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President of the Republic of Suriname

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Ukraine hopes US backing \$50bn G7 loan will lead to Russian asset takeover

By Francesca Young and Dominic O'Neill

The US will lend \$20bn to Ukraine as part of a \$50bn G7 loan, to be repaid from the interest earned on frozen Russian sovereign assets, raising hopes in Ukraine of a bigger prize — that the assets themselves be handed over to Ukraine.

The US said on Wednesday it would move forward with the loan without the legal changes to EU sanctions it originally asked for, but it will continue to push for those changes.

The EU earlier this week agreed to provide up to €35bn for the G7 loan, but that will be reduced to match the US's commitment. The UK this week announced its contribution of \$3bn.

Andriy Pyshnyy, governor of the National Bank of Ukraine, told *GlobalMarkets*: "This is a huge shift in understanding, that these



Andriy Pyshnyy: loan decision marks 'huge shift in understanding'

frozen assets should be used to compensate for
Continued on page 3

EBRD prepares securitization as MDB risk transfer heats up

By Dominic O'Neill

The European Bank for Reconstruction and Development is preparing its first securitization, its president Odile Renaud-Basso has told *GlobalMarkets*.

She said the transaction would be launched to private investors in 2025. "The first step is to assess the market appetite, what kind of portfolio, and to structure the product with different countries and different tranches," she said.

She said this was more of a focus for the

Continued on page 23

IDA replenishment heads for \$105bn but little growth in real terms

By Phil Thornton

The World Bank is cautiously confident of exceeding its \$100bn target for the 21st replenishment of the International Development Association, its arm which provides grants and loans for the poorest countries. But its real benchmark for success is \$105bn — and in real terms, that would only be the same as it raised in the last replenishment.

Ajay Banga, president of the World Bank Group, has set a target of \$100bn for IDA 21 to finance its next three year programme, after \$93bn was raised for IDA 20,

the period from 2022 to 2025. He used a high profile speech last month to call for support.

IDA is talking to donors during the Annual Meetings to secure pledges and hopes to receive more commitments this week.

Dirk Reinermann, director of IDA resource mobilisation, told *GlobalMarkets* he was optimistic the Bank could put together a package of \$105bn for IDA 21, which begins next July. "It is a 12 month marathon, and this is really the final stretch," Reinermann said.

Donor countries will hold a



Dirk Reinermann: poor countries need more assistance

meeting next week ahead of the final pledging session in early December.

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Success is a journey

Funding deal before US election could see Ukraine through 2025

Continued from page 1

Ukraine's losses."

He said Ukraine wanted a further, more radical step: using the \$300bn principal of Russian reserves frozen in the West to pay for damage to Ukraine.

"Ukraine has always said that the immobilised Russian assets should be used to compensate Ukraine's losses and damages," said Pyshnyy. "We see the loan as a first step on this way, and we will keep working with our partners to convince them."

Yuriy Butsa, government commissioner for public debt management at Ukraine's Ministry of Finance, had told *GlobalMarkets* on Wednesday, before the US announcement, that he was hoping a US contribution to the loan equal to the EU's would be strong enough to prompt agreement among Ukraine's allies to let it use the Russian money.

"Those who create the damage should pay for it and our ultimate goal is for Russian frozen assets themselves to be transferred to rebuild Ukraine," Butsa said. "This interim solution of a loan backed by future flows generated from those assets, which are legally not part of the assets themselves, moves us in the right direction."

According to the World Bank, Russia's war on Ukraine has already caused almost \$500bn of damage. Pyshnyy said: "We critically need international support, because of the duration and cruelty of this war."

LEGAL ISSUES TO OVERCOME

But using Russian money remains controversial and legally difficult. Butsa said: "Given there were some concerns raised, including by some of the central banks of the world, it's important that all the G7 countries participate in this facility, so that it is clear that this is a coordinated solution supported by all our partners."

Daleep Singh, the White House deputy national security adviser for international economics, said in



Yuriy Butsa: fighting for democracy as well as for Ukraine's survival

a briefing that the US expected to disburse at least half its \$20bn loan to the World Bank Trust Fund this December, and "possibly the entire amount".

This component of the loan had been under scrutiny, as the US had said it wanted the EU to change the renewal of its sanctions to every three years, from the current six months, to provide assurance that the flows backing the loan would remain in place.

But Hungary has refused to agree to this — depriving the EU of the necessary unanimity — until after the US election.

The US has decided to go ahead without the changes for several reasons. Singh said the US saw reassurance in the EU Council's release of statements that it would keep the

Bank of Russia's assets immobilised until there was a free and sovereign Ukraine.

He also said there was equal burden sharing between the US and EU, so both parties would have aligned incentives to keep the assets immobilised until the loan was repaid.

The US has also worked with Ukraine on loan agreements under which, at the conclusion of the war, Ukraine would use settlement proceeds from Russia towards repayment. Singh said the US had negotiated loan terms that further reduced risks to the US taxpayer.

He also pointed to history. The EU has had sanctions in place against Russia for almost 10 years, since it annexed Crimea in 2014.

"Every six months, those sanctions need EU unanimity to get rolled over for another six months," Singh said. "And, yes, there's grandstanding and drama, but the EU has built a track record of staying the course, and that adds to our confidence that Russia's sovereign assets will remain immobilised until Russia ends its war and pays for the damages it's caused."

Butsa said the ideal proportions for the loan would be what is now being put in place: \$20bn from the US, \$20bn from the EU and \$10bn from other partners such as the UK, Japan and Canada.

"The loan backed by the flows generated by the assets has been a feat of financial engineering," said Butsa. "Using the assets themselves is more a legal than financial issue. But this topic was almost taboo two years ago and the discussions are ongoing around it now. We see it as a different track, but the same direction of travel."

Butsa refused to comment explicitly on how the result of forthcoming elections in the US and EU countries such as Romania might affect Ukraine's funding. He was clear that Ukraine was fighting not just for its own country but for democracy more broadly.

But he also recognises the obstacles elections can create and therefore sees urgency in having Ukraine's financing in place as soon as possible. "Elections result in a transition process, which affects decision-making," he said. "So it is welcome when decisions are made regarding Ukraine funding prior to any election cycles."

Ukraine prepares for hard winter despite G7 loan and IMF surcharge cut

By Dominic O'Neill

Rising electricity shortages, fuelling inflation and emigration, are making economic conditions in Ukraine even harder to manage, Andriy Pyshnyy, the country's central bank governor, has told *GlobalMarkets*.

Hoping to stimulate the economy, the National Bank of Ukraine has cut interest rates from 25% in 2022 to 13% in June. In May, it made its biggest move yet to liberalise the currency controls it put in place after Russia's full scale invasion. But Pyshnyy said the energy situation and the effect of the move to a managed flexibility exchange rate system were limiting the ability to ease monetary policy further.

"We see an increase of business expenses caused by Russia's energy terror," Pyshnyy said, through an interpreter. "Raw material supply is shrinking, and we also see the impact of currency depreciation because of the managed flexibility. The totality of these factors has caused pro-inflation dynamics. It requires prudence, and it significantly narrows the room for further easing

of monetary policy."

Pyshnyy pointed out that around 7m of the 16m people who fled the country in 2022 were still abroad.

He said the country was not going back to the monetary financing it used at the beginning of the war. International aid, tax increases and tweaks to banks' reserve requirements to encourage them to hold government bonds — at the same time as higher taxes on bank profits — were all part of the effort to avoid that situation.

Nevertheless, Pyshnyy warned that the military situation would be decisive.

EVERY DOLLAR COUNTS

Commenting on the International Monetary Fund's reform of its borrower surcharges policy, agreed earlier this month, he said it would save the country \$130m in 2025 and \$500m over the course of its IMF programme. "Each dollar — each loan, each source of finance made available to Ukraine during this war — matters," he said.

Electricity shortages were getting harder this year, Pyshnyy

said, because Russia had realised it would not be able to quickly take over the whole country, and so had switched to targeting power stations rather than distribution infrastructure.

"I admire our power engineers, who manage to ensure power supply despite such a huge deficit in power generation," Pyshnyy said. "However, the winter is going to be tough."

The country is trying to decentralise its generation capacity, including using renewable energy. The central bank has also tried to bring the commercial banks together in a new agreement to finance new power generation capacity.

Still, Pyshnyy acknowledged, this was a lengthy effort and coping with the attacks on generation was "not going to be an easy journey".

"The demand for imported products that are key for the recovery of power generation capacity is growing," he said. "There is negative impact on the general perception and comfort of the population, of households, because there are regular power cuts."

Lithuania calls for stronger EU sanctions on Russia

By Francesca Young

Lithuania's vice-minister of finance Mindaugas Liutvinskas has said more must be done to help Ukraine, including further-reaching sanctions. "If the Ukrainians are not tired of fighting, we have no reason to be tired of helping them."

Liutvinskas is hopeful that in the 15th package of European Union sanctions on Russia, now being discussed, even harder hitting measures will be put in place. "We feel that more can be done in sanctioning the energy sector," he said.

"This includes the LNG trade and more to make the oil price cap more effective. Oil remains the key revenue source for the Russian regime to fund its ongoing war against Ukraine. We also need to find ways to further restrict and sanction the Russian financial sector that facilitates the payments between what's remaining of

the trade between Europe and Russia."

