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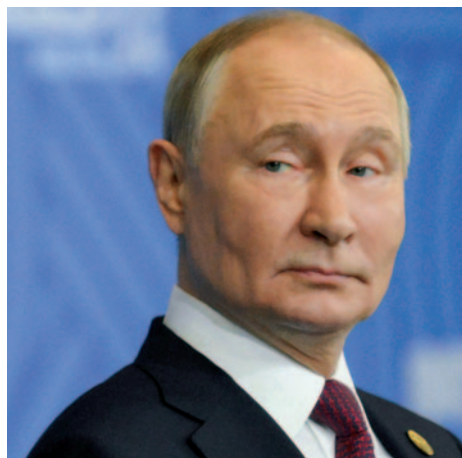
By Steve Gilmore

An increasingly united axis of authoritarian countries presents a dire threat to the world economy and geopolitical stability. Political analysts say the international financial community must ask whether the correct parallel is the 1970s Cold War — or 1938.

US defence secretary Lloyd Austin confirmed on Wednesday that North Korea had sent troops to help Russia in its war against Ukraine.

"We should be very concerned about this," Bruce Bennett, professor of policy analysis at the Pardee Rand Graduate School, told *GlobalMarkets*. The addition of North Korean special forces could well help Russia make a "major battlefield breakthrough" in Ukraine, he said.

Nato secretary general Mark Rutte said on



Vladimir Putin: Russian president's war machine boosted by North Korean troops

Monday the move would "mark a significant escalation". He warned last week that Iran, North Korea and China were all fuelling Russia's war machine.

The Centre for a New American Security

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Emerging markets in firing line as rates spectre returns to haunt bond market

By Oliver West, Francesca Young, Steve Gilmore

A dismal October for US Treasury yields has shattered the cosy consensus that US interest rates can only fall. Market watchers increasingly fear they could rise again, which would strip emerging markets of the cuts in

funding costs they had been banking on, and spoil their plans to lower their own interest rates.

Since closing at 3.74% on October 1, the 10 year Treasury yield has climbed steadily, closing at 4.24% on Wednesday — its highest level since July.

The sell-off has been fuelled

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Jerome Powell: analysts believe further US rate cuts may be limited

World Bank vows to empower hundreds of millions of women by 2030

By Phil Thornton

The World Bank has set out ambitious targets to boost economic opportunities for women and improve their welfare by 2030, pledging to help hundreds of millions of women in the developing world.

Ajay Banga, the Bank's president, unveiled on Thursday three goals that serve one pillar of its Gender Strategy 2030: expanding and enabling women's participation in the economy.

The Bank will enable 300m more women to use broadband, support 250m poor and vul-

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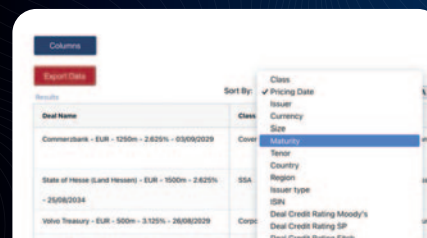


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Success is a journey

Emerging markets face risk of US reflation shock

Continued from page 1

by the continued strength of the US job market, uncertainty over the US presidential election and the direction of fiscal policy. Three Federal Reserve officials — Jeffrey Schmid, Lorie Logan and Neel Kashkari — have also made comments this week about the need for Fed rate cuts to be gradual.

The upward drift of yields has punctured the lower rates narrative that has buoyed EM bond markets for most of this year.

“Rates are only going one way, and that’s up,” said a senior EM bond banker. “Any issuer with financing needs who is not moving now is wasting time. We’re not going back to the world of low interest rates. The US economy is healthy with higher interest rates than we’ve become used to.”

Swap markets are now pricing in just 37bp of further Fed cuts, said ING analysts on Wednesday. Another EM bond banker said some of his clients had been leaning on the loan market for short term debt in recent years and had been hoping to refinance it in the bond market in early 2025, when they thought rates would have fallen further.

