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Multilateral Development Banks and Asian Investment: Room for More?

Panel Discussion: Infrastructure Needs and the New Silk Road

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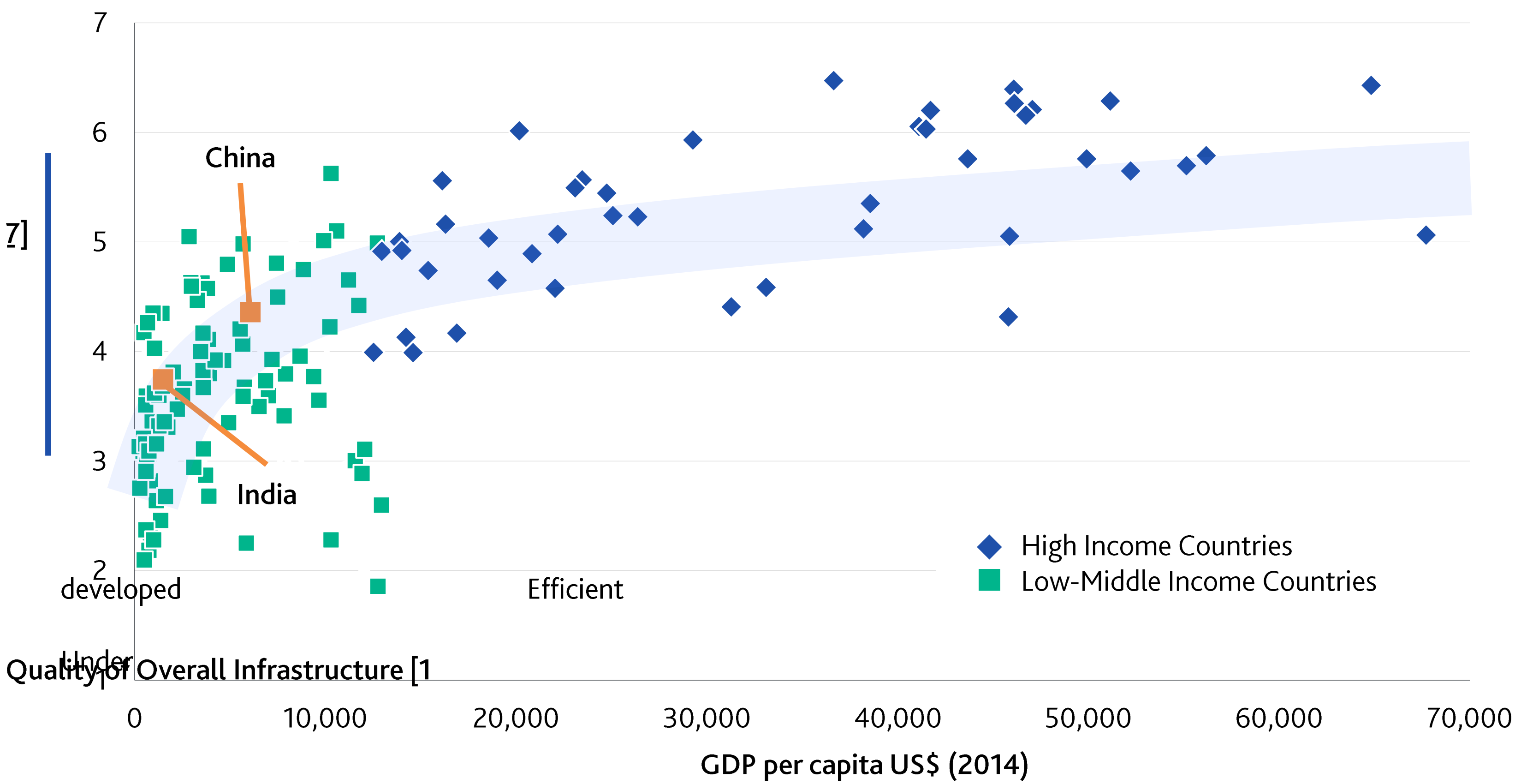
Infrastructure Investment to Alleviate Growth Constraints



