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World Bank finds new ways to expand lending, creates 'enhanced' callable capital

By Jon Hay

Reform and innovation in the MDB sector continue to accelerate. The World Bank has become the first multilateral development bank to announce plans for "enhanced" callable capital and has found a way to lower again its cherished equity-to-loan ratio — both of which should create space for more lending. But many difficult questions remain unanswered about the MDBs' governance and financial management.

The World Bank's president Ajay Banga surprised many by making one of the Bank's biggest announcements planned

for these Annual Meetings a week early.

Blazoning the eye-catching figure of \$30bn more lending over 10 years, the Bank said on October 15 it would lower its minimum equity-to-loan ratio from 19% to 18%, cut some fees for borrowing countries and make its loans to small nations cheaper.

More is to come this week, with two or three more countries preparing to announce commitments to buy hybrid capital issued by the Bank's sovereign lending arm, the International Bank for Reconstruction and Development.



Ajay Banga: \$30bn over 10 years

Bank watchers will have to wait much longer for the first public issue of hybrid capital — though work continues on the project.

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Debt risks are shifting to large, rich nations, warns IMF

By Dominic O'Neill

Investors could be underestimating the risk of new sovereign debt blow-ups in advanced economies, including the US, as rich countries' debts expand and spending becomes looser, a top International Monetary Fund official has told *GlobalMarkets*.

Tobias Adrian, financial counsellor and director of the IMF's monetary and capital markets department, warned there could

be other moments akin to the UK's Gilts crisis that accompanied Liz Truss's short-lived premiership in September-October 2022.

After a fiscally expansive Budget, government bond yields spiked, forcing the Bank of England to intervene, reversal of the unfunded tax cuts, and then the fall of the government.

"When governments shift fiscal policy suddenly, in meaningful

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Tobias Adrian: fears Truss-style crises

'Connector' countries between China and US may be forced to choose

By Francesca Young

As US-China tensions worsen, a set of non-aligned "connector countries" have gained importance as a bridge between the cantankerous Western and Chinese trading blocs. There have been significant upsides for them in not picking a side. But those countries — such as Vietnam, Poland, Mexico, Morocco and Indonesia — may not continue to benefit as the rift widens.

Companies and policymakers in both camps

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Success is a journey

Non-aligned economies may be torn between US and China

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are increasingly looking at ways to make supply chains more resilient by “friendshoring” — moving production home, or to trusted countries.

According to the International Monetary Fund, over the last decade, the share of foreign direct investment (FDI) going to geopolitically aligned countries has kept rising, even more than the share for geographic neighbours. This suggests political preferences increasingly drive the footprint of FDI. So far, FDI to these connector countries has grown from both China and the US.

“If a country is able to stay open to both sides, it can benefit from the diversion of trade and investment flows,” said Andrea Presbitero, deputy division chief of the IMF research department’s multilateral surveillance division. “The benefit, however, perhaps isn’t as big as you’d think for current connector countries. In part this is because global output shrinks, as fragmentation is costly. But uncertainty over future policies would further reduce the potential benefits for non-aligned countries, as investment decisions are generally postponed in a more uncertain world.”

It is easy to assume that as protectionism by the US and China grows — and it might accelerate after the US elections next month — the benefits for current connector countries would increase. But Presbitero said this would be wrong. While there might be winners from investment flow diversion, the detail of the new policies makes this uncertain.

“Going forward, it is not a given that the same coun-

tries will benefit,” said Presbitero. “This will depend, among other things, on trade policy: stronger enforcement of rules of origin will make it harder for firms strongly integrated with China to take advantage of trade diversion.”

The US Inflation Reduction Act of 2022, for example, gives tax breaks for electric vehicles if they are substantially made or processed in free trade partner countries. But the advantage is withdrawn if any of the components are made in a Foreign Entity of Concern — such as China. That is where two thirds of EV battery components come from.

COMING OFF THE FENCE

As the world becomes more fragmented, investors will worry that non-aligned economies might at some point be forced to choose a side.

“It’s going to become harder and harder to remain unaligned,” said William Jackson, chief emerging markets economist at Capital Economics in London. “We’re already seeing that with Mexico, given the pressure the US is putting on it to screen investments and stop the spread of Chinese tech into US supply chains. Exports make up 40% of the GDP of Mexico and almost all of it goes to the US.”



Andrea Presbitero: policy uncertainty reduces benefits for connector countries

Trade policy is a hot issue in the US election next month. Donald Trump is suggesting sharply higher tariffs across the board, partly to prevent Chinese firms avoiding tariffs by re-routing goods to the US via third countries. Kamala Harris seems keener on selective, targeted tariffs.

Mexico “will face pressure, no matter if Trump or Harris wins,” said Jackson. “Harris will try to limit Chinese investment in Mexico. But it looks like it will be an even bigger challenge under Trump, through tariffs.”

Either policy could prompt retaliation by the countries affected, but Trump’s seem more likely to trigger this. He has outlined plans to impose blanket tariffs of 10% to 20% on all imports, including from Europe, with specific targets like China facing levies potentially over 60%.

“Facing the prospect of much higher tariffs, US firms will think twice before making new investments, building factories for example, in connector countries,” Jackson said. However, the threat is lighter for some countries, such as Poland, he added. “Tariffs from Europe on Chinese goods are less about limiting access for Chinese firms and more about levelling the playing field.”

Fiscally loose G7 countries risk Liz Truss moments

Continued from page 1

manners, that does have an impact on [bond] pricing and can lead to sharp readjustments or sell-offs, which can trigger financial stability concerns,” Adrian said. “Governments have room to adjust revenues and spending, but can there be bouts of volatility? Yes, absolutely.”

Since France called a snap election in June, the 10 year French government bond spread over German Bunds has widened from 50bp to 74bp.

Both the left wing and far right blocks, which performed strongly in the election, want to roll back pension reform and increase the budget deficit.

Adrian pointed to a recent deterioration of liquidity in the US Treasury market. He said it reflected higher interest rate volatility, as central banks have moved away from forward guidance to data-dependent monetary policy. This was “fairly contained in aggregate”, he noted.

Nevertheless, he pointed to data from the US Congressional Budget Office this summer, warning that US national debt held by the public would surpass 100% of GDP next year and continue to increase into the 2030s. Both candidates in the US presidential election next month oppose reductions in social security and healthcare entitlements.

Among poorer countries, the IMF sees encouraging signs. Adrian said some low income countries that were shut out of bond markets in 2023 had since regained access. And despite pressure in some weaker emerging economies, he said middle income countries generally were resilient, thanks to what he called policy improvements.

“There’s more monetary policy credibility, and on the fiscal side, we do see risks as contained, in the major emerging markets,” Adrian said.

“There’s a disconnect that could trigger a readjustment of financial conditions at some point” —Tobias Adrian

But in advanced economies, debt-to-GDP ratios had risen by 15 percentage points on average during Covid-19, said Adrian — and except for countries such as Germany, they have kept going up.

“When you look at other G7 economies you do see continued expansionary deficits, particularly in the US,” he said. Research from S&P Global Ratings in July suggested France, Italy and the US’s debt-to-

GDP ratios would all rise further.

Even within the developed world, the hierarchy is changing. Some peripheral eurozone countries, previously plagued by sovereign debt worries — such as Greece and Portugal — have been profiting from a tourism boom to reduce public debt. Greece’s 10 year debt now trades just 16bp wider than France’s and Portugal’s 17bp tighter than it.

Quantitative tightening, as central banks unwind years of stimulus, is adding to the upward pressure on G7 countries’ longer term funding costs, just as government debt issuance is rising.

That has pushed interest charges up as a percentage of GDP, making it harder for governments to afford the costs of ageing populations, higher military spending and climate change.

In spite of these strains, risk premia across financial markets are tight by historical standards, relative to base interest rates, according to the IMF. Adrian says this is despite a high degree of global government policy uncertainty, including around elections. “While this geopolitical uncertainty is fairly high,” he said, “there’s a disconnect that could trigger a readjustment of financial conditions at some point.”

Innovations since 2023 have added \$150bn to 10 year lending capacity

Continued from page 1

VITAL RATIO

The equity-to-loan ratio is one of the IBRD's most important financial metrics, controlling how much lending it can do. For many years it was stable, well above the Bank's policy minimum of 20%.

Between 2019 and 2023 it gradually declined from 22.8% to 22% as loan balances grew. Then in April 2023, the Bank said for the first time that it would allow it to fall as far as 19%. As of June 2024 it was 21.5%.

This gave the IBRD leeway to commit to another \$40bn-\$50bn of loans over 10 years, or \$4bn-\$5bn a year. In 2023 it had committed \$38.6bn.

Cutting the ratio to 18% will allow another \$30bn of financing over 10 years.

The Bank has got comfortable with that by creating a new set of processes internally, to protect its triple-A credit ratings from Moody's, S&P and Fitch.

Systems have been set up to monitor credit quality metrics followed by the rating agencies. Should these weaken to a certain point, the World Bank will enter a 'warning zone'. Shareholders will have nine months to act, according to a board paper produced last week, for example by injecting more capital — to stop the Bank moving into a worse 'hazard zone'.

If shareholders fail to act, the Bank's management will automatically be empowered to start a series of actions to restore its credit strength. These could include slowing down loan origination, raising loan pricing by 50bp, ceasing transfers of surplus to the concessional International Development Association and cutting administrative costs.

"It's a terrible thing to do to clients — which is why we will have enhanced monitoring systems and other measures of prevention so hopefully we never get to that point," said George Richardson, director of capital markets and investments at the Bank in Washington.

Crucially, these systems are designed to prevent even a negative rating outlook from one of the agencies.

"For an issuer the size of the IBRD even a negative outlook would be a big problem," said Richardson. "It would impact our market access. That's a problem for a big issuer like ourselves, doing large benchmark bond deals almost every couple of weeks."

He referred to an incident in 2011

when false rumours about the European Investment Bank had widened its spreads and impaired its market access.

The Bank already had all these levers to de-risk its balance sheet if it were in trouble, like other MDBs. But they were previously not automatic — using them would have required conscious policy decisions in the heat of the moment.

RESPONDING TO CAF

These measures are part of the Bank's response to the Capital Adequacy Framework report, commissioned by the G20 and published in 2022, which won strong support from shareholders.

One of the CAF panel's top recommendations was that MDBs reform how they value and use callable capital — capital pledged by members, but not paid in. At the IBRD this is 93% of total capital, and is not counted in the Bank's usable equity for leverage purposes.

The panel argued this was wasting a huge resource. Callable capital was not as valuable as paid-in, but should be worth something in the balance sheet, they urged.

"The CAF report spent far too much time valuing callable capital as good for leveraging," said Richardson. "It's not meant to increase lending, it was designed for something else. MDBs cannot call callable capital until the end [of their ability to function], when they need it to repay bondholders. At that point, we would call it and that money can only go to senior bondholders."

Heike Reichelt, head of investor relations and sustainable finance in Washington, said the Bank's response to enhancing the value of callable capital had "three pieces. First, lowering the minimum equity/loan ratio to 19% by decreasing the stress test confidence level, which means relying more on callable capital for our capital metrics. Second, we published our report in April which detailed what each country had to do to pay in callable capital."

The research showed shareholders had a total of \$65bn of callable capital that could be paid without needing fresh parliamentary approval.

"The third piece was introducing enhanced callable capital," said Reichelt.

TAKING THE LEAD

MDBs' chief risk officers have worked together on enhanced callable capital,



The Kajaki Hydroelectric dam project in Afghanistan, financed by the World Bank

but the World Bank is the first to announce it will create it.

A number of countries have begun talking to the World Bank about participating, though none has committed yet.

The concept is to make callable capital more useful by changing its terms, so that it would be called at a much earlier stage in the World Bank getting weaker — in fact, when the Bank was in imminent danger of losing its triple-A rating.

Countries that wish to will be able to replace up to 16% of their existing callable capital with the enhanced version.

The World Bank intends to leverage ECC from countries rated above AA- six times over 10 years. Single-A rated commitments will be leveraged 4.5 times.

"It's the beginnings of another product," said Richardson. "With all the other products we have rolled out over the past year, we're now at the cutting edge of balance sheet management."

Chris Humphrey, a senior research associate at the Overseas Development Institute and member of the CAF panel, said enhanced callable capital was "an interesting initiative", but he is worried it could be taken as a reason for the MDBs to give up on reforming treatment of callable capital as a whole.

More important than new add-on techniques, he said, was to create a collaborative forum of all the MDBs and their shareholders, to establish with authority how much risk paid-in and callable capital should be able to bear — equivalent to the role played by the Basel Committee for commercial banks.