Liutvinskas is also in favour of imposing a ban on all the dual use goods trade. "We have selected segments of dual use goods which have been documented as potentially usable in the military effort," said Liutvinskas. "But we feel that we should take a step further and discuss a full ban of dual use goods to reduce any risks in this regard."

He said Lithuania had itself already strengthened the enforcement of sanctions, beyond what had been agreed at the European level. It initiated an agreement between the customs offices of countries bordering Russia and Belarus — the three Baltic states, Finland and Poland — to make customs checks even more detailed and ensure goods crossing the border actually went to the countries declared.

But some fear that in the future there may be less support for Ukraine, not more, in particular if Donald Trump becomes the next US president. That may mean a more threatened Lithuania.

Liutvinskas would not comment on this but said Lithuania was planning for consistently higher defence spending. Liutvinskas said that while the US was expected to remain a key partner in security and economically, the country was "doing its own homework and treating our security seriously".

"We are investing as much as we can, and we are substantially above the Nato minimum threshold of 2%," he said. "Increasing defence spending is a top priority for this government. Over the course of the last four years we have increased the defence spending from 2% [of] GDP to 3.2%. There is broad political agreement on the need to increase our capacity to defend in case of need."



Liutvinskas: wants ban on dual use goods

He expected the figure to stay above 3% in the medium term but, as it was not one-off spending, it would need to be covered by additional revenues, so as not to harm fiscal sustainability. "The question is, will that be enough going forward?" he said. "We'll see, but the needs are quite substantial, and we have to treat our security very seriously."

After scarcity, Suriname faces the problems of plenty as oil boom begins

By Oliver West

South America's smallest country, Suriname, is on the verge of an unprecedented era of abundance after TotalEnergies on October 1 confirmed its commitment to an offshore oilfield that will bring an estimated \$10.5bn of investment to the country — more than twice its GDP.

The government has already made difficult choices to rehabilitate its economy, but finance minister Stanley Raghoebarsing and foreign affairs minister Albert Ramdin told *GlobalMarkets* that the country had arguably an even bigger challenge ahead: to make the most of a potentially transformative oil boom.

Suriname needs to avoid 'Dutch disease' — when rapid expansion in one sector makes others shrivel as an influx of money makes the economy uncompetitive.

"Until now, we have had to manage a country with a scarcity of funds," said Raghoebarsing. "Very soon we will have to manage a country with an abundance of resources, which takes maybe more, but definitely additional, skills to manage, and make sure that it does not translate into a curse."

Suriname has come back from the brink under President Chandrikapersad Santokhi. After an International Monetary Fund-endorsed debt restructuring from 2020 to 2023, Suriname's debt has fallen from 146% of GDP in 2020 to 86%. Its primary deficit of 8.4% in 2020 is set to become a 2.8% surplus this year.

"Santokhi has done an incredible job in slashing subsidies and increasing the revenue base, and deserves credit," said Nathalie Marshik, managing

director in EM credit trading at HSBC. "The IMF must be extremely happy with the job the government has done."

Total's investment exceeds earlier expectations of \$9bn, and Marshik said it was "very, very good" for the country. She said Suriname also needed "laws and structures in place that ensure the oil money is responsibly used".

CHOICE OF PARTNERS

Raghoebarsing highlighted the importance of protecting central bank independence, making sure Staatsolie, the state oil company, continued to operate in a business-like fashion — not preselling oil — and building institutional strength.

Some cash-strapped countries have presold oil at low prices, including to China, while it is still in the ground, but this can tempt them to overspend.

Suriname's new sovereign wealth fund is already staffed and will be linked to future budgets.

Raghoebarsing insisted Suriname's problems which had "built up over decades" could "not be solved in three years", and that the stage was set to consider a follow-up IMF programme — though after the next election in May 2025.

Newfound oil wealth means, however, that Suriname is likely to have the luxury of choosing its financing partners. Foreign minister Ramdin said they should be chosen "on the basis of good merits and good evaluations". They may not be the traditional Bretton Woods institutions.

"I think it's time for the government to build rela-



Albert Ramdin (left), Stanley Raghoebarsing (right): looking at international lenders outside Bretton Woods

tions with other IFIs in other parts of the world that can provide resources as well," said Ramdin.

Suriname was not eligible for the G20 Common Framework on restructuring as it was not an International Development Association member, and Ramdin said the process "suffered" as a result.

"The IMF, World Bank and IADB should be willing to consider the new Multidimensional Vulnerability Index in their operational framework, and if they're not willing to do that, we'll need to look at other lenders that are," said Ramdin.

Another challenge of the oil boom is whether Suriname can maintain its status as one of a select few carbon sink countries in the world — meaning it absorbs more carbon from the atmosphere than it releases.

"We are committed to remain that even if we are extracting oil," said Raghoebarsing. "This is an important commitment for us and the global community, but it's also important for us because we have an opportunity to monetise the carbon."

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Egypt promises investors a new era of economic reform

EGYPT 2 CIB INTERVIEW*GlobalMarkets* speaks to Islam Zekry, Group Chief Financial Officer of CIB**EGYPT 3-8 EGYPT'S ECONOMIC OUTLOOK**

A free-floating currency and commitment to structural reform have brought Egypt much-needed financial support from international partners. Investors are hoping that this time, Egypt will truly follow through on its promises of reform, enabling the economy to live up to its true potential



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Special Report

Investing in EGYPT



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ISLAM ZEKRY

GROUP CHIEF FINANCIAL OFFICER, CIB

through regular stress tests and early warning systems. In addition, the CBE's regulatory framework has enabled Egyptian banks to maintain financial resilience, with high levels of liquidity and solvency ratios. All this has elevated confidence in the banking sector.

What are some of the highlights from CIB's financial performance over the last year?

CIB's financial performance is a proof of its sustained success and resilience in a dynamic financial landscape. Consistent growth in revenues, profits and market share has solidified its position as a key player in the industry. This success is further evidenced by the bank's ability to adapt to changing market conditions while maintaining strong performance.

Today, the bank continues to deliver value to shareholders and customers, supporting its longstanding reputation for financial stability and strategic excellence. In the first half of 2024, CIB recorded net income of EGP27.5bn, up 96% year on year.

Revenues were EGP46.3bn, which represented an 82% increase. Our deposits grew by 27% and loans grew by 24% over the same period. The bank was able to maintain its asset quality, evidenced by a drop in non-performing loans from 5% to 4.1%.

What are CIB's strategic priorities over the next three to five years, and how do you plan to achieve them?

CIB's strategy is centred on creating value for all its stakeholder. It consists of three main themes: growing and diversifying revenue sources to achieve sustainability and resilience; becoming a digital leader in customer service, sales and operations; and capitalising on the success of the corporate and liabilities franchises.

The bank recognises the attractive opportunities available in the small and medium-sized enterprise and retail sector. We will continue to elevate our digital capabilities and use a program-based pricing approach to re-energise SMEs.

CIB is also committed to providing customers with unique digital value propositions, new digital channels, innovative solutions and a well-defined customer journey. It does this through putting its customers first and integrating innovation across the bank.

CIB will continue to focus on capturing unique opportunities that complement its Africa expansion aspirations, as demonstrated through its acquisition in Kenya.

How is CIB addressing sustainability and environmental, social and governance issues, and

what role do these play in the bank's strategy?

CIB aims to further integrate ESG efforts into its operations, acknowledging its leading role as an institution that serves the environment and society. The bank's strategy focuses on sustainable finance advocacy, environmental and social and climate risk, revenue generation and reducing the bank's ecological footprint.

CIB integrates environmental, social and governance aspects within its business operations and the communities it serves. Our approach to sustainable finance constantly evolves to offer innovative solutions, cultivate risk management and integrate ESG practices across the bank's operations.

"Our approach to sustainable finance constantly evolves to offer innovative solutions, cultivate risk management and integrate ESG practices across the bank's operations"

In partnership with the International Finance Corporation, CIB is the first Egyptian bank to launch a corporate green bonds programme. Its main objective is to help corporate clients transition towards green technology and to provide financing for projects that address environmental issues, including natural resources depletion, air, water or soil pollution, climate change and loss of biodiversity. The bank has seen substantial business growth under this programme, where portfolio utilisation increased to reach a total eligible loan amount equivalent to \$136m.

How is digital transformation shaping the evolution of banking in CIB, and what technological innovations is CIB prioritising?

CIB is committed to enhancing Egypt's digital transformation and constantly invests in its digital channels. Through integrating state-of-the-art technology, the bank strives to provide its customers with a secure and seamless banking experience.

CIB continuously develops its digital channels and data analytics to ensure sales proficiency and offer customers exclusive digital value propositions.

To complement the bank's digital transformation journey, CIB has invested in a spectrum of financial inclusion initiatives, including its Smart Wallet, Bedaya account, new card initiatives such as Meeza prepaid cards, and financial literacy sessions. CIB's Smart Wallet offers a cost-effective and secure platform for financial transactions, serving both banked and unbanked customers. ●

How do you see the Egyptian economy evolving in the next few years, and what factors do you believe will drive growth?

Thanks to the support of financial institutions, the outlook for Egypt is positive. As illustrated in Egypt's 2028 plan, the government will rationalise borrowing and megaproject spending, encourage exports and limit imports, grant incentives to the manufacturing industries, create new tax benefits and legislation for foreigners and encourage tourism. Policy measures and structural reforms will attract investment, reduce public debt, improve private sector financing and drive sustainable economic growth.

