BRI Pulse

Q1 2020 Government Related Loans

Chinese Government related loans in Q1 were heavily influenced by the novel coronavirus pneumonia (NCP), both domestically and throughout the BRI.

Domestically, by 10th February, CDB had granted emergency loans of 20.4 billion yuan (circa $3 billion) related to NCP mainly to construction/protection of the two makeshift hospitals in Wuhan. CDB also set up an emergency financing service mechanism, designed to address the financial demands of key enterprises related to the epidemic control within 24 hours as well as offering lower loan interest rates to SMEs in the Hubei province.

Internationally, on 28th February, MOFCOM and CDB jointly issued the "Circular about Using Development Finances to Support the BRI" by various means to support high-quality Belt and Road projects and enterprises affected by NCP:

- Providing low-cost loans and foreign exchange working capital loans. For example, reducing financing costs within 30 basis points. Overseas RMB loans will be given interest rate cuts; *the Myanmar Railways $11 million facility was interest free*
- Providing local and foreign currency loans (e.g. provide US$5 billion in foreign currency special working capital loan support for enterprises to resume work and production)
- Extending loan repayment periods; *the upsized Sri Lanka $500 million facility extended tenure from 8 to 10 years*
- Accelerating the opening up of 'green channels' for foreign exchange and overseas RMB business affected by the epidemic; and,
- Providing diversified financial support (e.g. increasing coordination with overseas financial institutions and promoting flexible and diversified domestic and foreign currency financing services) – *the $5 billion MoU (only) signed with between Turkey's Wealth Fund and Sinosure is an example*

In light of these conditions, it is not a surprise to see Chinese Government outbound related loan committed totals in Q1 2020 fall considerably across all components:

- Newly committed policy bank loans volume fell only slightly from 7 to 6, but declined in total amounts from $5.5 billion in Q4 2019 to $1.4 billion in Q1 2020, a decline of 78%. Such loans were focused in Africa, Myanmar and Sri Lanka.
- Grants/aid decreased from 3 to 1; but amounts increased from $435 million to $580 million.
- AIIB approved projects decreased from 12 in Q4 2019 to 2 in Q1 2020 (Oman, Bangladesh). Aggregate amounts declined from $1.7 billion to $260 million, a decrease of nearly 85%.
- NDB approved projects declined from 8 for $2.6 billion in Q4 to only 1 facility for $987 million – to China for NCP related financial assistance.

Despite the environment, end of Q1 policy bank loans under discussion total over $45 billion (offset by Chinese $100 billion savings in lower energy costs in 2020); however, we believe that all were already on the list of 283 agreed deliverables from BRFII. Now, many of these proposed projects are well advanced; Sinosure/Turkey (MoU), Turkcell/CDB (MoU), SPIA Airport/CDB in Philippines and Russia based LNG projects. While this number appears large to an outside observer, it has continued to decline over the past two years as the BRI, as set out in our July 2019 *BRI Pulse*, as the BRI continues to evolve from its initial Infrastructure phase to the *Digital Silk Road, SEZs,* and as of Q1, the launch of the *Health Silk Road,* which we discuss in our Q1 Quarterly Research.