Swiss Re Institute

Belt & Road Initiative: High time to act

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Today, Tomorrow and What Is Key…

R - R - R

Reflation with Central Bank and Fiscal Stimulus

Recession fears?

Resilience

Global economic outlook

10 Years After The Global Financial Crisis... The World Is Less Resilient

High debt burden

+70trn

Negative yielding sovereign bonds

10trn

Lower economic growth

-2%pts

Sources: IIF, IMF, Swiss Re Institute; global figures

The Three Ps Key To Watch For 2019 And Beyond

Prices

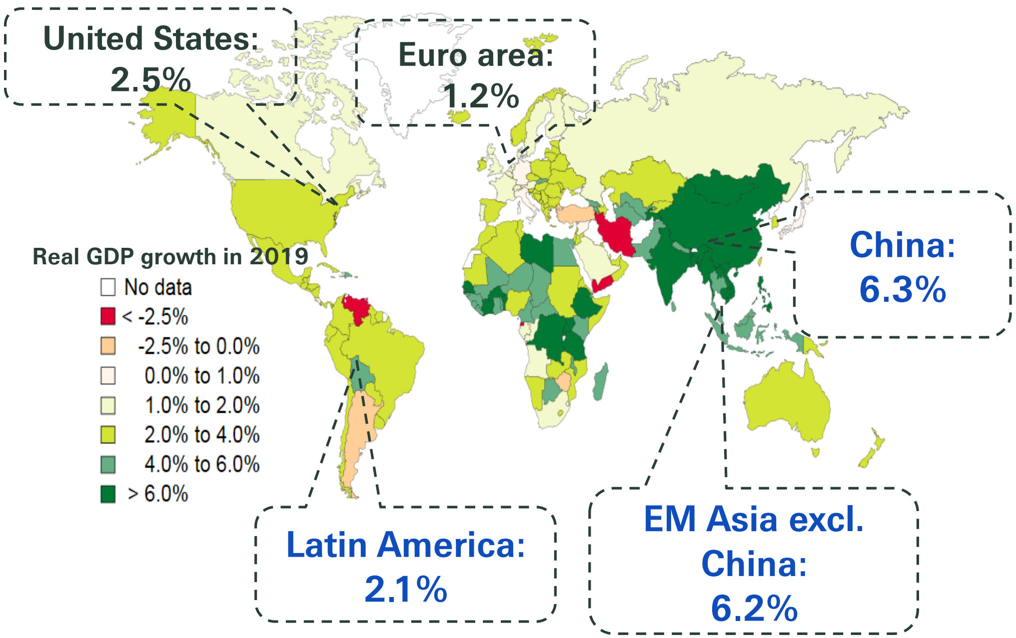
Policies

Politics