The Egyptian government also plans to utilise funds in a way that most efficiently addresses economic barriers. For example, in the 2023-24 financial year, the government will give precedence to finishing projects that have reached a completion rate of 70% or higher.

It will also restrict external financing and not take on projects that require more borrowing. In terms of encouraging exports and limiting imports, the government has provided incentives like tax exemptions and subsidies for exporters to lower production costs and improve competitiveness. Import tariffs have increased to encourage the consumption of local goods and there are incentives to boost domestic manufacturing.

How well prepared are the economy and banking sector for potential challenges like swings in energy prices or geopolitical instability?

Egypt's unique geographic position has made it a pivotal player in geopolitical negotiations throughout history. The Central Bank of Egypt has initiated a robust macroprudential policy that evaluates the financial system's stability



EGYPT PROMISES INVESTORS A NEW ERA OF ECONOMIC REFORM

A free-floating currency and commitment to structural reform have brought Egypt much-needed financial support from international partners. Investors are hoping that this time, Egypt will truly follow through on its promises of reform, enabling the economy to live up to its true potential

2024 was the year when Egypt pulled itself back from the brink.

The financial and economic crisis that had struck in early 2022 was by no means entirely of its own making. Russia's war against Ukraine sent food and fuel prices spiralling, at a time when Egypt was only just recovering from the Covid pandemic.

But at its core, the crisis was due largely to Egypt's determination to keep its currency overvalued by using fixed exchange rates. As foreign direct investment fell, support from partner countries in the Gulf dwindled and remittances declined, this became untenable.

To their credit, the authorities have stepped up and done what was necessary. Egypt's pound — long pegged at E£30 to the dollar — was freed, and sank to E£50 almost overnight. To contain

inflation, the central bank has steadily hiked its overnight deposit rate to 27.5% — up from 16.25% at the start of 2023.

The government has promised to privatise a string of state-owned companies and create a level playing field for a neglected private sector.

These are all things Egypt's multilateral and bilateral donors not just wanted — but needed — to hear.

The days when financial support could be obtained without a credible commitment to reform are gone. In February, the government announced a \$35bn agreement with the United Arab Emirates, of which \$29bn is for the right to develop Ras al-Hikma as a resort on Egypt's Mediterranean coast.

But no one thinks the UAE would have signed the deal if it did not believe Egypt was serious about privatisation and currency reform.

A few weeks later in March, the long-awaited devaluation paved the way for an expanded programme with the International Monetary Fund, increasing its support to \$8bn.

"Egypt's investment landscape has witnessed significant improvements, with large inflows of external funding," says Islam Zekry, group chief financial officer at CIB. "The authorities have demonstrated their steadfast commitment towards enhancing Egypt's economy."

Policy makers are adamant that the devaluation signals a new era for monetary policy, in which the market — not ministers — will set the exchange rate.

Some six months later, the market is still in charge. Analysts at BMI say the spread between the black market and official FX rates averaged E£0.6 in July, and rose only slightly to just over E£1 in August.

Investors have also been heartened to

“The government has implemented numerous regulatory and legal reforms to enhance the country's business climate”

—Islam Zekry, group chief financial officer at CIB



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Central Bank Governor **Hassan Abdalla**, emphasising the crucial role of central banks in steering economic growth and guiding monetary policy as Egypt hosted the 48th meeting of Arab Central Banks and Monetary Authorities at the beginning of October; **H.E. Dr. Rania A. Al-Mashat**, **Egypt's Minister of Planning, Economic Development, and International Cooperation**, says that improvements in the balance of payments, bolstered by structural reforms and a recovery in net portfolio investments, all signal increased economic stability and predictability; **Minister of Petroleum and Mineral Resources Karim Badawi** visiting the SUMED Port in Ain Sokhna in August. He has recently announced the launch of new investment incentives to encourage growth in oil and gas production; newly appointed **finance minister Ahmed Kouchouk** in August at a press conference to review the results of Egypt's financial performance

see the government retain and promote economic officials with real skill and expertise. In July, Ahmed Kouchouk was made finance minister, having been vice-minister for fiscal policies and institutional reform and the country's chief negotiator with the IMF since 2016.

In August, President Abdel Fattah El-Sisi extended Hassan Abdalla's appointment as acting central bank governor for a third year. Abdalla was originally appointed for a single year in August 2022, which was extended in 2023. "The central bank and Ministry of Finance teams are very good," says Angus Blair, CEO of Cairo-based think-tank the Signet Institute.

“The central bank and Ministry of Finance teams are very good”
—Angus Blair, CEO of the Signet Institute

POSITIVE IMPACT

The benefits of these changes for facets of the economy have been undeniable. Remittances are Egypt's main source of foreign currency and a barometer of the health of the economy.

The \$29bn Ras al-Hikma development deal might seem colossal, but remit-

tances to Egypt in 2021 were over \$31bn.

The massive gap between the official and black market exchange rates — along with worries about the fundamental future of the Egyptian economy — had sent remittances spiralling down.

In the second half of 2023, less than \$10bn was sent back to Egypt. But remittances have surged back, totalling \$7.5bn in the second quarter of this year — a 60% increase on the same quarter in 2023.

This recovery should help narrow the current account deficit — or at least, stop it getting wider. This is where Egypt is at the mercy of geopolitical volatility. In the second quarter of this year, Egypt made a \$3.7bn deficit. Analysts noted that Suez canal receipts were only \$870m — down from \$2.5bn in the same quarter last year.

This is largely due to Yemen-based Houthis launching attacks on Red Sea shipping — ostensibly to protest against the war in Gaza. Suez Canal receipts are another source of foreign currency. International tensions also

spook foreign portfolio investors, which BMI analysts note now hold almost half of all Egyptian T-bills with maturities of 12 months or less.

An end to the war in Gaza might allow an increase in commercial shipping through Suez and open the door for Egyptian companies to engage in reconstruction work.

But should regional conflict worsen, it could drive foreign investors away, weakening the pound and pushing up inflation. Tourism — another vital source of FX — would also be affected.

So far, it has held up well despite the political turmoil. Tourism minister Ahmed Issa said earlier this year that 3.6m tourists had visited in the last quarter of 2023 — the second highest figure for the fourth quarter.

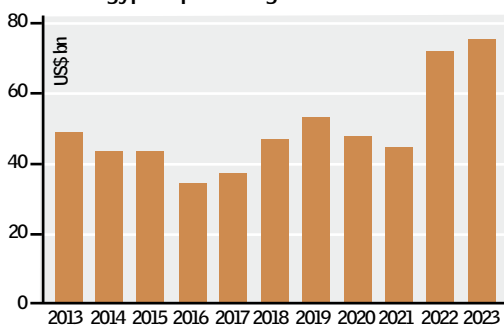
"Egypt's tourism sector has recovered significantly from the Covid-19 pandemic downturn, recording over 7m visitors in the first half of 2024," says Zekry at CIB. "This sector is regarded as the main source of national income and positively contributes to job generation and enhancing the country's foreign exchange reserve."

Egypt aims to attract 30m tourists a year by 2028. The Ministry of Tourism and Antiquities is rolling out policies to hit yearly growth rates ranging from 25% to 30%.

GDP RECOVERS

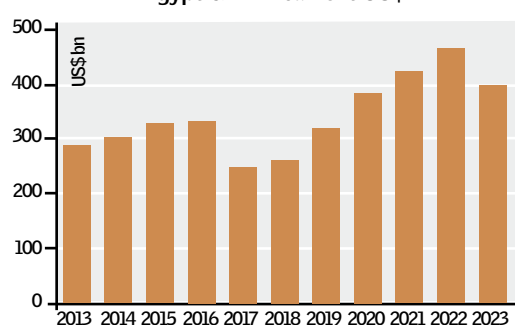
All this has lifted GDP forecasts. BMI analysts are expecting growth in Egypt to hit 4.2% in 2024-25 — although this assumes an end to the war in Gaza by

Egypt exports of goods and services



Source: World Bank

Egypt GDP in current US\$





© Photos courtesy of AP, Xinhua / Alamy Stock Photo; /

Paving the way

Top: The central business district of the New Administrative Capital east of Cairo

Bottom: Hamama gold exploration site deep in the desert east of Luxor; Extending the Mediterranean harbour with a new port terminal, Alexandria

the close of 2024.

S&P Global economists have a similar projection for 2024, but see growth rising to 5% in 2025 and 2026. The main domestic drivers are likely to be an increase in investment and a strengthening manufacturing sector.

“Adjustments in the exchange rate, alongside FDI, have significantly reduced foreign currency market dislocations and injected fresh investor confidence and growth,” says Zekry.

Improving short term investor confidence is one thing. But reforming the economy to create a prolonged surge of FDI into higher value-added sectors is quite another.

Still, Zekry says the Egyptian government understands the importance of FDI in addressing economic challenges. “The government has implemented numerous regulatory and legal reforms to enhance the country’s business climate,” he says, pointing to a programme to reduce the state’s involvement and boost private sector investment. “These reforms aim to enhance investors’ ability to conduct financial transactions, obtain legal

residence, establish duty-free zones, develop investment incentives for certain investment projects and eradicate preferential taxes for the majority of state-owned businesses.”

