

Credit Risks and Opportunities for Emerging Market Investments:

Insights from MDB/DFI Private Sector Lending

Agenda

- **Introduction & What is GEMs**
- Why GEMs Matters to Investors
- Key Insights from GEMs Data
- What GEMs Means for EMDEs
- Conclusion

GEMs — Redefining Risk in Emerging Markets



Bridging the Gap Between Perception and Reality

Investors often view EMDEs as excessively risky, relying on limited data and sovereign credit ratings that overstate private sector risk.

GEMs Value Proposition

DATA-DRIVEN INSIGHTS

Robust statistics on defaults and recoveries grounded in over three decades of MDB/DFI lending.

RISK REASSESSMENT

EMDE corporates show default rates comparable to high-yield firms in advanced economies.

DIVERSIFICATION BENEFITS

Low correlation with advanced economy assets enhances portfolio resilience in global downturns.



EMPOWERING INVESTORS

Experience of MDBs/DFIs dispels misconceptions, highlights EMDE resilience, and supports data-backed allocation decisions.

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GEMs — A Data-Driven Resource for Investors




GEMs is a consortium of 29 multilateral development banks and development finance institutions pooling decades of credit risk data.



GEMs covers 15,507 loans to 10,476 private counterparties across all sectors, and 169 countries.




GEMs tracks default and recovery rates for loans in EMDEs over the past three to four decades.




GEMs depth:

- > 41 years sovereign and sovereign-guaranteed lending.
- > 31 years private and public lending.



GEMs provides a common risk methodology to ensure consistency and reliability of data.



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AVERAGE ANNUAL DEFAULT RATES

AVERAGE ANNUAL DEFAULT RATE (1994 – 2024)

3.54%

Benchmarked to:

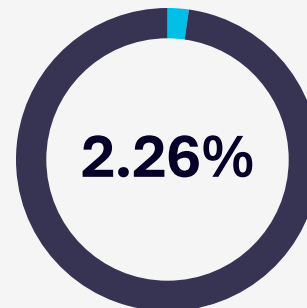
3.2%

S&P “B” rated firms

3.8%

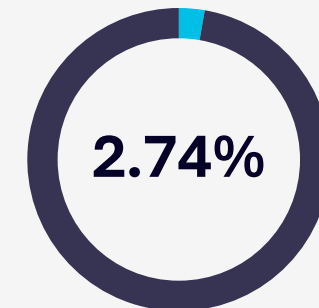
Moody’s “B3” rated firms

Lowest Default Rate GICS Sector
(1994 – 2024)



Financials

Lowest Default Rate Region
(1994 – 2024)



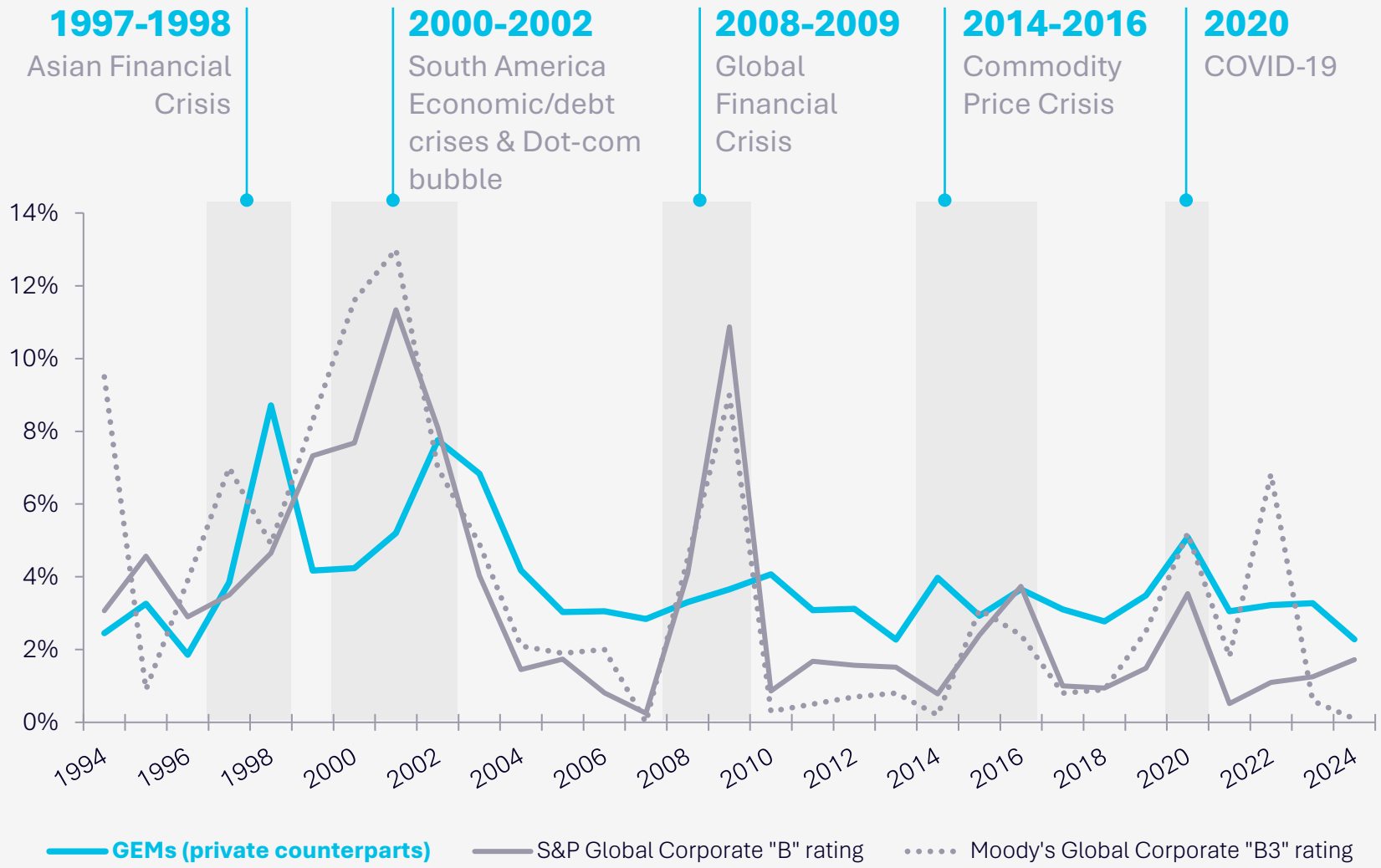
Europe & Cental Asia

What the
Numbers
Tell Us

Resilience During Crises

GEMs versus Comparators

What the Numbers Tell Us



AVERAGE RECOVERY RATES

AVERAGE RECOVERY RATE (1994 – 2024)

72.9%

Benchmarked to:

70%

Moody's Global Loans

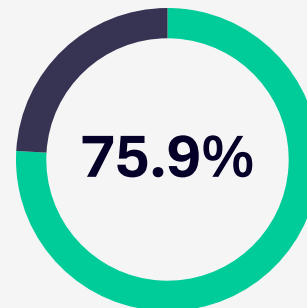
59%

Moody's Global Bonds

38%

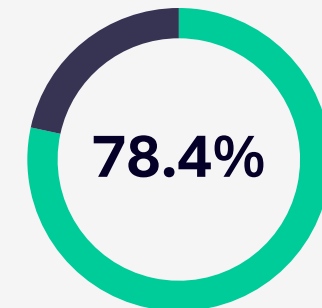
JPMorgan EM Bonds

Highest Recovery Rate Income Group
(1994 – 2024)