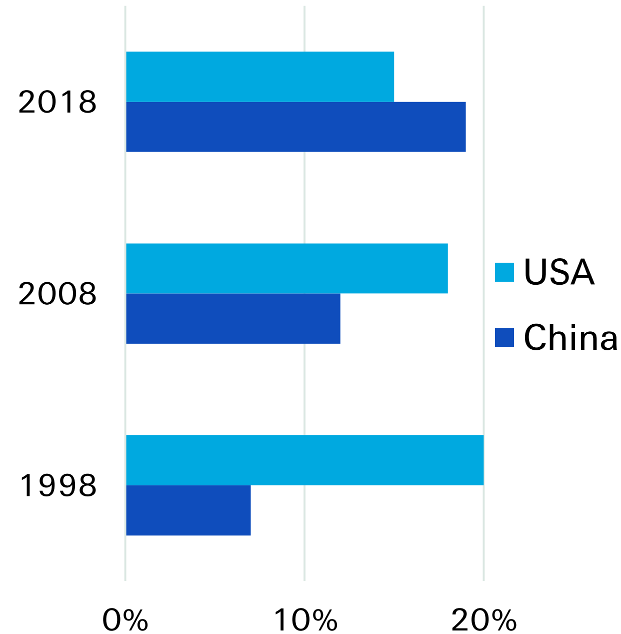
2020: High US recession risk at 35%

Economic Outlook: EM - The Place To Be

Emerging Markets will continue grow significantly faster than Developed Markets



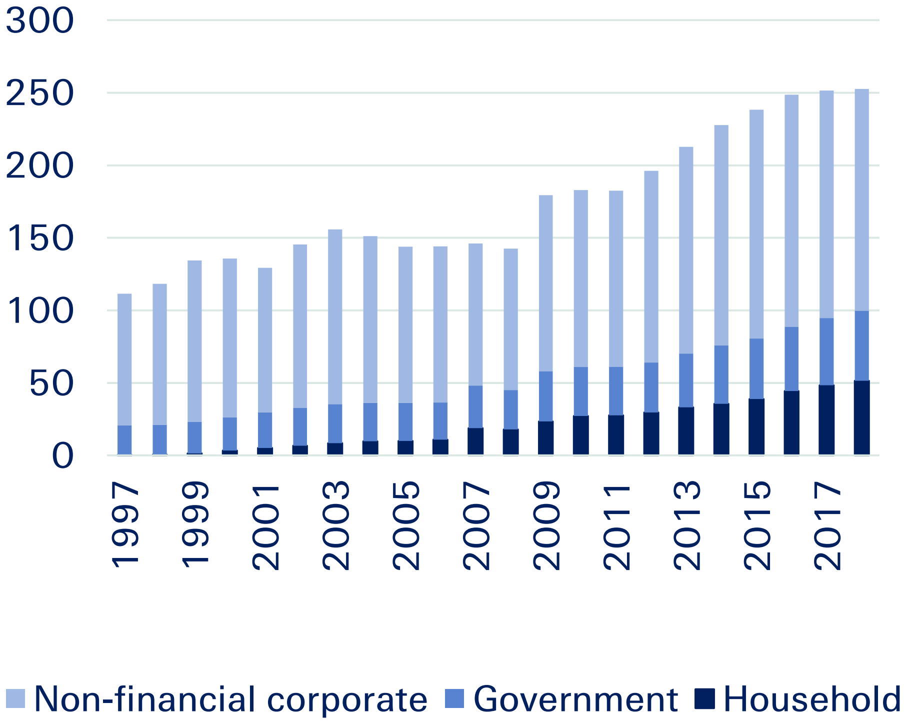
China has overtaken the US and contributes more to global GDP (PPP)



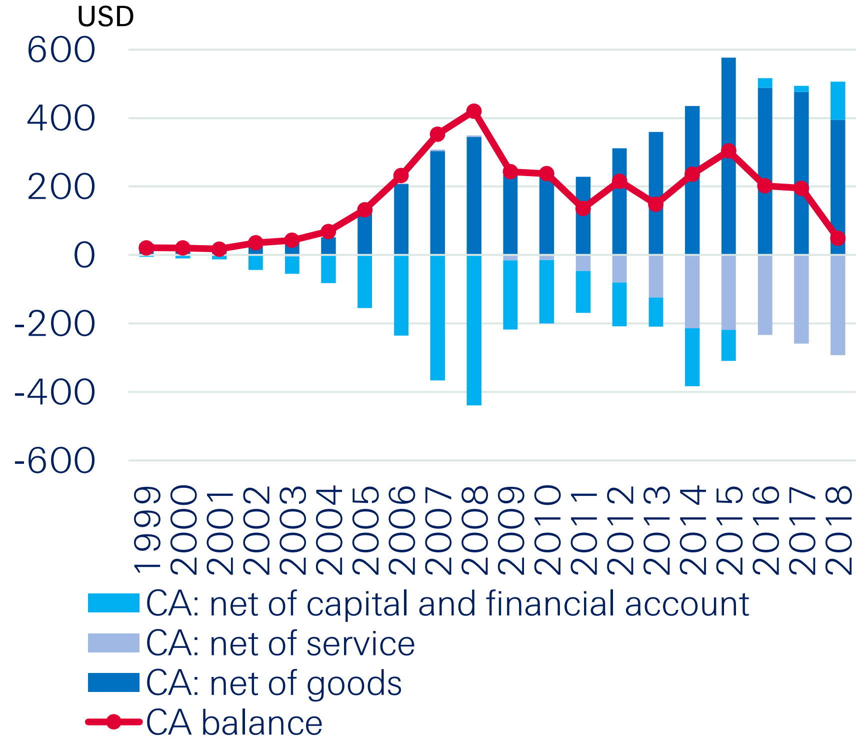
Source: Swiss Re Institute, IMF; Note: PPP refers to purchasing power parity for the exchange rate

Reforms Key Also In China Given High Debt Ratio And Potential Current Account Deficit

Share of debt as % of GDP by sector



Current Account by component ($ bn)



