

Global Uncertainties, Local Challenges:

Infrastructure in Latin America

Infrastructure in Latin America

1

Structural Considerations around Infrastructure in Latin America

2

Infrastructure Financing Trends in Latin America

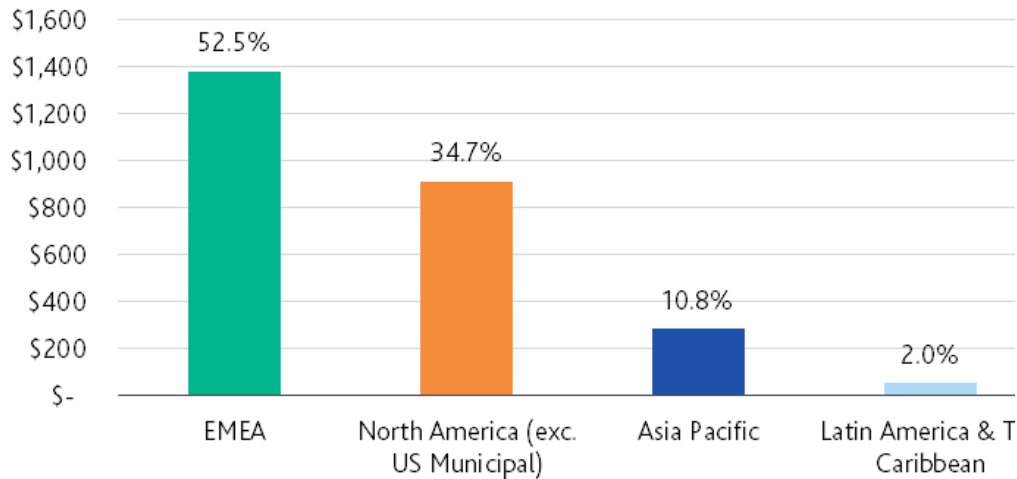
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Conclusions

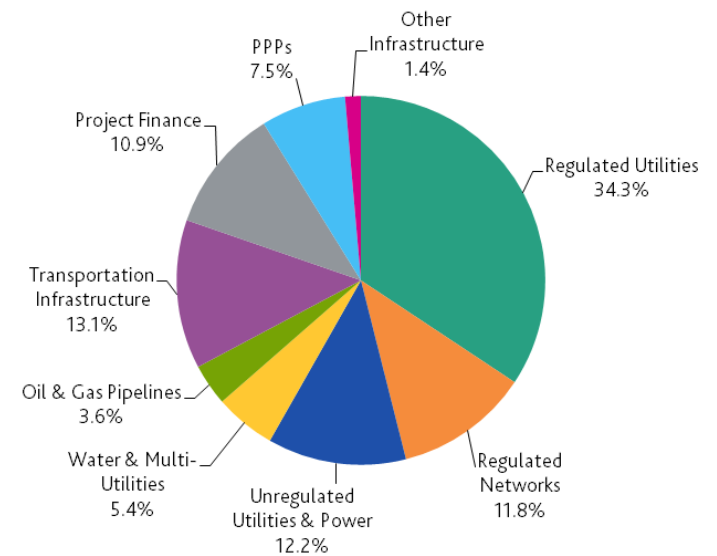
Moody's: Global Coverage in the Infrastructure Sector

- Over \$3.2 trn of rated bond issuances, including Infrastructure and Project Finance