The authorities have created new investment incentives and extended a ‘golden licence’ programme to help launch new infrastructure and industrial projects aligned with specific criteria.

“The golden licence tackles the full process of establishing a project and includes managing and operating the project, allocating the land and building licences,” says Zekry.

H.E. Dr. Rania A. Al-Mashat, Minister of Planning, Economic Development, and International Cooperation, says that improvements in the balance of payments, bolstered by structural reforms and a recovery in net portfolio investments, all signal increased economic stability and predictability. “These are key factors that encourage long-term capital,” she says. “Egypt’s recent macroeconomic achievements will significantly improve its investment landscape by creating a more stable and attractive environment for both domestic and foreign investors.”

Certain sectors are getting a regulatory overhaul. The country has a new mining law that applies to commercial discoveries made across an area of almost 3,000km². Gold miners Centamin and Barrick Gold and consultants Wood Mackenzie helped Egypt draft the legislation, to overhaul an out of date system of oil and gas-style concessions.

Centamin CEO Martin Horgan has spoken approvingly of the new regime that — with a 5% royalty, 22.5% tax rate and 15% government free-carry — mirrors those in most other countries.

As well as significant gold deposits, Egypt has major stores of other valuable minerals like iron ore, phosphates and tantalum — used in computers and laboratories. But the data show that investment in mining exploration is hardly growing.

Mining industry figures expect the new law to help attract more foreign firms to Egypt and create a more developed ecosystem of supply chains and service providers.

PROGRESS ON PRIVATISATION

Another plaudit for Egypt’s authorities

“Egypt’s recent macroeconomic achievements will significantly improve its investment landscape by creating a more stable and attractive environment for both domestic and foreign investors”

—H.E. Dr. Rania A. Al-Mashat, Minister of Planning, Economic Development, and International Cooperation

© Photos: AP Photo/Alamy Stock Photo



Earth, wind ...

Wind turbines at Lekela wind power station, near the Red Sea city Ras Ghareb

“Egypt’s investment landscape has witnessed significant improvements, with large inflows of external funding”

—Islam Zekry, group chief financial officer at CIB

is for progress on privatisation. In mid-2023, the government announced it would sell holdings in a range of state-owned firms.

Investors, however, have heard statements like this before. Some of the planned asset sales have been in the works for decades. “With a few exceptions, the privatisation programme has been in all but stasis,” says Angus Blair. “But now there is very significant pressure from the IMF, other global interlocutors such as the EBRD, and from investors.”

In December last year, the prime minister announced that Egypt had raised \$5.6bn from selling stakes in 14 companies, in sectors including industry, tourism and energy.

Ben Fishman, a senior fellow at the Washington Institute for Near East Policy, noted in May this year that most of the buyers were Emirati entities and private Egyptian firms close to the government that focused on acquiring hotels. “For now, the most valuable state-owned companies remain unsold, including banks and insurance firms,” he said.

Egypt has also revised downward its target for asset sales in 2024 and 2025, after the inflow of funding from the UAE. It was originally aiming to raise \$6.5bn, but now intends to sell only \$2.5bn.

Still, recent media reports suggest the government is in the advanced stages of selling its remaining 20% stake in the Bank of Alexandria to Italian lender Intesa Sanpaolo, which already owns the other 80%.

In September, Egypt announced the sale of 100% of microfinance lender

Tamweely to a consortium of investors consisting of SPE Capital, Egyptian firm Tanmiya Capital Ventures, the European Bank for Reconstruction and Development and British International Investment.

At the margin, these privatisations will bolster investor confidence that this time really is different. But proof is going to be far more important than promises. Markets have been waiting for Banque du Caire’s privatisation for over 10 years.

This is where pressure from Gulf investors could help ensure a level playing field. In September, the Egyptian government said Saudi Crown Prince Mohammed bin Salman had instructed the Saudi Public Investment Fund (PIF) to direct \$5bn of investment funding to Egypt, as a “first stage”.

Egypt watchers noted that on a previous visit to Riyadh, Egypt’s prime minister had had to explain to investors and the Egyptian-Saudi Business Council the progress made by a special unit designed to resolve complaints from Saudi investors in Egypt. Gulf states like Saudi are happy to invest — but they now need assurances that they will be treated fairly.

EXPORT POTENTIAL

Another feature of the government’s economic reform plan is expanding exports. Egypt is committed to investing in industrial development to encourage local production and increase the competitiveness of Egyptian products.

Zekry argues the country’s geographic location, climate, population and diverse economic landscape pro-

vide tremendous export opportunities. “These factors are augmented by a cost-competitive labour force as well as cost-competitive university graduate population,” he says.

For years, Egypt’s economy has been held back by the dominance — some would say interference — of state-owned firms. But there are still industries that hold huge potential for the private sector. Car manufacturing is one. Egypt might lack the financial resources of a Saudi Arabia — which has successfully attracted original equipment manufacturers (OEMs) to set up production facilities. But it is still making headway after some false starts.

Various projects to launch local electric vehicle manufacturing in Egypt were announced in 2020 and 2021 but were subsequently cancelled. Currency movements and the high price of imports likely played a role in these failures.

“Global OEMs reduced or stopped exporting to Egypt due to concerns about payment and a preference for exporting to countries with lower financial risk,” says Michel Jacinto, a senior associate analyst in S&P’s Global Mobility business. Economic volatility sent demand for new cars in Egypt plummeting — by more than 35% in 2022 and almost 50% in 2023.

With a new era of economic reform ahead, there are signs of fresh attempts at EV offerings. GV Auto, a subsidiary of Egypt’s GV Investment Group, announced in May that it would partner with Chinese manufacturer FAW Group to start producing EVs in 2025. Not only does GV Auto hope to use a large proportion of local components, but it wants to establish a platform for exports.

“Through the Automotive Industry Development Plan, Egyptian authorities aim to position [the country] as a significant assembler in the African market,” says Miekong Hongu, a senior research analyst for S&P Global Mobility.

But she notes this transition will largely depend on regulatory developments across African markets, which lag behind global trends. “Before transitioning to electrification, Egypt must develop a robust automotive production environment, enhance its supply chain, and achieve greater scale,” she adds.

In the MENA region, Morocco is an example of a country well positioned in many essential stages of the

automotive value chain, from raw materials to manufacturing and supply. But this does not mean Egypt cannot follow suit — its population is three times the size of Morocco’s and scale is a crucial factor.

“Services, such as tourism and transport, medical services, technology and communications, as well as outsourcing all have export potential,” says Zekry. “By deliberately investing in the above sectors, Egypt can boost its export prospects and aggregate economic growth.”

Building out export potential in turn necessitates improvements in skills and productivity. Al-Mashat at the MIC notes that Egypt’s continued fiscal consolidation is expected to enable further investments in human capital and industrial development. This in turn will enhance productivity — a key driver of sustainable economic growth.

“The government’s ongoing implementation of reforms and the focus on strengthening public investment governance are paving the way for more private sector engagement,” she says.

For its part, the MIC is focussed on formulating data-driven and evidence-based economic development policy. “The ministry is committed to fostering informed discussions on the needs and opportunities in key areas such as human capital, industrial development, SMEs, technology, entrepreneurship, and green investments among others,” says Al-Mashat. “We will continue to implement structural reforms aimed at increasing competitiveness, enhancing macro-fiscal resilience, and supporting Egypt’s green transition.”

BANKING SECTOR READY TO HELP

Zekry notes that Egypt’s banking sector — one of the best run and best regulated parts of the economy — is well placed to help the authorities encourage investment and exports.

“Egyptian banks have provided tailored financial and non-financial solutions to support Egyptian exports,” he says. “Banks are designing services and initiatives to assist small and medium-sized enterprise exporters through access to credit and business support. Egyptian banks are partnering with export credit agencies to insure exporters’ products, in case foreign buyers do not fulfil payment obligations. In addition, banks are investing in digitising export-related dealings, to ease financial transactions and



... and fire
The Benban Solar Energy Park in Aswan

instantly manage exports.”

In August, CIB partnered with The Chemical and Fertilizers Export Council (CEC) to complement the country’s strategic vision of boosting Egyptian exports to \$100bn.

The chemicals and fertiliser sector achieved around \$8bn of exports in 2023. With about 2,000 export members, CEC is one of the largest export councils and provides vital services to Egyptian manufacturers, exporters and investors.

“The partnership hosted a series of workshops and meetings with companies and members from CIB’s staff to discuss prospective collaboration and support,” says Zekry. “Due to the bank’s strong presence in the global market, especially Kenya, CIB can provide exporters with a variety of benefits ranging from cross-border banking operations, expanding exports to Kenya’s market and East Africa’s region, and financial relations with prominent international institutions.”

CIB will also provide the council’s members with financing solutions,

including short and medium-term credit facilities, documentary credit, competitive credit limits and letters of guarantee to current and new manufacturers and exporters.

“Industries operating in this sector can utilise CIB’s sustainable finance programme to reduce their carbon footprints and accelerate the transition towards a green economy,” says Zekry.

Egypt’s leading private sector bank has a history of supporting exports. In 2023, it became the Food Export Council’s official banking sponsor. Through CIB’s diverse financial offerings, the bank provided exporters with various benefits ranging between financial and non-financial services and products.