Source: BIS, Ministry of Finance, PBoC, Swiss Re Institute

Belt and Road Opportunities

Infrastructure Investment Provides Enormous Opportunities

65 and 2/3 countries and world population affected by BRI

6.4 trn Estimated infrastructure investments in BRI countries

34 bn Premium potential from construction activities

Source: Swiss Re Institute

As Long-term Investors Re/insurers Help Close The Global Infrastructure Gap

Infrastructure financing needs until 2030:	**USD 40trn**
Advanced economy debt to GDP ratio:	**111%**
Long-term investor asset base:	**USD 80trn**
Capital market share of global infrastructure debt financing:	**~10-20%**

Source: McKinsey, OECD, S&P, Preqin, WEF and IIF. Numbers based on latest available data

Note: McKinsey estimates infrastructure financing needs at USD 3.3trn/year to support expected economic growth rates. ESG assets available for investments is relative to available pool of investments across asset classes

The Challenges: Think Global, Act Local

Our Call For Action

- **Strengthen private capital market solutions, lower barriers for long-term investors**
- **Encourage Public Private Partnerships (PPP)**
- **Leverage Multilateral Development Banks' balance sheets**
- **Promote sustainable investing**
- **"Best practice" pilot transaction for tradable infrastructure asset class, eg with AIIB**

Source: Swiss Re Institute

Key takeaways

Key Takeaways

- The global economy is less resilient than 10y ago
- The economic shift from West to East continues
- BRI offers enormous opportunities for economic growth and to strengthen resilience
- Insurance and economic reforms are key recipe to China's and global economic resilience

Appendix

Cross-border infrastructure projects are exposed to a multitude of risks

Political risks pose a major threat to B&R projects outside China

Risks in BRI

Political

- Geopolitical and territorial disputes
- Displacement and social unrest
- Concerns about control

Economic

- Vulnerability to external risks
- Excessive debt, weak finances
- Inflation, Inefficient fund allocation

Operational

- Corruption and work ethics
- Weak contract enforcement
- In-transparent employee practices

Regulatory

- Varied legal environments
- Environmental issues
- Labour regulations and unrest

Source: Swiss Re Institute

BRI will boost development in countries along the “road” and “sea“ routes

Stylized view of the benefits of B&R

- Enhanced connectivity through rail, road, port and airports
- Better telecommunications infrastructure
- New power plants and transmission and distribution (T&D) lines to support energy needs

Improved infrastructure and connectivity

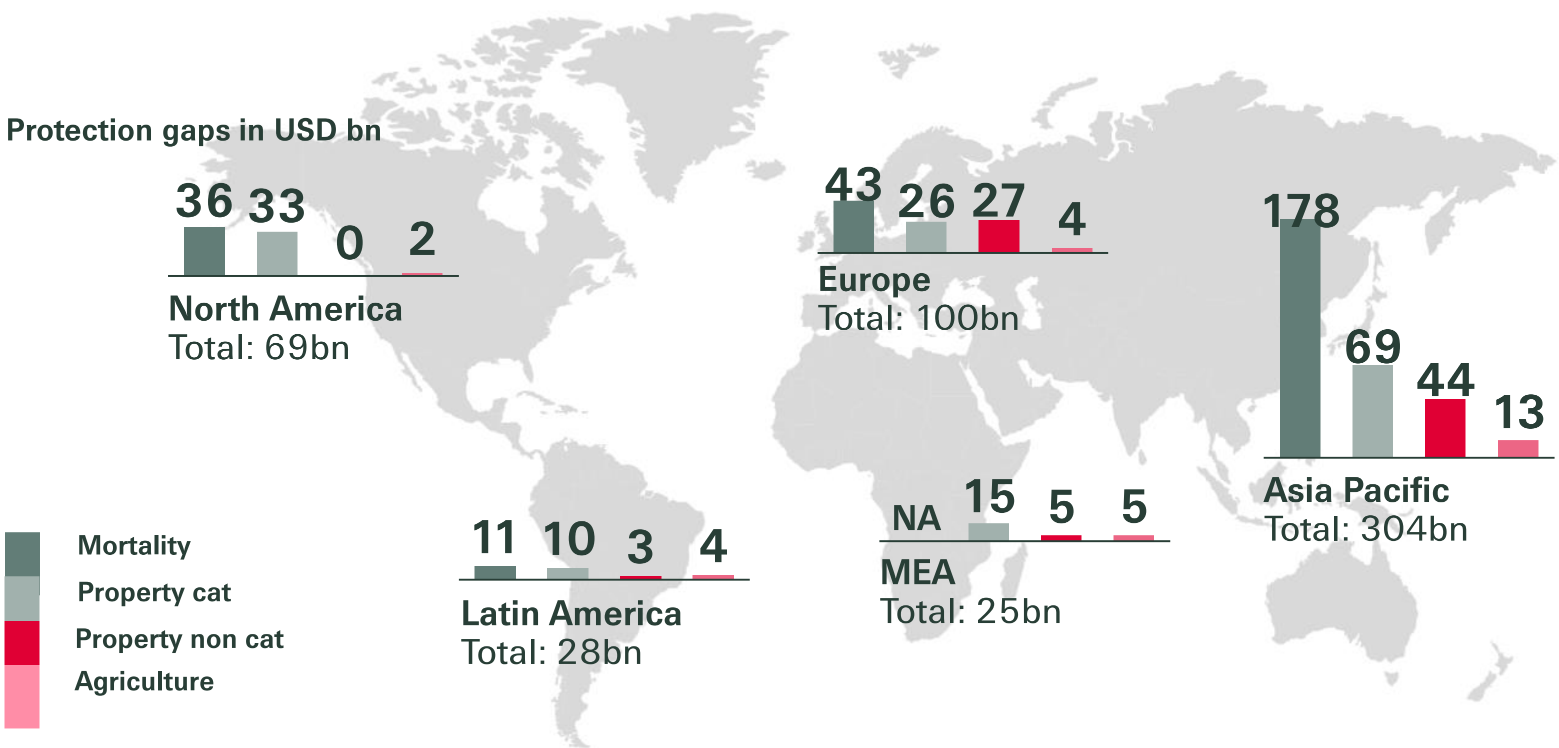
- Access to new markets
- Increased trade and freer flow of goods and services
- Faster and more cost-effective trade routes
- Increased tourism
- Enhanced people-to-people and cultural exchange