This should be based on their own understanding, not that of the rating agencies, he said. "They should say 'we think we have this much lending

space'. Then look at the rating agency models. If they don't agree, everyone knows what the problem is."

Letting the rating agencies effectively dictate policy to the MDBs was the wrong way to go, Humphrey said.

SHAREHOLDER HYBRID MONEY ARRIVES

Shareholder hybrid capital pledges have passed \$1bn, with Canada adding \$200m in June to the pot offered by Germany, the UK, Denmark, Italy, Latvia, the Netherlands and Norway. They are set to reach \$1.1bn in a few days with two or three more countries announcing. There is a pipeline of further contributions.

The World Bank has committed to issuing a \$1bn pilot of hybrid capital in the public market.

The structure is basically ready and the Bank has done several roadshows to discuss structures with investors.

"We're ready to go, but the market is not there and we're not going to do a bond that doesn't work," said Richardson. "The product needs further development — tweaks to make sure it's something that appeals to actual hybrid capital investors."

The spread on the AfDB's hybrid has widened in the secondary market to a level that the World Bank would not want to pay. The Bank is concerned this could be because investors are worried an MDB would not be incentivised to call a hybrid bond if it were cheaper to leave it outstanding, creating extension risk.

"We are not waiting for the market for MDB hybrid to improve on its own," said Richardson, "we are actively trying to develop the right solution."



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Development finance

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As president, Ajay Banga has given the World Bank the highest ambition and clear targets, but reality rarely cooperates. He is trying to drum up support from business and banks. This week in Washington, the Bank must convince wealthier countries to back its mission with more money — but runs the risk of the Annual Meetings being overshadowed by strife over conflicts in Ukraine and the Middle East

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With political tensions gripping the world economy and threatening to squeeze even tighter, the International Monetary Fund's managing director Kristalina Georgieva has her work cut out at this week's Annual Meeting. If the IMF is to remain relevant and capable, she must strike deals that countries of different political hues and degrees of wealth can live with

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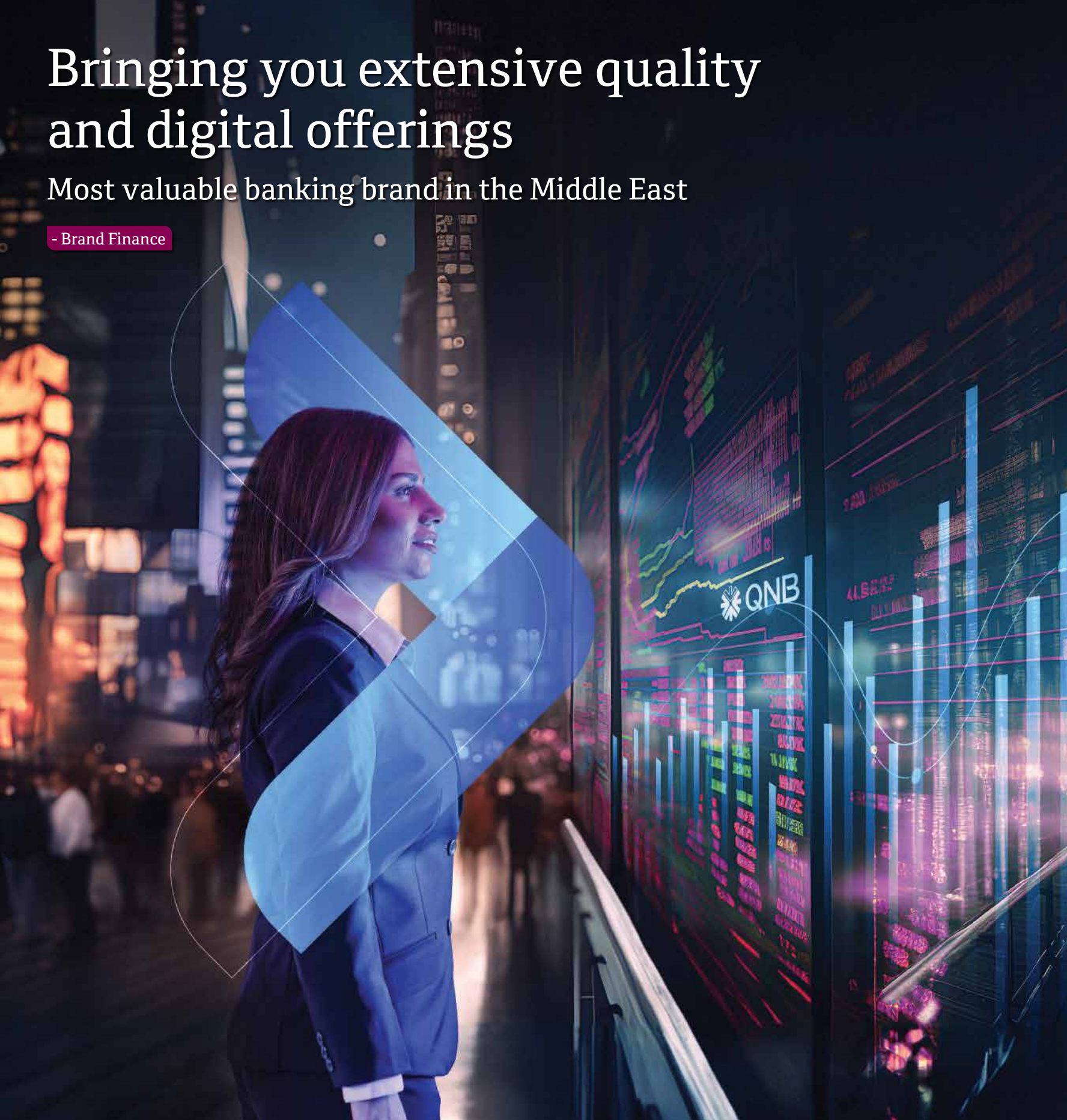
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Huge ambition, small resources: globetrotting Banga strives to rally the private sector

As president, Ajay Banga has given the World Bank the highest ambition and clear targets, but reality rarely cooperates. He is trying to drum up support from business and banks. This week in Washington, the Bank must convince wealthier countries to back its mission with more money — but runs the risk of the Annual Meetings being overshadowed by strife over conflicts in Ukraine and the Middle East

By Phil Thornton

“
To close the financing and jobs gap, we also need the private sector”

—Ajay Banga, president of the World Bank

It should come as no surprise, given the organisation’s name, but in the 16 months since he took the helm of the World Bank Ajay Banga has visited countries of operation in all corners of the planet. “It’s a journey that has taken me across the globe, from Latin America to Africa, Asia, the Middle East, and now to the Pacific,” he said last month on a whistlestop trip to Sydney, Australia.

A former president of Mastercard, Banga took the same title at the multilateral lender on June 2, 2023 and has set out a host of targets — as most incoming presidents have before him.

He readily reels them off: directing 45% of funds towards climate management; providing quality, affordable healthcare to 1.5bn people by 2030; bringing clean and affordable energy to 300m Africans by the same date; and shortening the Bank’s project approval process by three months — to name just four.

But Banga has as many problems — rising barriers to trade, the ever-present threat of pandemics, climate change and the need to generate jobs for the young.

At the same time, he must get a firm grip on a vital issue for any bank: money. Banga says he has found ways to stretch the World Bank’s balance sheet to generate \$120bn of extra lending over the next 10 years. This will rely on innovative financial measures such as lowering the equity to loan ratio, increasing bilateral guarantee limits and hybrid capital — but done in ways that do not jeopardise the Bank’s cherished triple-A credit ratings.

If these steps work as planned, they will create greater lending capacity for the International Bank for Reconstruction and Development, the core institution that provides loans and other financial products to middle income and creditworthy low income countries.

But observers such as Paul Cadario, a fellow at the Munk School of Global Affairs and Public Policy at the University of

Toronto, are sceptical. “Whether there’s capital adequacy under reasonable assumptions about the bank’s AAA credit rating, and the willingness and ability of IBRD’s customers to borrow in that volume remain to be seen,” he says.

REPLENISHMENT TIME

At the International Development Association, which lends at zero or low interest rates to the poorest countries, money is certainly due.

This year IDA will reach the settlement of its 21st replenishment, the first since Banga unveiled the Bank’s redefined mission: to eliminate extreme poverty on a liveable planet.

At its Spring Meetings in April, ministers on the Bank’s Development Committee called for decisive actions to position IDA21 to help countries face crises.

The real test will come on Monday and Tuesday next week at a meeting meant to finalise the IDA21 financial framework, ahead of a final pledging session in December.

CAF GEARING UP TO TRANSFORM REGIONAL DEVELOPMENT

In an interview with *GlobalMarkets*, CAF's Executive President **Sergio Díaz-Granados** discussed the development bank's geographical expansion, major capital raising and funding goals for the year ahead.

Since taking over as CEO, what have been the main objectives for your presidency?

Latin America and the Caribbean is an unequal region, with high levels of poverty, low productivity and serious exposure to the effects of climate change. My goal has been to address these realities and turn CAF into a tool to help countries overcome major development challenges, including the triple transition of energy, digital and environmental. CAF therefore needs to grow, catalyse new resources and adopt new ways of helping the private sector and local governments.

Shortly after I joined CAF, we proposed doubling the size of the bank to address the severe problems caused by the pandemic. The region needed to reactivate its economies and rethink its growth model. One year into my presidency, the board unanimously approved the largest capital increase in the bank's history — totalling \$7bn. This will help drive our strategy to transform CAF into the green bank for sustainable and inclusive growth in Latin America and the Caribbean.

How does the expansion to Central America and the Caribbean fit into CAF's strategy?

Since 1990, CAF has engaged in a process of geographic expansion. The bank has evolved from its six founding Andean nations to encompass 21 countries across Ibero-America. In 2023, Chile, the Dominican Republic and Honduras joined as full members, followed by El Salvador in 2024. Additionally, The Bahamas, Antigua and Barbuda, Dominica and Grenada are in the process of becoming CAF members. This expansion positions us to become the financial institution with the broadest geographic reach in Latin America and the Caribbean.

This expansion aligns with our overarching strategy to enhance regional integration while preserving the Latin American and Caribbean essence of the institution. The success of CAF over the years can be attributed to its foundation as a development bank owned by developing countries, fostering a strong sense of ownership and alignment with the interests of its members.

How will the recent capital increase and the addition of new shareholders help CAF's operations?

With the \$7bn paid-in capital increase approved in 2022, CAF is on its way to doubling its size. This capital infusion, alongside contributions

from new full member shareholder countries such as Chile, the Dominican Republic and Honduras, will enable the institution to expand its loan portfolio by 6%-8% annually over the next decade. This growth will enhance CAF's relevance in the region, amplifying our development impact while maintaining or improving our capitalisation ratios.

Shifting to the capital markets, what are some of the standout deals from CAF's capital markets activity so far in 2024?

There are several noteworthy deals to mention, beginning with our \$1bn no-grow global note issued in September to wrap our 2024 funding plan. This trade achieved one of the tightest spread differentials between CAF and its AAA peers and a record order book of \$10.7bn. We successfully executed our largest euro benchmark to date, a €1.5bn print with an unconventional six year tenor. Our strategic focus on extending tenor, combined with timing the market, significantly contributed to this achievement.

We also made a strong re-entry into the Aussie dollar market with a A\$500m trade, the largest by any Latin American issuer in this market. Finally, our £1bn five year issue in April marked CAF's return to the sterling market after 22 years, and drew the largest order book for any SSA sterling deal in 2024.

"CAF has the best credit rating in its history"

Could you outline the bank's financing plan for 2025?

CAF has established itself as a prominent SSA issuer, boasting robust order books and significant allocations to high quality investors including central banks and official institutions. With a funding plan of approximately \$7bn for 2024 and a similar volume scheduled for 2025, we aim to re-enter our core markets with benchmark trades in major currencies such as the US dollar, euro and sterling. Additionally, we plan to target niche strategic markets, including Australia, Japan and Switzerland.

We are committed to exploring new markets as part of our diversification strategy. Over the past four years, we have prioritised the development of local currency debt markets, actively



participating in countries such as Colombia, Costa Rica, Mexico, Paraguay, Uruguay and Panama. This initiative will continue as we expand our reach, especially with the addition of new shareholder countries.

Looking at CAF's 2022-2026 strategy, what have been the main achievements to date, and what are the key priorities for the coming years?

CAF has the best credit rating in its history. New capital contributions from member countries are coming in, we are growing at 7% and we have reactivated our asset management subsidiary CAF-AM.

As part of our mission to become the region's green bank, we committed to ensuring that 40% of our operations will be green by 2026. We will close this year with 35% of our operations green, so we are on the right track. CAF has made significant progress by increasing the green component of its portfolio, strengthening collaboration with subnational governments, and attracting critical capital from both regional and international partners.