Distribution by Amount

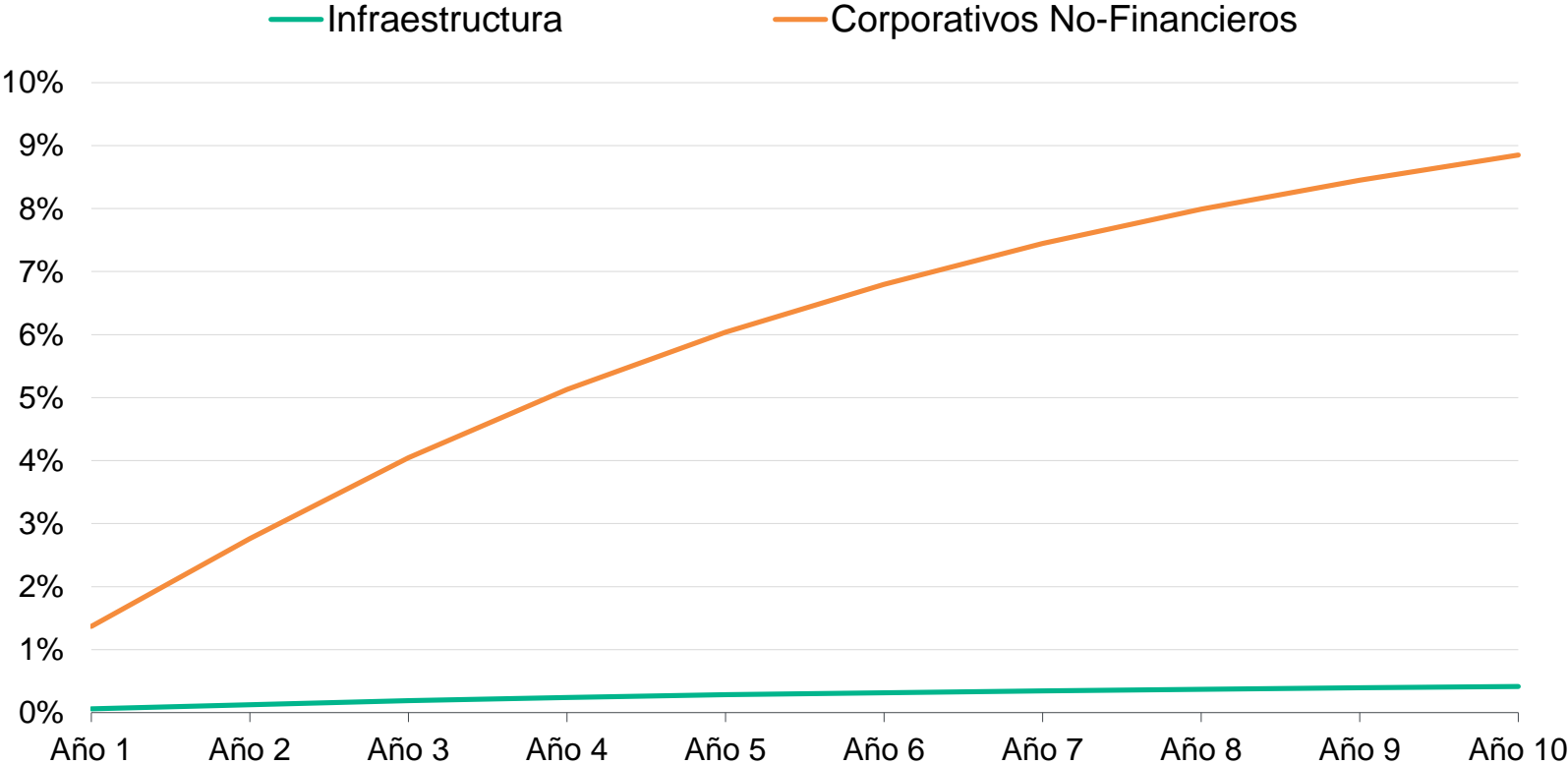


Distribution by Sector



Lower Expected loss compared to non- financial corporates

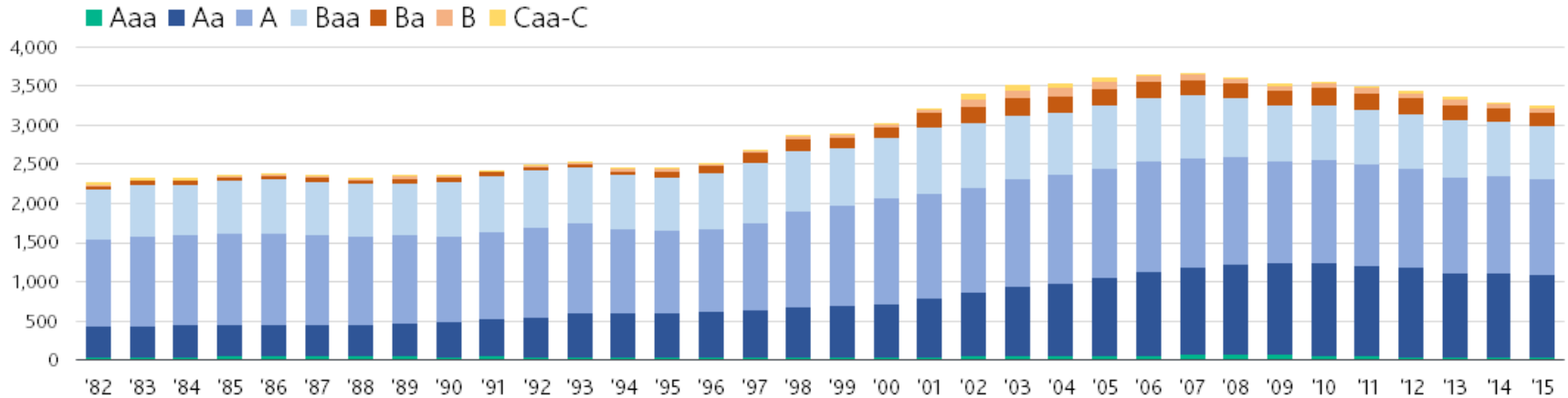
Expected Loss (%)



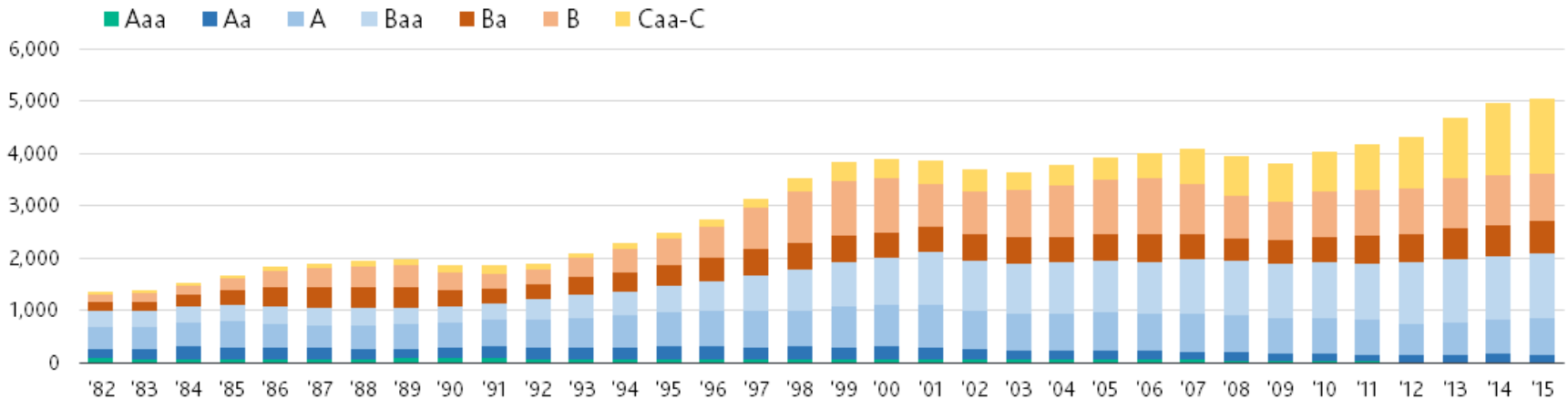
Source: Infrastructure – Global: Infrastructure Default and Recovery Rates, 1983-2015

Infrastructure vs non-financial Corporates

Infraestructura




Corporativos No-Financieros



Source: Infrastructure – Global: Infrastructure Default and Recovery Rates, 1983-2015

