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NEWS

Questions mount: how long can EMs survive today's high interest rates?

By Oliver West, John Crabb, Steve Gilmore

Emerging nations are continuing to deal with being shunned by capital markets, as soaring Treasury yields have made them collateral damage in the US's battle against inflation. Even the strongest developing economies' funding costs are painfully high. For high yield borrowers the risk of default is rising, unless there is a sharp about-turn in US rates.

"Our message to the market and to the international community is that you cannot drown us with interest rates," Ricardo Bonilla, Colombia's finance minister, told *GlobalMarkets*. "High rates not only take away our fiscal space but they take away our space for investment."

Things are not going his way. On Thursday, US inflation for September came in at 3.7% — again above consensus. Two days earlier, in its World Economic Outlook, the IMF revised its US growth forecast for 2024 upwards — from 1% in July to 1.5%.

Having been calmer earlier in the week as some Fed board members made more dovish

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Bonilla: 'you cannot drown us'

Tension builds as MDB oil and gas finance dries up

By John Crabb, Steve Gilmore

The tension is growing between African nations' eagerness to develop their oil and gas resources and multilateral development banks' reluctance to finance such projects as they strive to curb climate change.

As economic conditions in the Global South worsen, countries' funding needs are increasing. But the lack of support for energy projects is

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US support vital for Ukraine, says central bank governor

By Dominic O'Neill

Ukraine and its official donors and creditors are working on ways to mitigate a drop in US aid, should that be forced by a change of leadership in the US, National Bank of Ukraine governor Andriy Pyshnyy has told *GlobalMarkets*.

With campaigning for the 2024 presidential election in the US under way and leading Republican candidate Donald Trump criticising money spent helping Ukraine, Pyshnyy is "concerned", although the country is "resilient", he said, speaking through an interpreter.

"We know that our partners are aware of it, and they are working on it," he said, discussing the eventuality of a cut in US aid, if there was a more isolationist turn in US politics. He added that the question was also being discussed during the World Bank and IMF annual meetings in Marrakech. "This issue cannot be left unnoticed," he said.

The US provided Ukraine with $76.8bn of bilateral aid between

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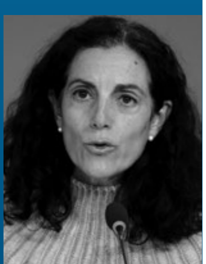
Pyshnyy: 'these are democratic countries'



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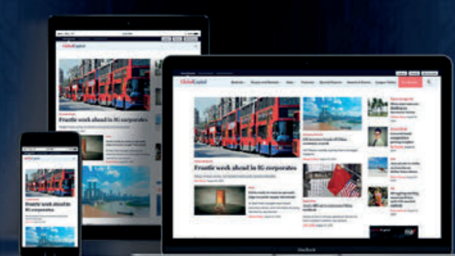

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Success is a journey

'How do EMs get through 2024?'

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comments, the 10 year Treasury yield — which had already soared since the beginning of September — rose 9bp on Thursday morning New York time, to around 4.65%.

Higher US interest rates are making dollar borrowing extremely expensive for stronger emerging markets, and have left lower-rated nations locked out of the markets.

The average spread for a speculative grade-rated country in JP Morgan's EMBI index is around 12% — a level prohibitively high for bond issuance.

"The debt sustainability question is still with us," Kaan Nazli, EM sovereign bond portfolio manager at Neuberger Berman, told *GlobalMarkets* in Marrakech. "If US Treasury yields stay in the 4.5% to 5% area for another two or three years, there could be more defaults, or you'll see private debt move to the hands of the official sector, in the form of more IMF programmes and bilateral financing.

"With this comes fiscal consolidation, which hurts growth. For EM fixed income it will be a more difficult two or three years than before."

EM debt experts are beginning to ask how long developing countries can sustain these kinds of yields, said Nathalie Marshik, managing director in Latin America fixed income at BNP Paribas.

"As a finance minister or an IMF official you're probably looking at the global debt numbers and saying 'if the market stays as it is, how do EMs get through 2024? How do they refi?'" she said. "In Latin America, the 2024 maturities are not so bad, but in the rest of EM there are big questions."

STRESS ACROSS THE BOARD

A particular spike in external bond maturities is looming in Africa, where Zambia and Ghana have already defaulted and around $10bn is due in each of 2024 and 2025.

But even EMs with ample financing options are facing acute pressure. "You've got a situation now where debt levels are high and cheap financing has stopped, and that means austerity," said Charlie Robertson, head of macro strategy at FIM Partners UK. "[These are] hard times, and we're seeing that in Egypt, Kenya, Nigeria and Angola. There's no there's no easy way out."

Recent new issuance in Latin America shows how expensive debt has become. Investment grade Panama, which two years ago paid 3.77% for a 30 year bond, in late September issued 12 year paper at 6.98% and 30 year at 7.45% — the most it has paid since 2007. The 7.05% Guatemala offered on the same day was its highest since 2004.

Colombia may issue in dollars soon, having roadshowed its new sustainable bond framework earlier in September. Based on the secondary market prices of its international bonds, it would likely have to pay its highest yield for many years.

"We have found some cheaper financing alternatives [than bond markets], but you can't always find them," said its finance minister Bonilla.

Emerging economies are having to pay more to finance growing deficits.

Andrés Perez, chief Latin America economist at Brazilian bank Itaú, said that despite Lat Am economies having so far managed higher rates reasonably well, his main concern was that "tight global financial conditions have become even tighter".

Manila,Philippines

"This scenario is very challenging for EMs," he said. "Financing needs remain substantial in Latin America, [and] this is happening at a point in the cycle when many economies are slowing, so deficits may become even larger."

The pain goes beyond dollar bond markets, as higher US rates have forced EM central banks to raise their own rates.

"We have a very challenging environment," Ibrahim Stevens, acting governor of the Bank of Sierra Leone, told *GlobalMarkets*. "Inflation is soaring — passing 50% in August. The central bank has hiked rates to just over 21%, but this hurts the poorest sections of society.

"The transmission mechanism means that as interest rates increase internationally that affects imports into the country, and that [drives] inflation, which then leads us to tighten policy even more," he said. "It's problematic."

Aid helps Ukraine cover budget

Continued from page 1

January 2022 and July this year, according to the Kiel Institute for the World Economy. Financing support — comprising budgetary aid including via an Economic Support Fund and loans — was the largest part, totalling $26.4bn.

The governor said Ukraine was close to completing the second review of a $15.6bn 48 month Extended Fund Facility from the IMF, after technical consultations last week. That is part of a $115bn support package to Ukraine, contingent on policy commitments from Ukraine. This includes bilateral donor support, notably from the US.

"We are absolutely grateful for the support provided to Ukraine and for the support that I am convinced will be provided in the future," Pyshnyy said. "These are democratic countries, the pool of countries where Ukraine wants to be. They all have their political cycles."

He emphasised: "We believe that any fluctuation in democracies related to election processes will not undermine the sustainability of this support. We see a strong willingness to mitigate and avoid turbulence in this financial support."

So far in 2023, Ukraine has received $33.8bn of donor support for its budget: $14.7bn from the EU, $10.9bn from the US and smaller donations from Canada ($1.8bn), Japan ($1.5bn) and the World Bank ($1.4bn).

By the end of the year Ukraine expects the total to reach $42bn. The US is therefore its largest single donor by far, as it is in military aid.

"If we did not get this money, the budget deficit would not be covered," says Pyshnyy. "It's not only about numbers. The US is a key strategic partner to Ukraine and its support cannot be overestimated."

MONETARY FINANCING ENDED

At the beginning of the war and before the donor coalition had come together in a more structured fashion, the central bank was forced to do monetary financing of about $12bn.

The budget deficit reached almost 27% last year, he noted, partly due to the need to finance the war. Thanks to international financial support, Ukraine has not had to turn to monetary financing in 2023.

"Despite the war, and the fact that the war lasted longer than we initially expected, we managed to reduce this budget deficit, but we still depend on international financial support, critically and vitally," Pyshnyy said.

Although the IMF still expects inflation to reach 17.7% in Ukraine in 2023, last week the central bank moved from a fixed to a managed exchange rate. That is part of a long term plan to move to a flexible exchange rate, including lifting foreign exchange restrictions and a shift in focus to inflation targeting.

Pyshnyy noted happily that the market received the change well — there was no dramatic depreciation in the hryvnia, but rather a small appreciation.

"At a certain point we realised that a fixed [exchange] rate may pose threats to the economy," he said. "This was the medicine at the start of the war, but it may become more damaging for the economy."

Further liberalisation will move in stages, linked to conditions, rather than specific dates. "Currency liberalisation will directly depend on how well we can ensure exchange rate and price stability under a managed exchange rate," Pyshnyy said.

"At the start of the war Ukraine found itself under unprecedentedly tough administrative restrictions, limited resources, loss of export revenues, and an unprecedented deficit," he added. "Exchange rate stability is ensured first and foremost thanks to international financial support, that allows us to refill international reserves."

Better tax policies needed to combat illicit financial flows from Africa

By John Crabb

Capital flight due to public distrust of national tax regimes is bleeding billions of dollars of potential revenue from governments' coffers across Africa, ministers have warned. They called for new policies to stop the drain of resources, at a time when interest rates are high and the continent faces a debt crisis.

All too often, those who make money in Africa move it offshore, sometimes illegally, depriving governments of desperately needed revenue.

Analysts believe such tax avoidance is exacerbated when locals believe multinationals are not paying their fair share of tax, or the government wastes it.

"The emphasis on domestic resource mobilisation is very well placed, at a time when even concessional MDB or development financing as a whole is at elevated interest rates, based on the world trend," Wale Edun, the Nigerian finance minister, told *GlobalMarkets*.

Widespread tax reform could help to keep money in Africa, reducing reliance on overseas aid and helping governments pay for urgently needed public services. In some countries a huge percentage of government revenue is already sequestered to service debt.

UNCTAD's Economic Development in Africa Report 2020 said Africa could gain $89bn annually if it curbed illicit financial flows. Luckystar Miyandazi, tax and domestic revenue mobilisation adviser at the African Union Commission, said that was around 3.7% of the continent's GDP.