Increased trade, tourism and cultural exchange

- New industrial corridors to support urbanisation and economic growth
- Development of commercial and residential complexes near economic corridors.
- New employment opportunities
- Capacity cooperation to maximise economic growth

Generate economic growth and employment

Protection Gaps Remain Large For BRI Participant Countries/Markets



Note: Protection gap is a measure of underinsurance. More detailed explanations around the protection gap estimates are available in Swiss Re Institute's sigma 5/2018 "Global economic and insurance outlook 2020"
Source: Swiss Re Institute

Overview of Swiss Re's macro forecasts

US	2018	2019	2020	2018	2019	2020
	Real GDP (% change)			CPI (% change)		
Swiss Re Institute	2.9	2.5 ↑	1.8 ↑	2.4	1.9	2.3
Consensus		2.4	2		1.9	2.2
IMF		2.3	1.9		2.0	2.7
	Fed Funds Rate (%)			10y Gov. Bond Yield (%)		
Swiss Re Institute	2.38	2.38	2.38	2.69	2.70	2.70
Bloomberg Consensus		2.43	2.38		2.75	2.87

Euro Area	2018	2019	2020	2018	2019	2020
	Real GDP (% change)			CPI (% change)		
Swiss Re Institute	1.8	1.2	1.2	1.7	1.3	1.5
Consensus		1.1	1.3		1.3	1.4
IMF		1.9	1.7		1.7	1.8
	Refi. Rate (%)			10y Gov. Bond Yield (%)		
Swiss Re Institute	0.00	0.00	0.00	0.24	0.40	0.60
Bloomberg Consensus		0.00	0.10		0.35	0.69

UK	2018	2019	2020	2018	2019	2020
	Real GDP (% change)			CPI (% change)		
Swiss Re Institute	1.4	1.3	1.5	2.5	1.8 ↓	1.9
Consensus		1.3	1.5		2.0	2.1
IMF		1.2	1.4		1.8	2.0
	Bank Rate (%)			10y Gov. Bond Yield (%)		
Swiss Re Institute	0.75	0.75	1.00	1.28	1.50	1.80
Bloomberg Consensus		0.90	1.20		1.5	1.75

China	2018	2019	2020	2018	2019	2020
	Real GDP (% change)			CPI (% change)		
Swiss Re Institute	6.6	6.3 ↑	6.1	2.1	2.3	2.5
IMF		6.3	6.1		2.3	2.5
	Reverse Repurchase Rate 7d (%)			10y Gov. Bond Yield (%)		
Swiss Re Institute	2.55	2.50	2.50	3.31	3.20	3.10
Bloomberg Consensus		-	-		3.16	2.98

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