Looking forward to 2026, CAF will focus on further promoting regional integration, deepening its engagement with the non-sovereign sector and expanding its geographic presence, particularly in the Caribbean and Central America. Additionally, the bank will continue developing innovative financial instruments to better respond to the evolving challenges facing the region. ●

“The trillions are nowhere to be seen. The total amount of blended finance was \$16bn last year. Private finance will not save us”

—Ulrich Volz, economics professor at SOAS London University

Banga has repeatedly said he wants total funding of \$100bn, a jump from IDA20's \$93bn, at a time when donors are reluctant to spend more. Since IDA can leverage its capital, to break the \$100bn barrier would require \$28bn-\$30bn of donor contributions, or a 20%-30% hike in nominal dollar terms, according to the Center for Global Development thinktank (see graph).

The burden is likely to fall on the largest economies. IDA20 had 52 donors, but over 90% of its contributions came from its 15 largest, according to CGD. The US was the biggest donor with \$3.5bn, just ahead of China's \$3.4bn, with the UK third at \$2bn.

Development specialists are concerned that many of IDA's largest donors have reduced aid to low income countries so as to boost support for Ukraine and climate mitigation financing.

There is some good news. In September, Denmark unveiled a 40% increase in its contribution to Dkr3.3bn (\$317m), and prime minister Mette Frederiksen called on all donors, old and new, to match it.

“Everything is interlinked now, and we have to be able to speed up and scale up on all the challenges in front of us at the same time,” she said in a press conference on the sidelines of the United Nations General Assembly in New York.

Allied to this are moves to enhance IDA's capital adequacy framework, which is projected to increase its deployable strategic capital by \$16bn in the medium to long term, and thus expand its financing capacity.

For Banga, the key is the leverage ratio. As he put it in the same press conference: “The big benefit of IDA is that every dollar that somebody like Denmark gives to IDA — because we enjoy a triple-A rating as an institution thanks to our donors — we're able to go to the bond market and get private money to leverage that dollar up to three and a half to four times.”

Recipient countries for which IDA's grants and concessional loans have proved vital in a high interest rate environment echo that. IDA is a “lifeline for fragile nations”, said Somalia's prime minister Hamza Abdi Barre in a discussion on the Sustainable Development Goals at UNGA. “The financing has been critical in transforming our institutions, building resilience and restoring hope for millions of Somalis.”

The Munk School's Cadario, who held several senior roles at the Bank in a 37 year career, says rich nations including the biggest shareholder, the US, have fiscal issues of their own. But he adds: “I remain confident that the Bank has sufficient friends on the [Capitol] Hill, even in a divided Congress, that an agreement would be reached on an increase for the US contribution to IDA.”

CLIMATE NON-FINANCE

Even assuming that donors come up with \$28bn-\$30bn in December, IDA and the Bank will face difficult decisions about how to use it. Banga's mission statement implies not only ending poverty, but controlling climate change.

The World Bank Group committed at last year's COP 28 summit to devote 45% of its annual financing to climate by the end of its 2025 financial year next June.

Within that, it wants half of public sector climate financing by IBRD and IDA to support climate change adaptation and half mitigation. The International Financial Corp, its arm which lends to the private sector, and the Multilateral Investment Guarantee Agency are tasked with scaling up private sector climate finance.

Multilateral development banks were able to declare last month that their global climate finance had reached a record high of \$125bn in 2023. But that is a tiny fraction of what's needed.

The Global Infrastructure Hub, an international infrastructure body established by the G20 and supported by the World Bank, estimates the climate investment gap has quadrupled from a 2017 forecast of \$700bn a year to around \$3tr a year, worsened by the costs of reaching carbon neutrality, the pandemic and the war in Ukraine.

Achieving that will involve leveraging capital on a vastly larger scale than IDA could manage. Rather than turning Denmark's \$317m into billions, the ratio will have to be billions to trillions — in the words of the slogan coined by former Bank president Jim Yong Kim in 2015.

However, incentivising the private sector to pour trillions into developing countries for climate action and the UN's Sustainable Development Goals has not worked, says

Ulrich Volz, economics professor at SOAS London University.

Speaking at a summer event to mark the World Bank's 80th anniversary, he said: “The trillions are nowhere to be seen. The total amount of blended finance was \$16bn last year. Private finance will not save us.”

Banga is still trying. He insists the World Bank alone will not be able to provide the trillions required every year to address climate, fragility, education, hunger alleviation, health care and inequality. Speaking at the Lowy Institute in Sydney, he said he wanted governments, philanthropists and multilateral development banks to “put their shoulder to the wheel”, but echoed Kim, saying: “To close the financing and jobs gap, we also need the private sector.”

Banga has recruited 15 CEOs, including Macquarie Group's Shemara Wikramanayake, Noel Quinn, lately of HSBC, Hironori Kamezawa of MUFG, Tata's Natarajan Chandrasekaran, and Dilhan Pillay Sandrasegara at Temasek, to help him harness private sector investment into renewable energy.

Meanwhile a High-Level Advisory Council on Jobs, set up by Banga and chaired by the presidents of Singapore and Chile, meets for the first time this week, with the aim of designing a strategy to create jobs for the 1.2bn young people set to move into the labour force in developing countries in the next 10 years.

CLOUDED AGENDA

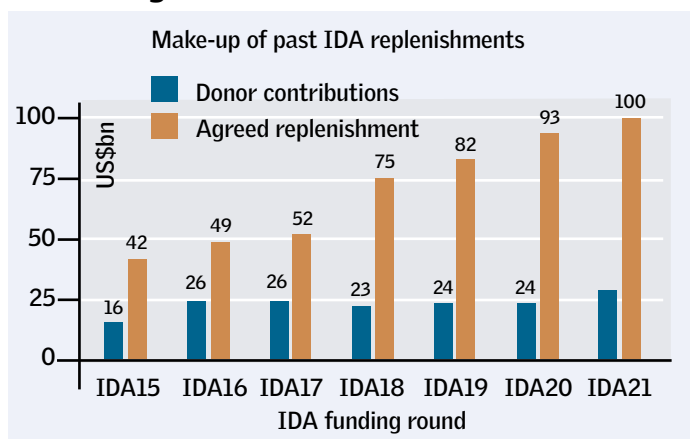
Banga will have meaty issues to raise this week — there is no doubt of that. The question is what his reception will be.

There are likely to be protests — quietly within the Meetings and noisily on the streets outside — over the ongoing conflicts in Ukraine and the Middle East.

There will certainly be valid questions to ask about the Bank's strategy towards investing in post-war reconstruction of Ukraine, as well as Gaza and the West Bank, where it has been engaged for decades.

Last month's UN General Assembly was meant to discuss climate change but was heavily distracted by those conflicts, points out Cadario. “There will be protests in Washington about the Bank in general and about debt relief, because it's a nice season to protest,” he says. “It'd be nice to think that in the middle of October, two weeks before the US election, and with two active wars going on, people will come to Washington and talk about IDA and unsustainable levels of post-pandemic debt, and maybe backsliding on the role of women. Mr Banga will be saying what people want him to say. But no one's going to be listening.” **GM**

Stretching for \$100bn



EMIRATES NBD CAPITAL: AN UNRIVALLED CONDUIT FOR MIDDLE EAST LIQUIDITY

In an interview with *GlobalMarkets*, Hitesh Asarpota, CEO of Emirates NBD Capital, discussed the surge in regional liquidity, its impact on different asset classes and the growth of ESG

What would you identify as the main trends in the growth of Middle East liquidity?

Amid geopolitical and macro volatility across the globe, there has been a major influx of capital into the Middle East and Gulf Cooperation Council region — particularly the United Arab Emirates.

Institutional investors and family offices are establishing an onshore presence in the region. The local and regional banks are strongly capitalised and have access to deep pools of liquidity. More than 6,700 millionaires are expected to move to the UAE alone this year — that's 70% up since 2023. Together with the cash-rich sovereign wealth funds, this has transformed the GCC region into the world's newest liquidity and wealth haven.

What kind of investments and asset classes is this liquidity in search of?

The inflow of capital has spurred activity across the region's capital markets. The Middle East's IPO boom has bucked the global downturn. We have seen massive oversubscription and competitive listing fundamentals on IPOs for UAE government strategic assets like DEWA, RTA and ADNOC subsidiaries.

In the second quarter of 2024 alone, there were 14 IPOs for a collective \$2.64bn — primarily led by Saudi Arabia and the UAE region. We are seeing the primary market evolve with more private companies across sectors reflective of the economy looking to IPO, which in turn is widening the pool of investors looking to invest in the region.

In the debt market we've had a record level of activity, underpinned by significant demand from GCC investors. Islamic investor appetite is driving record sukuk volumes, which have reached \$37bn year to date, and international entities are also looking at the format to widen and diversify their investor base.

What is the role of Emirates NBD Capital in linking issuers and investors across different parts of the market?

Emirates NBD Capital has been pivotal in channelling its own sizable internal group liquidity, and acting as a gateway on behalf of our international clients.

We have strong distribution capabilities, with access to 850-plus institutional global investors, through a salesforce based in Dubai, Singapore and London.

Emirates NBD also has one of the largest private banking footprints in the region, with a presence in Saudi Arabia, Singapore, London and Turkey.

The group continues to maintain its lead rankings in the local and regional debt capital markets, while rapidly expanding our cross-border franchise. Our growing prominence in global coordinator and bookrunner roles is reflected in our high standings in international league tables.

We are ranked 5th in the CEEMEA USD public bonds and sukuk table, making Emirates NBD the first GCC bank to break into the top 5 and top 10 positions. Our in-depth Sharia structure experience has helped us become a leader in the international sukuk tables.

Are there market segments or geographies where Emirates NBD Capital is seeing particular growth in its debt capital markets operations?

The supportive market dynamics continue to fuel Emirates NBD Capital's record-breaking run: the platform has raised over \$67bn across 98 primary issues and 48 private placements year to date in 2024.

Whilst the GCC remains our core market, we have rapidly enhanced our international presence across Turkey, India, Africa, the UK, US and Europe, piercing the top 5 of the CEEMEA USD Bonds League Tables, the only GCC bank to have done so.

Emirates NBD has been instrumental in channelling robust and competitive Middle Eastern

"Our growing prominence in global coordinator and bookrunner roles is reflected in our high standings in international league tables"

liquidity. We entered the Turkiye debt capital markets in 2013 and have established ourselves as the go-to DCM franchise, ranked second in the Turkey USD Bond League Tables so far in 2024. In the last 12 months, we have successfully led 26 marquee issues, raising over \$15bn on behalf of strategic clients.

We also continue to maintain an active presence in the highly competitive Asia DCM space, having led landmark issues and liability management deals in India, on behalf of clients including SBI, HDFC, Axis, Adani, Shriram, Delhi International Airport and JSW Infrastructure.

Emirates NBD continues to grow its prominence in China, primarily across the financial institution and non-bank financial institution space. We are also leveraging Emirates NBD's onshore presence in London to further expand UK and European



DCM coverage, where we recently led a €700m green bond on behalf of CPI Property Group, the first time for any Middle East bank to book-run a CEE commercial real estate deal. We have previously led transactions for other prominent international clients such as Imperial Brands, Aercap and the government of the UK, amongst others.

How are trends like environmental, social and governance (ESG) issues and sustainability interacting with the growing funding opportunities in the Middle East?

ESG mandates are benefiting from increased liquidity. One key driver is the UAE banking sector's pledge to facilitate AED 1Trn of sustainable finance by 2030. This is complemented by product innovation across the region, where our franchise has played a major role.

We contributed to the ICMA-led Guidance on Green, Social and Sustainability Sukuk and then acted as sole sustainability coordinator on Emirates Islamic's sustainability sukuk — the first such format from the UAE after the ICMA guidelines release.

Most recently, our franchise supported Emirates NBD in its publication of the first ever sustainability-linked loan (SLL) financing bond framework that is fully aligned to the International Capital Markets Association and the Loan Market Association guidelines.

The instrument allows us to raise funding and redirect it to SLLs for leading clients in Australia, Singapore and many other jurisdictions. Similarly, Emirates NBD Capital has been acting as sustainability coordinator in syndicated sustainability loans in new markets like Saudi Arabia and Hong Kong.

Our franchise also supported Ziraat Bankasi's \$1.7bn SLL — the largest and most widely participated sustainability-linked syndicated loan for a financial institution in Turkey.

All this just reinforces how quickly ESG is turning into a mainstream concept in the Middle East and impacting labelled deals globally. The Emirates NBD Capital team looks forward to continuing supporting its clients on the green journey! ●



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As the IMF turns 80, can it be rejuvenated?