"We want to finance 75% of our development," she said. "[African Union] Commissioner Muchanga likes to say that 'development is DIY', and this is what Africa wants to do — we want to own our own development, we want to finance it. We have a very young, growing population. We want simplicity and stability of international financial rules. We need to close the loopholes. It is impacting our stability."

Francis Kairu, policy officer for tax and international financial architecture at Tax Justice Network Africa, said: "The leadership on the continent has realised that unless Africa engages in a structured manner to deal with these challenges it will face major problems, especially now, with the debt crisis that is confronting a whole new continent."

Kairu and Miyandazi both called for a more equitable tax structure for the continent and greater recognition of its unique position in the world.

An international, binding framework convention convened by the UN, covering an extensive range of issues, would be the best option, said Kairu.

When corporations and the richest avoid domestic tax burdens, the impact flows right down to ordinary people. In 2022, Nigeria deployed revenue assurance measures to the telecoms industry, a serial offender.

"That is what we are doing in Nigeria," said Edun. "Not only ensuring that all revenues due to the government come into the government, but that expenditures are well targeted, well spent and efficiently handled, to build public trust that utilising their tax dues, or the spending of their taxes, is efficient."

Edun: striving to build public trust that tax spending is efficient

'Tax morale' is a major issue in development, argued Michael Lennard, chief of international tax cooperation and trade in the UN's Financing for Development Office. "It's not an easy thing because in a lot of developing countries the tax system has not been trusted," he said. "Governments have to convince people that taxation is good for the country. If multinationals aren't seen to be paying their taxes and are making all this profit, it is legitimate for people to ask why they should pay theirs."

Oil and gas

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proving problematic for countries rich in fossil fuels, like Nigeria and Angola.

Their attempts to diversify their economies are struggling, prompting questions about the wisdom of green lending policies at times of extreme financial duress.

"We need to express our voices so that our concerns are taken on board in the Bretton Woods institutions," said Adama Coulibaly, minister of economy and finance of Côte d'Ivoire and outgoing chair of the G24. "There is such thing as climate pressure. Our position is that yes, we should all address the effects of climate change, but we shouldn't ignore the fact that we have important issues at home; in particular financing issues, debt issues.

"That has to be taken on board. In other words, climate issues shouldn't leave behind the entire issue of fighting poverty and development issues."

In 2017, the World Bank announced it would stop financing upstream oil and gas projects, and several other MDBs have followed suit.

The Asian Infrastructure Investment Bank updated its energy sector strategy last year. It essentially restricts oil and gas financing to projects that reduce methane flaring or support small island communities where diesel use is unavoidable. But there are different perspectives on how restrictive the approach should be.

"That's a topic of debate among different shareholders, but what we settled on was that this is something that, within a lot of limitations, we are willing to do," said Danny Alexander, vice-president for policy and strategy at the AIIB. "Although we want to major on renewables, we know in some places, this [oil and gas] is going to continue to be important."

This issue is bubbling beneath the surface as a dispute between African states that want to develop hydrocarbons and unwilling MDBs.

"There's definitely a tension," said Amaka Anku, practice head for Africa at the Eurasia Group. "It's harder in some instances for [African] countries to raise money to develop oil and gas assets. If you look at Nigeria — the biggest economy and market — it's going to be using fossil fuel for the next 50 years. Over 60% of the population is poor, most people can't afford an EV."

De Sousa: Angola is working hard to diversify from oil

Some MDBs have supported continued use of gas (not coal) to ramp up power generation in emerging markets, recognising that in due course they will need to shift to greener production. The amount of greenhouse gases that will be generated by burning gas in African countries is still minuscule compared with the emissions of the US, Europe and China.

"There is an unfairness about countries that produce less than a tonne of carbon per capita not being given financing by countries that are producing 15 to 20, like Canada or America," said Charlie Robertson, head of macro strategy at FIM Partners UK. "It is evidently unfair. Countries need every source of dollars they can get to fund investment into the domestic economy. They can't just rely on foreign bailouts or foreign aid."

DIVERSIFY OR DIE

Economies in Africa that rely on oil and gas are trying to diversify. Nigeria is almost entirely reliant on oil and gas, around 95% of its exports. But overvalued currencies in both Nigeria and Angola have made it increasingly difficult for other sectors to remain competitive.

Vera de Sousa, Angola's finance minister, said the country was working hard on changing its economy. "Until now we have still had a high dependence on the oil sector," she said. "When oil production is fine, when the oil price is at a level that is comfortable to us, we get some breathing space to address our diversification agenda.

"But when it is not, because the other sectors that are at the base of our economy are at the early stage of development, we feel some stress, like we are feeling now."

Some dismiss the MDBs' importance in this sphere. Anku at Eurasia Group said MDBs would never make a material difference to financing oil and gas in Africa.

Photo courtesy of The World Bank Photo Collection

Central Asia reaps rewards as Russia and China vie for influence

By Elliot Wilson

The war in Ukraine has indirectly made some issues easier for Central Asia, with China diverting interest and resources from Ukraine, Russia lavishing more attention, and Turkey cutting trade deals, according to leading regional analysts.

The region has emerged as a net beneficiary of the shifting of geopolitical tectonic plates. Central Asia's powerbrokers are gaining influence, as Moscow and Beijing, both of which seek geopolitical primacy there, court the region.

In May, Chinese president Xi Jinping hosted a five day summit in the western city of Xi'an, attended by the presidents of all five Central Asian states and an army of ministers, oligarchs, banks and companies. Russia was not invited.

"There was so much pomp and circumstance," said Matthew Gray, associate director for ESG risk and corporate sustainability emerging markets (Eurasia) at Morningstar Sustainalytics, who was at the event. "Billions [of dollars in deals] were signed", by Chinese firms seeking access to regional markets and closing energy and mineral extraction deals.

"It was the official relaunch of the power of the Silk Road," he said. "China bent over and said: 'We will make you feel like sultans and kings'."

Moscow, meanwhile, has sought to avoid any loss of influence in a region vital to its interests. It has not — as many feared — threatened to attack Kazakhstan, with its large Russian-speaking population. Instead, its firms, denied access to Western markets, have "invested hard across cotton production, pharmaceuticals, construction", Gray said.

On October 7, Russia signed a two year deal to pipe 9m cubic metres of natural gas a day to Uzbekistan via Kazakhstan. It was proof that Russia's earlier aim of signing a 'tripartite gas union', trading energy for regional support, had failed.

"It wasn't the deal Russia wanted," said Andrew D'Anieri, a resident fellow at the Atlantic Council's Eurasia Centre. "Both countries flexed their muscles and pushed back diplomatically. Uzbekistan is paying more for gas but gaining greater autonomy."

Central Asia's most populous state has ambitions beyond Russia. "Uzbekistan is rolling out the red carpet," said D'Anieri. "It has unveiled tax benefits for IT firms, with the aim of being the 'new India' in IT help and outsourcing. They're making a big push to attract US investment, as they want to be seen as a more reformist country."

Central Asia's energy industry is attracting investment

Capital is flooding in from Turkey, the UAE, Saudi Arabia, Spain and the US. UN data shows foreign direct investment jumping from $7bn in 2021 to $10bn in 2022 — although the real number is likely to be far higher.

As a result, GDP is on the rise. Last month, the European Bank for Reconstruction and Development raised its regionwide growth projection to 5.7% in 2023 and 5.9% in 2024, boosted by a resumption of international trade and tourism, China's reopening and high remittances from Russia.

It tipped Kazakhstan's economy to grow 5% this year and next. Uzbekistan should grow 6.5% in 2023 and 2024, fuelled by strong domestic demand and rising wages and credit growth.

India, Indonesia raise concern as corruption worsens in Asia

By Elliot Wilson

Corruption is worsening across Asia, exacerbated by the fallout from Covid-19, rising authoritarianism and waning government transparency, even in many democratic states, leading experts have warned.

In Transparency International's latest Corruption Perceptions Index, which ranks 180 countries and territories by their level of public sector corruption on a scale of zero (highly corrupt) to 100 (very clean), Asia averaged 45 for the fourth year in a row. More than 70% of states in the region fell below the halfway line.

A handful of developed nations sit comfortably in the ranking's higher echelons, notably New Zealand (which scored 87), Singapore (83) and Hong Kong (76). Among the worst performers are the usual suspects: Afghanistan and Cambodia (both 24), Myanmar (23) and North Korea (17).

Three countries declined sharply this year: Mongolia (33), Pakistan (27), and, on 47, Malaysia, which is still struggling to shed the taint of the 1MDB scandal. The year was also marred by protests against government financial mismanagement in Sri Lanka and allegations of electoral fraud in Papua New Guinea.

Worsening corruption is due to several interwoven factors, said Ilham Mohamed, Asia regional advisor at Transparency International, the Germany-based NGO.

"During crises like the pandemic, people assume corruption can be tackled at a later stage," she said. "When society is in flux or speed of action is required with governments, it opens up opportunities for people to be more corrupt." This was particularly prevalent, she said, in healthcare, a sector that since 2020 has been deluged with funding — much of which did not make its way to the needy and marginalised.

"Corruption across Asia is stagnating — but this means it's getting worse," said Mohamed. "It affects real lives and real people on the ground: a child who misses its vaccination window; a mother waiting for a new maternity healthcare unit that never arrives."

It is easy to point the finger at authoritarian or one party states such as China, where public dissent is forbidden and the actions of whistle-blowers, academics and journalists are highly restricted.

Healthcare funding has been hit by corruption

But public morality is being degraded in a number of open, democratic and Western-leaning states. Under premier Narendra Modi, India (ranked 85th with a score of 40), is cracking down on human rights activists and journalists, even as it works to "consolidate power and limit the public's ability to demand accountability", Transparency International warned.

Mohamed said: "People call for anti-corruption reform, for a safe space for people to be heard — yet this has been reduced to a point where it's dangerous for activists to speak out."

But Mohamed said the outlook was not wholly gloomy. "What makes me hopeful is that Asia is very young, and young people are less tolerant of corruption. They don't want to pay a bribe to get clean water or to get their phone connected."