Low-Income Countries

Highest Recovery Rate Region
(1994 – 2024)



Sub-Saharan Africa

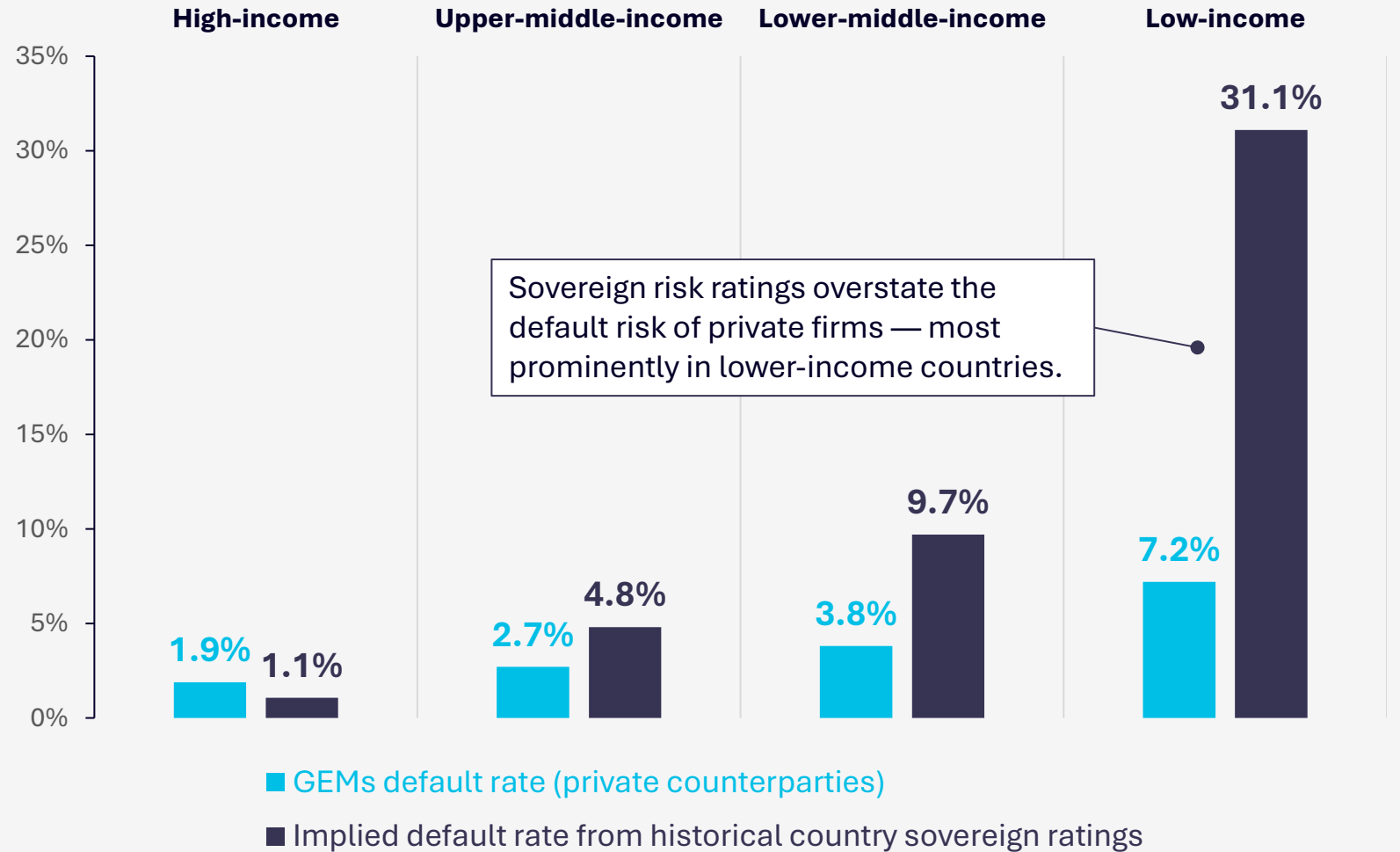
What the
Numbers
Tell Us

Piercing the Sovereign Ceiling

Sovereign ratings overstate default performance

- > Corporate default rates are far below what sovereign ratings imply. In low-income countries, MDB/DFI portfolio firms show average default rates of just 7%, versus the 31% probability implied by sovereign ratings.
- > Many private firms remain resilient and creditworthy even when their sovereigns are under stress, highlighting a disconnect between sovereign risk signals and actual corporate performance.

AVERAGE DEFAULT RATE VERSUS COUNTRY RATINGS (1994-2024)



Note: Historical default rates implied in country sovereign ratings are from Standard & Poor's (2024): "Default, Transition, and Recovery: 2023 Annual Global Sovereign Default and Rating Transition Study. March 2024".

Regional Insights

Sub-Saharan Africa:

Highest default rates (6%) but also the highest recovery rates (78%).

Low-income countries:

Recovery rate 76%, highest of all income groups.

PRIVATE LENDING DEFAULT AND RECOVERY RATES BY WORLD BANK REGION

FIGURE 8: PRIVATE LENDING DEFAULT RATES BY REGION

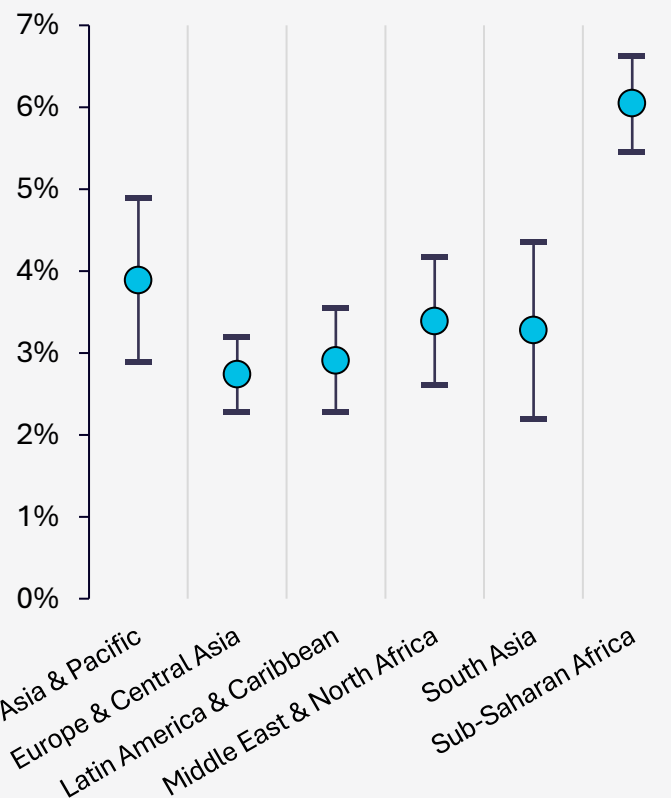
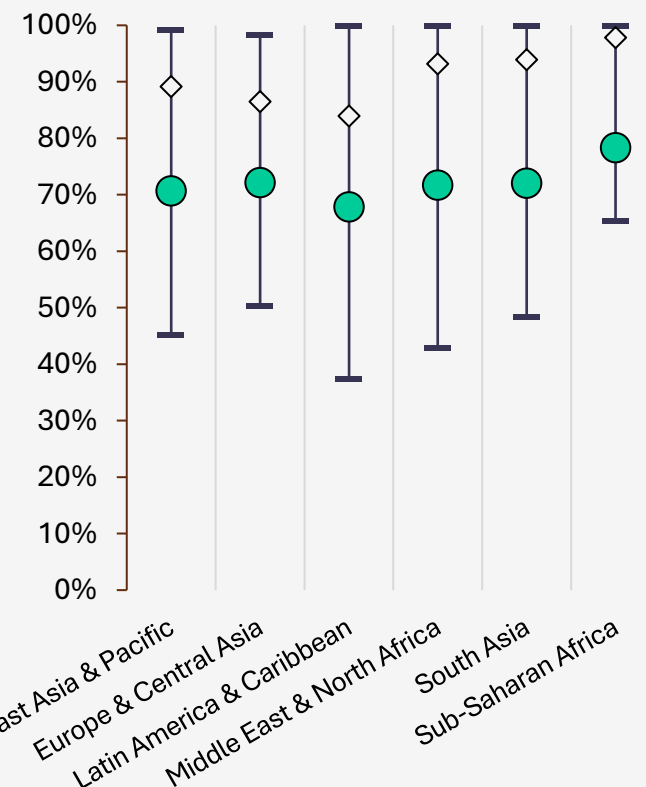