Source: World Economic Forum Data 2014

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

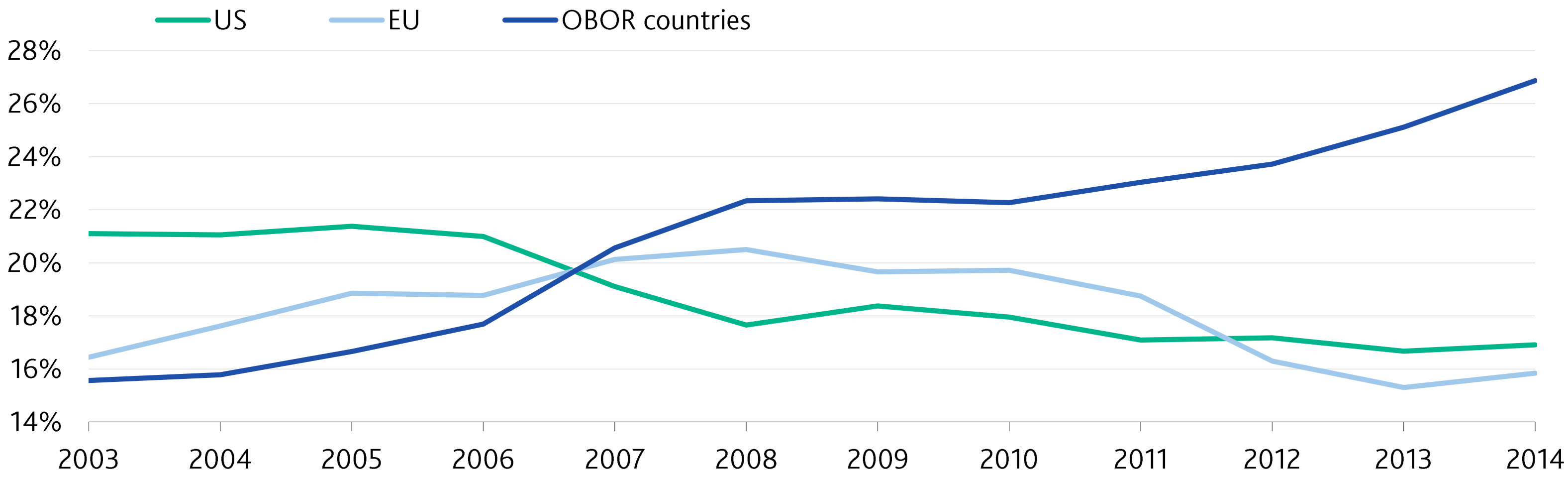
- An ambitious intra-regional initiative, involving potentially more than 40 countries in Central and South Asia, the Middle East, and Eastern and Western Europe, to create an unbroken transport and infrastructure network.
- The plan is made up of the Silk Road Economic Belt and the 21st Century Maritime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

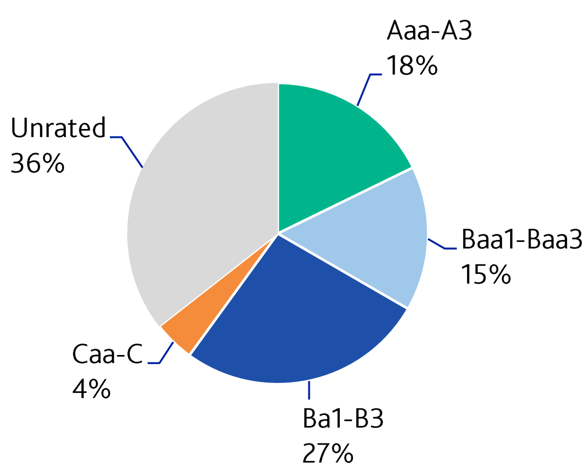


Source: Moody's Investors Service, Wind Information Co.