Debt Framework must change, developing countries demand

By John Crabb

The process for suspending debt repayments by distressed countries must change, to promote growth in the poorest countries, said Adama Coulibaly, chair of the G-24 and minister of economy and finance for Côte d'Ivoire.

While the G20 Common Framework for Debt Treatment had been a success, he said, it was important for policymakers to improve it further. "The Common Framework has worked, it hasn't failed — but for it to be more effective all creditors should be convened around the table so that a solution can be implemented as effectively as possible."

Suspension programmes or even debt cancellation for the poorest African countries would help them find growth and focus on development where it was needed most.

"Addressing the issue of mounting debt, we call for immediate global actions to assist developing countries in managing their escalating debt vulnerabilities," said Coulibaly. "We call for debt cancellation for the most vulnerable and poor countries, most of whose debt is owed to the MDBs."

US treasury secretary Janet Yellen said debt posed risks to development and financial sustainability. "When Ghana sought an IMF programme and debt treatment under the Common Framework last year, a shocking 47% of government revenues were going to service debt," she said. "These were funds that were unavailable to invest in preventing the next climate shock or strengthening health systems."

UNFAIR CHOICES

Sosten Gwengwe, Malawi's former finance minister, said it created problems when a country could not spend its resources on helping people who were suffering. "We need the [World] Bank to help us to bounce back quicker," he said. "[It] has been very supportive but could help us a little more.

"What would help us most in freeing resources to resilience [and] mitigation would be the issue of debt service suspension, not full-blown cancellation," he added. "Debt service is a commitment to past sins; you are under obligation to sins of the past. We need fiscal space on the debt issue to allow us to re-channel our resources. This discussion should be taken seriously, otherwise we have no buffer and whatever hits us eats into our fiscal position."

Instead of prioritising the neediest, African countries often have to put debt service first to avoid default and losing access to international markets.

Gwen Hines, CEO of Save the Children, UK, said she had been "struck by the choices countries have to make. We see it all the time: do they invest in education, do they invest in healthcare or do they service their debts?" she said. "That is a horrible choice to have to make, I cannot say that enough. It is an unfair choice."

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A new perspective

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Through the lenses of art, design, fashion and cuisine, Le Méridien creates a stimulating interactive experience that allows guests to see their destination from a new perspective.

From the moment you step into the lobby of Le Méridien N'Fis, you are transported into a world of grandeur. The elegant décor, infused with Moroccan flair, seamlessly blends with contemporary design, setting the tone for an outstanding stay.

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India's moment: can Modi seize the chance for a status upgrade?

The coldness between China and the US has opened space for India to rise to a new level of global influence. Better still: its economy is growing powerfully. But landing this opportunity to assume a distinctive global role will require deft footwork, not only in diplomatic arenas, but in the domestic economy

Momentum moment
Narendra Modi with US president Joe Biden, British prime minister Rishi Sunak and other G20 leaders at the New Delhi summit, September 2023

By Rashmi Kumar

India is in an unusually sweet spot. Its economy is projected by the finance ministry to grow at 6.5% in real terms in the financial year to March 2024, the government's bonds will be admitted to JP Morgan's emerging markets index next year and the nation is benefitting plenty from China's geopolitical tensions.

Domestically, the atmosphere is exuberant. India's banks have posted solid results so far this financial year, the wealth of high and ultra-high net worth citizens has been steadily growing and prime minister Narendra Modi managed to pull off a successful G20 summit in New Delhi in September — despite the absence of Russian president Vladimir Putin and Chinese leader Xi Jinping.

All these factors have led to a surge in investor interest in India and plenty of optimism about the country's prospects.

However, we have been here before. Over the years, India has ridden waves of positivity towards its investment opportunities and future potential, only to end up disappointing, tripped up either by domestic factors or external circumstances.

Can this time be different? Market participants say the tide may be turning for the Indian economy — but to keep the momentum going strong, the authorities will have their work cut out for them.

"India has a positive story, but some of the bullishness goes beyond reality," says Kunal Kundu, India economist at Société Générale in Bangalore. "India is growing but investors are ignoring the fact that India isn't creating jobs, and that real wages are still low."

Creating enough jobs for India's 1.4bn people is critical for Modi, who will be seeking a third term in office at national elections next April.

Unemployment stood at 5.3% in 2019 but spiked to 8% the following year as the Covid-19 pandemic devastated the country. While the proportion dipped to 6% in 2021, it had risen back to 8.4% by August 2023, according to the thinktank the Centre for Monitoring Indian Economy — even worse than during Covid.

BALANCING ACT

On the plus side, India's current account deficit is likely to narrow to $10bn or 1% of GDP in the April to June quarter, from $18bn or 2.1% in the same period last year, according to India Ratings.

But there are graver threats. Severe weather conditions, including a heatwave and drought, have hurt agriculture, sparking a sharp rise in food prices. Headline annual inflation rose from 4.9% in June to 7.4% in July.

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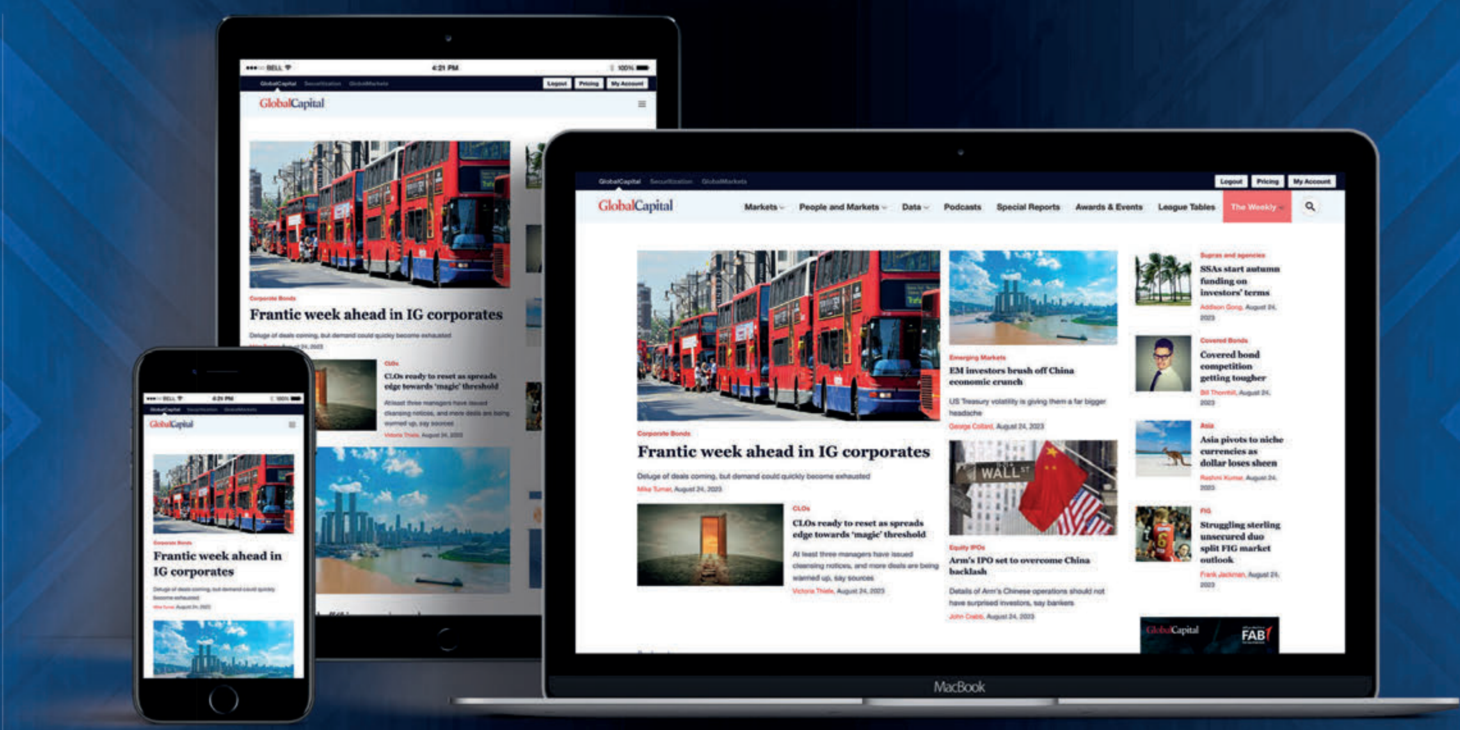

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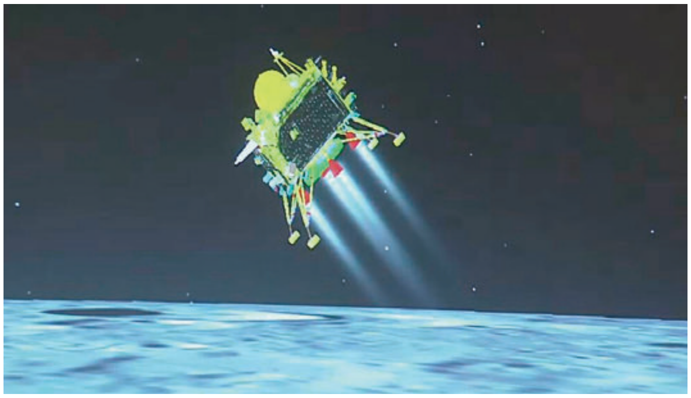

Historic
The landing of Indian spacecraft Chandrayaan-3 on the south pole of the Moon, August 23, 2023

The Reserve Bank of India has had to walk a tightrope this year, juggling imperatives to combat stubbornly high inflation, prop up the rupee and keep a handle on capital flows, without killing the economy's vitality.

It has imposed multiple rate hikes, adding up to 250bp, and RBI governor Shaktikanta Das has repeated many times that more tightening may be needed if inflation goes higher.

The government has also tried a variety of policies to contain prices, including restricting rice exports, boosting imports of pulses and cutting the cost of cooking gas. Amid rising inflation in July, the authorities tried to raise the supply of vegetables, release stocks of wheat and rice into the open market and expand some export bans.

> *"India is in a sweet spot, but you can become spoilt if you're in a sweet spot"*
> *—Alicia Garcia Herrero, chief Asia Pacific economist, Natixis*

EVERYONE'S FRIEND

On the global stage, India is walking tall, and its presidency of the G20 this year has given it a stage on which to show this to advantage.