With political tensions gripping the world economy and threatening to squeeze even tighter, the International Monetary Fund's managing director Kristalina Georgieva has her work cut out at this week's annual meeting. If the IMF is to remain relevant and capable, she must strike deals that countries of different political hues and degrees of wealth can live with

By Phil Thornton

Vicious fighting is tearing eastern Europe, there are mounting fears of escalation in east Asia, and Western states are worried about the role the major totalitarian powers could play in a post-conflict economic and financial system.

This could stand as a rough summary of the outlook in October 2024. It applies equally to the middle of 1944, when World War II was still raging and Allied political leaders were trying to plan for a better future.

Direct comparisons across those eight decades are tricky, but these echoes are being heard at events marking the 80th anniversary of the International Monetary Fund. They began on July 1, which in 1944 marked the opening of the Bretton Woods conference that led to the founding of the International Monetary Fund and World Bank.

As today's generation of finance ministers and central bankers gather in Washington, they too will be looking to carve a route to a post-war economic system that accommodates the needs and desires of China and other non-Western countries.

This will be a central part of Kristalina Georgieva's agenda for her second term as IMF managing director, after being reappointed in April 2024.

She will be keen to push through a programme that leaves a legacy for her 10 years at the helm. But she must deal with a host of challenges, ranging from the state of the global economy and the Fund's place in the morphing global financial architecture to the thorny issue of countries' stakes and voting power.

DE-GLOBALISATION

The world economy is ostensibly on the mend, with a meagre but stable growth forecast and inflation on a downward trend. But a threat hangs over the outlook: the risk of fragmentation, with countries increasingly imposing unilateral tariffs or protectionist industrial policies.

Pierre-Olivier Gourinchas, chief economist of the IMF, points to an "explosion" in trade-restrictive measures.

Monitoring service Global Trade Alert has counted well over 2,000 new harmful trade interventions by governments so far this year (albeit offset by around 750 liberalising measures), compared with around 800 in 2019. The IMF estimates further trade barriers could carry a long term cost of 7% of global GDP.

As Gourinchas said over the summer, this surge of intervention is likely to "distort trade and resource allocation, spur retaliation, weaken growth and make it harder to coordinate

policies that address global challenges".

He did not mention specific countries. But there is growing concern about the US, which is expected to impose further tariffs on China, especially if Donald Trump becomes president again in November. This would be an attempt to stem America's deepening current account deficit with its largest source of imports.

Ariane Curtis, senior global economist at Capital Economics, says widening global imbalances have become "another faultline" in the global economy. "Tariffs could increase by even more if Trump were to be elected," she says, "which could have a significant impact on the timeline and shape of the future fracturing of the world economy."

RIVALS AT THE GATES

The IMF's leaders are certain to avoid talking about US trade policy so close to the presidential election. But there are other tensions on Georgieva's radar. For some years now, the IMF has lost its monopoly as provider of finance to help states through economic and financial crises.

Last month the Forum on China-Africa Cooperation in Beijing was attended by 51 African heads of state and government. China pledged Rmb360bn (\$51bn) over the next three years: Rmb210bn of credit lines, Rmb80bn of assistance and Rmb70bn of

Challenging agenda
IMF managing director Kristalina Georgieva at the World Bank/IMF 2024 Spring Meetings

investment by Chinese companies.

That amounts to sizeable funding, although China has not gone as far as to offer broad relief on the estimated \$182bn of loans it made between 2020 and 2023.

As Tighisti Amare and Alex Vine of Chatham House's Africa Programme point out, China is showing its ability to provide direct funding without the conditions required of borrowers under multilateral aid. In doing so, it is also trying to build "alliances against a US-led West".

Asked how the Fund might respond to this new wave of alternative financing, Julie Kozack, the IMF's communications director, said its economists were updating their assessment for their African regional economic outlook and there would be "more to come" at this week's annual meetings.

DEBT AND CREDIT

The IMF also wants to take concrete steps to improve the way it provides support to low income countries. Georgieva has warned LICs need \$820bn over the next five years to cover projected current account deficits and external debt repayments.

The IMF has taken a three-pronged approach: helping with domestic reform to raise tax revenues; encouraging more international funding for tools such as its Poverty Reduction and Growth Trust; and improving how debt crises are handled.

The IMF has had some success with the third prong: earlier this year Zambia agreed a deal to restructure its \$14bn debt, three years after it defaulted.

The deal was guided by the Common Framework for Debt Treatments, set up by the G20 to facilitate the resolution of private and public debts, but Georgieva has said more needs to be done.

The process took more than three years as China, other official creditors and private bondholders argued over a fair sharing of the losses.

Hung Tran, a non-resident senior fellow at the Atlantic Council's GeoEconomics Center, says the Fund needs to be "more ambitious".

"Its debt restructuring negotiation process should be expanded to include both official and private sector creditors at the same time," he says, "either all together in a comprehensive session, or in parallel, with timely communication between them."

Tran, a former IMF deputy director, also argues the Framework's coverage should be widened to include vulnerable middle income countries like Sri Lanka and Pakistan.

A sore issue between the IMF and its borrowers for years has been surcharges, paid when a loan exceeds a certain level or is repaid late.

The Atlantic Council had estimated that total surcharges would amount to \$13bn between 2024 and 2033. Surcharges have substantially

increased the payment burdens on countries in economic distress and depleted their dwindling foreign exchange reserves. Development advocates have called for their abolition.

On the eve of the Annual Meetings, the IMF approved changes to the rules that it said would reduce its members' borrowing costs by about \$1.2bn a year. Georgieva said the number of countries subject to surcharges in fiscal 2026 would fall from 20 to 13.

Tran says the reforms will be useful to countries now subject to surcharges, but are unlikely to completely silence demands for abolition.

"The surcharge policy is not consistent with the basic tenet of the Fund, i.e. acting as a mutual help organisation to assist — with financing at concessionary interest rates — a member in need to overcome its crisis," he argues. "The policy should be abandoned — especially as the IMF doesn't need the surcharge income to maintain adequate precautionary balances."

Washington's Center for Economic and Policy Research is another critical opponent. "The IMF's decision this week is a small step forward," says Mark Weisbrot, its co-director, "but there really is no way to justify these surcharges on countries that are already heavily indebted, and thereby increasing their risks of debt crises, as well as human suffering."

He points out that the IMF received net income of \$6.8bn over the past 12 months, more than three times the average of the past four years. "Annual surcharge revenue is a fraction of that and is not needed. If needed, the Fund could revalue its gold reserves — this could by itself replace surcharge revenue for decades."

QUOTA AND VOICE

The seemingly never-ending argument over how to share voting power between members is likely to resurface this week, following the partial resolution of the issue a year ago. After the annual meeting in Marrakech, the IMF approved a proposal for a 50% increase in the quotas of all members.

While this strengthens the IMF's permanent resources and reduces the reliance on borrowing — the share of quotas in total resources will rise from 49% to around 70% — it has done nothing to affect the imbalance between members' economic weights and their voting power.

For example, China, the second largest economy, has a voting share of just over 6%; the US has a quota of 16.5% (crucially, enough to block any measure that requires 85% approval). A particular bugbear for

emerging economies is the power of the 27 countries of the European Union, which hold a 29.4% share of the votes, nearly twice their 15% share of world GDP.

Approving the 50% enlargement, the IMF's governors asked officers to explore "possible approaches" by June 2025 as a guide for a further quota realignment, under what would be the 17th quota review.

Many longstanding critics are sceptical. In a paper for the Bretton Woods Project, an NGO network, Paulo Nogueira Batista, a former vice-president of the New Development Bank, said the idea of the IMF as a global financial body with universal reach was at odds with its "skewed" decision-making process.

"This was not unexpected at all," says Nogueira Batista, an IMF executive director from 2007 to 2015. "This amounts to kicking the can down the road. The further failure of another attempt at reform is undeniably a considerable, even if not lethal blow to the Fund's credibility."

The imbalance is principally in favour of European countries. Consequently, Europe would need to bear the brunt of any sacrifice of control. For meaningful reform to take place, wealthy European nations would need to relinquish a significant portion of their quota shares, with most of them redistributed to China and other middle income countries in Asia.

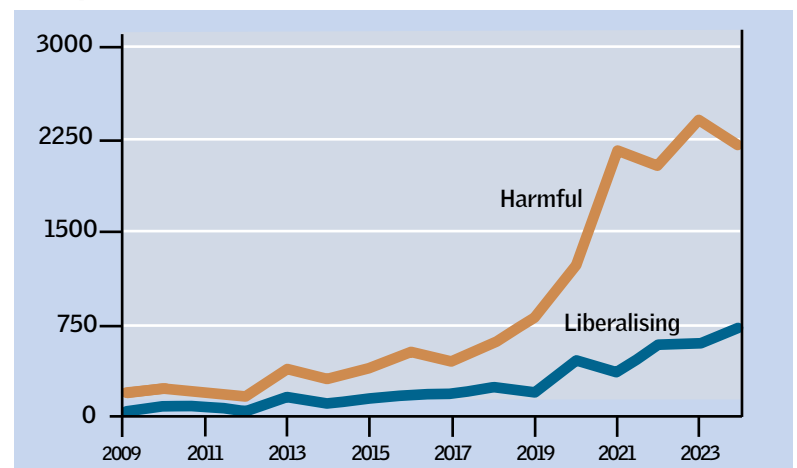
There is some better news. In August the board of governors confirmed the creation of a new member of its executive board to represent sub-Saharan Africa, who will take office on November 1. As Nogueira Batista says, this will significantly increase the voice of this region in the executive board and the politicians' International Monetary and Financial Committee.

Tran says that despite the intense geopolitical difficulties that beset the IMF, there is a chance that this week could produce meaningful agreements. As he puts it: "Such an opportunity is not to be missed." **GV**

“*[Another quota review] amounts to kicking the can down the road. The further failure of another attempt at reform is undeniably a considerable, even if not lethal blow to the Fund's credibility*”

—Nogueira Batista, an IMF executive director from 2007 to 2015.

Sharp rise in harmful trade interventions since Covid



German regions seek new investors as capital needs grow

Germany's 16 Bundesländer (federal states) and their regional development banks are active and highly rated bond issuers. Despite Germany's strict 'debt brake' which limits public sector borrowing — reinforced last year by a Constitutional Court ruling that caused a €60bn budget headache for the Federal government — the borrowing needs of the Länder are gradually increasing.

Some are recapitalising public sector banks or companies, some have allowances to cover cyclical deficits.

Meanwhile there is widespread acknowledgement that Germany's infrastructure needs upgrading, and the climate transition will require large scale investment.

GlobalCapital — sister publication of *GlobalMarkets* — gathered experts from three leading issuers, an investor and two investment banks for a roundtable in Frankfurt in September to discuss the challenges facing the sector.

They explained the effects of the debt brake and weighed up the market implications of recent elections in three eastern regions. The group explored how regions and development banks are changing their bond programmes to meet their funding needs, including issuing bigger benchmarks and seeking to grow their already substantial foreign investor bases.

And they debated the value of funding with different environmental, social and governance labels.

GlobalCapital: Last year the Federal Constitutional Court ruled that the government was not allowed to repurpose €60bn of special borrowing allowed for the Covid pandemic to finance the green transition, because it violated the debt brake law. The effect was to reduce the Climate and Transformation Fund or KTF by €60bn. How have the Länder adapted their funding needs this year as a result? And what effect is the debt brake having on their funding activities?

Alexander Labermeier, State of Hesse: Good question. We expected the Constitutional Court's ruling. We did the same approach in our Covid special fund and got a ruling by the local Constitutional Court of Hesse two years ago, saying that this was unconstitutional because of the long period of availability of our Covid special fund and related measures that are not directly connected to Covid.

This ruling ordered us to transfer the measures against Covid back to the central budget. So there was no effect from the constitutional ruling on the federal level for us — we didn't have to do anything else.

The debt brake is still visible for us. This year we made, in line with the debt brake exemptions, two exemptions with our supplemental budget.

One is a small deficit allowance because of cyclical

deficits. If income declines, we are allowed to make good a cyclical deficit with net funding. And €2bn was a one-time action to refund the Landesbank. We took back a silent participation worth up to €2bn and therefore invested €2bn for capital.

This was all in line with the debt brake and the federal ruling on the federal budget doesn't affect us.

Elke Badack-Hebig, State of Berlin: The German Constitutional Court's ruling affected our planned special fund for climate transition. As you may know, we already had a legislative proposal for a €5bn special fund for climate transition, which was stopped in November when the court's ruling was clear. The coalition has decided instead to do a so-called energy budget, the building block of our state climate protection and resilience strategy.