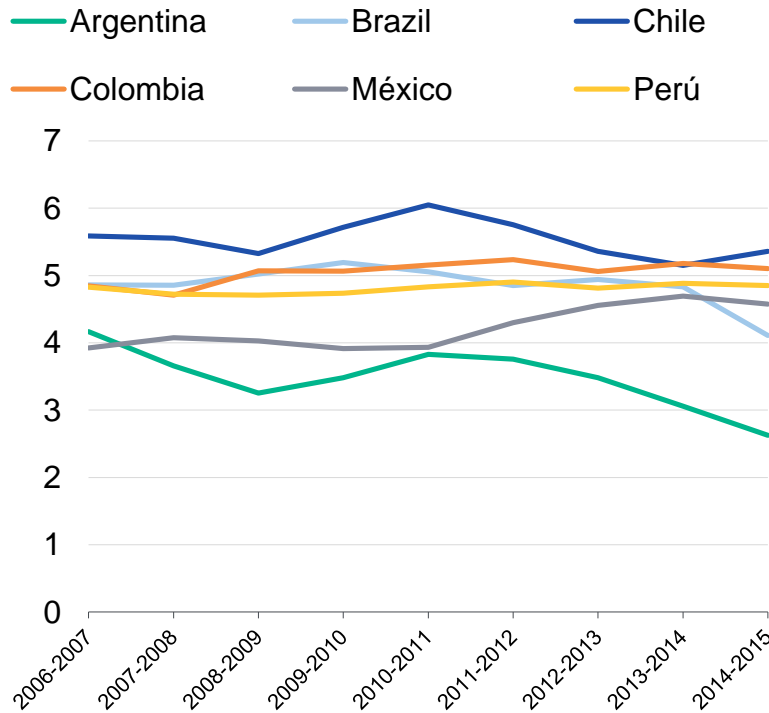
Infrastructure in Latin America: Overview

- 
- High Infrastructure needs
 - Weakening Public Sector
 - Institutional Challenges and corruption
 - In the search of Clean Energy

Infrastructure in Latam: A persistent challenge

- » The World Economic Forum estimates an infra. gap at \$1 trillion per year until 2030¹
- WEF survey indicates infrastructure is still far from “best quality”

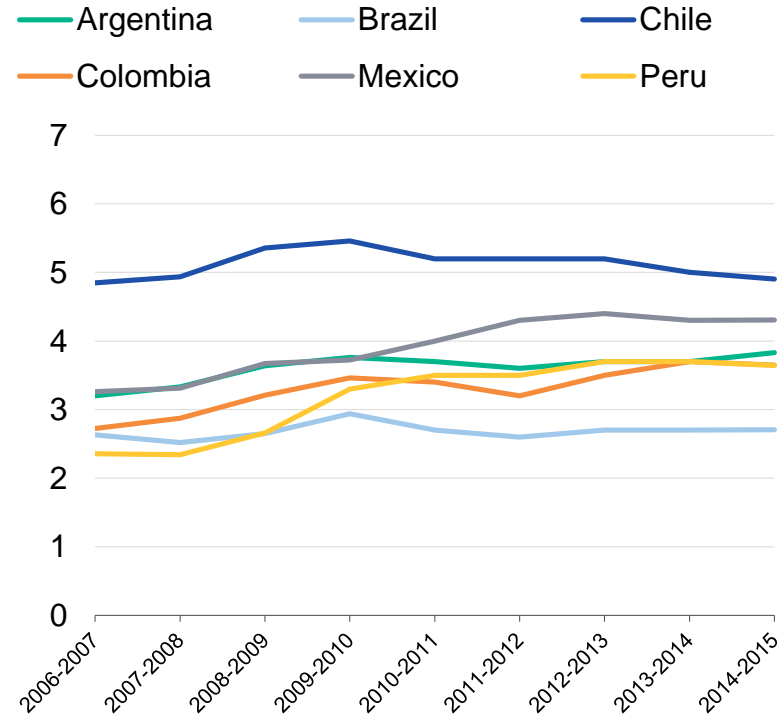
Quality of Electricity 1/



1/ 1=Extremely underdeveloped; 7=Extremely developed.

Source: World Economic Forum.

Quality of Ports 1/

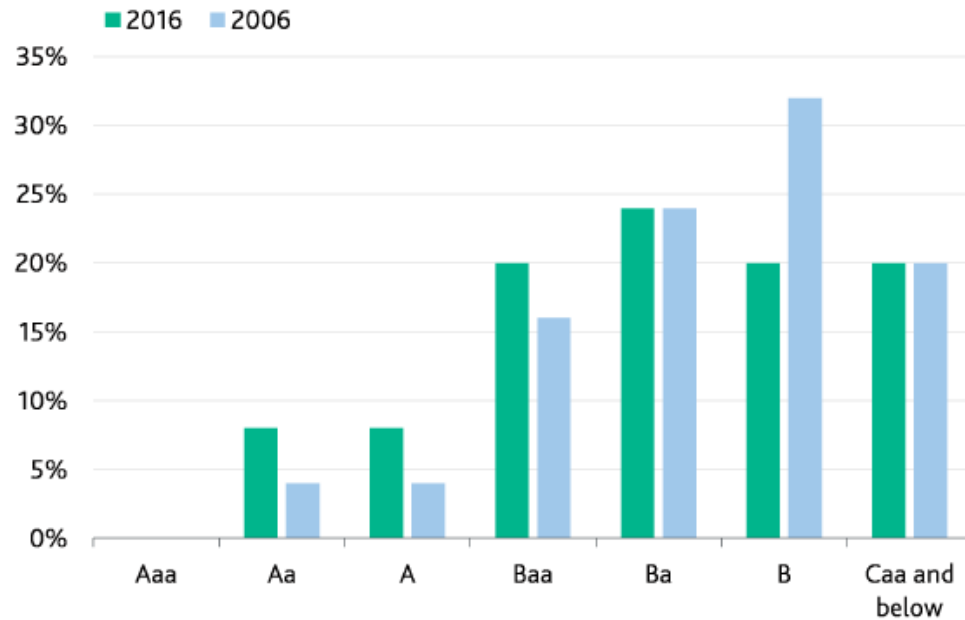


¹World Economic Forum. Strategic Infrastructure: Steps to Prepare and Accelerate Public-Private Partnerships, May 2013.