One Belt, One Road Is Credit Positive for Most Sovereigns

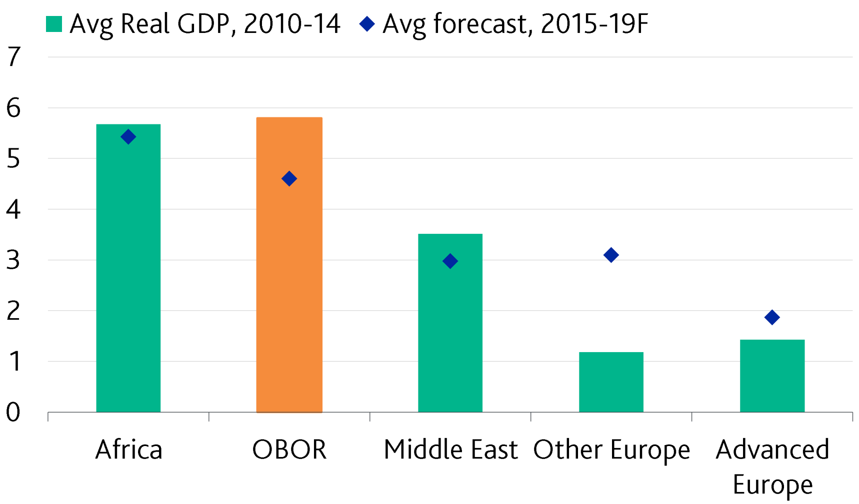
- More than two thirds of the countries that fall under One Belt, One Road are either unrated or rated below investment-grade.
- Enhanced trade and investment will ease downside pressures on GDP growth.
- The net credit impact will be positive for most One Belt, One Road sovereigns.

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)



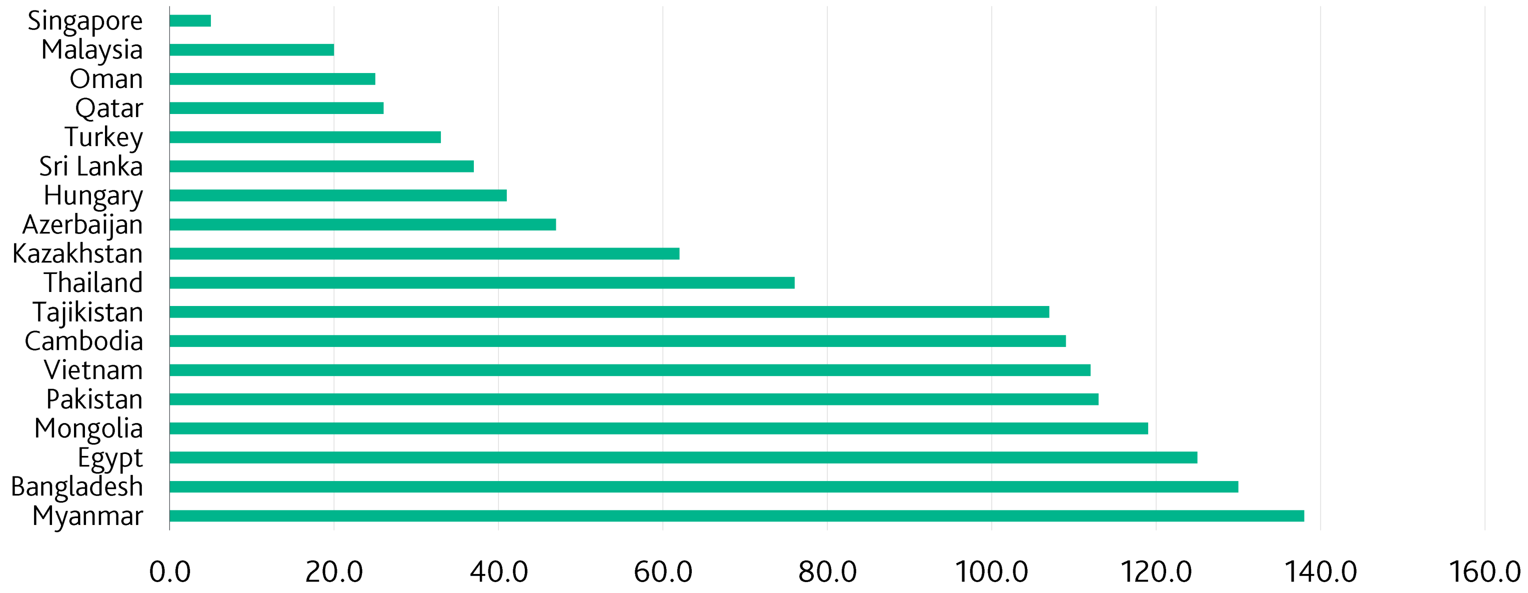
Note: Average GDP growth rates are un-weighted.