FIGURE 15: PRIVATE LENDING RECOVERY RATES BY REGION



— 90% confidence interval ● Average default rate

— 25th percentile to 75th percentile

◇ Median

● Average recovery rate

Sectoral Insights

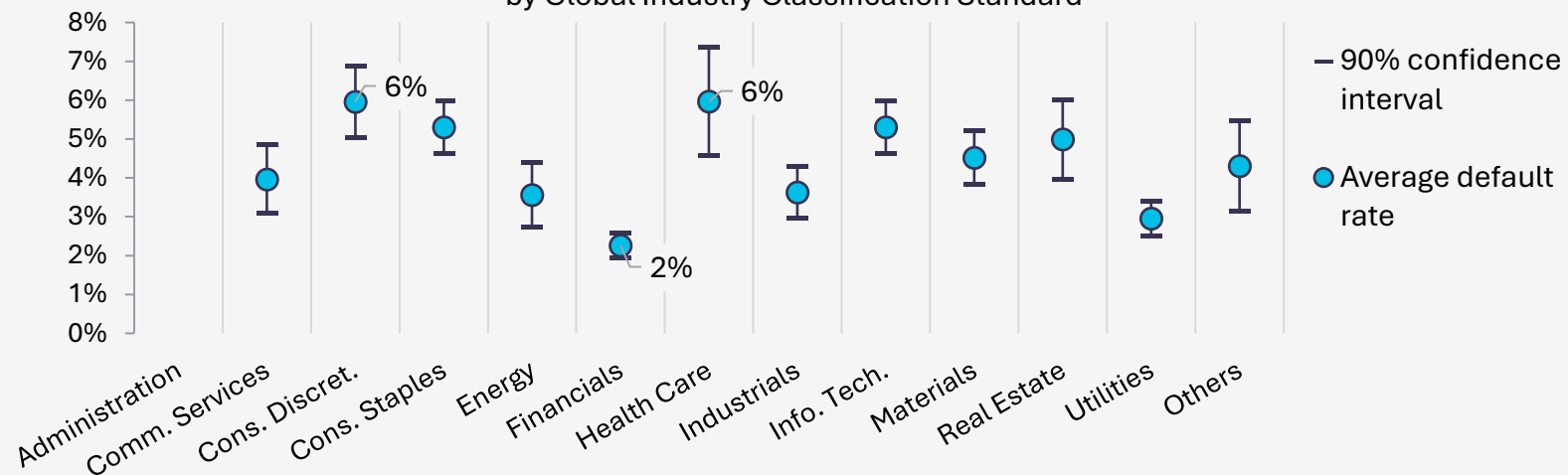
Financial Sector:

Lowest defaults (2%) and highest recoveries (79%).

Consumer discretionary and health care have the highest defaults (6%), but recoveries are relatively strong in the 70% range.

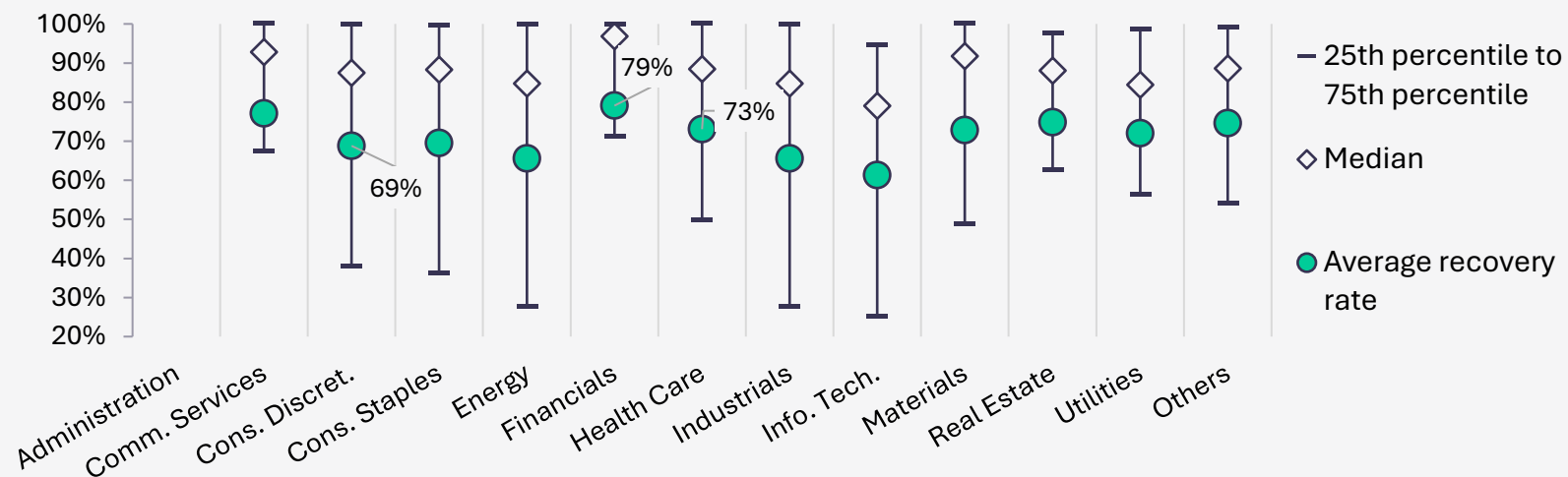
DEFAULT RATES

by Global Industry Classification Standard



RECOVERY RATES

by Global Industry Classification Standard



Insights over the Reporting Horizon

Default Rates:

Annual default rates show substantial variability, especially during the earlier years of the reporting horizon.

Recovery Rates:

While recovery rates have also been variable over time, they have been more stable than default rates.