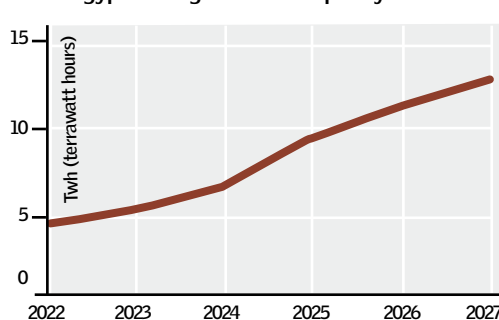
ENERGY EXPANDS

Cheap green power would be a boon to Egypt’s export community. The government has developed attractive investment packages to draw foreign investors into projects in green hydrogen, wind and solar power, sustainable transport, water desalination, smart

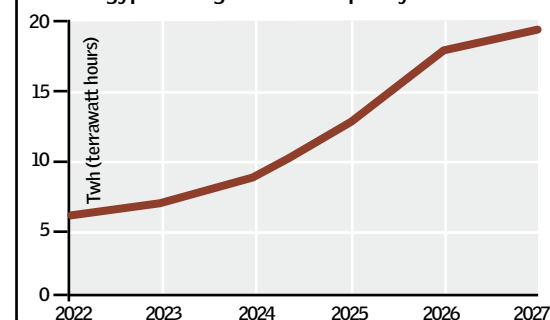
“The government’s ongoing implementation of reforms and the focus on strengthening public investment governance are paving the way for more private sector engagement”

—H.E. Dr. Rania A. Al-Mashat, Minister of Planning, Economic Development, and International Cooperation

Egypt solar generation capacity forecast



Egypt wind generation capacity forecast



Source: BMI



Master planning

New El Alamein city spans more than 20,000 hectares and is planned to accommodate more than 3m people by 2030. Work has begun on Phase II of the megaproject, accommodating 3 universities, 15 skyscrapers and 10,000 hotel rooms

cities, electric vehicles and sustainable building materials.

“They also introduced a set of incentives to bolster investment in the renewable energy sector, including tax and custom duty reliefs,” Zekry says.

Egypt’s Integrated Sustainable Energy Strategy has set an ambitious target for its power sector of just over 40% renewable energy by 2030. This is challenging but not impossible.

BMI analysts expect a significant ramp-up of over 80% across wind and solar capacity over the next decade — providing more than 20GW of new capacity.

Egypt might be associated more with sun than wind, but at present wind provides more power. The Gulf of Suez is a windy place, and the authorities have had great success in attracting international investment.

In 2023, Maersk International signed an agreement to acquire 51% of the Zaa-farana complex wind farms. Egyptian contractor Orascom Construction, Engie and Japan’s Toyota Tsusho Corp have acquired land for a 3GW wind energy project in Egypt’s West Sohag region. In May this year, it was announced that Norwegian energy firm Scatec and a consortium led by Orascom Construction had secured land for two massive wind power projects that would add 8GW and provide \$9bn in FDI. That same month, flagship UAE developer Masdar, Infinity Power and Hassan Allam Utilities signed a land access agreement for a colossal 10GW mega-project — one of the largest wind farm developments in the world.

The agreement with Masdar was followed by a strategic agreement between the UAE and Egypt to add 4GW of renewable energy capacity to Egypt’s grid, starting in summer 2025. Masdar is also part of

a consortium that includes UK energy group BP, which has signed an agreement with the Egyptian government to develop a multi-phase green hydrogen project.

Wind may be the main renewable source at present, but that is going to change. The Egyptian Solar Plan aims to install 3.5GW of solar power by 2027, of which two thirds will come from private investment. Well designed auctions, incentive schemes and abundant sunlight have made Egypt a highly attractive destination for solar developers.

In September, the Egyptian Electricity Holding Co signed a 25 year agreement to buy power from the country’s first solar-plus-storage project, to be built by Scatec — a 1GW solar and 200MW battery storage facility.

As with its aspiration to become a car producer for the African market, Egypt is expanding to provide power projects across the region. Egyptian multinational Elsewedy Electric is helping build the Djermaya solar PV complex in Chad.

Egypt also has significant potential to become a green energy exporter. Egypt’s grid is connected to Jordan, Syria, Iraq, Turkiye, Libya and Sudan. Initiatives with other African countries are under way, to construct new interconnectors under the Nile Basin, linking Egypt to the Eastern Africa Power Pool. Huge Egypt-Saudi and Eu-roAfrica interconnector projects are also being mounted.

HOPE VERSUS BELIEF

It is relatively simple to create a positive picture of Egypt’s future. There is huge economic potential and a clear set of policy prescriptions for how to realise that potential.

The problem is that investors, com-

pany owners and business executives have seen all this play out in Egypt time and time again. Economic pressure leads to currency depreciation, then promises of reform. Currency pressure eases and investors return. Reform falters and the cycle repeats.

As one macroeconomic analyst puts it: the best guide to future behaviour is past behaviour. Egypt has a long and deeply problematic history of poor economic decision making.

Institutional investors and foreign direct investors want to be assured and reassured that there are real and true fundamental changes that will take place to create a level playing field for the private sector in Egypt. They want to see that the decisions being made are being made to create long term sustainable growth and not for short term political expediency.

Competition policy frameworks need to be improved and enhanced. There is much red tape that could be removed to help private sector businesses thrive. Trade is held back by inefficient ports and customs regulation.

There are still — to put it simply — a lot of basic improvements that need to happen for the private sector to get more involved. It is up to Egypt’s authorities to demonstrate that they can follow through and unshackle the economy. Investors have hope, but not yet belief.

“Egypt has a chance to prove that it’s on a new path, because we have been here before a number of times,” says Blair. “The new finance ministry and still relatively new central bank teams are really good and are doing the right things. But it calls for the wider authorities to prove that they can break this cycle and introduce real change.” ●

“Egypt has a chance to prove that it’s on a new path, because we have been here before a number of times”

—Angus Blair, CEO of the Signet Institute



Sukuk to securitization? Islamic debt market faces 'profound' change

Investors may have to share in losses, changing the fundamental nature of sukuk

By George Collard

Sukuk standard
AAOIFI Annual
Shari'ah Boards
Conference, 2023

A new proposed standard for sukuk issuance could transform the market into one akin to securitization rather than unsecured bonds, creating problems for all those issuing, structuring and buying the Islamic finance instrument, according to market participants.

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is considering market feedback on 'Standard 62', a new set of guidelines that alters the fundamental structure of sukuk.

AAOIFI is an Islamic non-profit organisation based in Bahrain that prepares accounting, auditing, governance, ethical and Sharia standards for Islamic financial institutions and the wider Islamic finance industry.

The sukuk market acts like the bond market. Regular fixed income investors can buy the notes, and those who structure and sell sukuk for issuers are largely the same people who handle issuers' conventional bonds. But Standard 62 would change this.

"The key requirement of the new standard is that the ownership and risk of the assets would be transferred to the sukuk holders, and that is different to how it functions today," said

Mohamed Damak, global head of Islamic finance at S&P in Dubai.

The head of investment banking at an Islamic bank in the Middle East said the new proposal was "a bit of a dampener when you're trying to attract people to Islamic finance".

The sukuk market has grown exponentially since the first sukuk was issued nearly 25 years ago. In 2010, just \$11bn of sukuk was issued. In 2014, this rose to \$41bn of new public sukuk. This year \$66bn has been issued, according to Dealogic. That is already level with any previous full year, setting up 2024 to be a record for Islamic issuance.

The first ever public sukuk in dollars was in 2006, from UAE district cooling company Tabreed. Today sukuk issuance is widespread and does not just come from Islamic countries: governments, banks and companies all issue to Islamic investors — last week, US-Irish aircraft leasing company AerCap launched a sukuk.

"Standard 62 appears to be advocating securitization, as that asset performance risk is Shariah-compliant," said Debashis Dey, a partner at law firm White & Case in Dubai, one of the leading legal advisers on sukuk issuance.

"What people are thinking about Standard 62 is how the guidelines will be interpreted," he continued. "Are we genuinely going to do asset-based securitization, as that would be a pretty profound change? The complexity is in the detail of how things are interpreted, as these will be guidelines. How it is interpreted is unknown."

AAOIFI had not responded to a request for comment from *GlobalMarkets* at the time of publication.

SUKUK SEA CHANGE

One of Standard 62's most important changes is the introduction of loss sharing.

Sukuk use profit sharing structures, as the interest payments a conventional bond makes to investors are not permitted under Shariah.

An issuer puts assets into a special purpose vehicle (SPV) which issues the sukuk, and then the issuer acts as an obligor for the SPV. In lieu

of a coupon, investors receive a share of the profits generated by the assets, the rate of which the issuer and investors have agreed on. But while sukuk investors share in the profits from the assets, they do not share in any losses.

Standard 62 proposes to end that.

"Investors may be exposed to asset-related risk, such as destruction, nationalisation and the loss of market value," said Damak. "And for sovereigns there could be some risk, in that sukuk might become akin to privatisation of assets."

The principles of Islamic finance dictate that for an instrument to be tradeable an investor needs to take some ownership in the risk and the reward of tangible assets, said Dey. If those assets suffer a lack of performance, investors have to share in that too.