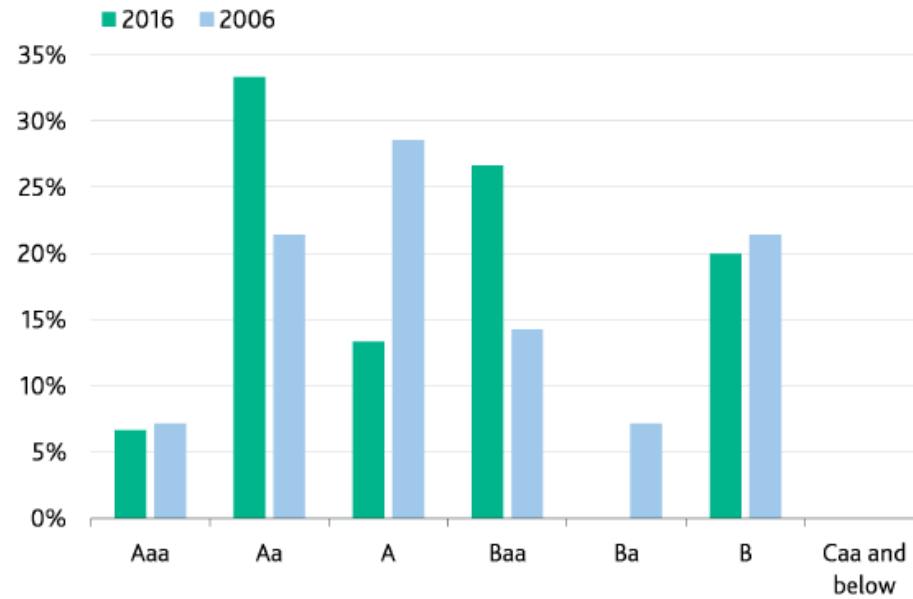
Latin America: A Pause in Supportive Conditions

» Over the past 10 years sovereign credit conditions generally improved, yet...