This year, in addition to our refinancing needs for 2024, we have been authorised to take on up to €2bn in supplementary borrowing for so-called financial transactions. These are loans to inject capital into certain state-owned companies. It is not a breach of the debt brake rules.

A large part of this €2bn, a share of €975m, covers the capital injection for the purchase of the direct heating network from Vattenfall. This company now operates under the name BEW (Berliner Energie

und Wärme) and is intended to supply Berlin with climate-neutral district heating in the future.

GlobalCapital: Johannes, IBB obviously is not a state. However, how have these matters affected your approach to financing?

Johannes Lischke, Investitionsbank Berlin: It did not affect this year's financing so much. We don't see an immediate effect for development banks, but we do see one going forward because the debt brake very much limits the investment potential for local governments. You already heard two examples of the possibilities to inject equity into public state-owned companies.

We are providing another arm for this construct, now and in the future, as a lender, especially to state-owned companies. We leverage this possibility to create investment and help growing demand for infrastructure of all kinds in the states, particularly in Berlin, which has been outgrowing Germany over the last 10 years in terms of GDP growth, but also in population.

This is a strain on the infrastructure, schools and hospitals, but also the public providers, for example, the heating grid. They all have to adjust to a growing economy and a growing population.



Elke Badack-Hebig, head of treasury, Senate Department of Finance, State of Berlin

Christopher Bergmann, head of liquidity portfolio, DZ BANK

Alexander Labermeier, head of treasury, State of Hesse

Christian Mundt, SSA syndicate manager, DZ BANK

Johannes Lischke, head of money and capital markets, Investitionsbank Berlin

Ralph Sinclair, moderator, London bureau chief, *GlobalCapital*

Norman Rudschuck, managing director, floor research — SSA/public issuers, NORD/LB

To be able to invest in your public infrastructure in a situation where the debt brake doesn't really allow as much investment means that you need to go for these constructs where the state has companies into which it injects equity and then leverages it through loans. This is very much a point where a local development bank — whose purpose is to fund activities with promotional aspects — can come in and generate further investment through its loans.

We do expect that this construct will also result in our funding requirements increasing over the next years and we are very much planning for that in the way we approach the market and try to attract a wider investor base.

GlobalCapital: We will certainly come back to that topic later. Norman, could you give a broader view of that question about the KTF ruling and the debt brake, encompassing the regions that aren't represented around the table and the sector in general?

Norman Rudschuck, NORD/LB: Everybody was talking about the new paper, which demands more investment, and then on the other side you have the debt brake on the Länder, which we are discussing a lot because, when it was effective in 2020, Covid kicked in.

So the Länder did all the homework to stick to their budgets before, and now we have those exemptions and stuff like that and we want to see, not only that there's net zero that everyone is saving for, but also with this horrible bridge collapse in Dresden for example, you can see that we are lagging behind with a lot of infrastructure, a lot of transformation, a lot of innovation. We clearly have to cope with those challenges in the future.

For several Länder, it looks a bit sticky with their funding needs and their investment needs at the same time.

Lischke, Investitionsbank: The German Bundesländer are not alone. It's a European, or even a worldwide topic. Whether it be in France, or other European neighbours, there's a question of using the state balance sheet or whether you try to put it in the hands of a public institution, which in some cases might be even a better project manager than the state itself.

There's potentially good and bad in it, but generally speaking, it feels like everybody, Europe-wide, is looking for a solution to still be able to invest and push the economy while at the same time trying to stick to the rules that they've applied to themselves. So it's really a European problem, not just a German one.

GlobalCapital: Christopher, how have you looked at it from an investor's point of view and the influences of those two factors in particular?

Christopher Bergmann, DZ BANK: We welcome new Länder primary supply because their bonds are expensive and scarce in the secondary market. Thus, we would very much appreciate seeing more supply. But we also see spreads are quite narrow these days. They have come back a bit, but they're still tighter than those of other issuers like KfW, for example.

In the primary market, however, we are seeing new Länder issues coming at the same level, or even slightly wider than KfW, and that's what we want to see.

GlobalCapital: That leads neatly on to the next question, which is about spreads and the other big topic this year everywhere — elections. What sort of spread movements did you notice around the Saxony, Thuringia and Brandenburg elections?

Bergmann, DZ BANK: Not much. Spreads didn't really

move by a lot. Nevertheless, coming to the market right before the regional elections was well timed by Thuringia. Issuing one week later would probably still have affected pricing negatively.

However, the Länder have a strong domestic investor base, and I believe if investors were more internationally diversified, the spread movements would be even more pronounced. While we are not observing a strong disruption from the Länder elections right now, this could be the case if the political landscape continues to change.

“The second sustainability bond will follow in the first half of 2025. That is our idea and due to the 25% proportion of green projects, an alignment to the green Taxonomy is not so important for us”

—Elke Badack-Hebig, State of Berlin

Christian Mundt, DZ BANK: I would underline that. Obviously, what happened in the elections was not that much of a surprise for anyone following German politics.

It feels like investors are waiting to find out which route the still-to-be-formed new government is taking and then to act accordingly when necessary.

For the time being, spreads of German state bonds have been pretty stable, mainly because the pick-up of the German investor base for Länder bonds is very high, in general about two thirds probably. Obviously, we know our country pretty well, so there is no panic selling or anything like that.



And as Christopher already pointed out, a lot of those bonds are lying with buy-and-hold investors; they are not the typical product that people would use to speculate on sudden movements on the back of economic data or anything, so that is certainly helping.

Rudschuck, NORD/LB: Three points on this. I fully agree that investors I was talking to said: “We’re not buying, for example, because we don’t have a line, we don’t see the spreads as a perfect spread right now”, but no one told us it’s about the elections. That’s point one.

The second point is these were local elections. People from foreign countries are looking at the German government right now and the first time I was asked whether the German government could also announce snap elections was when we were at the Global Borrowers’ Forum in London [in June] this year.

That brings me to the third point: snap elections in France, which are not comparable to the German local elections because, in the aftermath of those snap elections, we saw the pulling of an ESG bond from an agency, which would never happen to German Länder. That was the good part of the story. People are afraid, but obviously we have an eye on it.

Lischke, Investitionsbank: When we are talking about spreads and you look at a timeline of the last five years you see the spike in March 2020 and we are currently rather close to that spike again.

Higher swap yields and higher spreads combined make Bundesländer and fixed income in general a very attractive investment. A lot of investors are still playing catch-up with their fixed income quotas and that supports the market and maybe helps them not to get too nervous around some news, especially as it’s more on a sub-sovereign level, as you just mentioned, than really on a German level.

GlobalCapital: Would any of the issuers like to comment? I realise these are elections in different states, but have you noticed any effect on your own bond spreads? Do you anticipate any? And there’s a federal election next year — what are your thoughts on that?

Labermeier, Hesse: Speaking for Hesse, I think it’s all about stability. Investors want to see a stable government. It’s a state election, so it’s different to France where you have a federal election. In Hesse we had an election for a new parliament, at the beginning of January 2024, where the Christian Democrats and the Social Democrats were voted in for five years, so we have a stable government, so it doesn’t affect us.

The spread discussion is all about fair pricing. Our aim is also to incentivise primary investors to come into our order books for the first time to benefit from spread developments on secondary markets. So it’s all about fair spreads.

If you have a product which is not enlargeable because of the debt brake, because of your issuance behaviour, and you issue only €8bn a year, it’s clear that the spreads could be tighter than other products.

You have to take into account that at least 50% of every bond is sold outside Germany. So we still have a large investor base outside Germany willing to pay, from our perspective, for fair price spread products — even from a European perspective, not a German perspective.

So we feel confident that, if you have a broad investor base, foreign investors — French for example, with higher OAT levels — are buying state bonds. It’s a good sign for us that we show a fair spread.

Badack-Hebig, Berlin: It had no impact on spreads. But I just have the idea that investors may be holding back in the segment of longer bond maturities. I don’t know. If you look at the November 2032 bond from Thuringia, there was no impact in the week just after the election on September 1. So we will see in the longer run. We realise order books are smaller at the moment, but is this due to the political situation? No, I don’t think so.

Lischke, Investitionsbank: Yes. I would definitely agree with the other speakers that there was no noticeable effect from Thuringia. I think it’s due to the fact that there’s just not that much free float in the market where someone would have something to sell in that situation.

What we’re currently seeing is some spread widening, but I see this more as a reaction from

France to the European Union, to Scandinavia and agencies that have widened. If there’s a broad widening, then obviously you also have to look at that.

We have about 50% of international investors coming from central banks and bank treasuries outside Germany and when you have this broad investor base, I don’t think you can completely isolate yourself, even though the much reduced volatility and the lower overall debt levels allow us to trade at a lower spread compared to others.

Rudschuck, NORD/LB: The thing I just looked up before I came here was the offer sides on different local entities, and you don’t really see any offers for their bonds. So that basically means, if you can’t see any offers, you can’t really judge the spread where it’s actually trading.

From what we hear, if someone asks for a spread, spreads are usually wider than what you see on the screen. So if there was really any back and forth trading in the bonds, then we probably would be at a different spread level.

What separates those state elections from France and the UK [during the Liz Truss premiership in 2022] is that there was a budget component in France and in the UK which led to wider spread levels, and we didn’t have that in Germany.

GlobalCapital: I guess that is budgets covered off, which then brings us to how to fund them. How are your borrowing plans evolving? What should investors expect from the Länder or German regional issuers in general, in terms of bond issuance?

Lischke, Investitionsbank: We try to make issuance as regular as possible in the way that we structure

“At least 50% of every bond is sold outside Germany. So we still have a large investor base outside Germany willing to pay ... for fair price spread products”

—Alexander Labermeier, State of Hesse

our liabilities, in order to come very regularly to the market.

We have been steadily growing with the amount we roll over. Five or six years back we were rolling over more in the range of €1.5bn to €2bn each year. Now it’s around €3bn and we expect with further balance sheet growth to go up to €3.5bn or €4bn in the years to come.

Now, I don’t have an exact plan for next year, yet. What I can announce is that since we are trying to attract additional investors, we have made the strategic decision to go to €1bn issuance volumes in the future and thereby increase liquidity in our bonds.

So far, we have only done €500m issues in one go and in the last two years for the first time, taps to €1bn. Now we also want to start issuing €1bn in a

transaction, to attract an even broader investor base.

We got a second financial rating from Moody's a few months back, which is an important criterion for some central banks we were talking to. Two years ago we started with our social bond programme to attract more sustainability-oriented investors.

Regarding the European Central Bank, we've got recognition for their quantitative criteria that will reduce our ECB haircuts. By doing all these many small things, we try to keep our bonds boring, safe, but at the same time in a way still a bit fun to hold for our investors.

Labermeier, Hesse: Right now, we are starting to discuss the budget for 2025. With a more sideways developing economy you can expect also a sideways development on tax revenues, so it will also be tricky in the next year.

This year it's a bit unusual. I already explained the supplemental budget, so this year we aim to issue €9.5bn on capital markets. Of that, €8bn is already issued in four large benchmarks, very successfully, up to five, seven, 10 and 15 years, with quite good demand, especially for the 15 year, but all for the other large benchmarks I already described.

So there is €1.5bn to come for the end of the year. Right now we are thinking of what's next on capital markets, so we could be out soon with another benchmark format.

We try to compensate for the fact that ECB buying is no longer active. Honestly, it wasn't so active in our bonds as our bonds were primarily sold out. We do not rely so much on central bank buying anymore.

We tried to broaden our investor base with a large roadshow programme this year. We roadshowed to Scandi, to the Dutch regions, to Italian and English

“ *We expect that this ... will result in our funding requirements increasing over the next years and we are very much planning for that in the way we approach the market and try to attract a wider investor base”*

—Johannes Lischke, Investitionsbank Berlin

regions, so we are trying to broaden our investor base to show our benchmark programme.

One large step is our green format programme. We have successfully had two large green bonds so far; the second one was the largest sub-sovereign green bond in Europe. With this green format we are trying to establish ourselves as a dedicated green issuer, to show our sustainability approach to investors. This has an effect on normal bond issuance, so it's quite a good story if you focus on green issuance.

Badack-Hebig, Berlin: I think Berlin's budget will be under pressure for 2025. We have reached €40bn so

far in expenditure, so the finance minister decided to go for a supplementary budget for next year, given the strong aim to reduce several budget positions.

Given a broad 2% reduction as a basis in 2024, the Ministry will decide which expenses must be reduced to an overall level of about €36bn — that would be a decline of 10%. So we will have a supplementary budget for 2025 in discussion at the end of October or beginning of November.