FIGURE 1: PRIVATE LENDING ANNUAL DEFAULT RATES

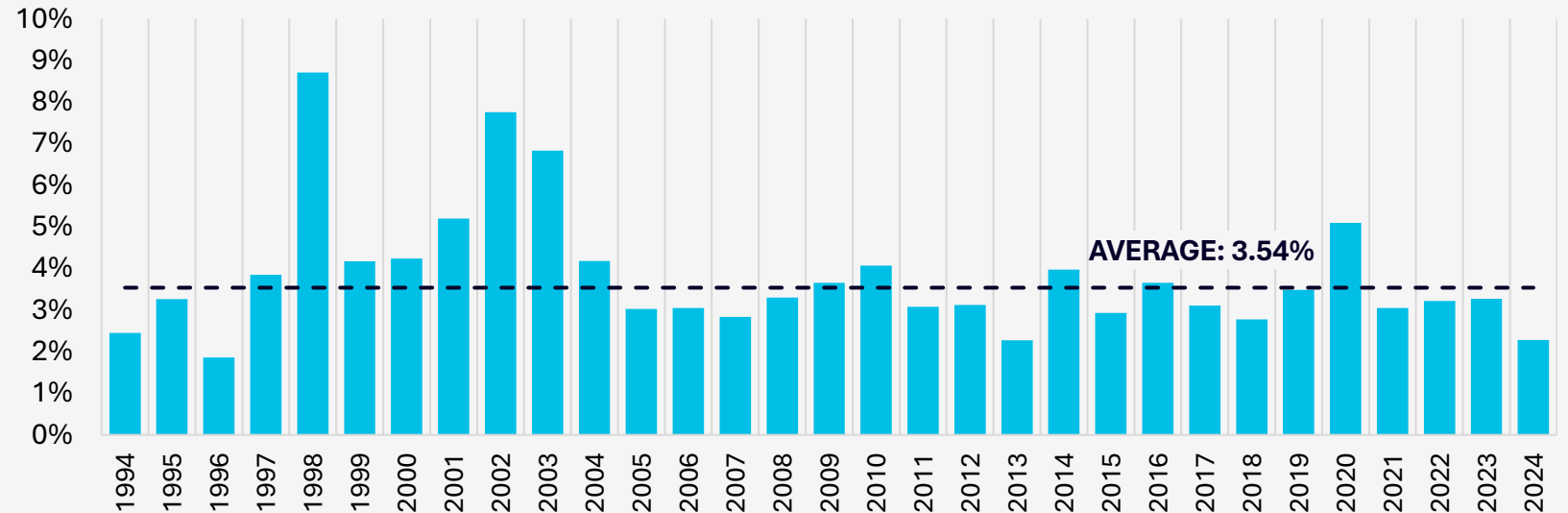
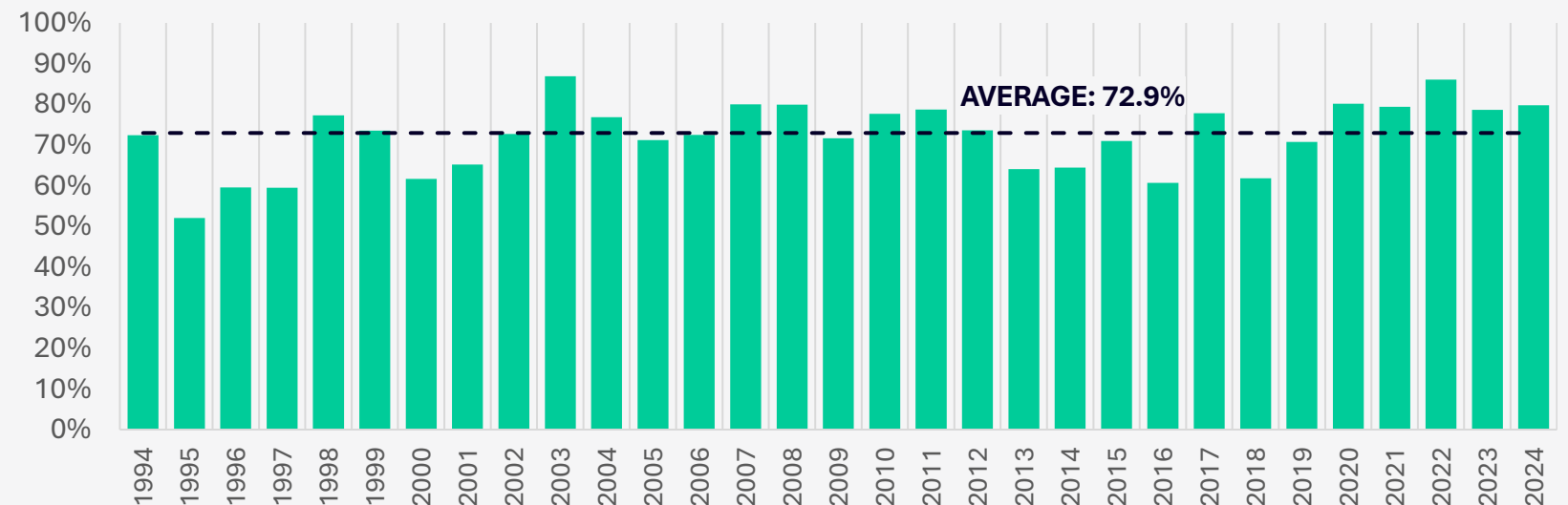


FIGURE 4: PRIVATE LENDING ANNUAL RECOVERY RATES



Country Insights

Default and Recovery Rates by Country

Country-level data on private lending default and recovery rates provides granular insights.

TABLE 16: PRIVATE LENDING DEFAULT RATES BY COUNTRY (SAMPLE)

ISO country code and ISO country name	Counterparts	Observed years	Number of defaults	Number of observations	Signed amount EUR mio	Lower of 90% confidence interval	Average annual default rate	Upper of 90% confidence interval
AL-Albania	57	31	18	297	912	3.86%	6.06%	8.26%
AM-Armenia	123	24	11	788	2,478	0.80%	1.40%	1.99%
AR-Argentina	227	31	56	1,290	6,936	2.15%	4.34%	6.53%
AZ-Azerbaijan	137	27	32	756	2,784	2.62%	4.23%	5.85%
BA-Bosnia & Herzegovina	85	27	15	640	2,006	0.70%	2.34%	3.99%
BD-Bangladesh	104	29	11	573	3,405	0.26%	1.92%	3.58%
BF-Burkina Faso	49	31	23	264	441	6.05%	8.71%	11.38%
BG-Bulgaria	116	28	22	826	3,595	1.18%	2.66%	4.15%
BJ-Benin	31	31	23	227	260	6.89%	10.13%	13.37%
BO-Bolivia	36	31	11	220	488	2.52%	5.00%	7.48%
...								

TABLE 43: PRIVATE LENDING RECOVERY RATES BY COUNTRY (SAMPLE)

ISO country code and ISO country name	Number of defaults	Signed amount EUR mio	Average recovery rate	Minimum observation	10th percentile	25th percentile	Median	75th percentile
AL-Albania	15	222	80.2%	33.0%	44.2%	71.3%	89.1%	96.1%
AM-Armenia	10	66	61.8%	0.0%	10.0%	38.7%	71.5%	90.3%
AR-Argentina	54	965	76.2%	0.0%	19.0%	65.3%	89.9%	99.1%
AZ-Azerbaijan	43	350	66.2%	0.0%	7.0%	48.1%	74.9%	91.5%
BA-Bosnia & Herzegovina	14	46	70.7%	4.0%	26.9%	52.5%	82.1%	93.4%
BF-Burkina Faso	33	135	90.5%	25.3%	56.3%	97.7%	98.2%	100.0%
BG-Bulgaria	23	411	80.9%	5.8%	51.9%	75.5%	87.0%	100.0%
BJ-Benin	19	138	77.1%	0.6%	21.6%	69.6%	96.8%	98.8%
BR-Brazil	32	1,043	70.5%	0.0%	15.1%	31.4%	95.3%	100.0%
BY-Belarus	11	144	79.0%	10.0%	32.3%	68.0%	95.8%	100.0%
...								

