



**CAPITAL MARKETS FINANCING FOR INFRASTRUCTURE
INVESTMENTS**

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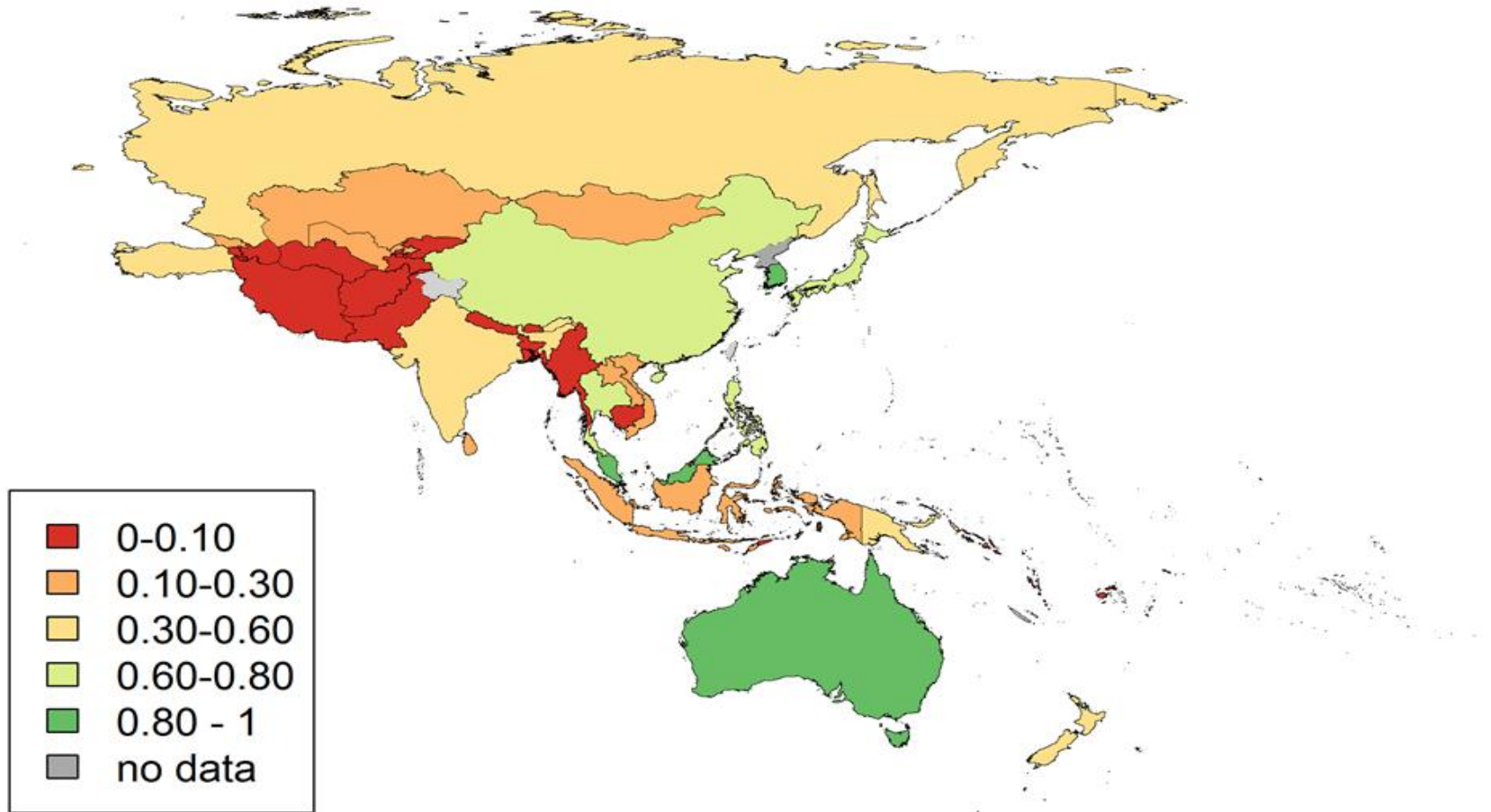
BACKGROUND

- * Infrastructure remains a major challenge to Region as it seeks to achieve its full development potential
- * The banking sector has traditionally played a major role in financing infrastructure projects in the region. However, bank dominant system increase the risk of an overexposed banking system through maturity or currency mismatches.
- * Capital markets would reduce the pressure on the banking system while also making available fresh equity to finance / refinance infrastructure projects

State of Capital Markets

- * Asia is home to a diverse set of financial systems that vary in depth and sophistication, including a number of emerging market and low-income economies in which capital markets are still at an early stage of development.
- * The map next slide provides a snapshot of the depth of financial market development in the region based on the index developed by the International Monetary Fund (IMF)

State of Capital Markets



State of Capital Markets

- * Central Asian countries as well as those in the Pacific have particularly underdeveloped capital markets with many of them having neither bond market nor stock exchanges.
- * Capital markets might need to be developed in these countries before they can play a significant role for infrastructure development.

State of Capital Markets (Bank Domination)

Since most of the countries have underdeveloped equity and bond markets, Asian financial sector is dominated by Banks.



State of Capital Markets (Limitations of Bank Domination)

- * Refinancing risks, Single borrower limits, Provisions and Basel III are limitations of bank dominated system
- * These limitations illustrate why bonds are a useful alternative to loans for infrastructure financing
- * Bank financing should nevertheless continue to play a key role in the initial phase of an infrastructure project

Institutional Investors

- * The long-term nature of infrastructure projects matches the long-term liabilities of institutional investors
- * There is a high correlation between the size of the institutional investor base and the size of capital markets
- * Underdeveloped equity and bond markets prevent institutional investors to finance infrastructure investment

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