Latin America



Asia

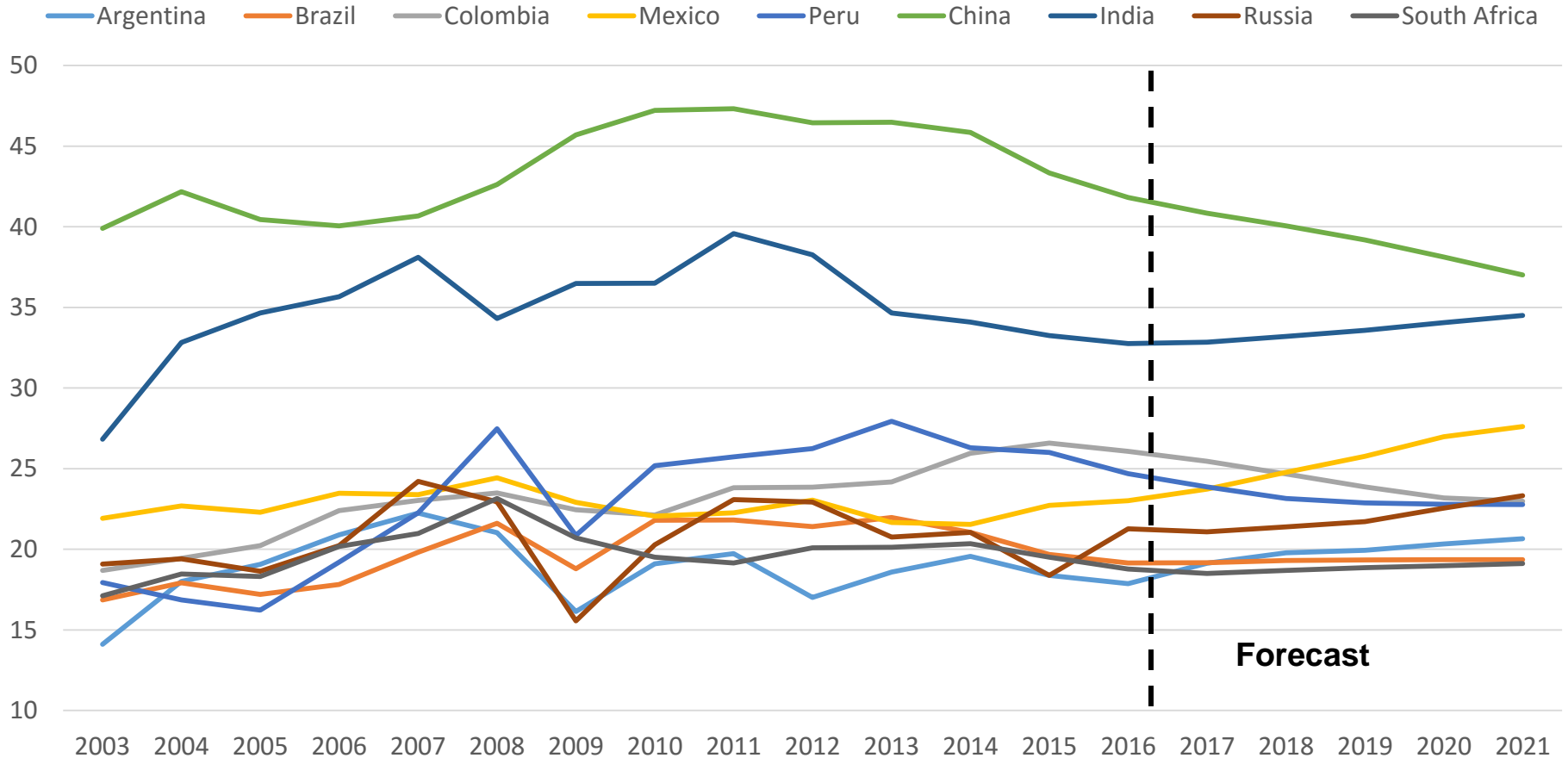


Note: Long Term Foreign Currency Issuer Ratings

Source: Moody's Investors Service

Infrastructure in Latam: A persistent challenge

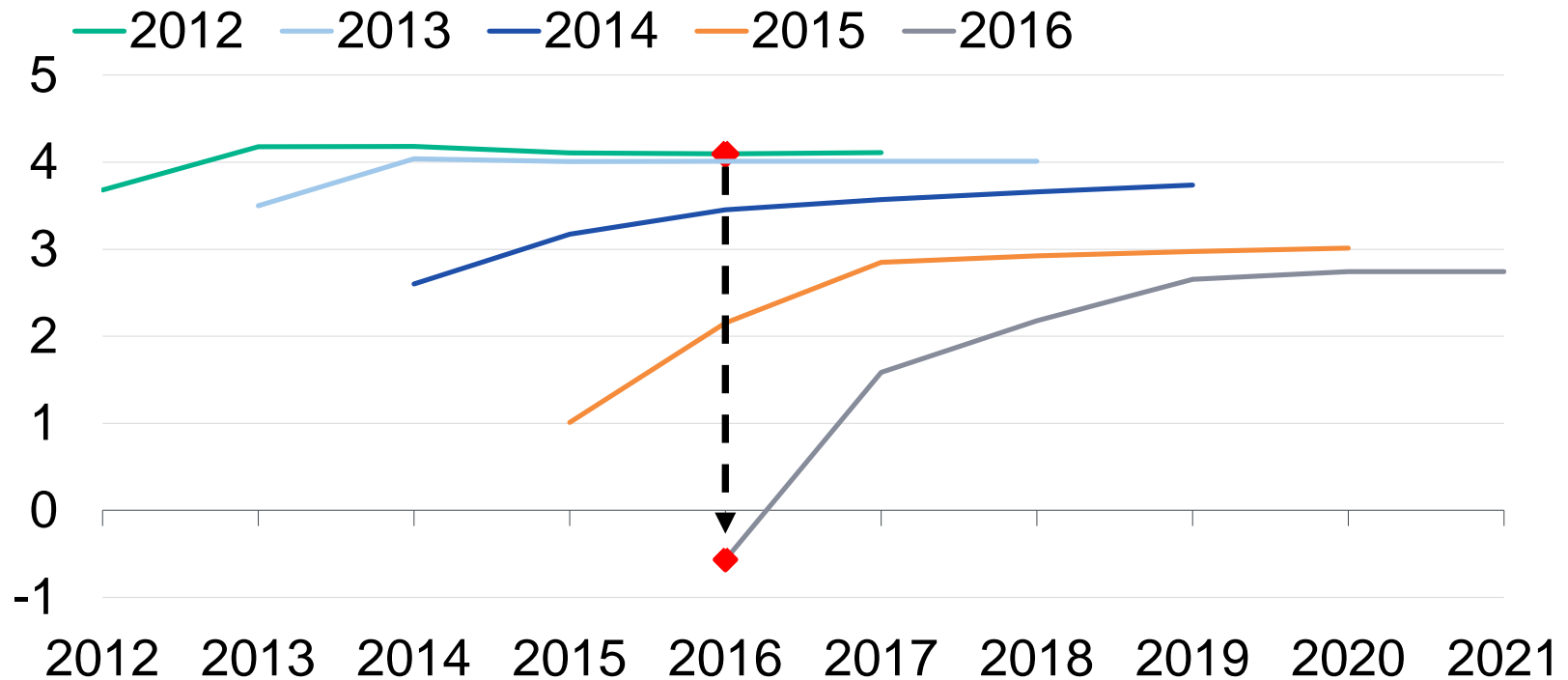
Investment as a Percent of GDP, 2003-2021



Source: International Monetary Fund World Economic Outlook database (April 2016 vintage).

The Age of Diminished Expectations

Latin America: Real GDP Medium-Term Growth Forecasts, 2012-21 1/



1/ Real GDP Growth in Local Currency for Argentina, Brazil, Chile, Colombia, Peru, and Mexico. Average growth weighted by population estimates as of 2012.

Sources: IMF World Economic Outlook Databases. Forecasts made on April of every year between 2012 and 2016.

Conditions Vary by Country

Summary Overview	Mexico A3 neg	Brazil Ba2 neg	Colombia Baa2 st	Chile Aa3 stable	Peru A3 stable	Argentina B3 stable
<p>Project / Infrastructure Finance:</p> <p>Limited Financeable Project Pipeline for cross-border Issuances. Bank financing appetite linked to government support mechanisms; growing pool of potential long-term domestic institutional investors; very limited penetration</p>	<p>Early implementation for energy reform with growing execution risks. Flagship projects continue with some delays expected due to budgetary constraints.</p>	<p>Incipient signs of a more supportive Policy environment driven by the country's fiscal adjustments. Ongoing corruption scandals limit financing for contraction. Low subsidies prompt much higher borrowing costs. No alternative domestic financing sources.</p>	<p>Supportive government with an ambitious infrastructure pipeline, offset by institutional challenges and budgetary constraints</p>	<p>Stable and supportive policy environment, yet a relatively minor infrastructure pipeline.</p>	<p>Ongoing momentum and consolidating track record</p>	<p>Positive expectations around the new administration, but tame expectations for structural shifts in the short term</p>

Source: Moody's:

Infrastructure in Latin America: Short Term

	Gas Pipelines and Drillers	Infrastructure assets	Water Utilities	Electricity Utilities
Commodity Prices				
Foreign Exchange Rates	Mixed			
Tighter Funding Environment				
Exposure to Domestic Economies	Medium to High	High	High	High