“Even two or three weeks ago, no one was even considering rates rising again,” he said. “Now we’re seeing it’s going to be a bumpy road.”

For EM governments, many of which have been suffering increased financing costs amid serious budget strains, a slowdown or reversal of rate cuts would be particularly painful.

“The main risk factor we see for EM going into 2025 comes from a ‘reflation shock’ scenario in the US, depending on the November election outcome

and a potential hawkish turn in the Fed policy outlook, accompanied by a stronger dollar than is currently priced in,” said Petar Atanasov, co-head of sovereign research at investment firm Gramercy.

‘TOXIC’ COCKTAIL

One reason for the sell-off in Treasuries has been a perceived greater probability that Donald Trump will win the US presidency in November. A Trump presidency is likely to be more inflationary than a Kamala Harris administration, given the likelihood of higher trade tariffs.

Arthur Budaghy, chief emerging markets strategist at BCA Research, said in a note this week that a Trump win would lead to a strong dollar and rising US bond yields, which he called a “toxic cocktail for EM domestic bonds and credit spreads”.

He recommended shorting EM sovereign and corporate high yield credit and going long US high yield corporates.

Not everyone is bearish on US rates. Zoltán Kurali, head of Hungary’s debt management office the AKK, agreed that if US long end yields went up to or above 5% it would be “no good for EM issuers, and issuers overall”.

But he was “not convinced” there would be a sustained rise in US yields. Kurali said the market was reacting to the oil price spike, that recent dollar strength was largely technical as the market had shorted the currency in anticipation of fast Fed cuts, and that election-related risk aversion was also priced in right now.

“The European Central Bank will have to continue cutting, irrespective of the Fed, as the European economy is in bad shape, so this will anchor CEE yields hopefully,” Kurali said.

Graham Stock, senior EM sovereign strategist at RBC BlueBay Asset Management, said: “If Treasury yields go much higher from here it could definitely become a problem for emerging markets, but yields were here earlier in the year and issuers still had market access. It would be more of a problem for EM if Treasuries push back up to 5%, or if inflation comes back in the US.”

Yields on 10 year Treasuries have not been above 5% since 2007. Yet the risks of a slowdown in Fed easing are not only about the cost of sovereign debt.

“Potential important changes in economic policy in the US could maintain upward pressure on long term rates globally,” said Andrés Pérez, chief Latin America economist at Itaú. “This kind of scenario would unlikely change the financing scenario for EM sovereigns, but would certainly affect decisions for corporates. Moreover, a stronger dollar and a rebound in inflation could slow projected easing cycles in EM.”

Indeed, one buy-side EM economist in Washington this week said his focus was more on what US interest rates meant for local rates in emerging economies.

“For me, the risk of tariffs is that they might put easing cycles in EM on ice,” he said. “No one wants to reverse ferret and have to hike because they’ve cut too much.”

World Bank to tackle huge gender gap

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nerable women with social protection programmes and provide capital to 80m women entrepreneurs.

The present gap between the economic participation of women and men costs the global economy trillions of dollars, as new research has shown this week.

Speaking at the launch, Sandra Ablamba Johnson, minister general secretary at the presidency of Togo, said increasing investment in women was the best way to meet development goals. “There is no way that we can achieve sustainable development without involving women,” she said.

Banga said his own experience in his previous jobs at Citibank and MasterCard had taught him that when the “lady of the house” was given social and economic power, she transformed her family’s fortunes forever. “The multiplier effect is to not only transform her life but that of those around her

[and] is why I believe that unlocking the potential of this dormant opportunity is enormous for our future.”

To achieve its broadband target, the Bank will prioritise investments in countries with the worst connectivity gaps, emphasising gender equality, and advocate for policy reforms to facilitate private investment.

On social protection, it will invest in digital social registries so women can receive support, especially through direct digital cash transfers.

And the Bank will work with regulators and financial players to remove gender biases against businesswomen raising capital and help raise capital through gender bonds and other instruments.