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)

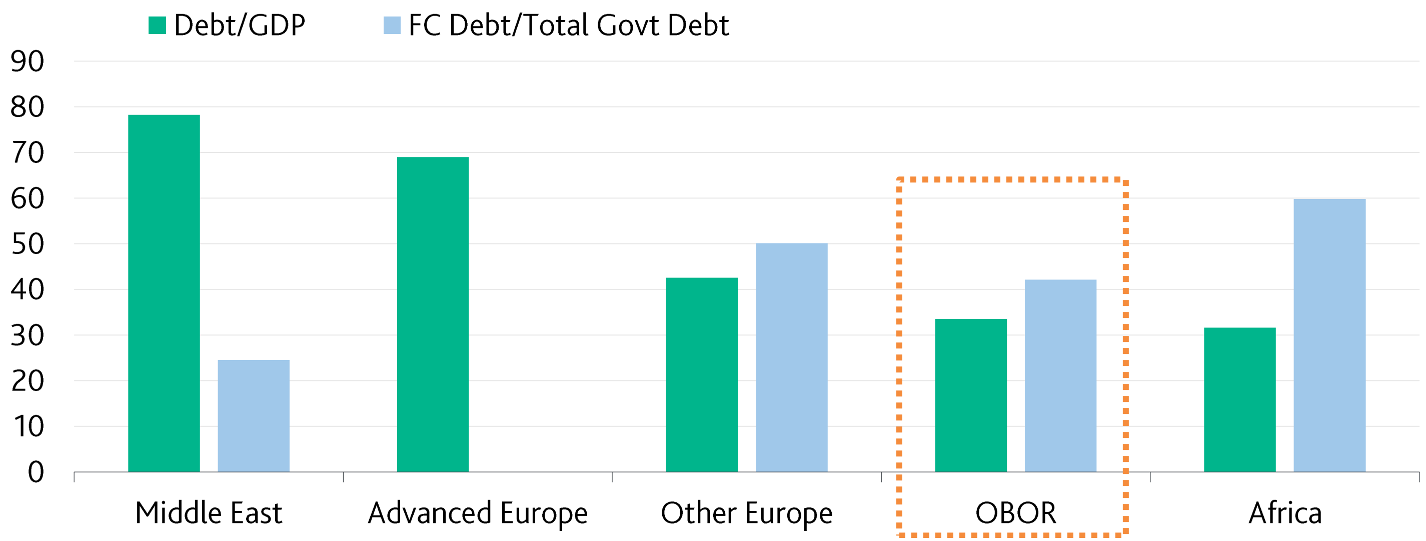


Sources: WEF Global Competitiveness Index, 2014-15

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.

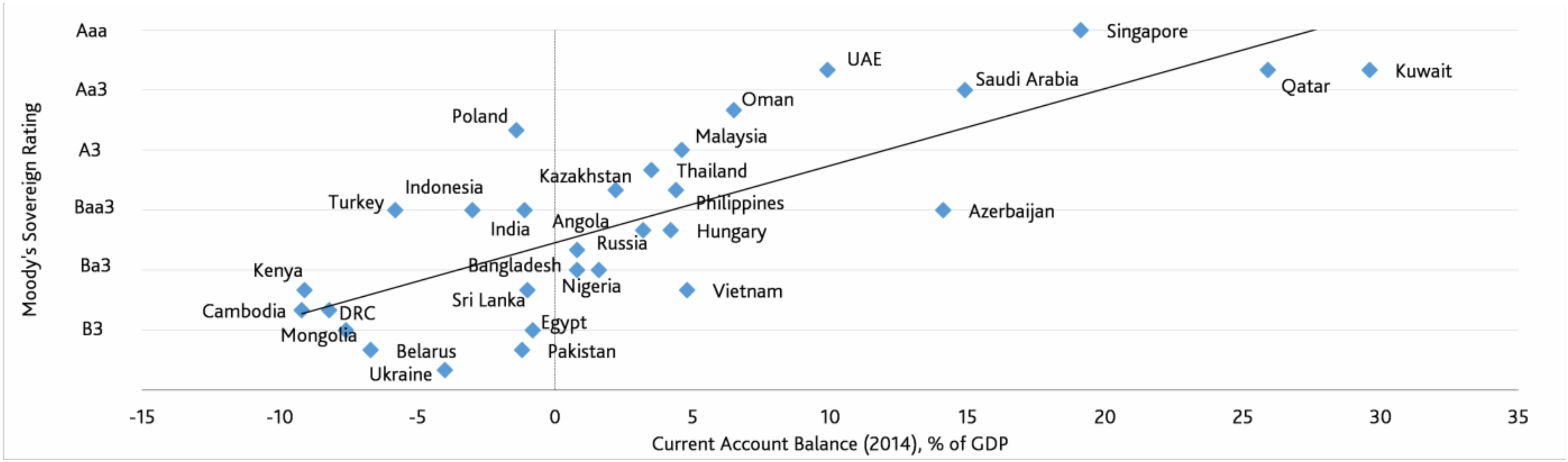
General Government Debt and Foreign Currency-Denominated Debt (%)



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.