Positive
 Neutral
 Weak
 Negative

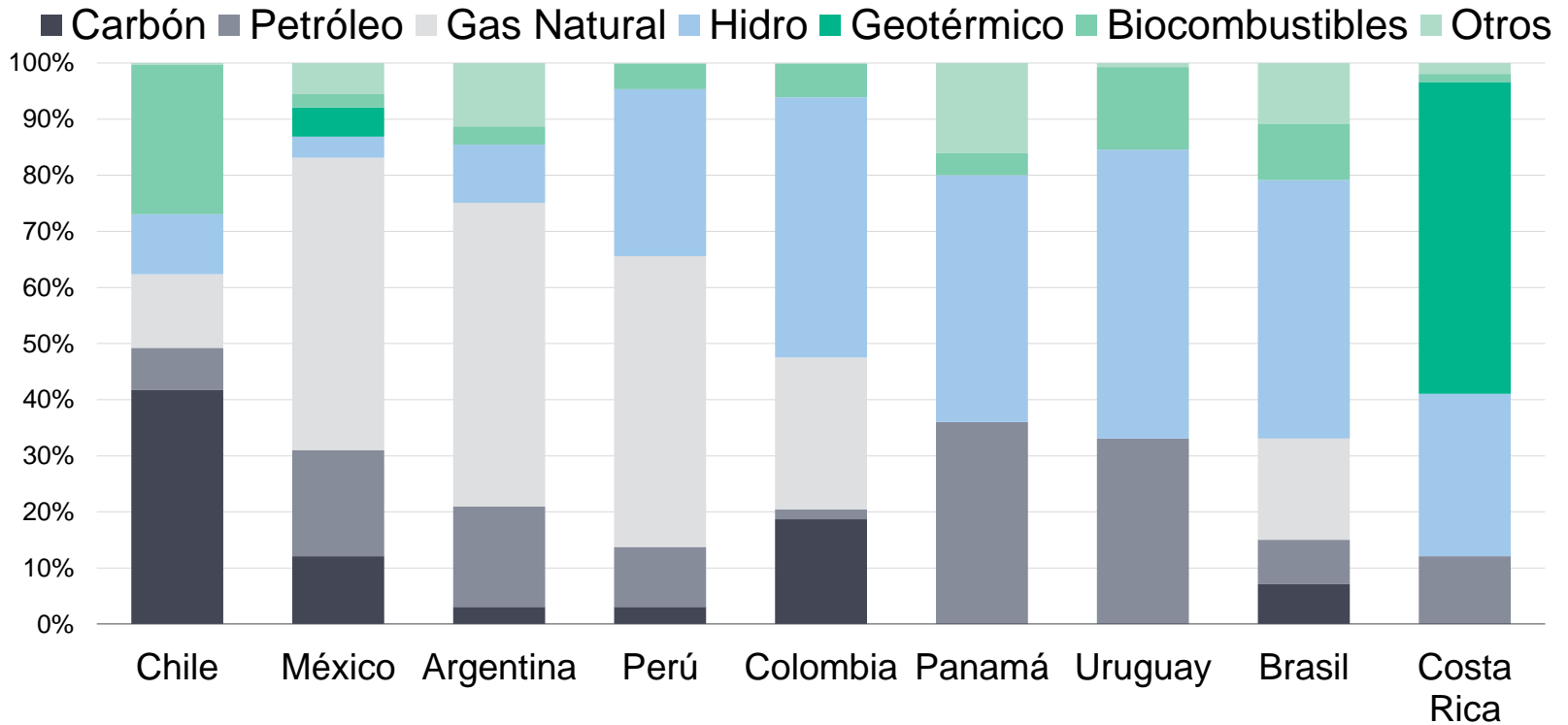
Brazil: Challenges Affecting Infrastructure Assets

- Prolonged economic recession
- Challenging political environment
- Contraction of the Brazilian capital market
- BNDES participation on infrastructure financing

Energy Sources Pose Differing Challenges

- Compromises to reduce emissions

Energy Generation in Latin America



Source: Banco Interamericano de Desarrollo: Base de datos de energía (Actualizado a agosto 2015; datos disponibles a Septiembre 2016)

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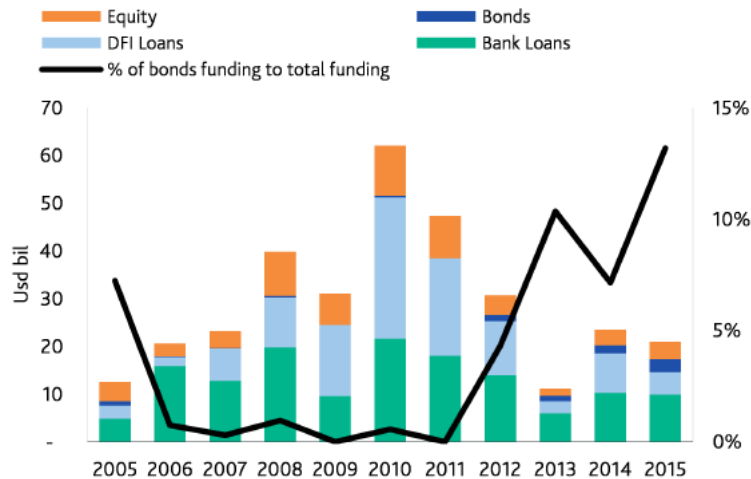
Infrastructure Financing Trends in Latin America

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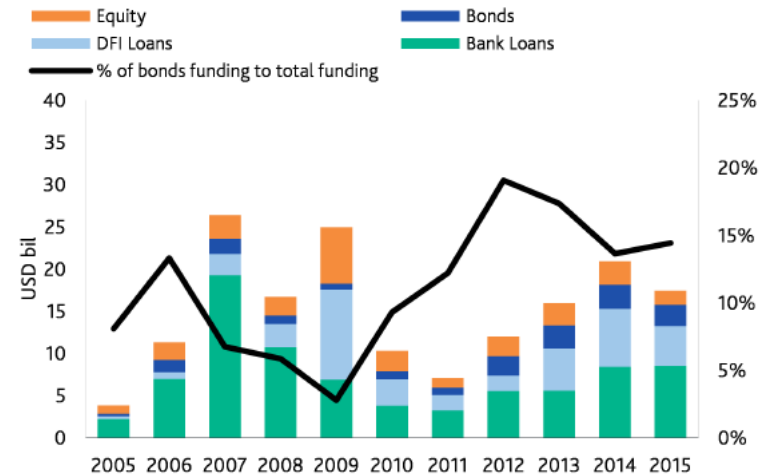
Conclusions

Funding diversity in both Latin America and Asia is concentrated on bank financing

Asia



Latin America



Note: DFI Loans are provided by Development Finance Institutions (DFIs) such as MDBs and State backed banks.

