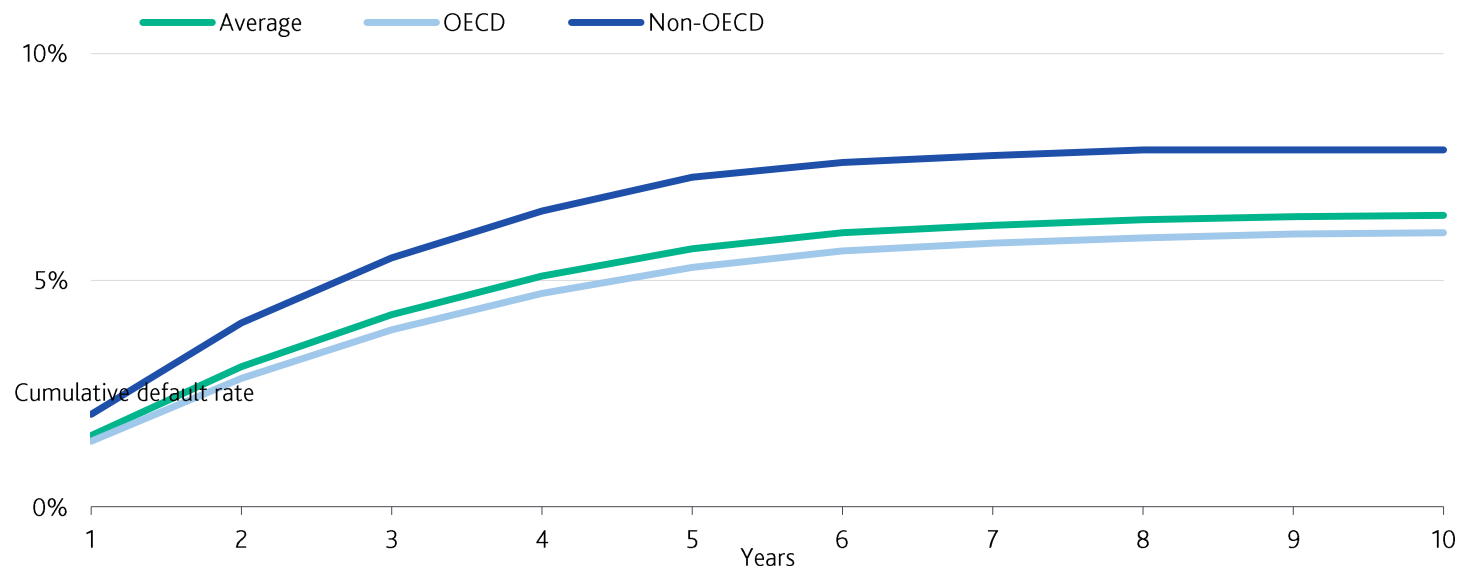
(2) Other forms of institutional savings include foundations and endowment funds, non-pension fund money managed by banks, private investment partnership and other forms of institutional investors.

Source: OECD

***Institutional investors control significant financial resources  
(\$92.6 trillion across the OECD region as at December 2013)***

# Project Finance Bank Loans: Default and Recovery History OECD/non-OECD countries

Cumulative Default Rates by OECD/non-OECD countries



Source: Moody's

» For OECD projects :

- The 10-year cumulative default rate (Basel II) is 6.1%
- The average ultimate recovery rate is 80.1%
- Average of 2.0 years to emerge from default

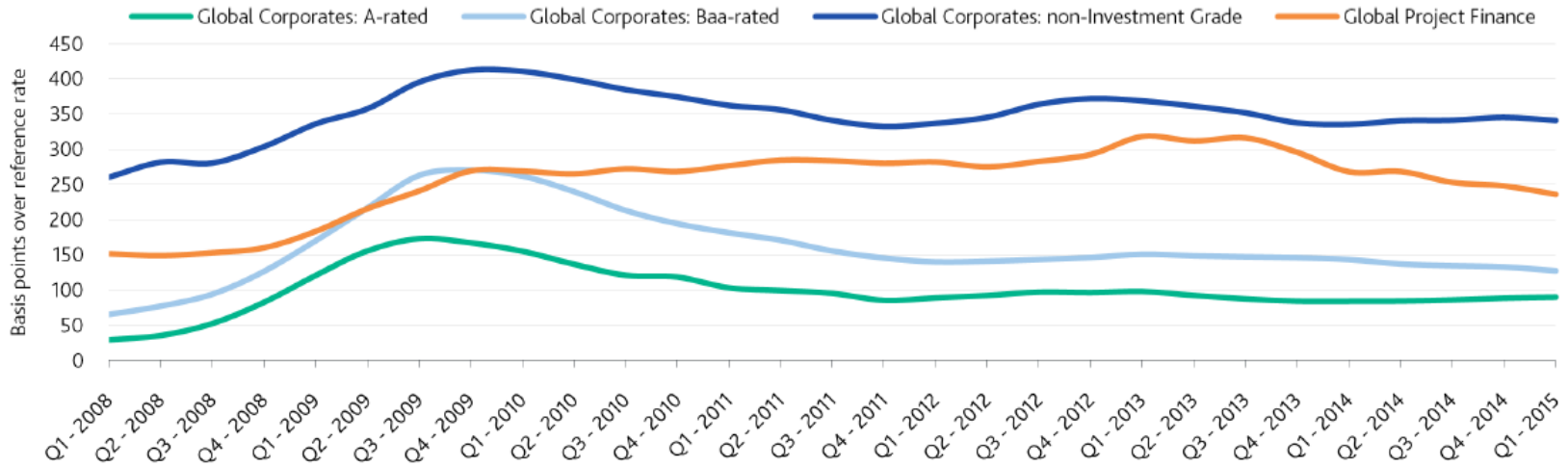
» For non-OECD projects:

- The 10-year cumulative default rate (Basel II) is 7.9%
- The average ultimate recovery rate is 80.9%
- Average of 2.9 years to emerge from default

***Resilient credit strength of project finance transactions in emerging markets***

# Global Project Finance Loan Margins

Global project finance loan margins (12-month moving average)



Source: Dealogic, Credit Agricole, Moody's analysis

**Margins have fallen since 2012 but remain attractively priced compared to other classes of corporate debt**

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