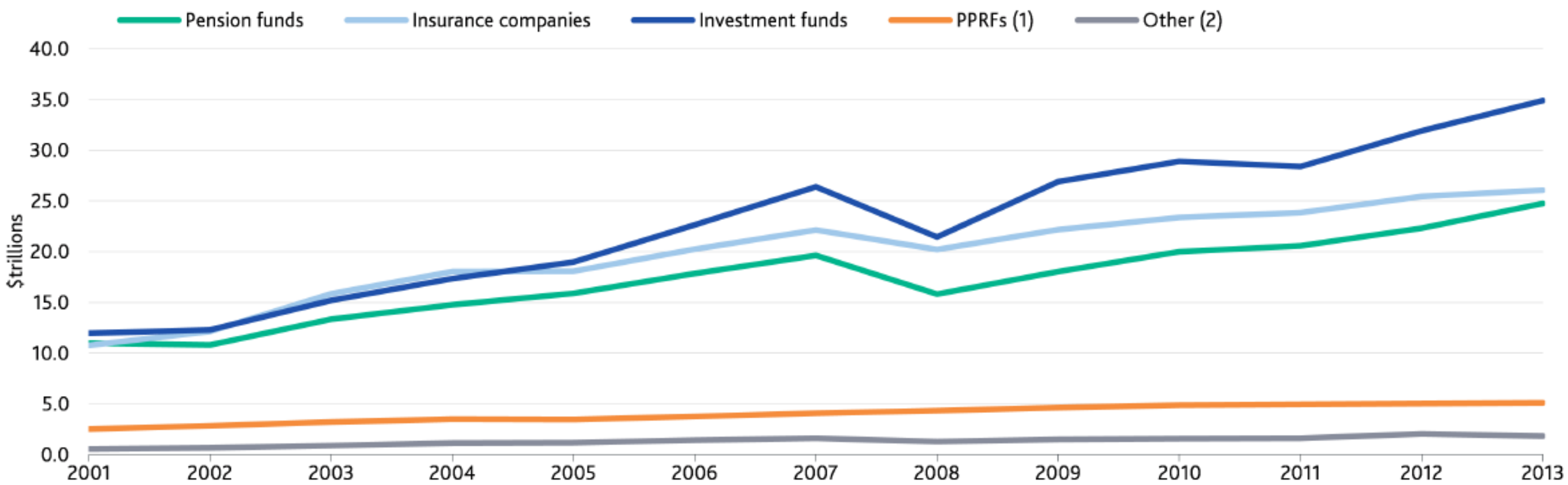
» Most recipient governments have weak policy and project implementation capacities that lengthen project execution.

» 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).