“One very simple thing I’ve seen all my years [is] if a woman starts a business, she tends to employ a lot of them,” said Banga.

Progress so far has been disappoint-

ing. According to the World Economic Forum, there is a global funding shortfall of \$1.7tr for micro, small and medium sized enterprises run by women. “This is why this is not just the right thing to do, it’s also the smart thing to do,” Banga said. He added that Bank research had found if women were employed at the same rate as men, income per capita could grow by almost 20% over the long term.

ASIA’S BIG PRIZE

The picture is particularly bleak in Asia. In an interview with *GlobalMarkets*, the Bank’s chief South Asia economist Franziska Ohnsorge said only 32% of working age women in the region were in the labour force last year, well below the male rate of 77% and an average for women across emerging markets and developing economies of 54%.

Modelling by her team showed that if as many women worked as men, the



Sandra Ablamba Johnson: ‘There is no way that we can achieve sustainable development without involving women’

region’s output could be anywhere between 13% and 51% higher. In calculations carried out for *GlobalMarkets*, Ohnsorge said closing the gap would translate into an aggregate increase in GDP of between \$581bn and \$2.3tr, or between \$300 and \$1,177 per capita.

Angola must invest and change mindset to replace oil income with farming

By George Collard

Angola faces practical and psychological barriers to using agriculture to diversify its economy away from oil, the country's finance minister has warned.

Oil is critical to Angola's economy, producing nearly 75% of government revenue, according to the US International Trade Administration, and the vast majority of exports.

But the decarbonisation of the global economy will force Angola to wean itself off oil. Agriculture can take up the slack, but the country lacks the necessary infrastructure.

"The challenge is infrastructure," said Vera Daves de Sousa, Angola's finance minister, at a World Bank panel on agriculture and food in Washington. "Roads need to be good enough to make sure we can move production to the city, and we need good storage."

Agriculture provides about 10% of Angola's GDP but only around a tenth of the available agricultural land is cultivated, according to the US Department of Agriculture. Most of Angola's farms are family ventures.

The country used to be a major

exporter of goods such as coffee, sugar cane, bananas and cotton, but the 27 year civil war that ended in 2002 was disastrous for agricultural production. Now, coffee and bananas make up just 20% of agricultural exports, with bran contributing the lion's share at 77%.

MINDSET CHANGE NEEDED

"But first of all it's a change of mindset," said de Sousa. "We need to create awareness about the importance of diversifying the economy." Building mechanisms to allow the private sector to invest in agriculture was critical, she said.

"We are doing what is necessary to create a good fiscal environment to attract that interest, by putting in place liquidity within financial institutions for the private sector that want to invest, creating financial lines open for participation," she said.

Interest is coming, and de Sousa is optimistic. "The financial system will shape itself to accommodate the agribusiness and have investment rooms at the banks ready to adapt to that niche," she said. "We also want to see how we can bridge the gap between those producing and those who want to buy. We want to forge



Vera Daves de Sousa: private sector must invest in infrastructure

new relationships."

Most of Angola's production comes from small farms. "We see strong movement in terms of family agriculture, small farmers, but we need to keep moving to scale up commercial agriculture," she said.

But there is a further complexity. It is not enough just to expand agriculture — it has to be climate-resilient.

In 2022, the country's worst drought for 40 years left nearly 4m people in a state of food insecurity. "We are working with multilateral partners," said de Sousa. "We have a project with the World Bank to build resilience to the consequences of climate change for farmers. We are doing our best to mitigate the impact of climate change."

Axis of Upheaval

Continued from page 1

(CNAS) thinktank has termed this hostile coalition the 'Axis of Upheaval'. Its threat is an increasing source of alarm for global investors.

At the annual Institute of International Finance conference in Washington this week, Clay Lowery, IIF executive vice-president, said the key concerns the IIF hears from member firms were "geopolitical risks, geopolitical risks, geopolitical risks".