Cross-Dimensional Insights

Statistics are calculated, for example, by region and sector, allowing for cross-dimensional insights and comparisons, as well as for analyses focused on specific region-sector combinations.

TABLE 14: PRIVATE LENDING DEFAULT RATES BY WORLD BANK REGION AND GICS SECTOR

World Bank region	Item	Administration	Communication services	Consumer discretionary	Consumer staples	Energy	Financials	Health care	Industrials	Information technology	Materials	Real estate	Utilities	Other
East Asia & Pacific	Lower of 90% CI*		1.02%	3.53%	2.56%		1.63%	0.00%	2.71%		4.54%		0.43%	4.99%
	Default rate		3.18%	5.62%	4.19%		3.00%	3.23%	5.39%		6.63%		1.16%	7.69%
	Upper of 90% CI		5.35%	7.71%	5.81%		4.37%	7.09%	8.08%		8.72%		1.88%	10.39%
Europe & Central Asia	Lower of 90% CI		0.50%	3.63%	3.16%	1.59%	0.80%	3.02%	2.70%	0.91%	2.60%	2.63%	2.98%	1.55%
	Default rate		1.76%	4.66%	4.41%	2.56%	1.12%	4.51%	3.61%	2.65%	3.59%	4.27%	4.21%	2.99%
	Upper of 90% CI		3.02%	5.69%	5.67%	3.52%	1.44%	6.01%	4.52%	4.40%	4.57%	5.92%	5.45%	4.44%
Latin America & Caribbean	Lower of 90% CI		1.69%	1.94%	2.96%	0.04%	1.29%	2.48%	1.50%		2.00%	1.38%	2.56%	2.26%
	Default Rate		3.40%	3.30%	4.27%	1.66%	1.97%	5.85%	2.42%		3.57%	6.10%	3.48%	3.78%
	Upper of 90% CI		5.11%	4.66%	5.58%	3.28%	2.65%	9.21%	3.34%		5.14%	10.81%	4.39%	5.30%
Middle East & North Africa	Lower of 90% CI			3.15%	1.66%	2.50%	2.42%	0.61%	3.56%		2.71%		0.28%	
	Default rate			6.64%	4.74%	5.06%	3.84%	3.60%	6.70%		4.00%		0.50%	
	Upper of 90% CI			10.13%	7.82%	7.63%	5.27%	6.59%	9.84%		5.29%		0.71%	
South Asia	Lower of 90% CI		1.25%	3.62%	1.51%		1.45%	0.65%	1.40%		1.36%		1.15%	
	Default rate		3.88%	7.64%	3.02%		2.82%	5.22%	3.19%		4.52%		1.75%	
	Upper of 90% CI		6.52%	11.67%	4.53%		4.19%	9.80%	4.97%		7.69%		2.34%	
Sub-Saharan Africa	Lower of 90% CI		3.82%	8.88%	8.50%	3.08%	3.33%	11.50%	2.47%		5.53%	4.87%	3.71%	3.18%
	Default rate		6.42%	11.06%	10.27%	5.24%	3.96%	16.56%	4.48%		6.84%	6.88%	4.64%	5.67%
	Upper of 90% CI		9.02%	13.24%	12.04%	7.39%	4.58%	21.62%	6.50%		8.15%	8.88%	5.56%	8.17%

*CI: Confidence interval

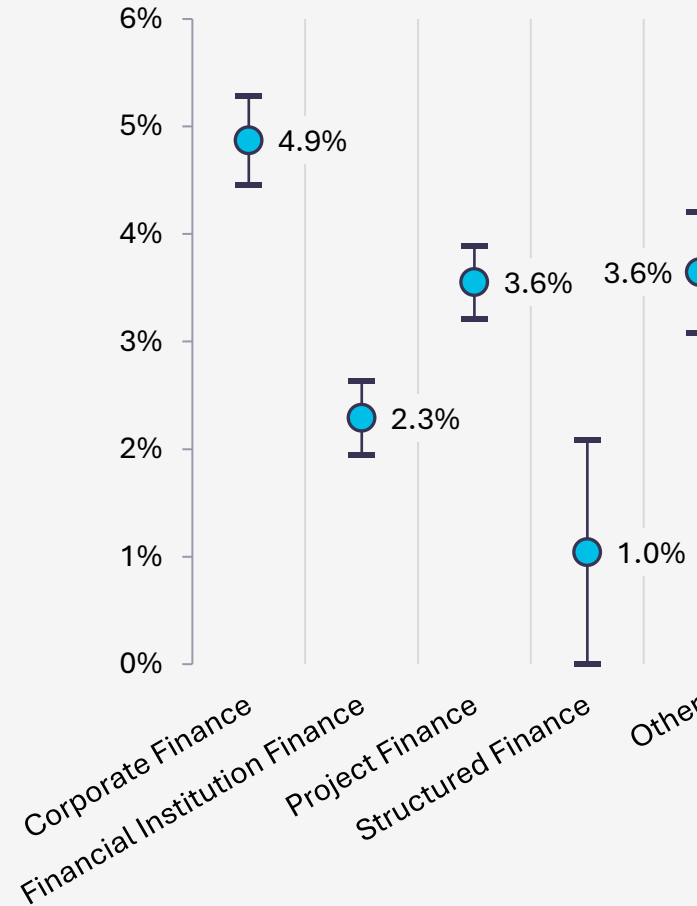
Project Insights

Which types of projects have stronger credit performance?

- > Default rates lowest in **structured finance (1%)**.
- > Defaults highest in **corporate finance (approx. 5%)** and **project finance (3.6%)**, but recoveries strong at **71%**.