Modi has worried the US and its Western allies by his refusal to distance India sufficiently from Russia since it invaded Ukraine — but he has still got plenty of room, as China is taking a much harder anti-Western line. Right now, everyone wants India on their side, and it does not have to commit itself to any camp.

India has become an important foreign partner for the US, which has accelerated investments in everything from defence and high tech manufacturing to artificial intelligence projects in India over the past year. Other nations, too, are betting on India to counter China's growing clout.

In September during the G20 summit in New Delhi, the India-Middle East-Europe Economic Corridor was unveiled, a bid to bolster economic growth and collaboration.

Sources in India say many see this as a rival to China's Belt and Road Initiative. IMEC's focus is on linking the regions better through railway projects, a hydrogen pipeline and optical fibre cables.

There is optimism around this — but for India's international influence to keep expanding optimally, it must keep its economy healthy.

"India is playing the right geopolitical game, which is a definite plus, especially in this kind of environment where everybody is looking at China with a different lens," says Kundu. "But India still needs to do things domestically to show that things are different this time. It needs rules for better ease of doing business and improving the overall business climate, so companies feel comfortable to come to India and do business here."

He points to onerous regulations on goods and services tax. Small and medium sized companies in particular are shackled by the high cost of complying.

A strategist at a securities firm in Mumbai says India needs to lose its "protectionist" attitude, as this weakens its competitiveness in the global landscape. He, too, points to the GST as an impediment, saying the rules need to be simplified to improve the business environment.

"There are things people should keep in mind," adds Kundu. "India has an absolutely fantastic story — no other G20 country is growing as fast and is as well placed geopolitically. But there are worries: it's also a story where India isn't investing as much in health and education and isn't doing enough to improve the business climate. So there are positives and negatives."

BOND BOOST

In capital markets, a notable lift will come from the long sought-after inclusion of Indian government bonds in JP Morgan's emerging market index, in a staggered process over 10 months from June 2024.

Lee Collins, head of index fixed income at Legal & General Investment Management in London, says the inclusion was a "significant event" for foreign investors and that India can expect "sustained inflows" to its bonds once the inclusion begins.

They will come in handy. India's central government debt is projected to hit Rp169tr ($2tr) next March, up 10% in a year.

Thanks to the index inclusion, the share of Indian government bonds held overseas is predicted to rise from 2% now to as much as 10%, which could trigger a much-needed bond price rise in the domestic market.

The government's borrowing costs have spiked this year due to the RBI's rate hikes and an increase in borrowing to make up for falling fiscal revenues.

"The index inclusion will bring a diversity of investors to the market," says Collins. "There will be a combination of stickier money, so institutional passive investments, as well as active managers."

FINDING A PATH

Observers say the door is open for India to capitalise on its inexorably growing population and economic power, and establish itself globally as a still more important player than it already is. But it needs to be astute in how it goes about this.

While the G20 summit, for example, showcased India's ascent globally as a diplomatic powerbroker, only days later an ugly row broke out, when Canada's prime minister Justin Trudeau announced that Canada's intelligence service had found "credible allegations" that Indian agents were involved in the assassination of Sikh separatist Hardeep Singh Nijjar in Vancouver in June.

The Indian authorities have long said there are Sikh separatists in Canada trying to gain support to create an independent Sikh state in India.

This has created tension between the two countries and cast doubt on India's relationships with the West's major powers.

Whether the episode will have long term implications remains to be seen, but either way, economists think India still has some way to go to cement its position in the global architecture.

"India is in a sweet spot, but you can become spoilt if you're in a sweet spot," says Alicia Garcia Herrero, chief Asia Pacific economist at Natixis CIB in Hong Kong. "India is very much on the fence on global affairs, which is OK, but it needs a strategy."

Herrero reckons the strategy should be "an alliance of democratic emerging countries that India should be pushing".

She added: "Forgetting about India being the largest democracy in the world is not the way to go. That would end up with India looking like a China [to] the rest of the world, whether it's the emerging world or the developed world."

At the G20, Modi said his country was "becoming the voice of the Global South". The term is defined differently by different groups but broadly refers to the developing countries of Asia Pacific, Africa and Latin America.

But Herrero reckons this approach would be "confrontational" with the West and would be "exactly what China is doing".

"They need to think of different types of alliances, alliances for resilience, alliances for decarbonisation, alliances to eradicate poverty," she added. "That's much smarter than Global South against the West. That would just be a copy of China." GM

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Success is a journey

ARAB BANK: AN ENGINE OF REGIONAL ECONOMIC GROWTH

Over the course of a long and rich history, Arab Bank has built one of the largest global Arab banking networks with over 600 branches across five continents. This extensive reach encompasses key financial centres across the world. A combination of strategic positioning, large footprint and a diversified business model have made it a vital engine of economic growth throughout the Middle East and North Africa.

"The ongoing drive for diversification and transformation across the MENA region, particularly in the GCC, have presented us with important opportunities that we are leveraging in our growth trajectory," says CEO Randa Sadik. In each of its many markets, the Bank focuses on key sectors that represent opportunities for sustainable economic growth and development. Energy is a perfect example. Arab Bank has financed vital infrastructure projects including solar and wind power plants. The Bank has dedicated considerable financial resources to supporting the manufacturing sector, another important economic driver in the MENA region.

Arab Bank is adept at supporting clients, from global and regional corporations to more local small and medium-sized enterprises, delivering efficient, responsive and user-friendly banking solutions to constantly meet evolving needs and expectations. Focusing on commonalities across the different markets has helped the Bank build the expertise and capacity necessary to roll out customised products and services. Size, scope and strategy have ensured strong financial results. Net post-tax profits for H1 2023 were up 59% year-on-year at $401m, driven by robust growth in the core banking business across different markets. Arab Bank's loan book reached $36.1bn and its deposit base $48.3bn. Throughout its solid growth, the Bank has maintained its strong capital base, reporting total equity of $10.6bn as of June 2023. "We will continue to reinforce and expand our presence in significant and key MENA markets, uphold our leading position in our home market, and tap into new revenue streams," says Sadik.

When it comes to sustainability, Arab Bank began its journey earlier than many of its peers. The Bank has been publishing annual sustainability reports since 2010, which have steadily evolved over time. Arab Bank's latest Sustainable Finance Framework provides a solid foundation for the issuance of financial instruments including green, social and sustainable bonds. "As part of our ESG approach we aim to have specific and relevant key performance indicators to continually assess our progress and make the necessary adjustments, whenever is needed," says Sadik. "These measurements provide a clear roadmap, ensuring our commitment to sustainable growth and development."

Over 90% of the electricity Arab Bank uses in Jordan comes from renewable sources. A new strategy for material and waste management, meanwhile, will make the Bank's operations more efficient. This commitment to sustainability is also clearly visible in the Bank's support for key initiatives across the MENA region. In 2022, Arab Bank launched its Women Empowerment Strategic Framework, which aims to facilitate and support the progress and advancement of women at all levels of the Bank, in the marketplace, in the community and in the supply chain.

FOCUS ON DIGITISATION AND INNOVATION

Over the past decade, Arab Bank has made significant investments in enhancing its digital capabilities and platforms. In 2018, the Bank established an innovation hub and accelerator programme at its headquarters. The primary goal was to empower the staff with digital skills like agile development, foster a growth mindset, and instil customer-centricity using design thinking. Fast-forward to 2023 and an impressive transformation has taken place. Arab Bank employees have become adept at utilising new technologies and digital operating practices. There has been a rapid and widespread embrace of next generation digital applications. This includes the launch of Reflect — the first Neo Banking platform in Jordan and Palestine — and Arabi Next, a specialised mobile banking app designed for small businesses, among others.

This year has seen Arab Bank intensify its efforts to expand digital platforms on several fronts. The Bank has introduced the latest technology in application programming interface-based microservice to offer a seamless user interface. The Bank's digital journey continues and involves establishing a secure framework for incorporating generative artificial intelligence.

"Arab Bank demonstrates sustainable growth across all segments and business lines," says Sadik. "We continue to implement an ambitious and forward-looking business strategy powered by digitisation and innovation to offer well-rounded, seamless and comprehensive value propositions to both our consumer and corporate clients across MENA." ●

"We continue to implement an ambitious and forward-looking business strategy powered by digitisation and innovation"
—Chief Executive Officer, Randa Sadik

KEY COMPANY DATA

- Total assets H1 2023: $65.5 bn
- Net profit H1 2023: $401.3m
- Capital adequacy ratio H1 2023: 16.82%
- Loan to deposit ratio H1 2023: 66.9%

INNOVATION AND SUSTAINABILITY KEY TO QNB'S INTERNATIONAL ASPIRATIONS

QNB aspires to be one of the leading banks in the Middle East, Africa and Southeast Asia. The firm's strategy has already ensured a dominant position across the MENA region. In 2022, QNB Group delivered robust net profits of $3.9bn — an increase of 9% on the previous year. Operating income rose 24% to hit $9.6bn. Market capitalisation reached $45.7bn, maintaining the bank's status as one of the 50 largest banks globally and the biggest bank across the Middle East and Africa.

The QNB strategy consists of three elements: a focus on its core role as an international wholesale bank, leveraging innovation as a strategic enabler and embedding sustainability into its business and operating model. The core focus involves elevating QNB's wholesale banking capabilities across its entire network. "QNB aims to provide the highest quality in customer service and product offering to meet the evolving financial needs of our customers across our network and global reach," says Abdulla Mubarak Al-Khalifa, QNB Group CEO. Domestically, QNB intends to protect and extend its market share in the corporate banking business, act as an incubator for private sector engagement and continue to be the preferred banking partner for retail, affluent and high net worth customers.

DIGITAL INNOVATION

QNB's focus on innovation, meanwhile, will see the bank become more agile, dynamic and flexible. This in turn will allow it to capture new business opportunities in areas such as open banking, big data, artificial intelligence and robotics and automation. The bank has an advantage over peers in that it started its digital journey early on through a clear strategy that has evolved over time. The latest iteration is the QNB digital 3.1 programme, which will reduce physical interaction and improve the customer experience across all channels. Al-Khalifa highlights the bank has already digitised 90% of its customer interface processes.