What does it mean for our funding volume? The refinancing of maturing loans amounts to €5.4bn, I guess, and in addition we have these financial transactions with a volume of €440m as I said before, but I think it could be closer to €1bn, so it will rise.

And thirdly, we have to refinance our reserves. We built up reserves from 2012 to 2019 and these are still on our liquidity book. We are currently using these as interest-free internal loans, which must be refinanced when the reserves are used for their intended purpose.

We assume that we will have to refinance €1.5bn on this side, so our gross funding volume will be roughly €8bn next year. This year we have done €7.3bn so far, so next year's volume is no surprise for us. We will go ahead with our strategy, which I could talk about now or later if you want.

GlobalCapital: Why don't you tell us now?

Badack-Hebig, Berlin: We changed our strategy in 2024 compared to 2023. Last year we entered the market with bonds of €500m and that was fine for us. We tapped these bonds later on and that was OK.

At the beginning of 2024, we were aware that we had to do €9.6bn. This figure has now been revised, but we have decided to follow two approaches.

Like Johannes said, we went for a €1.5bn issuance volume and some bonds of €1.25bn and tried to have a good maturity mix.

We started with a seven year maturity; several other states started with a 10 year at the beginning of January, so we decided to issue the seven year first and the 10 year afterwards. We had a dual tranche of €1.75bn, which went very well, with a new 30 year tenor and a tap of an existing four year bond at the same time.

We had a very successful five year trade with an order book of €2bn, allowing a final volume of €1.25bn. That was tapped later on.

We had a successful placement of 50% outside Germany. That was interesting because we had a virtual Nordic roadshow just before and the share of Nordic investors was 16%. So €200m went to the Nordics and that was quite a nice success.

That was 2024 so far and I have the idea to follow up on this in 2025 — to have a volume of €1bn up to €1.5bn for the first issue, or if we have a €1bn issue, going for the tap later on. We will also keep the maturity mix, to build up a smooth maturity profile for next year as well.

GlobalCapital: Alex, what has Hesse to do next year and how might you do it?

Labermeier, Hesse: Flexibility is already set. We are flexible on the maturity side and on the issue size. We are flexible on the issue date. We have shown that we could open a summer market with a Monday transaction with a €1.5bn 10 year, over-subscribed. That's a good thing.

We tried to issue promissory notes or private placements for 15 years and got the feedback from market participants that they were more interested in a large benchmark, so we started the year with a 15 year transaction for €1bn. It was three times oversubscribed and no other issuer [has issued] at 15 years this year so far.

We rely on a three pillar approach: up to five years with a floating rate note book around the large benchmark; the second pillar is five to 10 years in the large liquid benchmark programme. Five, seven and 10 years could be up to €2bn, at least €1bn, to compensate investors for liquidity as well.

The third pillar is up to 20 years, but if promissory notes or smaller private placements are not in favour for investors anymore, we are able to issue large benchmark sizes as well. For example, our 15 year transaction goes only 25% into bank treasuries, the rest was central banks, institutions and wealth investors who are interested in a 15 year with an interesting coupon.

GlobalCapital: For our final topic, turning to environmental, social and governance-labelled issuance, I'd like to know about the sector's future funding plans. How much of your programmes do you intend to issue as labelled bonds and will those issues comply with the EU Taxonomy or Green Bond Standard?

Lischke, Investitionsbank: We issue social bonds, which by definition are social and do not follow the new EU Green Bond Standard.

This is a function of trying to make the product feasible with our loan products, which have very often social characteristics and a much smaller green share.

We use a lookback period of three years



Norman Rudschuck



Elke Badack-Hebig



Christian Mundt, Alexander Labermeier



are also going to sustainable loans and investments.

Labermeier, Hesse: If you take into account that a labelled bond takes my team one year of preparation instead of four days for a normal bond, you can just imagine how hard the task is to issue a labelled bond, so we have a clear approach of issuing only green bonds.

We are following the Bund refinancing approach, and the main reason is that a state is a social entity already.

If I issue €9bn this year, I can issue 100% social bonds, because overall our social expenditures per year — if you look at schools, at universities, at social measures of the

state — are above €10bn per year, so I could declare every bond social.

Our aim is to issue green bonds only in benchmark size formats, so every two years we want to issue a green bond of at least €1bn. Looking at the environmental expenditure of the state, our largest projects are around €600m per year, slightly increasing over the years to come.

So that's our aim — to deliver really green — and the feedback we get from investors is a pretty clear message that green is preferred instead of social. Some investors already are treating us as a social entity and treating our bonds as social bonds. That's for us the clear message.

The second question is: future plans to comply with the Taxonomy and EU standards. The one year preparation work is for ICMA green labelled bonds.

We have simulated already to issue a green bond under the EU Taxonomy. If we want to focus on less bureaucracy and fewer things instead of doing even more paperwork right now, we will still issue the next one in an ICMA green bond format, because the EU Taxonomy is really hard to document.

Some projects, especially the interesting ones — for example the state's farming and reforestation measures, which take up about 20% of our green bonds — would be really hard to declare under the EU Taxonomy regulation. So for us, one year of preparation work for one bond every two years is really enough.

GlobalCapital: Just to clarify, when you say you take the same approach as the Bund, do you mean you issue a conventional issue alongside a green bond with the same maturity?

Labermeier, Hesse: No, [I mean] we issue bonds with a similar framework [to the green Bund]. This means we do a refinancing approach; we follow the ICMA Green Bond Principles.

The difference from the Bund is we issue every two fiscal years to allow our bond to have a maximum size of at least €1bn. But we don't have a twin concept because we don't need it.

Every bond as a state bond has the same spreads. We have a small premium on it, but we have the same spreads, there is no need to incentivise [investors] with a switch [to] the much more liquid bonds instead of another green bond like the Bund has to do. So we issue under a similar framework but not with a twin bond concept because we don't need it.

GlobalCapital: It seems a bit of an irony that issuing a green bond costs so many extra trees in terms of the paperwork. But doesn't it get easier with each new issue — more programmatic?

Labermeier, Hesse: Yes. It's digital paper, so no trees have to be cut down hopefully. It's getting easier over time, yes, but you have new projects, you have new questions from the second party opinion providers, even from investors. They have built up larger ESG teams, raising new questions.

You imagine if you do it the third time it could be somehow much easier, but you have to reflect the

“Most clients tell us that reaching full compliance with the EU Taxonomy is more or less impossible at this stage”

—Christian Mundt, DZ BANK

standard of that time, and some new projects. For sure, the first one was one and a half years' preparation work, so we have already saved half a year.

Badack-Hebig, Berlin: I have a slightly different approach. Just to remind your readers, 2023 was a good year for German federal states in terms of sustainable bond issuance.

With three issuers already in the market, NRW, Baden-Württemberg and Hesse, Saxony-Anhalt coming in with a social bond and Berlin with its inaugural sustainability bond. Let me explain why.

It wouldn't be possible [for Berlin] to issue a green bond in terms of volume. For example, our reforestation area as a city state is so much smaller that we can't use this category in a meaningful way.

So we opted for a sustainability bond, and even if one could say that our budget is generally a social budget, we still had to do so much work to identify social projects which have a unique character for the State of Berlin, such as our Special Olympic World Games or our free school lunches, to document them and to give impact indicators about how we are special in the social sector.

That is really important for us and it fits with the idea that our promotional bank will have a social bond for the housing sector — so you won't find any social housing activities in our sustainability bond.

The proportion of green expenditures in our sustainability bond was around 25%, so given a volume of €750m for the whole sustainability bond, it would

and want the allocated loans with their redemption path to be above the nominal [size] of the bond at the end of the maturity, already at time of issue.

This limits the maturities we can issue for social bonds and requires us to hold a much larger portfolio of loans in comparison to the bonds we bring to the market.

So when I look into our loan business and I see new business, it's often 50%, 60%, sometimes 70% in sectors that I know are generally in the space of eligibility for our social bond programme.

Then we look at the details — when it's paid out, what the redemption profiles are — and we make sure to stay within the portfolio redemption path. We end up closer to 15% or 20% of our bonds that we can comfortably issue under the social label, often due to these technicalities, to make matches between the asset and the liability side.

Because of these complexities, I do not believe our labelled bond issuance will increase much more. What we try is to make it visible in our investor relations material. We have two bonds outstanding right now with the social label, but the portfolio in our social bond programme is not €1bn, but €2.5bn of assets, and these are just loans given out in the last years. If you look further back in our balance sheet, the share of social loans would be even larger.

In addition, we try to give investors more visibility on the overall sustainability of our balance sheet, to explain that it's not just the two labelled bonds which are funding sustainable loans, but that the vast amounts of money within our conventional bonds

“We are lagging behind with a lot of infrastructure, a lot of transformation, a lot of innovation. We clearly have to cope with those challenges in the future”

—Norman Rudschuck, NORD/LB

be even worse to have done this work for so small a green bond, which wouldn't have been even €250m. That was the approach and we decided to go for a sustainability bond.

Berlin has the same idea to go every two years because of the expenditure scheme we have in the biennial budget. The second sustainability bond will follow in the first half of 2025.

That is our idea and due to the 25% proportion of green projects, an alignment to the green Taxonomy is not so important for us. It would be so much work to have this categorisation for such a small issue amount, that we decided not to refer to the Taxonomy.

GlobalCapital: Christopher, I realise you don't speak for the entire buy-side, but do you welcome a greater proportion of ESG issuance? Are you happy to pay a greenium, given the extra work Alex is doing for your benefit?

Bergmann, DZ BANK: It depends. At DZ Treasury we are forming our ESG approach for our liquidity port-

“ We welcome new Länder primary supply because their bonds are expensive and scarce in the secondary market”

—Christopher Bergmann, DZ BANK

folio currently. For now, it's definitely a plus to have some sort of ESG format, but not a must for us. To be honest, right now it's a matter of where we get the most spread. So yes, that applies to the SSA space. For the corporate space, we have a different approach, but for the SSA space that's where it is right now.

GlobalCapital: What about the rest of the German sub-sovereign sector, Christian? What are you expecting in terms of ESG issuance to come?

Mundt, DZ BANK: What has been mentioned here is exemplary for what other issuers experience as well. Most clients tell us that reaching full compliance with the EU Taxonomy is more or less impossible at this stage.

The resulting reduction in eligible assets makes

all the necessary work that needs to be put into the framework not really feasible. So either the current approach needs to be made more practical, or the whole EU Taxonomy will probably have a hard time getting off the starting block.

GlobalCapital: Which is ironic, isn't it, because the EU Taxonomy is already accused of being watered down?

Mundt, DZ BANK: Well, it feels like this is the classic situation where political goals meet with the economic realities of our business. What now needs to happen is that ambitious political goals need to be balanced and maybe stretched out over a longer period of time, to allow issuers an economically feasible transition to this new rule set.

But while this is being worked on, the ICMA Green Bond Principles are providing a good guideline already and that is something that investors do like and accept as a standard. So there's no reason to worry about a lack of credible standards.

Generally speaking, from what we are experiencing, ESG-themed bonds are well sought after by investors, so that is certainly something issuers can rely on and adds to product variety.

Another important aspect of ESG-themed bonds is execution security. I think that especially green bonds, but also sustainability bonds and social bonds, tend to be a bit stickier, as a lot of investors want to fulfil their ESG investment quotas. If an investor needs to sell something for liquidity purposes, most likely it's not the ESG bond but rather a conventional bond, so that they don't hurt their quotas, and that's adding a layer of execution security in primary and a bit of stability in secondary markets as well.

Rudschuck, NORD/LB: Funnily enough, NRW was the only [Land] for a long, long time to have an ESG framework. Elke has mentioned the five, so five out of 16 are not that many, not even half, and we don't see exponential growth at all.

There hasn't even been an ESG bond so far from a German state this year and we are already in the third quarter, so we expect one or two to come.



Johannes Lischke, Christopher Bergmann



It's a bit more on the development bank side. I've counted six ESG frameworks: KfW, Rentenbank and the four smaller ones, like NRW.Bank, plus one is sitting here.

And there are some interesting parts: so for the German sub-sovereigns, we would expect a cap at €5bn, for example, because with all those projects we have just mentioned, even for those who have a framework already, it's not even feasible for one benchmark per year.

Then you have the new LFIESG ticker, where several German development agencies have teamed up together [to issue a €500m social bond financing affordable housing in 2022]. Maybe this is also an approach.

We have seen also, for the German municipalities, the DEUSTD [Deutsche Städteanleihe] which was a one-off in the past where municipalities from different states have teamed up together. So this could also be an approach, where different cities go together. Like with NRWGK [Gemeinsame NRW Kommunen, a joint issuer of localities in North Rhine-Westphalia], maybe with ESG context in the future.