"That is what Islamic principles say a sukuk should be," said Dey. "But current structures mitigate that asset performance risk through the structuring, because the investment industry wants the risk profile to be similar to a senior unsecured instrument, not an asset-backed instrument."

Islamic scholars have said current sukuk structures form "a halfway point" between what is Shariah-compliant and what is not, added Dey.

"What they [scholars] meant by that was an instrument that is asset-based but has the performance and risk profile of a senior unsecured fixed income instrument," Dey said. "You can say that a sukuk is *pari passu* with a senior unsecured bond, and under Standard 62 guidance that is not satisfactory."

Standard 62 is just one of many guidelines AAOIFI has handed down since the first sukuk was issued in 2001.

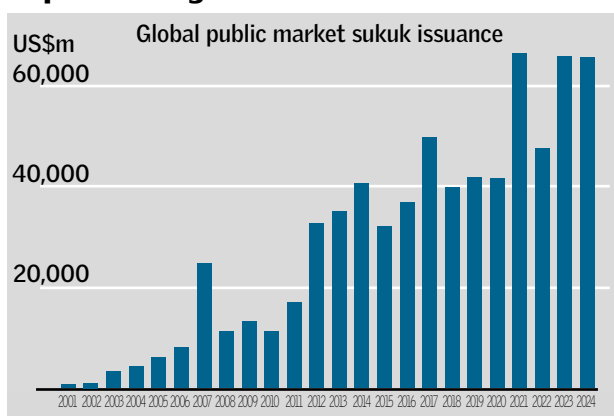
"Standard 62 is the ultimate destination, where investors will have to take on all of the risk related to the assets," said Damak.

SECURITIZATION

If sukuk investors were forced to take on full profit and loss sharing positions, sukuk would move from an instrument resembling unsecured fixed income to one closer to securitization.

That is a profound change, particularly in

Exponential growth



regions where securitization activity is very low, if not non-existent, such as the Middle East.

“Were it to become an asset-backed instrument, you would be starting a market tomorrow for sukuk that did not exist yesterday,” said Dey.

It is not just Islamic banks that buy sukuk. Conventional emerging market bond funds can buy them, and they may not want to buy sukuk if they are no longer traditional fixed income instruments.

Bank desks in the Middle East have little experience in arranging standard securitization instruments, let alone with the added complexities of Islamic finance and ensuring instruments are Shariah-compliant.

“There is no meaningful securitization in the bond market in areas where sukuk is active,” said Bashar Al Nator, head of Islamic finance at Fitch in Dubai. “There just is not the regulation, the law or the frameworks to allow for securitization. And even in countries which do have that, it is untested. And that is just with bonds, let alone sukuk.”

Asset-based funding is a fundamentally different way of funding from conventional bonds.

“Think of the education required by rating agencies, bank trading desks, risk assessors and investors,” said Dey. “It would require a ramp-up of legislation, or exemptions.”

HIGHER COSTS

Under Standard 62’s new asset-backed structure, investors would take on more risk than they have in the past.

“Current sukuk investors don’t want the assets, what they want is a senior unsecured risk position,” said Damak.

One sukuk fund manager in the United Arab Emirates said the proposed Standard 62 was “more of an irritant rather than an incentive”.

“We have seen investors sell sukuk, tem-

porarily and permanently, because of previous standards, because they thought they’d be exposed to risk they did not want,” said Damak.

One of the biggest attractions of sukuk for issuers is they are cheaper to issue than conventional bonds. An investment grade issuer in the Middle East, for example, can save 10bp-15bp, but the savings for a speculative grade borrower can be much bigger.

If sukuk investors have to take on losses, they will ask for more return from issuers — potentially erasing sukuk’s price benefit or even making them more expensive than conventional bonds.

“Investors buy the sukuk based on the issuer’s credit risk,” said the sukuk fund manager. “That is how it is priced, not on the performance of the assets in the sukuk.”

That would change under an asset-backed structure.

Aside from the increase in cost, Standard 62 presents other unwelcome headaches for issuers.

Sovereigns, for example, would need to hand assets to investors, which could be politically unpalatable or even impossible.

“Under the strictest interpretation of Standard 62, sovereigns would not be able to do a sukuk without an exemption,” said Dey. “They can never dispose of assets: it would never happen practically.”

For banks, hiving off assets from their balance sheets would be unwelcome.

“Can a regulated bank sell assets worth billions without affecting their balance sheet positions?” said Dey. “You cannot cherry-pick your best assets and get rid of them when doing an asset-backed sukuk, without regulatory oversight.”

Bank regulators typically do not like banks to choose good assets to securitize — known as cherry-picking — because that would tend to lower the quality of the assets kept on balance sheet.

MURKY FUTURE

Sukuk market participants now face uncertainty over when, and in what form, AAOIFI’s new guidelines will arrive.

AAOIFI stopped accepting comments on Standard 62 at the end of July, after extending the deadline a few times. The earliest any proposals will come through is 2025 and they may well not appear until 2026, Damak said. The market would also be given a year or two to adjust.

The good news is that a mass default, should all existing sukuk be declared non-compliant with Shariah, is unlikely.

In 2017, Sharjah-based natural gas company Dana Gas said a \$700m sukuk it had issued was no longer Shariah-compliant and therefore unlawful in the UAE, and that it would not repay it at maturity. It offered shareholders the chance to swap the sukuk for a new Shariah-compliant instrument. At the time, Moody’s said the new instrument’s rates were inferior to those of the original sukuk.

The case ended up in His Majesty’s High Court, which ruled that Dana Gas had to pay up. It ended up restructuring its sukuk with the consent of investors.

Since then, sukuk documentation has included enhanced warranties and waiver clauses to prevent obligors, such as Dana Gas, from challenging the enforceability of sukuk on Shariah grounds.

“If you want to change any terms you need the consent of the sukuk holders,” said Al Nator. “We will see if they [investors] are happy to change the risk profile from the entity issuing the sukuk to the pool of assets. It’s unlikely they’ll accept it.”

SUKUK SPLITTING

Fragmentation of the market is also a risk if some jurisdictions adopt AAOIFI’s proposals in full and others do not.

The UAE is a strong backer of AAOIFI, so an issuer must ensure its sukuk is AAOIFI-compliant if it wants a UAE bank to run the trade or UAE-based investors to buy it.

“Who will implement it?” said Al Nator. “And will they do so to the full extent? Over 20 jurisdictions claim that they adopt AAOIFI Shariah standards, but adoption varies significantly between countries and entities. As for Standard 59, the UAE took the lead in implementing it, and a number of other jurisdictions followed.”

If Standard 62 is adopted as proposed, it could put sukuk issuance at risk. The market might also close down while participants adapt to the changes.

“We may see,” said Damak, “if the standard is adopted as proposed, a stopping in the sukuk market for a while as structurers work out a way to restore the fixed income characteristics, while complying with the new standard.” **GM**

“what they say



“Investors may be exposed to asset-related risk, such as destruction, nationalisation and the loss of market value”

—Mohamed Damak, global head of Islamic finance at S&P in Dubai

“The complexity is in the detail of how [Standard 62] is interpreted, as these will be guidelines. How it is interpreted is unknown”

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What's happening Thursday, October 24

8.00am - 9.00am

Development Banks for Nutrition:
The Road to N4G Paris
Location: J B1-080

9.00am - 10.00am

Flagship Seminar: **Women Transforming the World**
Speakers: **Nadia Fettah**, Minister of Economy and Finance, Morocco; **Ajay Banga**, President, World Bank; **Anneliese Dodds**, Minister for Development and Women & Equalities, UK; **Adebayo Olawale Edun**, Minister of Finance, Nigeria; **Sandra Ablamba Johnson**, Minister, General Secretary at the Presidency, Togo
Location: MC Atrium

11.00am - 11.25am

Capacity Development Talk: **Mitigating Cross-Border Money Laundering Risks on Financial Stability**
Speakers: **Erik Blomme**, Director of AML Supervision, Financial Supervisory Authority, Sweden; **Chady El Khoury**, Deputy Division Chief of the Legal Department's Financial Integrity Group, IMF; **Mindaugas Leika**, Senior Financial Expert, Monetary and Capital Markets Department, IMF; **Anna Seim**, Deputy Governor, Riksbank, Sweden
Location: Cedar Hall HQ1-1-660

11.00am - 12.30pm

Civil Society Policy Forum: **Centering Wellbeing Economics: Rethinking Development in the Global South**
Location: I 2-220

11.00am - 12.30pm

Civil Society Policy Forum: **Accountability Challenges in FCV-Affected Countries**
Location: I 2-250

11.30am - 12.15pm

Knowledge Café: **Heterogeneous Carbon Pricing and Climate Policies: Can We Make It Work?**
Location: MC Front Lobby

11.30am - 1.00pm

Gulf Cooperation Council (GCC) and the World Bank Group: **Partnership for the Future**
Location: MC C2-350

11.30am - 1.00pm

Clear Her Path: Breaking Down Barriers to Women's Economic Empowerment
Location: MC 2-800

1.00pm - 1.45pm

Cultural Event: **West African Dance**
Location: HQ2-01A-ATRM

1.00pm - 1.45pm

Knowledge Café: **Listening Surveys: Monitoring Impacts and Public Support for Policy in Real Time**
Location: MC Front Lobby