The bank is continuously assessing and evaluating the launch of new digital products and offerings along different customer segments. Strategic partnerships include Visa and Mastercard, Ooredoo, Vodafone and the Qatar Fintech Hub, a strategic initiative from Qatar Development Bank to drive innovation and technology development in the financial services sector.

QNB has launched multiple digital banks in its international markets, including Egypt, Indonesia and Turkey. "Our innovation lab QNBeyond in Türkiye is our incubator and accelerator and promotes VC investments while at the same time acting as our digital factory," says Al-Khalifa. The firm has also engaged in a strategic joint venture to launch a digital bank in Saudi Arabia.

QNB's approach to sustainability, meanwhile, has three pillars: sustainable finance, sustainable operations and beyond banking. All three support QNB's goal of sustainable financial performance. "Improvements will strengthen the overall governance framework and approach as well as mitigate our exposure to environmental and social risks, all with the intent to make a positive contribution to the societies we are present in," says Al-Khalifa.

QNB recognises the importance of ESG and has embedded sustainability in its purpose and strategy. For a lender, the most effective way to address sustainability is through its financing activities. To deliver meaningful impact and to cater for customers' increasing support for ESG values, QNB has integrated sustainable products and services as part of its overall value proposition. "Today, we are recognised as a leader and pioneer in ESG financing, both in Qatar and the wider region," says Al-Khalifa.

Underpinning the bank's sustainable financing activities is its market-leading QNB Group Sustainable Finance and Product Framework — the latest iteration of the bank's award-winning approach to ESG. Externally assessed and validated through a Second Party Opinion, the framework confirms QNB's dedication to international sustainable financing principles. "It allows product and service classification across green, social, ESG-linked, sustainable or transition finance," says Al-Khalifa. "This has been rolled out across our group and demonstrates our continued commitment to making a positive impact through financing, while at the same time promoting the just transition towards a carbon-neutral economy across all jurisdictions where we operate."

"QNB aims to provide the highest quality in customer service and product offering"
—Abdulla Mubarak Al-Khalifa, QNB Group CEO

The new framework will enable QNB to identify, capture and promote ESG-themed opportunities aimed at delivering positive impact to society and the environment in the short and medium term, through a much broader range of new sustainable financing-linked products and services. "Our inaugural green bond, green repurchase agreements, green mortgages and electric vehicle loan products are just some examples of how we aim to promote and develop the domestic and regional sustainable financing ecosystem and add value to the environment and society at the same time," Al-Khalifa says. ●

KEY COMPANY DATA

- Total assets (H1 2023): QAR 1.2tn
- Net profit (H1 2023): QAR 7.6bn
- Capital adequacy ratio (H1 2023): 19%
- Loan to deposit ratio (H1 2023): 97.9%

NBK: A MARKET LEADER AT HOME AND ABROAD

NBK Group is a leading financial institution with a strong presence in the Middle East and across markets globally. Expertise in conventional and Islamic banking, along with a proven ability to support customers in different locations, have helped make it one of the dominant players in the region.

The bank's strategy leverages the extensive resources available to the group. These include a strong brand, international reach, financial strength and a powerful corporate culture. This in turn has allowed it to focus on a wide range of customer types and build a broad suite of products and services. Diversification has also made NBK resilient to adverse conditions, mitigating risks and widening opportunities for growth.

In Kuwait, the bank retains a highly favourable position as the only lender in the country with access to both conventional and Islamic banking segments, the latter through its 60% ownership in Boubyan Bank. "Given the growing importance of Islamic finance in Kuwait this gives us an edge in the domestic market and supports our efforts to grow our market share while diversifying our income sources," says Isam Al-Sager, Vice Chairman and Group CEO.

The bank also remains a market leader in Kuwait across several segments including trade finance and foreign corporates. This complements its focus on large and super-large domestic firms in key economic sectors including oil and gas, telecoms, construction and real estate. Outside Kuwait, NBK is a strong player in the multinational market, participating in government and quasi-government mega-projects across the MENA region, with special emphasis on the GCC and Egypt.

"The diversity of our international banking portfolio strengthens NBK's brand and credit rating and is an essential defence against macroeconomic headwinds and market competition," says Al-Sager. "We are different from other banks as we started our regional and international expansion strategy decades ago." NBK's international banking group — now present in 13 countries — has delivered exceptional growth and improved its cross-selling capabilities to better serve customers in all locations. In 2022, the group's overseas operations accounted for an impressive 27% of total net profits.

This sound strategy of building a stable and selective presence in different markets has limited integration and consolidation risks. "Geographical diversification, digital advancement and a strong financial position have also strengthened revenue streams," says Al-Sager, adding that NBK continues to benefit from prudent policies that ensure solid asset quality and strong capitalisation. Despite a highly challenging global macro environment, the group delivered exceptional results in 2022. NBK's full year net profits were KD 509.1 million (USD 1.7 billion) — the highest in its history.

PURSUING ESG

At the same time, NBK has made great strides in its pursuit of sustainability. In line with the group's environmental, social and governance strategy, NBK published a Sustainable Financing Framework in 2022. "As a leading regional financial institution, we are actively engaging with our clients to better understand their ESG maturity and appetite through developing ESG questionnaires as well as both green and social reporting metrics, " Al-Sager says. The group is growing its portfolio of sustainable assets, investing in green and social projects. On the retail side, NBK has developed and launched eco-friendly auto and housing loans, to provide customers with innovative financing solutions that meet their changing preferences and needs.

"The diversity of our international banking portfolio strengthens NBK's brand and credit rating"

—Isam Jasem Al-Sager, vice-chairman and group chief executive officer, NBK

In 2022, the bank received a solid first-time score of 'C' from CDP, the global environmental disclosure system provider. In 2023, NBK became a participant of the United Nations Global Compact. As part of its Net Zero commitment, the firm has established interim goals to reduce gross operational emissions by 25% by 2025. "We aim to do this through increasing dependency on renewable and clean energy solutions and transforming our network of local branches to become eco-friendly and increasing digitisation in our operations as well as client services," says Al-Sager.

All this puts the group in an ideal position to capitalise on a new wave of transformative infrastructure projects at home and abroad. NBK is constantly working to identify opportunities to expand and support visionary development strategies across the region. These include financing and supporting Kuwait Vision 2035 and its associated mega-projects. But the group will also focus on organic growth in high priority markets like the GCC and Egypt. "Looking forward, we expect to see a continuation of great opportunities as the pipeline of scheduled awards is solid and provides a strong outlook looking forward," says Al-Sager. ●

KEY COMPANY DATA

- Total assets (H1 2023): KD 36.1bn
- Net profit att. to shareholders (H1 2023): KD 275.3m
- Capital adequacy ratio (H1 2023): 16.4%
- Loans to Customer's and FI deposits (H1 2023): 90.0%

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CIB THE BANK TO TRUST

CIB BRINGS EXCELLENCE AND EXPERTISE TO NEW MARKETS

CIB's position as the most profitable private sector bank in Egypt is first and foremost a product of its commitment to clients and shareholders. Widely recognised as Egypt's leading corporate lender, the firm's client base includes multinationals, industry-leading local corporates and dynamic medium-sized businesses. Across all key sectors in Egypt's economy - from power and renewable energy to pharmaceuticals and textiles — companies have come to value and rely on CIB's expertise and support.

Ambition has also been a key driving factor in the firm's expansion. The bank's ability to expand its core business while seizing new market opportunities has shone throughout the years. Determined to establish CIB as a key trade finance hub for East Africa and Egypt, the firm acquired a new Kenyan subsidiary to take advantage of that country's robust logistics and business environment. With its new platform in sub-Saharan Africa, CIB can explore the continent's diverse growth prospects.

CIB's recent financial performance testifies to its progress in building profitability. In the second quarter of 2023, CIB achieved yet another record-setting set of results. Net profit after tax hit EGP14bn and total revenue EGP25.5bn. The bank's commitment to maintaining high asset quality is evident through a non-performing loan ratio of 5% and an exceptional direct coverage ratio of 236%.

DRIVING DIVERSIFICATION

The bank's overall strategy revolves around three main strategic pillars. The first is diversifying and expanding its customer base in order to build resilience and sustainable revenue streams. This includes targeting areas such as financial inclusion, small and medium enterprises, retail mid-income, and non-resident Egyptians. By focusing on these segments, CIB seeks to cater to a wider range of customers and meet their evolving needs.

One area where clients' needs are evolving fast is sustainability. CIB has become a pathbreaker when it comes to green and sustainable finance. In 2020, the firm became the first bank in Egypt to create a dedicated sustainable finance department. Just a year later, the bank collaborated with the IMF to launch Egypt's first corporate green bond program. The firm's inaugural $100m green bond has helped it finance projects that promote sustainable solutions, including green buildings, renewable energy, and resource efficiency. By actively supporting sustainable development, CIB not only contributes to a greener future but also solidifies its position as an industry leader in the banking sector.

CIB has not rested on its laurels. In 2022, the firm established an ESG Risk Management Unit, underscoring its commitment to addressing climate-related financial challenges. This unit serves as the bank's second line of defence, responsible for identifying, measuring, evaluating, and reporting on these risks. By prioritising ESG and climate risk, CIB aim's to help create a better future, helping guide customers through a changing landscape.

"At CIB, sustainability is not just a buzzword; it is a guiding principle that shapes our every action," says CEO Hussein Abaza. "Through our pioneering initiatives and collaborative efforts, we are steadfastly driving the transition towards a greener, more sustainable future, setting a benchmark for excellence within the financial industry."

DIGITAL PIONEER

CIB's second strategic pillar aims to position the firm as a digital pioneer across operations, sales, and customer service. The bank's innovative use of tools such as data analytics and customer segmentation has already played a pivotal role in its impressive track record. Recognizing the importance of digital transformation in delivering superior customer experiences and operational efficiency, CIB is investing heavily in digital capabilities and infrastructure. This includes leveraging data and technology to provide simple and accessible solutions to its customers.