DEFAULT RATES

by project type

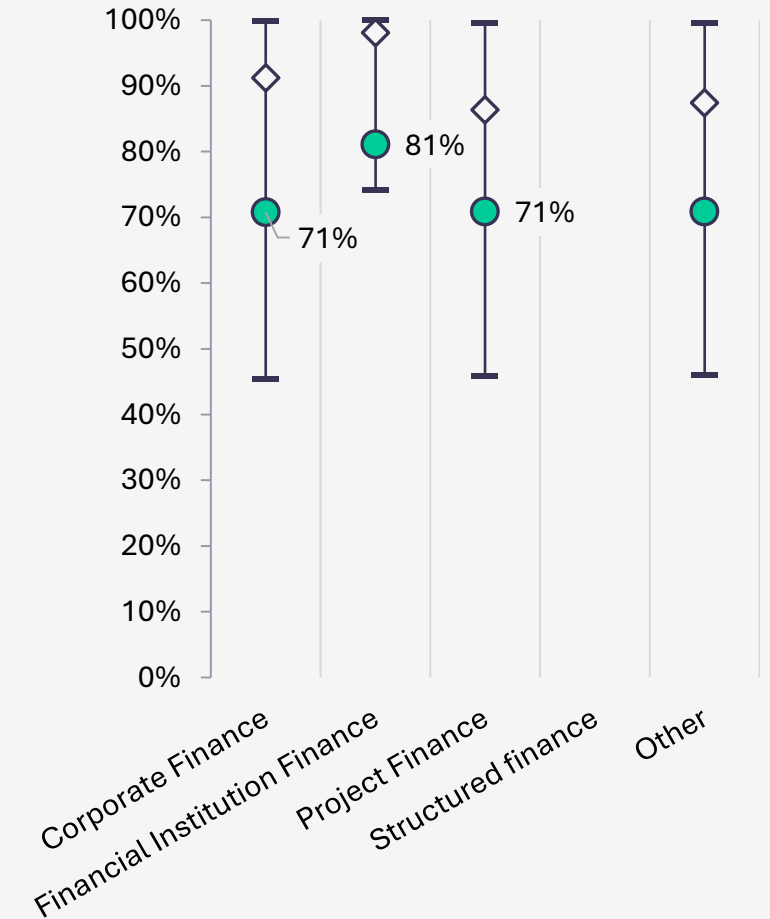


— 90% confidence interval

● Average default rate

RECOVERY RATES

by project type



— 25th percentile to 75th percentile

◇ Median

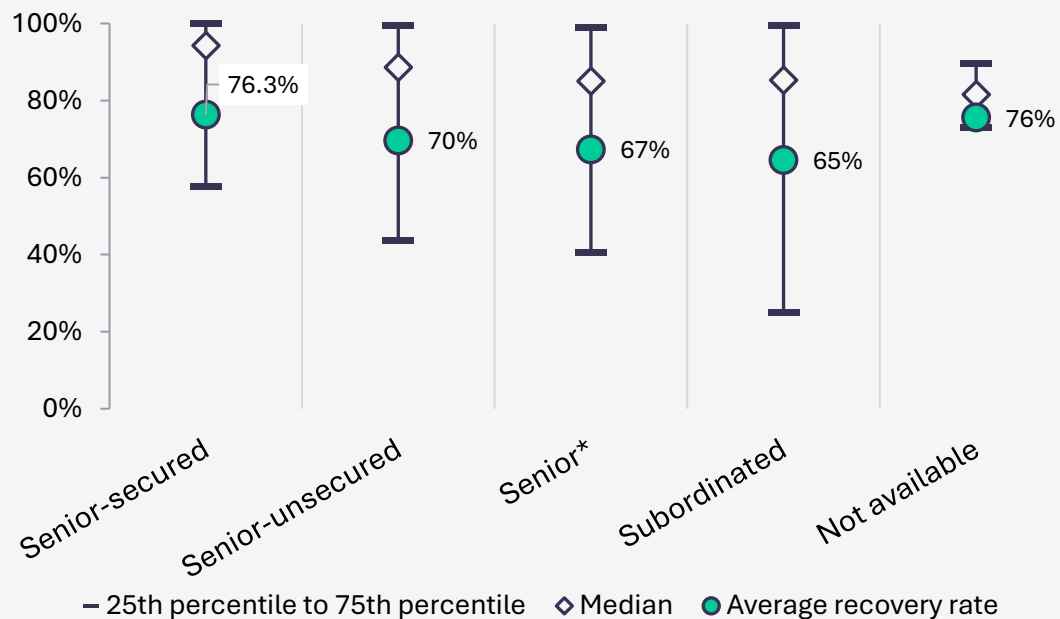
● Average recovery rate

Which projects have stronger credit performance?

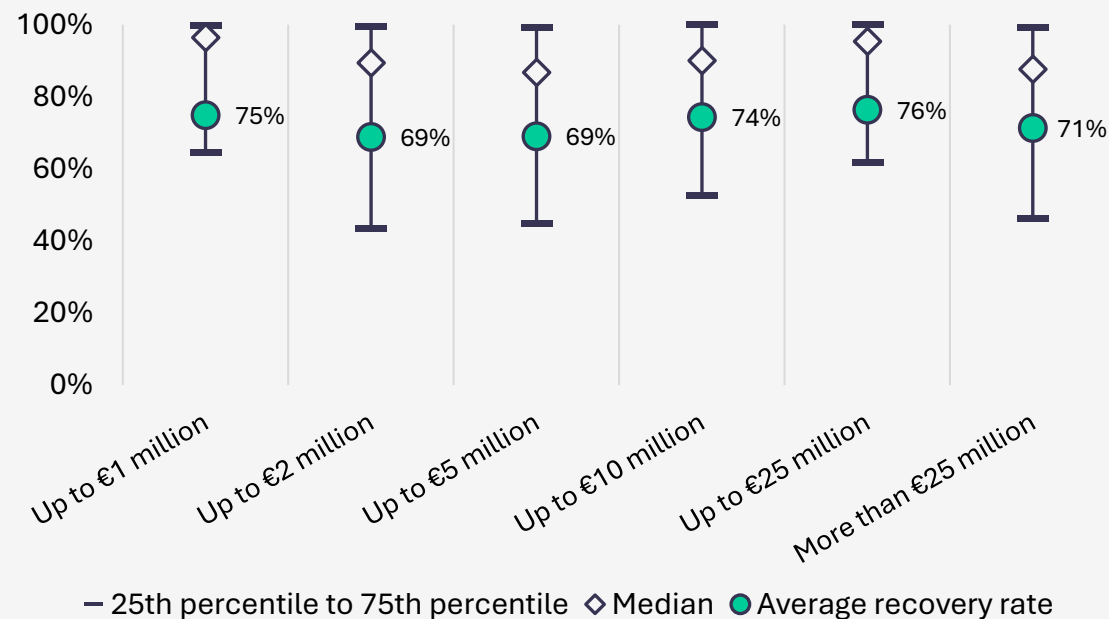
Senior-secured instruments have highest average recovery rate (76.3%), reflecting strong collateral backing.

Recovery rates across different contract sizes relatively uniform, indicating that contract size does not affect recovery.