1.30pm - 3.00pm

Civil Society Policy Forum: **Arab Voices for Sustainable Development Financing: Rights-Based Approaches to Addressing the Debt-Tax-Climate Crises**
Location: HQ2-03B-768B Lecture Room

1.30pm - 3.00pm

Civil Society Policy Forum: **The World Bank's Recipe for a Livable Planet: What's Cooking? Is It Healthy and Sustainable?**
Location: I 2-250

1.30pm - 3.00pm

Civil Society Policy Forum: **Transformative Investments in Human Capital: Catalyzing World Bank Financing to Achieve**

Ambitious Goals on Health and the Early Years

Location: I 2-220

2.45pm - 3.45pm

Seminar: **Debate on the Global Economy**
Speakers: **Kristalina Georgieva**, Managing Director, IMF; **Laura Alfaro**, Warren Alpert Professor of Business Administration; **Vera Daves de Sousa**, Minister of Finance, Angola; **Klaas Knot**, President of De Nederlandsche Bank; **Jean Pisani-Ferry**, Senior Fellow, PIIE and Bruegel
Moderator: **Martin Wolf**, Associate Editor and Chief Economics Commentator Financial Times, London
Location: HQ1 Atrium HQ1-1-700

3.00pm - 5.00pm

Partnering for Impact — Launch of the Collaborative Co-financing Forum
Location: J B1-080

3.00pm - 4.00pm

Boosting Revenues through Broadening the Tax Base
Location: MC C2-350

3.00pm - 3:45pm

Knowledge Café: **Leveraging Satellite Technologies for Education, Health and Rural Economic Development**
Location: MC Front Lobby

3.45pm - 5.15pm

Civil Society Policy Forum: **Reimagining Governance: 80 Years of IMF and World Bank Legacies and Pathways to Transforming the International Financial Architecture**
Location: I 2-220

3.45pm - 5.15pm

Civil Society Policy Forum: **Strengthening**

Governance of DPFs: Improving Transparency, Accountability, Stakeholder Engagement and Paris Alignment
Location: I 2-250

3.30pm - 5.00pm

Accelerating Impact: Private Sector Partnerships for Gender Equality
Location: MC 2-800

4.00pm - 5.00pm

New Economy Forum: **Fiscal Policy to Broaden the Gains from Gen AI**
Speakers: **Jennifer R. Akuffo**, Anchor at Yahoo Finance; **Era Dabla-Norris**, Deputy Director, FAD, IMF; **Daniel Deisenroth**, Meta, Director of Economics and Policy Research; **Arturo Franco**, Director, Group Strategy Office (GSO), World Bank; **Carl Benedikt Frey**, professor, Oxford University; **Pamela Mishkin**, Open AI, researcher
Location: Cedar Hall HQ1-1-660

4.30pm - 5.15pm

Knowledge Café: **Bridging the AI Divide: Unlocking Opportunities for Developing Economies**
Location: MC Front Lobby

Down Time



7.00pm - 10.00pm

Reception:
The Banks
Association of Turkiye
Location: Renwick Gallery of the Smithsonian American Art Museum
1661 Pennsylvania Avenue NW

EVENT SPOTLIGHT

2024 IIF Annual Membership Meeting

Thriving in Turbulence: Sustaining Growth in a New Economic Landscape

October 22-25, 2024 | Washington, D.C. & Online | Hybrid

No substitute for tough reform, says Nigeria's finance minister

By George Collard

Economic reform, no matter how painful to the population, is key to bringing in private sector investment and avoiding over-reliance on concessional funding, said Nigeria's finance minister Wale Edun at an IMF discussion on liquidity challenges on Wednesday.

Concessional money from the IMF and World Bank has been vital to helping emerging market governments avoid debt distress in the past two years.

But there is no substitute for prudent policy, Edun said, to ensure debt remains at — or returns to — sustainable levels.

"When you have heightened debt and debt repayments in front of you, the answer for countries like Nigeria is dramatic macroeconomic reform," said Edun. The country has removed costly fuel subsidies and moved to a market-based exchange rate.

"If you do the right things, you can have dramatic results," said Edun. "We see a way out, a way off the treadmill. Concessional financing, all the help you can get, is important. But while you wait for that to come you have to look inwards and it starts with key macroeconomic reforms. When you stop haemorrhaging money, confidence fills up."

He admitted Nigeria had some "low-hanging fruit" in its reform agenda.

Major policy shifts do not come without hardship. Riots in Kenya in June forced the government to abandon a bill that would have raised taxes.

Communication is vital, said Edun. "We know the political and general risk in implementing such deep-seated reforms," he said. "It is important to put in place immediately the most robust safety nets you can muster to protect the poor and most vulnerable when key reforms are implemented, so the usual cost of living is ameliorated and you keep society more outside."

Concessional funding is vital. It is long term and affordable, when many EM governments have very expensive or no access to international capital markets. But countries should not become over-reliant on it, said Carmen Reinhart, professor of the international finance system at the Harvard Kennedy School.

"Over-reliance on official lenders is a problem," she said. "The debt cannot be written off and you can go from one programme to another. Domestic reforms are essential."

Edun said: "At the end of the day, the purpose of macroeconomic reforms is to put the economy in a place where the private sector can come. Either through direct investment or the financial markets."

Nigeria has not issued an international bond since early 2022, but it did raise \$900m with a dollar bond in the domestic market in September.

"Our first stop was to say to Nigerians holding foreign currency abroad that there is an instrument on the domestic market that gives you competitive terms," said Edun. "Come and back our reforms by bringing back your funds from abroad."



Wale Edun: 'robust safety nets' are needed

THE final word

A pragmatic green solution to debt problems



By Chandrikapersad Santokhi,
President of the Republic of Suriname

Four years ago, Suriname was in the midst of one of the largest financial crises since its independence. Its public debt, as a result of external events such as the Covid-19 pandemic and unwise policy decisions, had reached unsustainable levels.

There was no other option than bringing the International Monetary Fund on board, putting in place a painful but inevitable adjustment plan, and obtaining from all our various creditors — from China to bondholders — some debt relief. It was a long and difficult, but ultimately successful process, which concluded in December 2023.

Suriname is in the unusual position of being a carbon sink — our forests absorb more carbon dioxide than the country's population emits.

While being a good citizen of the world in absorbing a bit of the carbon that others are emitting in large quantities, it proved impossible for Suriname in our debt restructuring to use our plentiful natural assets to offset some of our financial liabilities. No matching was possible.

The wheel has turned, and this month Suriname welcomes a massive investment decision by TotalEnergies to produce oil — in a way that minimises emissions, and not compromising our status as a carbon sink. The fate of the country has changed and now our challenge is to competently manage affluence, after having successfully managed

financial distress.

The lesson of this experience is that the international community can certainly do better in helping those many poor countries, endowed with plentiful and precious natural assets, but plagued with large debt burdens.

There is no lack of studies and speeches on carbon or biodiversity credits. Practical solutions, at scale, are missing.

Countries like Suriname, with limited capacities but very large natural assets, are left trying to produce good quality carbon assets and sell them to buyers, largely in ignorance of the depth and breadth of the global demand. A very difficult task...

Another approach is needed. Multilateral development banks such as the World Bank and the Inter American Development Bank are truly committed to helping the climate transition.

They have financial clout, superior technical expertise and connection with global companies willing to purchase high quality carbon or biodiversity assets. And they are creditors of countries like Suriname.



these institutions should help their clients — the debtor countries — produce high quality carbon or biodiversity credits"

The quid pro quo seems straightforward: these institutions should help their clients — the debtor countries — produce high quality carbon or biodiversity credits. They should put their money where their mouth is by accepting that their loans, at least partially, can be repaid with such carbon credits.

The institutions could then monetise the carbon credits with international corporations, for instance, which are buyers of those assets.

Turning green natural assets into dollars via multilateral development banks is one promising solution to help highly indebted but natural resource-rich countries find a way out of their predicament. **GM**

EBRD and IFC securitizations coming

Continued from page 1

EBRD than public or private issuance of hybrid capital.

Meanwhile, the International Finance Corp is developing a new securitization platform to reach institutional investors, with an inaugural issue targeted before the end of the year.

Once the platform is well established, the IFC will share the technology with other development finance institutions.

“What we are working on is more to facilitate private sector mobilisation,” Renaud-Basso said. “We are increasing our targets in terms of co-financing, B loans, and risk sharing with insurance companies and so forth.” The securitization is another technique in that suite.

Renaud-Basso said an EBRD securitization would be in line with the originate-to-share strategies followed by other multilateral development banks including the Inter American Development Bank, which announced a \$1bn synthetic risk transfer securitization on Wednesday, freeing up capital for further lending. *GlobalMarkets* reported in detail on that deal yesterday.

IDB Invest, the private sector lending arm of IDB, transferred a layer of mezzanine risk on a portfolio of 100 corporate, project finance and financial institution loans to Newmarket Capital Group, an investment firm in Philadelphia, and a more senior layer of risk in unfunded form to insurance companies Axis and Axa.

The investor profile would be broadly similar in the EBRD’s case, Renaud-Basso said.

“For us the objective mainly is to create space on our balance sheet — but it’s also to create appetite and to familiarise investors with our countries of operation, so they have a better understanding of what is the risk attached, in the hope that this will contribute to attracting private investors in our countries of operation.”

Multilateral development banks are keenly conscious that their loan portfolios

perform very well, but this is not well understood by private investors, who tend to see emerging markets and development finance as high risk.