"As the world embraces digital technologies and Artificial Intelligence, CIB is at the forefront of adopting digital solutions to better serve its clients," says Abaza. "Committed to achieving its set strategy, the bank has directed significant

> "At CIB, sustainability is not just a buzzword; it is a guiding principle that shapes our every action"
> **—Chief Executive Officer and Managing Director, CIB**

investments towards upgrading its infrastructure and digitizing its products and services."

To enhance the customer experience and streamline processes, CIB has invested in diverse digital solutions that have successfully moved certain in-branch transactions to their digital platforms. The bank has established a cutting-edge "Bank-as-a-Service" infrastructure, enabling seamless interaction between corporates, fintechs, and the bank's system through APIs. CIB's innovative Bank of the Future program has played a crucial role in supporting the offloading strategy while introducing new segments such as business banking.

The final third pillar is focussed on maintaining the success of its exemplary corporate franchise. CIB will continue to solidify its position as Egypt's premier corporate bank, leveraging its expertise, diverse portfolio, and commitment to innovation. "With a focus on future sectors and a customer-centric approach, the bank is well-equipped to navigate the evolving landscape of corporate finance and support the growth and success of businesses across a wide range of industries," says Abza. ●

KEY COMPANY DATA

- Total assets (H1 2023) EGP 796.3bn
- Total deposits (H1 2023) EGP 658.5 billion.
- Market Capitalisation (H1 2023) EGP 154bn
- Capital Adequacy Ratio (H1 2023) 19%

بيت التمويل الكويتي
Kuwait Finance House

EXPERTISE AND EXCELLENCE DRIVE KFH TO RECORD RESULTS

Kuwait Finance House consistently stands out from its peers in size and performance. The largest bank in Kuwait, KFH reported total assets of KD37bn ($119.6bn) as of June 2023. The first half of this year also saw the bank report the highest quarterly profits ever recorded in the Kuwait banking sector. Net profit for H1 2023 was up by more than 140% to reach KD333.4m ($1bn). In the rankings of companies listed on Boursa Kuwait, KFH is top, with a market capitalisation exceeding KD11bn.

Part of KFH's competitive advantage comes from its highly qualified and experienced staff. This pool of talent helps maintain its position as a world leading Islamic financial institution. In addition to its long experience and leading position in the Islamic finance industry market, KFH has other elements of strength that distinguish it from competitors. These include a large and growing customer base, streamlined operations, geographic reach, innovative solutions and diversified modern products. "Today, KFH is an undisputed leader in innovation, having introduced a wide range of high end digital services over the past few years," says Abdulwahab Iesa Al Rushood, acting group CEO. "We have also teamed up with financial services technology providers who offer unique solutions and expertise."

This has been instrumental in helping the bank provide incredible value for its shareholders. The record net profits for H1 2023 represented an increase of 73% in earnings per share. The bank's remarkable financial results help support its solid credit ratings, high liquidity ratios and strong capital base. On such a strong foundation, KFH has excelled in supporting business growth and development plans in Kuwait and the wide range of international markets in which it operates. The successful completion of KFH's acquisition of AUB-Bahrain has further enhanced its regional footprint. The firm has a presence in Egypt, Turkey, Germany, the UK and Malaysia among other countries. Operations across a dozen regions worldwide has helped KFH become not just the largest bank in Kuwait, but the second largest Islamic bank in the world.

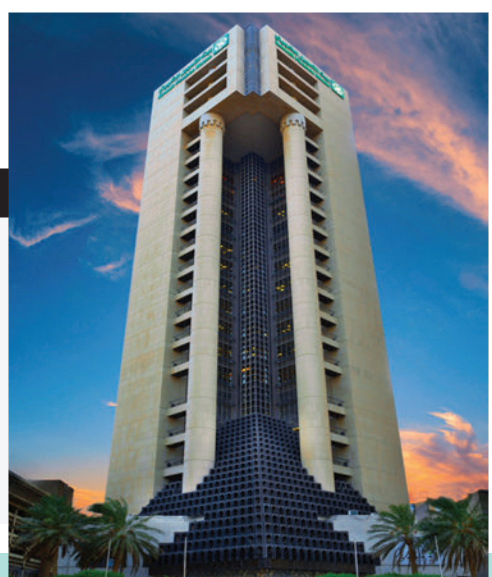
KEY COMPANY DATA

- Total assets (H1 2023): KD 37bn
- Net profit to shareholder (H1 2023): KD 333.4m
- Capital adequacy ratio (H1 2023): 16.45%
- Financing to deposit ratio (H1 2023): 83%

GOLD LEVEL ACHIEVEMENTS

Recognising its responsibility as a pivotal financial institution for the Middle East, KFH is working hard to implement an environmental, social and governance framework. These efforts have led it to adopt new internal metrics to improve operational efficiency and lower its impact on the environment. The bank is also adopting an ESG approach in its Internal Capital Adequacy Assessment Process and stress test frameworks.

When it comes to increasing green finance and expanding ESG investments, KFH has made impressive progress, adopting sustainability principles in all its banking and business activities. The bank's environment-friendly car showroom — KFH Auto — is fully compatible with green building and global sustainability standards. This led to KFH becoming the first bank in Kuwait to receive a Global Sustainability Assessment System certification — in this case a gold level award for KFH Auto. In the capital markets, KFH is active on the sustainability front through issuing green sukuk. In its effort to contribute to building a low carbon economy for a sustainable future, the bank has joined multiple initiatives. This includes signing a memorandum of understanding with the United Nations Development Programme to support the UN Sustainable Development Goals.



> "KFH is an undisputed leader in innovation, having introduced a wide range of high end digital services"
> **—Abdulwahab Iesa Al Rushood, acting group CEO**

Reflecting Kuwait's drive to build a knowledge economy, KFH is highly active in supporting new technology, from artificial intelligence and machine learning to broader fintech innovations. In its own operations, the bank has launched a variety of high end services and maintained its reputation for providing high quality, cutting edge financial solutions. To sustain growth and expand its customer base, KFH is focused on automation and digitalisation to enhance performance and efficiency. "KFH has brought customer experience to new levels," says Al Rushood. "We have made great strides in our digital transformation strategy, with customers carrying out more than 135 million e-banking transactions through KFH online on mobile and website in H1 2023 — a growth rate of 40% compared to the same period last year." ●

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SAUDI EXIM
بنك التصدير والاستيراد السعودي

SAUDI EXIM: A YOUNG FIRM GOING GLOBAL

Saudi Export-Import Bank (Saudi EXIM) is only three years old but its growth and expansion have been nothing short of remarkable. In 2022, the firm helped domestic non-oil exporters access more than 60 markets across the globe. These included the US, UK, China, Sweden, India, France and Pakistan, as well as several African and South American nations.

So far in 2023, Saudi EXIM has continued the essential task of bolstering its operations by providing new funding lines for regional and international commercial banks. It has also signed memorandums of understanding with a variety of key institutions across the Middle East and further afield. This includes agreements with entities in Iraq, Bahrain, Turkey, China, Japan, Korea, Italy and Nigeria. As part of its efforts to bring Saudi exports to new parts of the world, the bank is increasingly focused on Africa and has plans to establish its first international representation on the continent.

Such ambitious plans require a solid strategy. Saudi EXIM has therefore launched a five year strategic plan that provides a clear and viable roadmap through to 2026. Its primary aim is to empower Saudi Arabia's increasingly vibrant non-oil economy and help with access to international markets. Key aspects of this approach include helping with financing, risk mitigation, economic diversification and sustainability.

Implementing this strategy, Saudi EXIM has doubled down on its commitment to supporting local exporters, bolstering its capacity through several new partnerships with leading global financial institutions. These collaborations have allowed the bank to expand its range of credit solutions, bridge credit gaps and help increase the private sector's involvement in the non-oil export industry. Reflecting the bank's pivotal role in helping form vital new trade connections, Saudi EXIM is now a proud member of several international unions dedicated to supporting exporter activities through indirect financing.

Saudi EXIM's current offerings include a range of financing products, including domestic and international lines of credit, working capital financing and structured financing for international products. The Kingdom's strong economic growth and diversification is raising appetite for other solutions. Saudi EXIM has experienced consistent year-on-year increases for its insurance and indirect financing services. The competitive advantages these products provide to firms have allowed a growing number of local exporters to confidently explore new markets.

"Saudi EXIM is employing all its capabilities to raise the contribution of non-oil exports to 50% of the non-oil GDP," says CEO Saad bin Abdulaziz Alkhalb. "The bank has focused on consistently creating and capitalising on various opportunities to better serve its strategic goals and mission — this includes extending necessary financial support to exporters."

INCREASED ACTIVITY

So far, 2023 has been a year of growth, consolidation, and increased activity for the bank across multiple fronts. One primary focus has been small and medium enterprises (SMEs). This sector is of key importance to the global economy and the crucial export-financing support Saudi EXIM can provide has huge potential to improve long-term SME growth in the Kingdom. Across all sectors of the economy, Saudi Exim committed and approved SAR 12 billion in total Facilities, of which over SAR 6 billion is committed for insurance ceilings and over SAR 5 billion is approved for financing requests. Roughly 80% of the bank's portfolio is allocated to the industrial sector and 40% exclusively to small and medium enterprises.

Reflecting the growing importance of sustainability, ESG principles are at the heart of Saudi EXIM's ethos. The bank is ensuring that its activities have a positive impact on financial, environmental, social, economic, and business sustainability. Along with active recruitment — nearly a third of staff are women — the bank's training and development program ensures that employees have the skills and competencies they need to address importers' credit requirements and exporters' insurance needs.