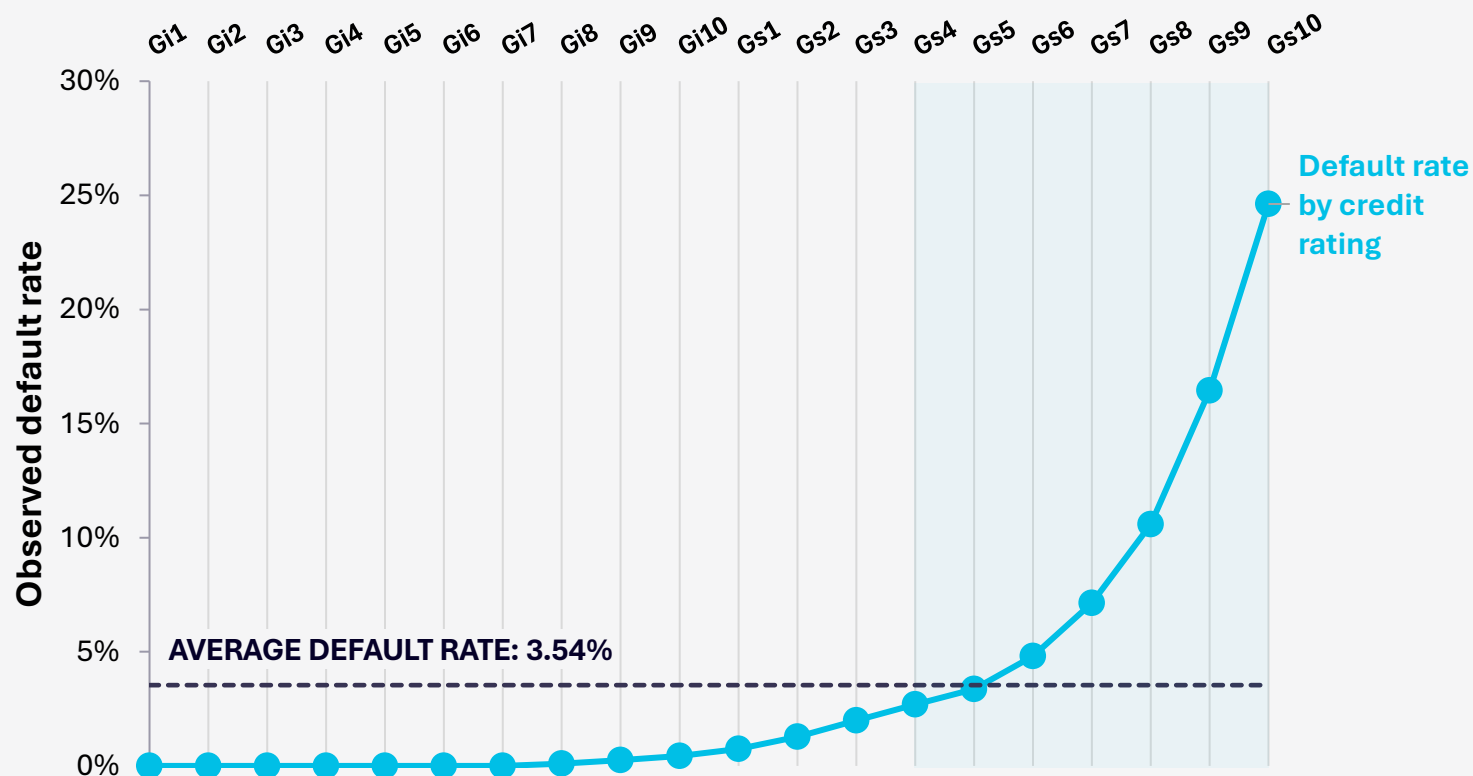
RECOVERY RATES BY SENIORITY



RECOVERY RATES BY CONTRACT SIZE



ONE YEAR DEFAULT RATES BY CREDIT RATING

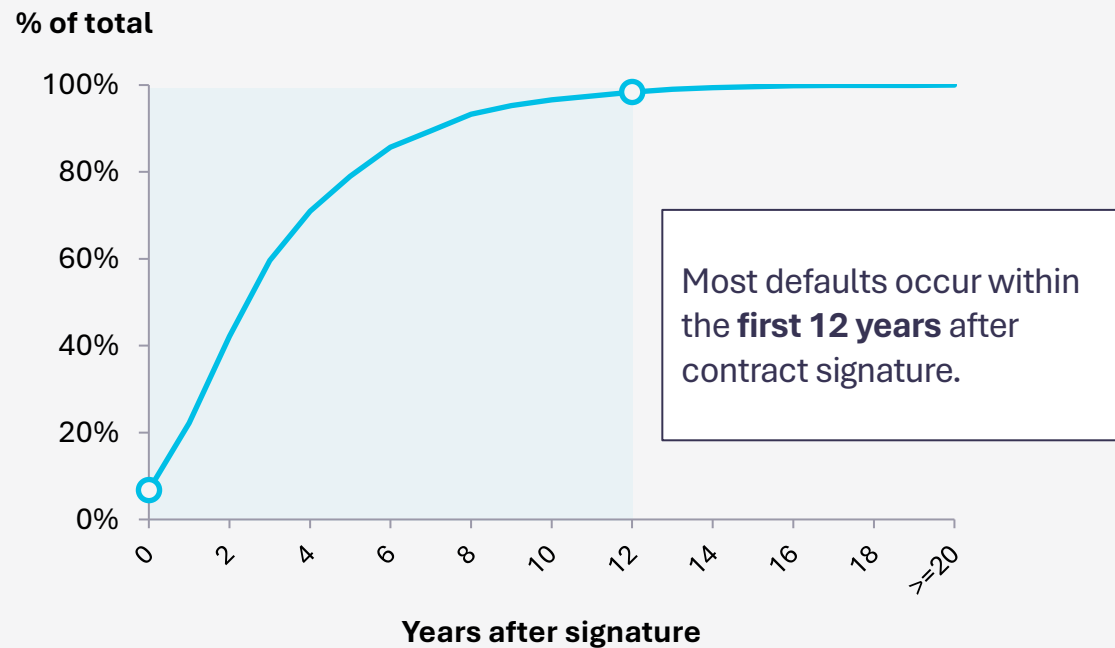


Which projects have stronger credit performance?

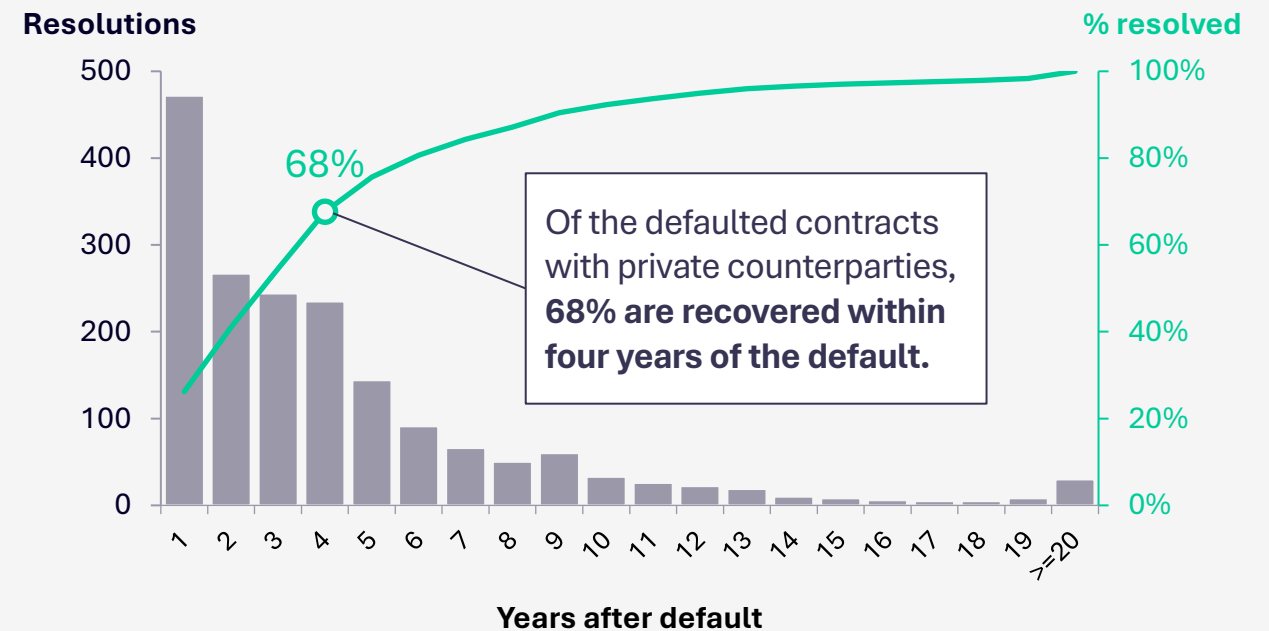
One-year default rates increase steadily as credit ratings deteriorate, with a rise beginning at GEMs rating level Gs4 and peaking at Gs10.

What do we know about time to default and resolution?