Source: *Infrastructure Journal*

Expanding the financing structures across the region



Tráfico en carreteras y aeropuertos



Tráfico, “vigencias futuras”, compensaciones

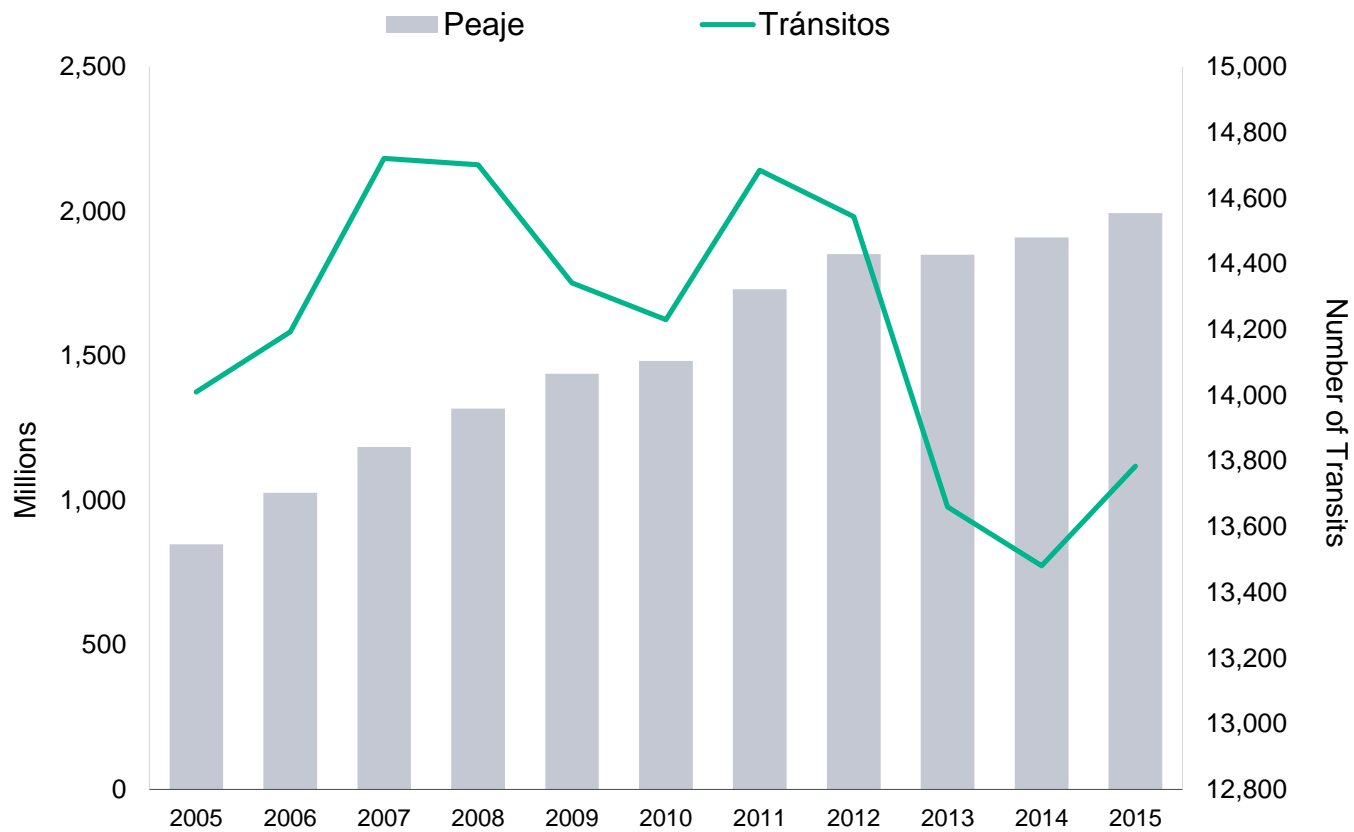


Disponibilidad de buques petroleros



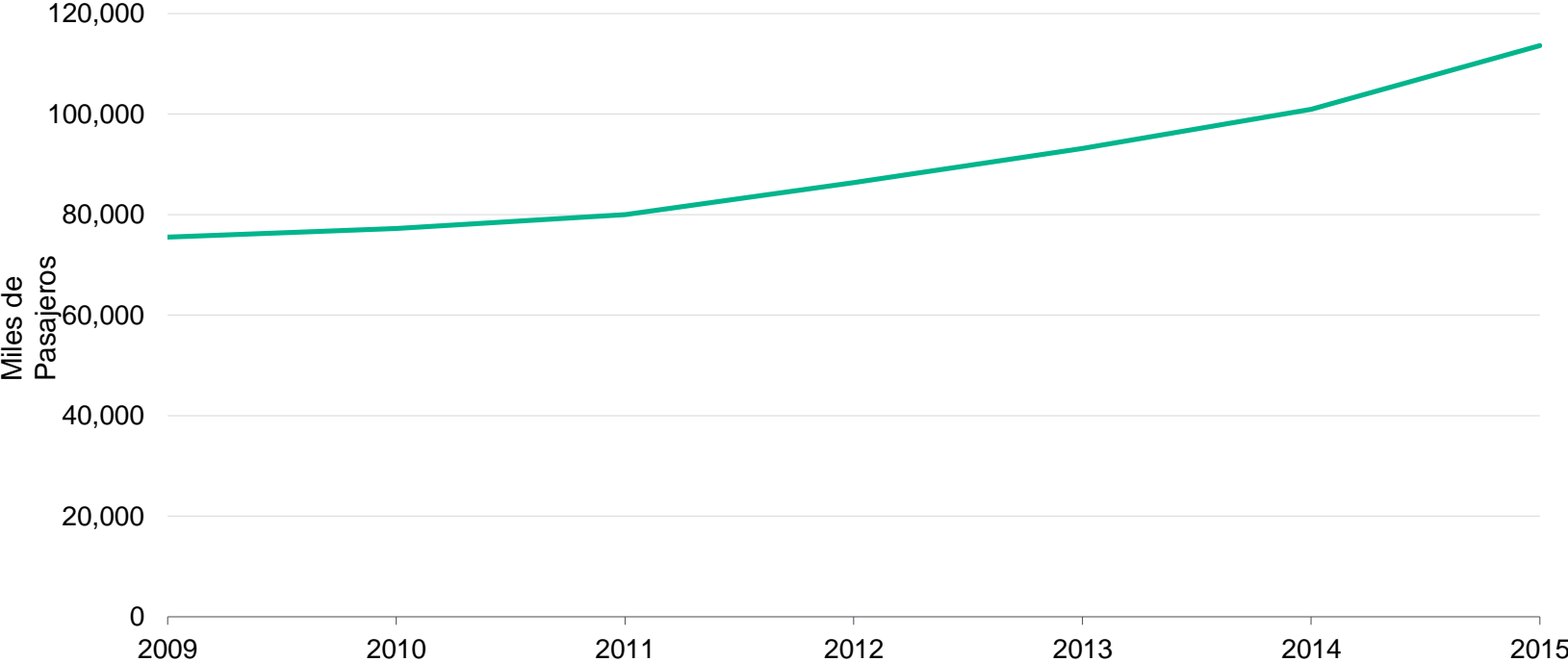
Pagos incondicionales e irrevocables del Gobierno