Eleven [Länder] not having ESG frameworks makes it obviously a share of 0% [of their funding being green. That goes] all the way up to Société des Grands Projets in Paris with 100% now. That's the whole range from 0% to 100% and German sub-sovereigns have to fit in wherever they feel best with their projects. **GM**

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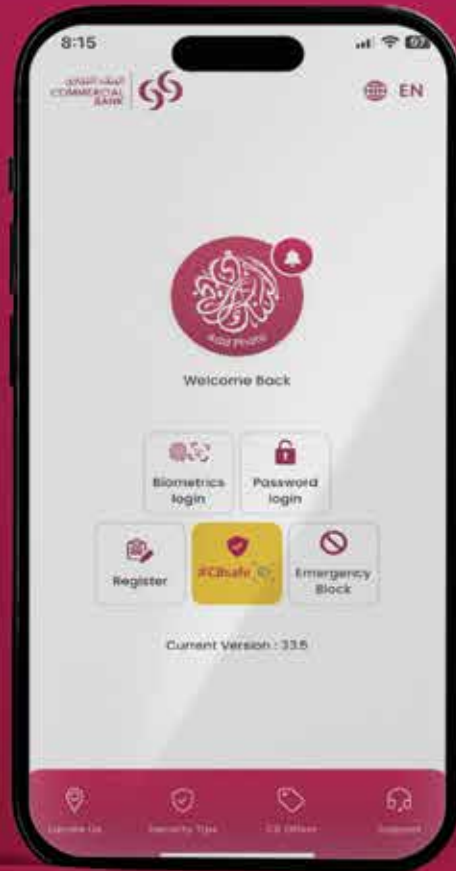
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What's happening Wednesday, October 23

9.30am - 11.30am

New Economy Workshop: **Advancing Fiscal Innovation: Exploring GovTech and AI in Public Finance**

Opening remarks: **Juan Toro**, Deputy Director, Fiscal Affairs Department, IMF

Session 1: Strengthen interoperability of digital fiscal operations

Panelists: **Renata Miskell**, US Treasury Deputy Assistant Secretary, Accounting Policy & Financial Transparency; **Marten Ross**, Estonian Ministry of Finance Advisor on International Affairs; **Beatriz Vasconcelos**, University College London (UK)
Moderator: **Gerardo Una**, Monetary and Capital Markets Department, IMF

Session 2: Implementing AI in Fiscal Operations

Panelists: **Davit Gamkrelidze**, Head of Treasury, Georgia; **Marek Rucinski**, Australian Tax Office, deputy commissioner; **Thomas Cantens**, FAD Staff
Moderator: **Herve Tourpe**, Information Technology Department, IMF

Closing remarks: **Shirin Hamid**, Director, Information Technology Department, IMF
Location: HQ2-03B-838B Lecture Room

10.00am - 10.30am

Governor Talks: **Leveraging Macroeconomic Stability and Digital Payment Systems: The Case of Costa Rica**
Speaker: **Roger Madrigal Lopez**, president of the Central Bank of Costa Rica
Moderator: **Rodrigo Valdés**, director of the Western Hemisphere Department
Location: Cedar Hall HQ1-1-660

10.00am - 11.30am

Flagship Seminar: **The Agri-Food System as an Engine of Sustainable Growth and Job Creation**
Speakers: **Rania Al-Mashat**, Minister of Planning, Economic Development & International Cooperation, Egypt; **Anne Beathe Tvinnereim**, Minister of International Development of Norway; **Ajay Banga**, President, World Bank; **Ishmael Daniso Sunga**, Chief Executive Officer, Southern African Confederation of Agricultural Unions; **S. Divyadharshini**, Chief Executive Officer, Tamil Nadu Rural Transformation Project; **Francisco P. Tiu Laurel, Jr.**, Secretary of the Department of Agriculture, Philippines; **Ndidi Okonkwo Nwuneli**, President & CEO, ONE Campaign; **Ayodeji Balogun**, Group Chief

Executive Officer, AFEX; **Simone Tebet**, Minister of Planning and Budgeting of Brazil
Location: MC Atrium

10.30am - 11.15am

Governor Talks: **Ukraine: Effective Central Banking Amid Unprecedented Uncertainty — Lessons for Others**
Speaker: **Andriy Pyshnyy**, Governor of the National Bank of Ukraine
Moderator: **Alfred Kammer**, Director of the European Department,
Location: Meeting Halls A&B HQ1-3-430A&B

11.30am - 12.15pm

Knowledge Café: **Adapting to Extreme Urban Heat**
Location: MC Front Lobby

12.00pm - 2.00pm

Caribbean Leaders Open Dialogue
Location: Building: MCRoom: MC 13-400

12.00pm - 12.45pm

Climate Voices: **Green Jobs and the Future of Work for Women and Men**
Speakers: **Jack Chambers**, Minister of Finance, Ireland; **Carola Moreno**, Minister of Finance Advisor, Chile; **Stefano Scarpetta**, Director, Directorate for Employment, Labour and Social Affairs, OECD; **Stefania Fabrizio**, Chief of the Gender and Inclusion Unit, Strategy, Policy and Review Department, IMF
Moderator: **Antonio Spilimbergo**, Deputy Director (Research Department, IMF)
Location: Meeting Halls A&B HQ1-3-430A&B

12.30pm - 12.55pm

Capacity Development Talk: **Unlocking Climate Action Through Climate Policy Diagnostics**

Speakers: **Khairuzzaman Mozumder**, secretary, finance division, Ministry of Finance of Bangladesh; **Natu Mwamba**, permanent secretary, Treasury, Ministry of Finance of Tanzania; **John Uware**, deputy secretary, Treasury Department, Papua New Guinea
Moderator: **Suphachol Suphachalasai**, senior economist, Fiscal Affairs Department, IMF
Location: Cedar Hall HQ1-1-660

12.30pm - 2.00pm

The GEMs Treasure Trove: Catalyzing Private Investment
Location: MC 2-800

12.30pm - 2.00pm

Chief Economists' Roundtable: **The Road to**

High-Quality Growth

Location: J B1-080

1.00pm - 1.25pm

Capacity Development Talk: **Building Capacity in Fragile States From Iraq to Yemen**

Speakers: **Abdulqader Ameen Abdullaheem**, Deputy Assistant for the External and Financial Relations Sector, Ministry of Finance, Yemen; **Sameer Fakhri Neamah**, Director General, Statistics & Research Department at the Central Bank, Iraq; **Bruno Rocha**, Senior Economist, Statistics Department, IMF; **Yurii Sholomytskyi**, Senior Economist, Institute for Capacity Development, IMF
Moderator: **Franck Bousquet**, Deputy Director, Institute for Capacity Development, IMF
Location: Cedar Hall HQ1-1-660

1.00pm - 1.45pm

Knowledge Café: **From Chalkboard to Chatbots: Can AI Revolutionize Education?**
Location: MC Front Lobby

1.00pm - 1.45pm

Climate Voices: **This Critical Decade — An Update on Global Mitigation Policy**
Speakers: **Mukhtar Babayev**, COP29 President-Designate; **Simon Stiell**, Executive Secretary of the United Nations Framework Convention on Climate Change (UNFCCC); **Bo Li**, Deputy Managing Director of the IMF
Moderator: **Karen Tso**, Co-Anchor and Journalist for CNBC
Location: Meeting Halls A&B HQ1-3-430A&B

2.00pm - 2.45pm

Knowledge Café: **Choosing Our Future: Education for Climate Action**
Location: MC Front Lobby

2.15pm - 2.45pm

Governor Talks: **Reviving Europe: The Role of Monetary Policy in a New Era**
Speaker: **Fabio Panetta**, Governor of the Bank of Italy
Moderator: **Alfred Kammer**, Director of the European Department
Location: Cedar Hall HQ1-1-660

2.30pm - 3.30pm

Helping Countries Navigate Liquidity Challenges and Create Space for Development

Speakers: **Ceyla Pazarbasioglu**, Director of the Strategy, Policy, and Review Department, IMF; **Pablo Saavedra**, Vice President, The

World Bank Group; **Isabelle Mateos y Lago**, Chief Economist at BNP Paribas; **Carmen M. Reinhart**, Professor of the International Financial System, Harvard Kennedy School; **Adebayo Olawale Edun**, Minister of Finance and Coordinating Minister of the Economy
Location: Meeting Halls A&B HQ1-3-430A&B

3.00pm - 3.25pm

Governor Talks: **Where is Japan on Inflation and Monetary Policy?**
Speaker: **Kazuo Ueda**, Governor of the Bank of Japan
Moderator: **Krishna Srinivasan**, Director of the Asia and Pacific Department, IMF
Location: Cedar Hall HQ1-1-660

3.00pm - 3.30pm

Creating Jobs for Young People
Speakers: **Michelle Bachelet**, Former President of Chile; **Ajay Banga**, President, World Bank; **Mabouba Diagne**, Minister for Agriculture, Food Sovereignty and Livestock, Republic of Senegal; **Tharman Shanmugaratna**, President of the Republic of Singapore
Location: MC Atrium

4.00pm - 5.30pm

Financing Water Security: **Increasing Investments to Close the Gap Between Water Demand and Supply**
Location: Building: MCRoom: MC 2-800

4.00pm - 5.00pm

Harnessing Big Data for Transformative Policymaking
Introduction: **Bert Kroese**, Chief Statistician, Data Officer, and Director of the Statistics Department, IMF
Opening remarks: **Bo Li**, Deputy Managing Director of the IMF
Panelists: **Yusuf Murangwa**, Minister of Finance and Economic Planning, Rwanda; **Marie-Christine Tremblay**, Senior Policy Advisor, Bank of Canada; **Olaf Sleijpen**, Executive Board Member, Dutch Central Bank
Moderator: **Ceyla Pazarbasioglu**, Director of the Strategy, Policy, and Review Department, IMF
Location: Meeting Halls A&B HQ1-3-430A&B

4.30pm - 5.15pm

Knowledge Café: **What Can Countries Do to Close the Gender Finance Gap?**
Location: MC Front Lobby

5.00pm - 8.00pm

Saudi Joint Banks Reception
Fairmont Hotel, 2401 M St NW

THE final word

The unfinished business of MDB capital adequacy

By Chris Humphrey

The financial capacity of the World Bank and the other major multilateral development banks will be central to conversations this week at the Annual Meetings in Washington, on how to meet global development and climate investment needs.

A key driver of these debates is the recommendations of the G20 MDB Capital Adequacy Framework (CAF) review of 2022.

A progress report by the G20, due out this week, will show that MDBs have collectively generated \$300bn-\$400bn in additional lending capacity over the coming decade, through CAF reforms. These gains reflect the extraordinary solidity of the MDB financial model, as well as the potential to modernise it.

MDB management and some shareholders could be forgiven for wanting to declare victory and move on.

But despite this substantial progress, more remains to be done to achieve the true promise of the CAF agenda.

The truth is we still have no clear answer to the basic question of how much capital is adequate for an MDB, for a given volume of lending.

Commercial banks have Basel III-inspired guidelines to orient them on capital adequacy, but MDBs have no regulator. The principal stakeholders — government shareholders, MDB management and capital market actors — still do not have a generally agreed understanding of how much MDBs can prudently leverage their capital.

Because of their need for top bond ratings, MDBs are de facto regulated by major credit rating agencies. The agencies, however, aren't entirely sure how to evaluate the unique attributes that differentiate MDBs from commercial banks, and as a result have widely divergent methodologies.

UNIQUE ATTRIBUTES

MDBs are different from commercial banks in many ways, but three attributes stand out.

First, the credit risk of MDBs' loans is extremely low, considering that they mainly lend to low and middle income countries, because MDBs benefit from preferred creditor status (PCS): borrowers prioritise repaying an MDB even if they face financial difficulty.

The benefit of PCS is proven in practice and very substantial. But it is not a contractual obligation and thus difficult to value.

Second, many MDBs have loan portfolios concentrated in just a few borrowing countries, which all else equal should make them riskier.

Of course this is by design: MDBs are non-profit



“The goal is for management and shareholders to design CAFs based on their own collective understanding of risk, not on the methodologies of three different rating agencies”

cooperative banks for a group of countries, and they benefit from PCS, so it isn't clear how much MDBs should need to set aside extra capital for this portfolio concentration. A study in 2023 explored whether current MDB capital adequacy models are too conservative in accounting for it.

Third, if MDBs ever face a very severe crisis, they can tap callable capital, a shareholder guarantee backed by international treaty with a nominal value of over \$1.2tr across the 11 major MDBs. Callable capital has never been tapped in the history of any MDB and the procedures for doing so are not clear, which makes it hard to value.