> "Saudi EXIM Bank's primary objective is that no cross-border export transaction from Saudi Arabia fails due to a lack of insurance or financing"
> **— Saad bin Abdulaziz Alkhalb, CEO, Saudi Exim**

Although only in its early years of operation, Saudi EXIM's outlook has already expanded into the medium and long term. The bank is looking forward to a variety of interesting projects in its growing pipeline. These projects offer substantial opportunities for local exporters - both large and small - to participate in international projects and unlock new avenues for growth. "Saudi EXIM Bank's primary objective is that no cross-border export transaction from Saudi Arabia fails due to a lack of insurance or financing," says Alkhalb. ●

KEY COMPANY DATA

- Insurance ceilings committed (H1 2023): SAR 6.3bn
- Financing requests approved (H1 2023): SAR 5.2bn
- Total committed and approved (H1 2023): SAR 11.5bn

البنك التجاري
COMMERCIAL BANK

INNOVATION UNDERPINS COMMERCIAL BANK'S RAPID REVENUE GROWTH

Commercial Bank of Qatar shines in the Middle Eastern market for many reasons, not least its unwavering commitment to pioneering digital banking solutions. This has brought the firm acclaim and awards for innovation and built a loyal client base across corporates, small and medium-sized enterprises and retail customers.

In today's rapidly evolving financial landscape, banks that fail to innovate and adapt risk losing ground to more agile competitors. Recognising this, Commercial Bank has made digital transformation a central pillar of its five year strategic plan. Over recent years, the firm has made substantial investments to reshape its revenue and cost structures, enhance the customer experience, and leverage digital innovation in both client-facing and operational aspects of its business.

The approach is geared towards delivering client-centric solutions. Increasing engagement through mobile devices and utilising technologies such as biometric authentication provide ease and security. Releasing innovative digital products and enabling self-service and on-demand services keeps the firm at the cutting edge of user experience.

"As part of these efforts, we have introduced cutting edge solutions like Samsung Wallet and Apple Pay, which offer fast, secure, and convenient payment options for everyday transactions," says Fahad Badar, executive general manager and head of international banking. "In the competitive payments space, where fintech companies are making significant inroads, our aim is to simplify payment processes for consumers. Our solutions blend advanced technology with a deep understanding of customer needs, ensuring a superior banking experience for every service."

The strategy has allowed Commercial Bank to focus on building sustainable revenue streams and cultivating non-lending-based fee income. Digital product offerings and transaction banking initiatives, meanwhile, have helped grow low cost deposits. This has made Commercial Bank resilient and adaptable in the face of a dynamic and uncertain economic environment. Despite all the global headwinds of 2022, the bank's net profits rose 22% to an impressive QAR 2.8bn.

"Commercial Bank is dedicated to establishing revenue streams that are not solely reliant on lending activities," says Badar. "This diversification allows the bank to reduce risk and enhance its financial stability."

The firm is enjoying stellar growth and increased activity across several key business segments. CB Wealth Management products are tailored and customised to meet individual financial needs across various stages of life. Premium Banking members benefit from local knowledge, financial expertise and bespoke service. Commercial Bank's corporate banking division is a cornerstone of its success, contributing significantly to its overall expansion. The bank provides a comprehensive suite of financial solutions tailored to meet the diverse needs of large corporations and businesses.

At the same time, the bank is mindful to maintain a high quality, balanced portfolio — for example, reducing its share of real estate lending to the market average and increasing its share of government business. "This strategic shift not only optimises the risk profile of the bank but also provides access to cost-effective funds, helping bolster growth in lending and credit activities," says Badar.

So far in 2023, the bank's financial results tell a clear story. Commercial Bank's consolidated net profit for H1 2023 rose 8.5% year-on-year to QAR 1.5bn. "This growth in profitability is a testament to our ability to generate sustainable earnings," says Badar. Sustainable revenue growth helps create a robust financial position and strong metrics that underscore creditworthiness and stability. S&P Global Ratings recently raised the bank's long term issuer credit rating to A- with a stable outlook — a sound endorsement of its ongoing efforts to strengthen its financial standing.

"S&P's assessment highlights the improved quality of our assets, signalling a positive trend in our balance sheet risk management," says Badar. "We have diligently reduced risks while maintaining a high level of capitalisation, reinforcing our resilience in the face of economic challenges."

Commercial Bank is also deeply committed to sustainability and environmental, social and governance considerations, both as an integral part of its corporate strategy and as a reflection of its responsibility to stakeholders. As part of its lending and investment activities, Commercial Bank has implemented a comprehensive methodology to identify and measure ESG risks associated with its customers. In line with Qatar's National Environment and Climate Change Strategy, the bank is intensifying its efforts to reduce its carbon footprint. "Our goal is to achieve a 25% reduction in greenhouse gas emissions associated with our own operations by 2030 compared to 2021 levels," says Badar. "Our commitment to ESG is reflected in our approach to executive compensation, where ESG performance is a factor. All this demonstrates our dedication to sustainability beyond simply responsible lending practices, and aligns with our broader goals." ●

SPONSORED REPORT

"Our commitment to ESG is reflected in our approach to executive compensation, where ESG performance is a factor"
—Fahad Badar, executive general manager and head of international banking, CBQ

KEY COMPANY DATA

- Net profit (H1 2023): QAR 1.5bn
- Total assets (H1 2023): QAR 160.8bn
- Loans and advances (H1 2023): QAR 89.4bn
- Customer deposits (H1 2023): QAR 76.1bn

What's happening Friday, October 13

8:45 AM – 10:15 AM
2023 Annual Meetings Plenary
Speakers: **Sergii Marchenko**, 2023 Annual Meetings Chairman and Minister of Finance of Ukraine; **Ajay Banga**, President, World Bank Group; **Kristalina Georgieva**, Managing Director, IMF
Location: GB01 Koutoubia

10:00 AM – 10:45 AM
IMF Press Briefing: **Asia and Pacific Department**
Speaker: **Krishna Srinivasan**, Director, Asia and Pacific Department, IMF
Moderator: **Ting Yan**, Senior Communications Officer, IMF
Location: AA05 Ouzoud

9:00 AM – 3:30 PM
CIVIL SOCIETY POLICY FORUM

9:00 AM – 10:30 PM
How can the MENA Region Achieve Climate Justice and Development under Austerity?
Location: SC03

Mobilizing Finance to End Inequalities, Address Multiple Crises and Build Sustainable Future in LDCs
Location: SC06 Acadia

Unpacking the Bridgetown Initiative: An Insightful and Dynamic Afro-centric Evaluation and Perspective
Location: SC07 Oasis

11:15 AM – 12:45 PM
IMF quota and SDR reforms: Building an International Architecture Capable of Responding to Evolving Challenges
Location: SC03

The Implications of Private Finance De-risking for Economic Development in the Global South
Location: SC06 Acadia

Grassroots Women in the Caribbean: Climate Resilience and Peacebuilding in Haiti
Location: SC07 Oasis

2:00 PM – 3:30 PM
Building a New Eco-Social Contract and Advancing Social Security in Times of Debt and Austerity
Location: SC03

Harnessing the Power of Youth and Adolescents: Advancing Health and Nutrition Through Inclusive Global Partnerships
Location: SC06 Acadia

Greenhouse Gas Emissions and Climate Change Alternatives Analysis: Ensuring World Bank Group Paris Agreement Alignment
Location: SC07 Oasis

11:15 AM – 12:00 PM
IMF Press Briefing: **African Department**
Speaker: **Abebe Aemro Selassie**, Director, African Department, IMF
Moderator: **Nicolas Mombrial**, Senior Communications Officer, IMF
Location: AA05 Ouzoud

12:30 PM – 1:15 PM
IMF Press Briefing: **European Department**
Speaker: **Alfred Kammer**, Director, European Department, IMF
Moderator: **Jose Luis De Haro**, Communications Officer, IMF
Location: AA05 Ouzoud

2:00 PM – 2:30 PM
Press Briefing: **G-20**
Location: AB01 Toubkal

2:00 PM – 2:45 PM
IMF Seminar: **Debate on the Global Economy**
Moderator: **Tom Keene**, Bloomberg Surveillance
Speakers: **Kristalina Georgieva**, Managing Director, IMF; **Joyce Chang**, Chair of Global Research, JP Morgan
Nadia Fettah, Minister of Economy and Finance, Morocco
Christine Lagarde, President, European Central Bank
Ngozi Okonjo-Iweala, Director-General, World Trade Organization
Location: AA02 Al Karaouine

3:00 PM – 4:00 PM
Seminar: **More Jobs Through Investing in Human Capital**
Speakers: **Axel van Trotsenburg**, Senior Managing Director, Development Policy and Partnerships, World Bank; **Reema Nanavaty**, Director, SEWA (Self-Employed Women's Association); Oulimata Sarr, Minister of Economy, Planning and Cooperation, Senegal
Moderator: **Rachelle Akuffo**, Anchor, Yahoo Finance
Location: BA02 Atlantique

3:45 PM – 4:30 PM
IMF Press Briefing: Western Hemisphere Department
Speaker: **Rodrigo Valdés**, Director, Western Hemisphere Department, IMF
Moderator: **Randa Elnagar**, Senior Communications Officer, IMF
Location: AA05 Ouzoud

5:00 PM - 6:00 PM
MS13 – IMF Live Studio
IMF TODAY – Live

7.30 PM – 9.30 PM
The Saudi Joint Banks Reception
Location: La Mamounia Hotel

US-China tensions help but also threaten SE Asia

By Rashmi Kumar

Southeast Asian countries must deepen free trade and regional integration to mitigate the impact of tension between the US and China and attract more capital from the Asian superpower, according to industry experts.

The 10 countries that form the Association of Southeast Asian Nations are in a sweet spot when it comes to growth. According to estimates from the Asean+3 Macroeconomic Research Office (Amro), the region's economy is set to grow 4.4% this year and 5% next, despite the anticipated weakness in the global economy in 2024.

Asean is benefiting from US firms trying to move manufacturing away from China, but it can also boast cost competitiveness.

A DBS Bank report this month showed that while China had increased investments in Asean+6 (Asean and six other Asia Pacific countries), the largest share of inward investment was came from the West, Japan, South Korea and Taiwan.

But Asean is enjoying the best of both worlds — it is growing in importance for China, too. China's investment in Asean has risen over the past decade, in part driven by the Belt and Road Initiative.

Outward direct investment from China into Asean grew 8% between 2018 and 2022, according to DBS, hitting $18.7bn last year, 11% of China's total ODI and more than it invested in Europe.

But the fraught relationship between the US and China — with China this week calling for a ceasefire in Israel/Palestine and speaking to the Palestinian government — is highly important for Asean's future.