“Our track record as a lender is very good, when you look at the default rate, which is very low, and the recovery rate, which is very good,” said Renaud-Basso. “The risk is much lower than the perception by the market. It’s because we work very heavily on projects, we prepare them very seriously, and we are selective. Securitization is another way to have investors involved in these markets and to better understand them.”

CAPITAL NOT GETTING THROUGH

Renaud-Basso said that although asset owners had a lot of capital to invest, very little of it ended up in the EBRD’s countries of operation, because borrowers there tended to want fairly small loans, and in banks’ case because of regulatory capital requirements.

Securitization would give investors a way round those problems, by giving them exposure to a large, diversified portfolio.

“When you buy a slice of securities you can have better aggregation, better scale to attract private investors,” she said.

The asset pool, nevertheless, will focus more on bigger EBRD countries such as Poland and Turkey. It may also have an important climate finance component.

She said the intention was to make securitization a regular tool. “For us it will be a first experience and then we will see how it works. We will learn by doing, but the objective is not to have [just] one.”

Securitization by MDBs began in 2018 with the \$1bn Room 2 Run deal by the



Odile Renaud-Basso: objective is to create space in EBRD’s balance sheet

African Development Bank, but then went cold, as the Trump administration was opposed and MDBs focused on Covid. But in the interval the three major rating agencies have made it easier by establishing specific methodologies for how they treat MDB securitization.

Meanwhile, the commercial risk transfer securitization market has also been thriving.

A year ago, Renaud-Basso said the EBRD would issue a pilot, benchmark-sized hybrid capital deal to investors, to test the market.

But she said this was now less urgent, as the EBRD’s shareholders had provided a €4bn capital increase late last year. Governments are subscribing to the shares this year. Cost was also a factor in private sector hybrids, she said.

“We remain open to hybrid capital, and we are looking at what is going on in this space,” Renaud-Basso said. “We are looking at what the World Bank is doing, what the African Development Bank is doing. For us, for the time being, the priority is the implementation of our capital increase subscription. In the very short term, we don’t see a need for hybrid capital, but we continue to monitor this and to see what could be possible whenever we need it.”

IDA 21 faces ‘perfect storm’

Continued from page 1

Reinermann said \$105bn was the Bank’s benchmark for success because it would represent the same in real dollar terms as the \$93bn package in IDA 20. “I’m confident that we will get there, but it’s tough this time around.”

Demand for assistance by IDA countries is rising, to meet urgent and growing needs in education, health, social protection, transport and energy access. “Now with climate change, the needs keep going up,” Reinermann said.

But at the same time, the major donors are facing a “perfect storm” from the Covid pandemic, their own fiscal crises and the recent spike in inflation.

On top of that, the appreciation of the dollar, the unit in which IDA pledges are made, against the currencies of many donor countries had made contributing more expensive.

However, Reinermann pointed to signals from major donors such as Japan, China and the UK that were looking to increase their official development aid budgets, which could lead to higher IDA commitments.

This week one or two donors may make public pledges, following last month’s announcement by Denmark of a 40% increase in its contribution. “We have a number of countries that are leaning forward, which is really making us very hopeful,” Reinermann said.

Clemence Landers, a senior policy fellow at the Center for Global Development, said poor countries were under heightened pressure from the impact of Russia’s invasion of Ukraine on global supply chains and food prices, which meant the stakes for a successful IDA could not be higher.

But she criticised the Bank and other multilateral funds such as the vaccine alliance Gavi, the World Health Organization, the Pandemic Fund and even the Bank’s own Livable Planet Fund (LPF) for appealing to donors simultaneously.

“Historically, in IDA replenishment years, the Bank does not do fundraising for other vehicles,” she said. “So it’s quite extraordinary to see the Bank simultaneously fundraising for IDA and launching a different fund.”

Reinermann acknowledged the coincidence of replenishment, but said all the agencies involved worked in partnership, rather than in silos. He added the Bank had said the LPF would not fundraise from donors until IDA 21 was wrapped up.

Gaza

Continued from back page

affecting the price of traded goods.

“We haven’t seen that cost push on to the consumer yet,” she said. “However, if we start seeing more intensified attacks or if something happens at one of the choke points — like the Strait of Hormuz — and then oil supply chains

become impacted, you will start to see consequences.” Expectations that the war in Gaza would hit oil prices have not yet come to pass, largely due to OPEC+ stabilisation efforts and high oil inventories. However, Iran has threatened to close the strait — the sole route for many GCC oil exports — if it is attacked.

Leaked US intelligence documents this week appeared to show a US assessment of Israeli plans for an

attack on Iran. However, Atlantic Council analysts believe it is unlikely that Israel would hit Iran’s oil infrastructure.

“On both sides of the political spectrum, there are those who are OK with targeting Iranian infrastructure, including oil infrastructure,” Al-Riffai said. “But then there are those who are not, because there are going to be impacts.”

Africa's climate transition crying out for capital

By George Collard

Flows of financing to Africa's climate transition need to speed up, the head of a leading South African bank has warned this week.

There has been about \$170bn of investment in climate finance in the continent, said Emrie Brown, chief executive of South Africa's Rand Merchant Bank, at the Institute of International Finance's annual meeting in Washington.

But this financing has to accelerate, she said. Other than some large renewable energy projects, most of the investment is smaller transactions by "impact first" investors. "We definitely see large pools of capital but the pace of deployment is slower than expected," said Brown. "The capital is there, but we need to increase the flow."

The way to do that is by mounting projects that can bring large institutional investors in at scale. But risks, real or

perceived, are putting investors off.

"There has been some tremendous currency devaluation in some countries, for example," said Brown. "The way developed markets investors compensate is by either not investing, or by getting returns that can make projects unviable. There's only so much a project can repay."

One way to draw international investors is for local investors to take the lead. "Those local investors understand the risk," said Brown. "If we can get more of those in, then international investors will crowd in."

VITAL ROLE FOR SWFS

Sovereign wealth funds, such as those in the Middle East, could play a big role in climate financing in Africa, said Joseph Abraham, chief executive of Qatar's Commercial Bank, at the same IIF event.

"Historically, they have focused a lot

on Western markets," he said. "But for geopolitical and diversification reasons, there is a greater emphasis on other regions and projects with a sustainable angle. As they enhance their familiarity with the region, there will be a lot more investment into new areas like Africa."

The Qatar government's Qatar Airways has been working for five years on a deal to buy 49% of RwandAir, the flag carrier of Rwanda. In 2019, it also bought a majority stake in Rwanda's Bugesera Airport, still under construction.

Through one channel, international investors are supportive: government sustainable finance bonds. Last year Gabon executed Africa's first sovereign debt-for-nature swap and Benin issued a sustainability bond in 2021.

"We have a number of countries claiming to be working on sustainable finance frameworks," Yvette Babb, emerging markets debt portfolio man-



ager at William Blair in the Hague, told *GlobalMarkets*. "Development finance institutions are working hard with them to try and devise these products and even provide credit enhancements to make them more accessible."

Jeff Grills, head of US cross-markets and emerging markets debt at Aegion Asset Management in Connecticut, said: "It's a great way for challenged countries to get some lower cost financing."

Rich countries consider Gaza aid, but will need political clarity

By Steve Gilmore

Arab and Western states are considering helping with the cost of reconstruction of the Palestinian territories in the wake of the conflict in Gaza. But any such funding would depend on a political settlement being reached, and that remains elusive, experts warned, as new reports detailed the human and economic cost of the Israel-Hamas war.

Gaza's health ministry said on Wednesday that nearly 43,000 people had died since the war began in October 2023. The war has caused nearly

\$18.5bn of damage in Gaza alone, and clearing over 37m tonnes of debris could take up to 14 years, the Atlantic Council said in a report launched in Washington.

Funding and assistance for Gaza's reconstruction remain in doubt while the conflict lasts. "There are talks of three of the Gulf countries — UAE, Saudi Arabia and Qatar — contributing to reconstruction costs," said Perrihan Al-Riffai, the Atlantic Council report's author and an economic expert at the Qatar Central Bank. She said there was also talk of the

EU and the US lending financial assistance.

But beyond the price tag of clearing rubble and munitions, countries are likely to balk at providing help without knowing what political situation will emerge. "It's not just a matter of reconstructing buildings and removing debris, it has to do with the political economy that's going to prevail once there is a ceasefire, and there is a lack of clarity around that," Al-Riffai said.

Hamas has ruled Gaza for 17 years, but Israel is determined that it cannot be part of

any future government. If Israel effectively takes over the territory, that could be politically unpalatable for some donors.

MINIMAL TRADE IMPACT

Pressure on the international community to resolve the conflict is tempered by its limited effect on the global economy. The most conspicuous impact has been through maritime trade, Al-Riffai told *GlobalMarkets*.

Iran-linked Houthi rebels began attacking Red Sea shipping in response to the war,

which has caused a major rerouting of shipping round the Cape of Good Hope.

But Thibault Denamiel, an associate fellow at the Center for Strategic and International Studies, said that while Houthi shipping attacks had influenced consumer prices, the effect had so far been minimal. Although higher value trade has been rerouted, bulk carriers are still transiting the Red Sea.

Al-Riffai said excess vessel capacity before the conflict had also stopped Houthi attacks

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