Recently released MDB reports on callable capital and historical loan portfolio performance are steps in the right direction. But more work is needed to build standards for this unique asset class.

PUT YOUR HEADS TOGETHER

The CAF panel proposed that MDBs and shareholders set up working groups to agree on standards for PCS, concentration risk, callable capital and other aspects of MDB capital adequacy. They should then incorporate them into their CAFs in a consistent way, adapting as needed for each MDB's circumstances.

The goal is for management and shareholders to design CAFs based on their own collective understanding of risk, not on the methodologies of three different rating agencies — a key recommendation of the Financial Stability Board after

the 2008 global financial crisis.

Doing so poses no risk to MDB ratings. MDBs can maintain a target rating and take action to avoid a downgrade, just as they do now. But a rating target should not mean baking rating agency methodologies directly into MDB CAFs, as is currently the case.

Recent rating agency commentary suggests that further action on CAFs could result in additional gains in lending capacity beyond the \$300bn-\$400bn already achieved. Even if it did not, it would have two important benefits.

First, it would clarify going forward that MDB lending was being constrained by rating agency methodologies, not shareholder risk appetite. Currently many stakeholders are not entirely clear where the problem lies.

Second, it would promote convergence over time toward generally agreed standards to assess the unique financial risks and strengths of MDBs.

Rating agencies would have greater clarity on MDB creditworthiness, encouraging change in methodologies going forward, to recognise the strength of MDB capital adequacy. The increasing number of private actors working with MDBs on blended finance initiatives will have more comfort to mobilise even more resources for development.

Most importantly, debates around the lending capacity and capital needs of the MDBs among management, shareholders and civil society would be on a firmer, evidence-based footing.

These banks are critical to helping us put our planet on a more sustainable path forward — we need a collective understanding of what they can do.

MDBs need to be overhauled in many areas, as the about-to-be released G20 Roadmap on MDB Reform led by the Brazilian government will detail. But modernising their financial policies is central.

Discussions of fresh capital injection should not wait for CAF reforms to be finished — some MDBs need more firepower to match their lending capacity with the ambitious targets set by shareholder governments. The amount of resources needed is very modest in relation to its impact, due to MDBs' high standards and leveraging ability.

But CAF reforms should continue in parallel, to ensure that every dollar of taxpayer capital is leveraged to the maximum. **GM**

Chris Humphrey is a senior research associate at the Overseas Development Institute and a researcher at the ETH University of Zurich. He was a member of the G20's expert panel that produced the Capital Adequacy Framework report in 2022.

IDB's \$1bn risk transfer expected to encourage other MDBs

Continued from back page

they're turning back to be most efficient with their capital."

IDB's engagement has been "running in parallel to the rating agencies becoming much more clear about what it takes for institutions like IDB to accomplish their goals through securitization," said Aaron Barnes, senior managing director at Newmarket. "When we did Room 2 Run it was the first of its kind. We worked with the rating agencies — it was a fly the plane as you build it type of situation. Now Fitch, Moody's and S&P have published methodologies, [intending] to be predictive about what you need to do."

SLICING AND DICING

In the securitization, called Scaling 4 Impact, Newmarket provides a cash-collateralised risk participation agreement for the junior mezzanine slice of risk on a portfolio of just over 100 loans. They

are to large corporates, project finance transactions and financial institutions, in about 20 countries and 10 sectors.

IDB keeps the bottom 2.8% first loss tranche, then Newmarket absorbs losses up to 10%.

A senior mezzanine tranche from 10% to 13% has been taken unfunded by insurance companies Axis and Axa.

Typically, funded mezzanine significant risk transfer (SRT) investors earn an annual risk premium in the high single digit to low double digit percentage points above a base floating rate cash return. The insurance companies would only receive risk premium.

The average life of the loans is just under five years, and the 18 year risk sharing will not be replenished. The assets will stay in the deal until they have been repaid.

IDB Invest reckons the transaction will

enable it to do \$500m of new lending, which will unleash new private co-investment.

This suggests the rate of capital release is less than the AfDB's, since it calculated it could do another \$650m of lending from a deal the same size.

However, since the IDB has not revealed the cost of its risk transfer, the two are difficult to compare. The AfDB gave up 42% of the yield on its portfolio — the figure may be substantially less for the IDB.

The AfDB's deal was criticised in development finance circles as expensive. But the AfDB itself was happy with the transaction, suggesting others may have failed to understand its benefits.

"We are very comfortable with the price we paid," said Weiss. "It's comparable with European [commercial bank] SRTs."

Barnes said the certainty from the rating agencies would "invite more MDBs



Jan Weiss: comfortable with price paid

to do these transactions. IDB wanted it to be catalytic — to show the MDB universe that these transactions can be done in a much more efficient way than Room 2 Run was, so we are hopeful that there is a lot more to come in this space."

Whitehouse said it was a more efficient tranching than Room 2 Run, with thinner mezzanine tranches.

ATTRACTING NEW CAPITAL

"The larger story is the reigniting of MDB focus on balance sheet optimisation, significantly improved clarity from the rating agencies on how MDBs can use this tool, and the inclusion of private sector unfunded mezzanine insurance," Whitehouse said. "It's in line with the principles of crowding in private sector investment at different points in the capital structure."

"Last year around September we did a [non-deal] roadshow in London and talked to a lot of these types of asset managers [that buy SRT deals]," said Weiss. "They had no idea about MDBs, or who IDB Invest was. We walked them through how we operate, how MDBs outperform the market, using some of the Gems data [on MDB loan performance]. At the end almost every one said they would take it all."

Early this year IDB went to a significant number of investors for non-binding bids. "We whittled it down to a group of investors we thought we could work well with and that really fit our goals," said Weiss. "Newmarket were very competitive, as were our two senior mezz investors."

IDB Invest is considering hybrid capital, but it hopes to do more in securitization, including possibly a cash deal, transferring senior tranche risk, or using local currency assets, said Weiss. "Our investors really believe in the product and the future growth of this market."

Ailing Tunisia refuses IMF medicine as default nears

By George Collard

Tunisia's unwillingness to engage with the International Monetary Fund may push it into default, as the government turns to unorthodox measures to avoid a debt crisis.

President Kais Saied has long criticised the IMF, saying in August that "foreign diktats" would worsen poverty. Tunisia sealed a staff-level IMF agreement in 2022 worth \$1.9bn, but progress towards executive board approval has frozen, due to the government's unwillingness to implement fiscal reforms the IMF wants.

Saied won a new term in October's elections but the poll is widely viewed as neither free nor fair. This will further damage Tunisia's relationship with the IMF, one analyst said, as would moves to remove the Central Bank of Tunisia's independence.

"They are very anti-IMF on policy and also ideology," said James Swanston, MENA economist at Capital Economics in London. "The election and reduction of central bank independence will only hurt that relationship further."

IMF support has been vital in helping emerging governments avoid debt distress, but it can be hard to implement

IMF policy requirements. Kenya shelved a tax-raising finance bill in the summer after riots in protest.

"The IMF has done a better job," said Jeff Grills, head of US cross-markets and emerging markets debt at Aegon Asset Management in Connecticut. "We've had fewer defaults but there are still countries in distress, and what can the IMF do and how do they see future interactions with those countries?"

DEEP DEFICIT

Tunisia, in debt distress, has a hefty budget deficit, which the African Development Bank predicts will reach 6% in 2025. It is struggling to import capital to finance that deficit and fiscal consolidation is not high on Saied's agenda.

Tunisia faces debt repayments worth 1% of GDP in the first quarter of 2025 and another 0.7% the next quarter, according to Capital Economics. That includes a \$1bn Eurobond in January. International capital markets are off the cards and while Tunisia can borrow locally, leaning on domestic banks to buy debt is a risk. "The fiscal situation is very weak," said Swanston.

Tunisia has avoided default by finding cash from a variety of sources. Saudi Arabia and the EU have provided



Kais Saied: plans to remove central bank independence

support. Italy in particular has lent to Tunisia, in exchange for efforts to stop migrants crossing the Mediterranean.

But that can only go so far and the government has turned to other methods to service debts, such as using the central bank's foreign exchange reserves. EM debt investors are confident there will be no major defaults in the near future, but Tunisia is a worry.

"It is not our base case that there will be a wave of defaults," said Kaan Nazli, senior economist and EM sovereign debt portfolio manager at Neuberger Berman in London. "But smaller ones like Tunisia may come under pressure."

Reluctance to engage with the IMF could be Tunisia's undoing. But Nazli was confident that for the time being, Tunisia will dodge default. "Risks remain," he said. "But they have built up their reserves and are starting 2025 in much better shape than 2024."

IDB Invest brings securitization back to major MDBs after long gap since AfDB deal

By Jon Hay

Securitization has returned to the multilateral development banks after a six year gap, as IDB Invest, the arm of the Inter American Development Bank that lends to the private sector, has laid off risk on \$1bn of loans to private investors, freeing up capital for fresh lending.

When the African Development Bank sealed its \$1bn 'Room 2 Run' synthetic securitization in 2018, it attracted huge attention across the MDB sector, and was widely expected to lead to further deals.

But an unenthusiastic US government and the Covid-19 pandemic put the brakes on, and apart from some small transactions by Banque Ouest

Africaine de Développement no other MDB has taken the step.

Now IDB Invest has completed a deal, the latest step in its "Originate to Share" strategy.

The lead investor is Newmarket Capital, whose predecessor organisation Mariner Investment Group took the same role in Room 2 Run.

"We are always looking for new ways to bring in private sector investors," said Jan Weiss, director of financial products at IDB Invest in Washington.

"We have our traditional B loan and B bond programmes — the idea of taking traditional MDB products and adapting them to new investors is really impor-

tant for us. [We have] such significant goals for mobilisation and ramping up the business that we're going to have to start to look at portfolio solutions."

IDB Invest has used deal by deal credit insurance before, but never a portfolio risk transfer. It was inspired by Room 2 Run and has been thinking about securitization for years, but began working on it in earnest last summer, when it hired its advisers Santander and Clifford Chance.

"Most of the multilaterals have been looking at this for a long time," said Molly Whitehouse, managing director at Newmarket in Philadelphia. "But this represents what we hope will be a new



Ian Goldfajn, president of the IDB, said this week: "If you double IDB Invest, we will become a very private sector-orientated MDB"

set of interest following Covid. Many multilaterals turned then to addressing the needs of the pandemic — now

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A new ministerial council could unlock IMF paralysis, experts argue

By Steve Gilmore

There is broad support for a Bretton Woods Committee proposal to create a new ministerial council for the International Monetary Fund, with voting rules and decision-making power, senior committee members have told *GlobalMarkets*.

"There are many voices supporting this," said John Phillip Lipsky, a former acting managing director of the IMF and vice-chair of the BWC, a non-profit organisation in Washington that aims to support and improve the international financial institutions.

In essence, the reform would turn the IMF's Interna-

tional Monetary and Financial Committee into a decision making body. This ministerial group meets twice a year at the Annual and Spring Meetings to advise the IMF's board of governors and consider proposals by its executive board.

At present, with the IMFC having no voting rules or decision making power, individual members "can cause problems", Lipsky said.

William Dudley, BWC chair and former president of the Federal Reserve Bank of New York, said the IMF was not alone in facing this challenge. "This is a problem of multilateral institutions," he said. "How do you have

a way of creating some pressure for people to come to the table, to find a way to cooperate?"

A ministerial council would make the IMF better able to act decisively in difficult matters — including on climate change. "We all agree something needs to be done [about climate change]," Lipsky said. "We have summit after summit that says we're going to do something — and nothing much happens."

The BWC believes that the IMF's inaction on issues like this is down to gaps in its governance, implementation and accountability — all of which need to be addressed. A new council with political punch,

credibility and resources would go a long way, Lipsky argued.

In July, the IMF and World Bank Group announced a joint Bretton Woods at 80 Initiative — a consultation with a remit that includes the evolving roles of both institutions in the global economy.

The BWC hopes this is the right moment for the IMF to adopt its ministerial council proposal. "It has been supported in the past," said Lipsky, noting that a similar proposal was made when he was the fund's first deputy managing director in 2006-11.

But the new council would not satisfy the demand to reform members' vote shares, which continues to cast a shadow over the IMF's legitimacy.

Countries like China — with



John Phillip Lipsky: individual members 'can cause problems'

a quota share of just over 6%, against 16.5% for the US — have been calling for reform in their favour for years.

A ministerial council would not be a substitute for voting reform, said Dudley. But it could help create pressure and a pathway to tackle this far more intractable challenge.

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