Amro's senior economist Marthe Hinojales said US-China tensions remained the "most pertinent to Asean growth" in the medium term, "especially given the region's high participation in global value chains".

To protect itself, Asean needed "to remain committed to free trade and closer regional integration", she said. "Strong policy signals that reaffirm the region's deep and longstanding commitment to free trade and openness will help decrease market uncertainty that arises from geopolitical tensions."

Asean could also improve domestic policies to raise competitiveness, she added.

For now, recovering trade, such as rising US durable goods demand, and improving growth momentum in China were helping Asean stay resilient, said Hinojales.

But if Asean countries and others in Asia want to keep their momentum going, they will have to be proactive in tackling the many challenges coming their way.

Lakshmanan R, an analyst at CreditSights, said that while growth in countries like Indonesia was robust, "pressure could come from higher oil prices" stemming from the Gulf tensions.

THE final word

Sovereign funding needs financial innovations to incentivise climate action

By Azucena Arbeleche,
Minister of Economy and Finance of Uruguay

Multiple threats, including surging public debt, inflation, conflict and food insecurity, have caused a major setback in the world's fight against poverty. This is threatening social cohesion and political stability in many countries around the world.

Compounding these overlapping development strains is mounting vulnerability to weather-related extreme events. Uruguay, for example, faced this year its worst drought for almost a century.

The global climate emergency demands immediate action and long term solutions. There is no room for small fixes and incremental solutions — the truth is we need transformative change. In that spirit, as co-chair of the Bank-Fund Development Committee, Uruguay first advanced the idea, in October 2021, that new international financing instruments should be developed to embed incentives for countries to contribute to global public goods, such as mitigating greenhouse gas emissions and nature conservation.

In particular, we proposed to link countries' cost of borrowing from debt markets and multilateral loans with their success in reaching their environmental targets under the Paris Agreement. Countries that live up to their commitments and show good environmental performance should pay lower interest rates.

TRANSPARENCY AND ACCOUNTABILITY IS VITAL

Countries, asset managers and financial institutions also need to be held accountable for their environmental pledges and actions.

This has at least three dimensions. First, countries need to implement their Paris Nationally Determined Contributions.

Second, the financing burden of achieving environmental goals should be fairly distributed between developed and developing countries, guided by the principle of "common but differentiated responsibilities".

And third, investors and banks should fulfil a greater responsibility than simply optimising financial returns, by acting as stewards of the entire financial ecosystem.

In short, the provision of global public goods requires that all financial actors 'walk the walk'. Announcements and commitments without credible action, transparency and accountability are only lofty words.

In October 2022, Uruguay took the leap on these tenets by issuing a sovereign sustainability-linked bond (SSLB) that directly linked its financing strategy and cost of capital to two key performance indicators: reducing the intensity of greenhouse gas emissions in the economy and preserving the area of native forests. The sustainability performance targets for these KPIs were goals Uruguay has set for 2025 in its first NDC.

This bond also included a breakthrough step-up and step-down mechanism, the first of its kind. Investors will reward the country with a lower interest rate if it overperforms on its environmental targets, while Uruguay will compensate investors if it fails to meet its environmental commitments, with a coupon step-up.

As part of the design of the SSLB, Uruguay has accelerated reporting of GHG emissions from biennial to annual frequency.

Uruguay is one of the world's leading countries in sustainable electricity generation. It is now embarking on its second energy transition, to accelerate decarbonisation in hard-to-abate sectors, such as heavy transport — by promoting electric mobility, developing green hydrogen production and harnessing its abundant renewable energy sources, such as water, wind, and biomass.

As a food supplier to the growing world population, Uruguay intends to meet the challenge of boosting agricultural and livestock production, while reducing the intensity of methane emissions and preserving its unique grassland ecosystem and native forests.

By turning its NDC commitments into financially binding targets, Uruguay has enhanced its transparency and accountability on climate action and walked the walk.

NEW MODEL FOR MDB LOANS

Building on the SSLB, during 2023 Uruguay has worked closely with the World Bank and the Inter-American Development Bank to develop a similar financial mechanism for multilateral development bank loans.

These loans will have step-down interest rates or reductions in principal to reward countries for achieving environmental targets. They will not include financial penalties if KPI targets are not met.

This week, we announced agreement with the World Bank on an innovative loan with these features. The interest rate will be reduced if Uruguay can lower the intensity of methane emissions from its livestock sector (which is an integral part of our economic fabric), beyond its Paris Agreement commitments.

This could result in saving up to $12.5m of interest during the life of the loan, which would be channelled to climate-smart agricultural projects in Uruguay. We are convinced that this is a clear and concrete incentive. The design of this loan involved strong coordination between the Ministry of Finance, the Ministry of Agriculture and Livestock and Ministry of the Environment.

The United Nations Development Programme will independently verify the environmental performance indicators, further ensuring robust reporting.

Uruguay would be the first country to benefit from this feature and the World Bank will seek to replicate and scale this approach to incentivise countries to provide global public goods.

Embedding these financial incentives could prove a significant way to improve the current paradigm at some MDBs, where middle and high-income countries have faced negative financial incentives, since their borrowing rates are increased as their GDP per capita rises.

In Uruguay's view, it is not only MDBs' balance sheets that should bear the cost of reducing interest for environmental overperformance — it should be shared by the wealthier advanced economies, which bear the responsibility for their past, emissions-intensive growth, which has led to the current climate crisis.

This would be a fair way in which developed countries could fulfil their pledges to deploy resources to support developing countries in meeting their climate goals.

In addressing climate change, financial innovation in sovereign funding is a critical ally. In particular, the power of positive financial incentives can be used to reward countries that pursue sustainable policies, empowering them to forge a greener recovery as part of their development strategy.

EUROPEAN INVESTMENT BANK: SUPPORTING SUSTAINABLE DEVELOPMENT IN NORTH AFRICA

The European Investment Bank has built impressive longstanding relationships across North Africa in general and Morocco in particular. It began working with Morocco in 1979, since when it has channelled some €10bn of investment into the country. These flows have accelerated, with €2.5bn invested in the last five years, making Morocco the second largest recipient of EIB investment in North Africa since 2017. In this interview, **Ricardo Mourinho Félix**, the EIB vice-president responsible, among other things, for its activities in Morocco and Tunisia, shares his thoughts on the Bank's lending strategy and its response to the earthquake in Morocco.

In the short term, the European Investment Bank's most pressing priority in North Africa is to lend support to the victims of Morocco's devastating earthquake.

"In the aftermath of the earthquake we extended our condolences to the Moroccan people," says Mourinho. "We also said that we will repurpose some of our funding in Morocco to investment projects responding to immediate requirements in areas such as electricity and water, and to repairing some of the schools that were badly damaged by the earthquake."

Then on October 11, the EIB pledged €1bn over the next three years to Morocco's post-earthquake reconstruction programme, which with co-investment could mobilise €12bn by 2028. The focus will be on resilient and sustainable infrastructure.

Longer term, the EIB's aim in North Africa is to support sustainable development. This mirrors its objectives throughout the world.

"The MENA region is economically heterogeneous, with each country having different institutional set-ups and project implementation capacities," says Mourinho. "But the sectors we are prioritising in the region are not dissimilar from those we are supporting in Europe and elsewhere. Renewable energy, water sanitation and management, and sustainable transport are all key priorities."

These issues were reflected in the EIB's €381m of lending to Morocco in 2022. Half of this went to infrastructure projects for environmental protection, renewable energy and energy efficiency.

A showcase investment last year was the EIB's €200m loan to the ONCF, Morocco's national railway company. This was the first project signed under the EU-Morocco Green Partnership and underscored the EIB's commitment to supporting Morocco's transition to low carbon, sustainable mobility.

'NO GREEN MEANS NO BUSINESS'

This year's Moroccan earthquake and floods in Libya are shocking illustrations of the region's vulnerability to natural disasters. In Morocco's case, however, the damage inflicted on the economy by climate change became apparent in 2022, when a severe drought caused agricultural output to contract by 15%.

This is why there can be no let-up in the EIB's commitment to its Climate Bank Roadmap for 2021-25, even in regions such as the Middle East and North Africa, where fossil fuels account for a large share of economic output.

> "Our Climate Bank programme is clear that no transition will succeed if jobs or incomes are lost as a result"

This roadmap commits the EIB to increasing the share of its financing dedicated to climate action and environmental sustainability to more than 50% by 2025.

"Last year we reached 58%," says Mourinho. "But phasing in green energy in the North African region will be an evolution rather than a revolution, with some fossil fuels still needed during the transitional period. Countries should use this period to move towards green energy, green manufacturing and green agriculture, because as from 2030 no green means no business."

Mourinho says recipients of EIB investment in the region know the transition needs to be accelerated. The result is that the Bank has seldom had to turn down investment opportunities because they do not meet its sustainability requirements. "For every project, we mainstream climate action," he says. "This means that rather than refuse project proposals, we provide the necessary technical assistance to transform projects from being non-eligible to eligible, and from being non-bankable to bankable.

The EIB is committed to promoting a socially just transition to a sustainable economy.

"Our Climate Bank programme is clear that no transition will succeed if jobs or incomes are lost as a result," says Mourinho.

LOCAL SUPPORT

Recent evidence suggests that local communities across North Africa support this transition. Eighty-six percent of Moroccan respondents to the EIB's 2022 Climate Survey said climate change was already affecting their everyday lives.

Supporting small and medium-sized enterprises is an essential component of the EIB's commitment to sustainable development and has informed much of its lending in North Africa.

In October 2022 it launched the Trade and Competitiveness Programme with financial support from the EU. This gave a guarantee to the Banque Centrale Populaire, allowing it to extend around €50m of financing for Moroccan exporter SMEs.

This is an example of the EIB's approach of using guarantees to attract other lenders. "Our quality stamp allows us to crowd in other public and private sector funds," says Mourinho. "This is how we generate four or five euros of total investment for every euro we commit."

Mourinho argues that the EIB could achieve even more in the region by strengthening its local presence: "This is something we could improve, by equipping our local offices with origination teams, technical assistance and an upstream advisory capability, helping countries to develop the legal frameworks and enabling environments they still need." ●

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