Panama Canal: less ships, more volume



Fuente: Autoridad del Canal de Panamá, Moody's

México: Traffic Growth trends are supportive of lower demand risk



Fuente: Secretaría de Comunicaciones y Transportes, Moody's

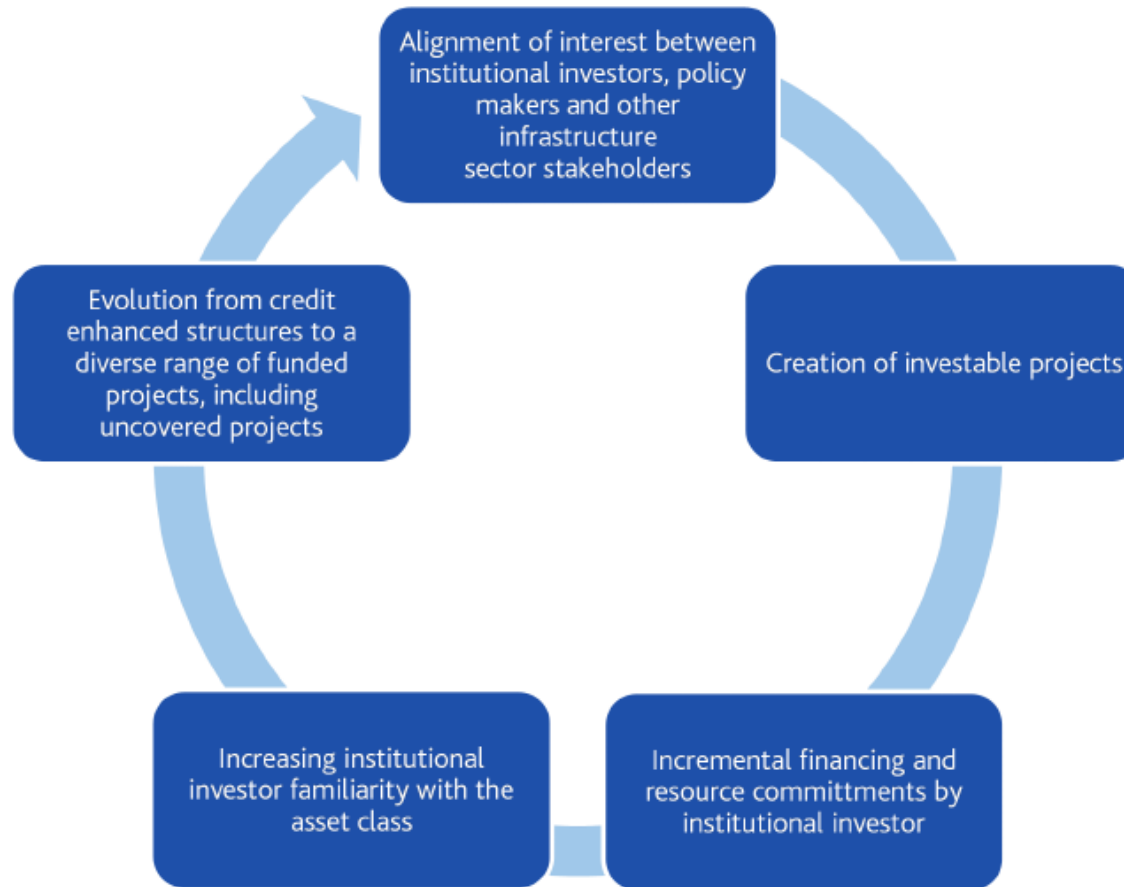
Key Challenges for Infrastructure Investment

- » Long Term Planning of Infrastructure Investment
- » Design, and Execution
- » Construction Costs
- » Institutional Challenges
- » Stability and Creditworthiness of Governments
- » Political, Regulatory Risks
- » Funding Sources
- » Standardization of Structures
- » Construction/Technology Risk



Expanding Infrastructure Financing

- » Lack of well planned, investible projects deters Institutional Investors



Source: Moody's Investors Service

Conclusions

1

Global macro headwinds will challenge Credit conditions through 2016/2017

2

While conditions differ across infrastructure sectors and countries, momentum has paused

3

Competing drivers for infrastructure development

Alejandro Olivo

Associate Managing Director

Tel: +55.1253.5742

Alejandro.Olivo@moodys.com

Adrian Garza, CFA

AVP / Analyst

Tel: +55.1253.5709

Adrian.Garza@moodys.com

Roxana Muñoz

AVP / Analyst

Tel: +55.1253.5721

Roxana.Munoz@moodys.com



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