TIME TO DEFAULT



TIME TO RESOLUTION OF DEFAULTS



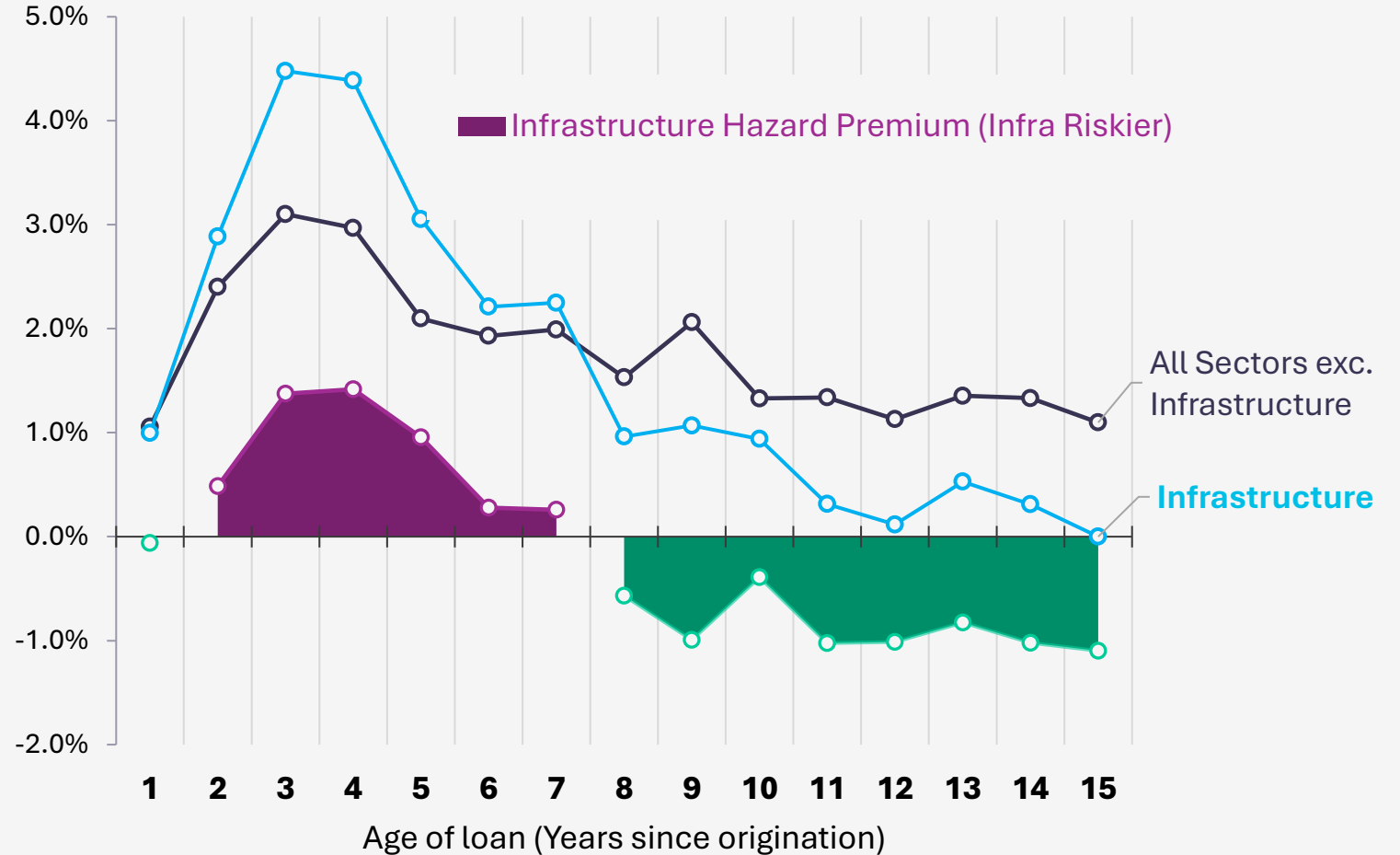
Infrastructure

Front-Loaded Risk, Back-Loaded Stability

Infrastructure loans exhibit higher default risk than other sectors in the early years (e.g., during construction, permitting, and ramp-up), but **become safer than other sectors once projects are established**. GEMs data confirm this pattern, in line with Moody's and S&P findings that defaults in infrastructure project financing are front-loaded but long-lived projects are more resilient over time.

HAZARD RATE: DEFAULT RATE CONDITIONAL ON SURVIVAL

GEMs Private Lending Portfolio, 1994-2024



Note: Over the full 25-year loan-age horizon covered in the GEMs sample (1994–2024), infrastructure contracts exhibit a higher cumulative default rate than other sectors (19.4% versus 14.8%).

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Why Invest in Emerging Markets with MDBs/DFIs?



A Paradigm Shift in Risk Perception:

GEMs data reveals that **emerging markets are less risky** than commonly perceived.

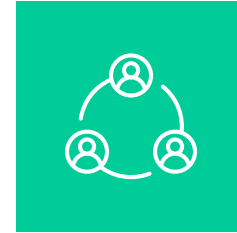
Default rates are comparable to corporates in advanced economies, and recovery rates often **outperform global benchmarks**.



Empowering Smarter Investments:

GEMs provides **granular insights** by region, sector, country, income group, project type, contract size, currency and many other cross-cuts.

Investors can make **data-driven credit risk management** decisions based on this granularity.



Driving Impact and Returns:

By leveraging GEMs data, investors can:

- **Diversify portfolios** to mitigate global economic shocks.
- **Mobilize capital for** private sector growth.
- **Achieve competitive returns** while managing credit risks and advancing sustainable development goals (SDGs).



A Call to Action:

Collaborating with MDBs and DFIs provides access to **local expertise, advisory services, and active project supervision**.

Partner with MDBs and DFIs to **unlock untapped opportunities** in emerging markets and **drive impactful investments**.

GEMs Use Cases

S&P Global Ratings



S&P recalibrated its MLI rating criteria by leveraging GEMs data on historical recoveries and defaults, resulting in improved assessment of sovereign exposures and potential lending headroom for EMDEs.

ILX Fund



ILX Fund used GEMs default and recovery statistics to demonstrate stable performance for MDB/DFI co-investments, helping mobilize private sector capital and accelerate deployment across emerging markets.

Guarantor DFI



A guarantor DFI applied GEMs data to calibrate IFRS 9 lifetime PDs and LGD estimates for its sovereign portfolio, enhancing expected credit loss modeling and strengthening audit readiness and risk pricing.

Regional MDB



A regional MDB transitioned from external rating agency scorecards to internal, region-specific PD curves using GEMs data, improving model auditability and enabling more granular provisioning and pricing decisions.

Risk Control









Risk Control provided research on MDB risk transfer business models using GEMs statistics to objectively compare model outcomes and support more robust PD/LGD calibration and governance across MDB portfolios.

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Access GEMs Statistics

- **GEMs Website** 
www.gemsriskdatabase.org
- **GEMs LinkedIn Page** 
www.linkedin.com/company/gems-global-emerging-markets-risk-database
- **GEMs Secretariat** 
gems@eib.org
- **World Bank Group's Open Data Portal** 
https://data360.worldbank.org/en/dataset/IFC_GEM
- **Bloomberg Terminal** 
Search "GEMs" on DSET <GO>
- **GEMs Webtool** 
Member institutions have access to their own data only and can calculate credit risk statistics based on their own data, the rest of the Consortium's data or on data as a whole. They utilize the statistics to calibrate models and inform investment decisions.

GEMs is a global collaboration committed to revealing the true credit performance of investments in emerging markets and developing economies to help unlock their full potential.