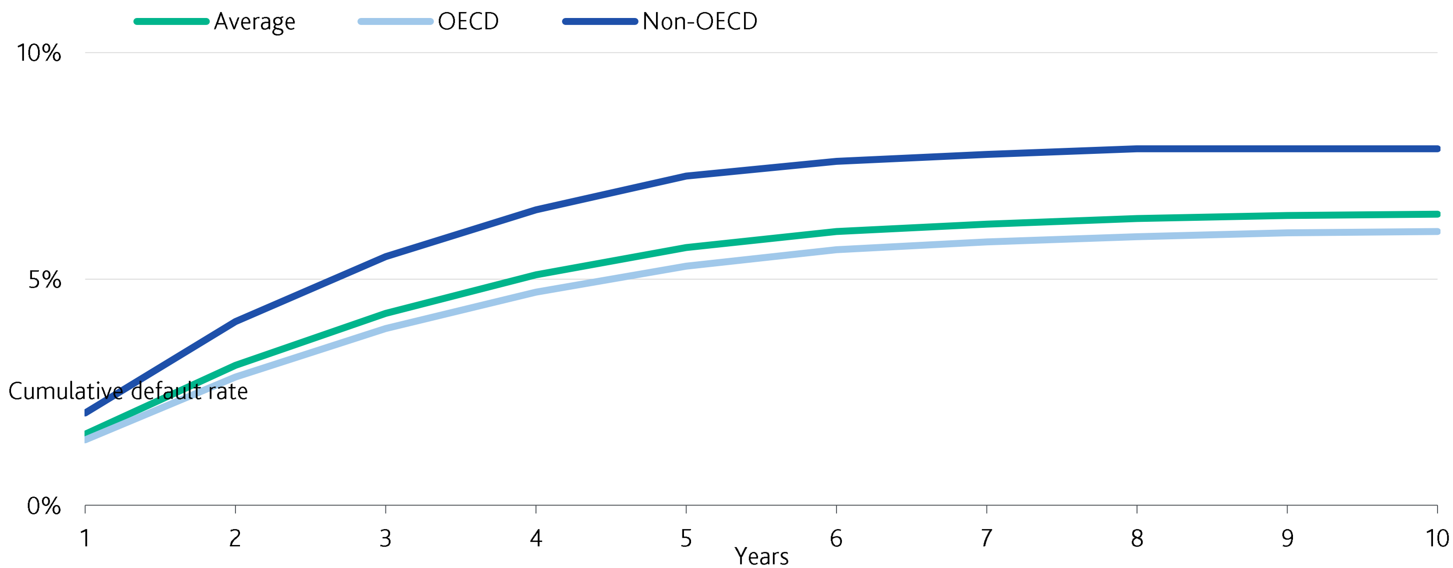
(2) Other forms of institutional savings include foundations and endowment funds, non-pension fund money managed by banks, private investment partnership and other forms of institutional investors.

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



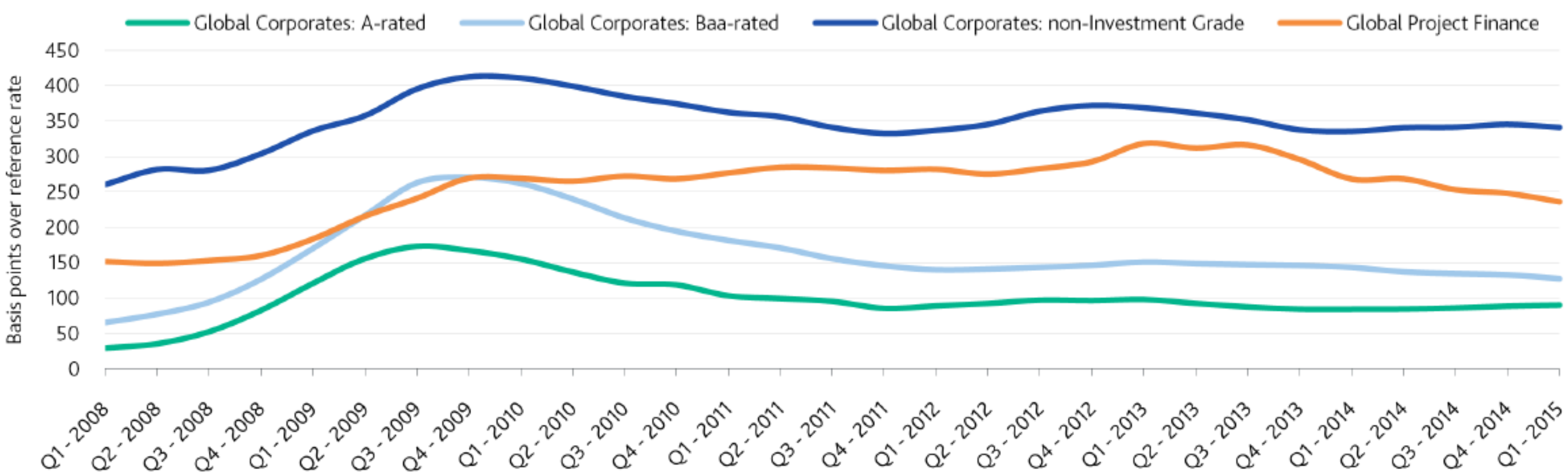
Source: Moody's

- 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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