Speaking at the same panel discussion on US security concerns, Evan Medeiros, a professor of Asian studies at Georgetown University, said the world had entered a "very fragile moment in international politics".

The thought experiment for international bankers, said Medeiros, was whether they were in a situation akin to the late 1930s or the 1970s. "The reason I raise that [question] is because the US-China relationship sits in this context of a changing global order that might result in a major international destruction," Medeiros said. "I don't think we fully appreciate that."

Christian Kopf, chief investment officer of fixed income and FX at Union

Investment Privatfonds, agreed that geopolitical risk was not properly priced in. "We're moving from global integration to great power confrontation," he said. "We're moving from hyper-globalisation to a situation where trade as a share of GDP will no longer rise — it may even decline."

TIT-FOR-TAT SANCTIONS

Economic policy increasingly reflects this tension. In August, China added anti-monopoly — a strategic mineral used in batteries and solar panels — to a growing list of export restrictions on critical minerals where it dominates global supply.

In September, China sanctioned two US firms for selling arms to Taiwan. Last week, the US imposed its first sanctions on Chinese firms for supplying Russia with weapons for its war in Ukraine. The US Treasury Department said two Chinese companies had worked with Russian partners to produce the Garpiya series of long range attack drones.

China, Russia, Iran and North Korea are all working hard to dilute the West's ability to impose meaningful sanctions, CNAS's chief executive Richard

Fontaine told *GlobalMarkets*. "They want an alternative to Swift [the international interbank payment system] and they want to have an alternative payments mechanism," he said. "They're increasingly denominating purchases in their own currencies, the yuan and the rouble rather than the dollar. Those are all economic effects [of the geopolitical tension]."

The prospect of increasingly acrimonious trade relationships is high ahead of the US election. Republican candidate Donald Trump has vowed to slap tariffs of 60% on Chinese imports. He has also promised tariffs of 10%-20% on most other imports — including those of allies. This fractious economic policymaking is anathema to current US officials who are desperate to convince allies to take the political threat of Russia and China seriously.

At a recent CNAS event, Democratic US Congressman Adam Smith, the ranking member of the House Armed Services Committee, urged collaboration to fight what he termed "CRINGE" — China, Russia, Iran, North Korea and extremist groups. The US was "on the right side" of the conflict, he said, but in convincing the rest of the world that this was a fight that mattered, it had done a "truly terrible job".

MidEast financial centres grow as SWFs keep money at home

By Francesca Young

Liquidity in the Middle East is changing form as sovereign wealth funds are demanding that the asset managers they invest with establish a local presence in the Gulf. The change is leading to a deepening pool of bond investors being based in the region, and growth of the local capital markets and investment industry.

"Recently we've seen BlackRock set up a base in Saudi Arabia, Brevan Howard in Abu Dhabi and at least 60 more hedge funds based out of Dubai," said Hitesh Asarpota, CEO of Emirates NBD Capital in Dubai. "That's in addition to the Middle East liquidity that was already there."

The region's wealth funds are powerful players but historically they have invested in bonds by being limited partners in global investment funds, often based in London or New York. But their preference is shifting to investing closer to home. Saudi Arabia's Public Investment Fund signed a memorandum of understanding with BlackRock in April that would allow the US asset manager to establish a multi-asset class investment platform in Riyadh. PIF has anchored it with an initial investment mandate of up to \$5bn. It said it wanted to drive further growth of the Saudi capital markets.

"The Middle East for a long time has been an exporter of capital," said Asarpota. "But now we're seeing encouragement for this money to be used to create more jobs in their own countries."

Another recent change has been some corporates and family offices investing more in fixed income, having previously concentrated on real estate and equities. "Over the last few cycles it's become clear the benefits of having a diversified portfolio," said Asarpota. "It's a move away from a strong preference for trophy real estate assets."

However, bond demand will not be available to all issuers. The biggest fixed income investors remain bank treasuries. Another capital markets banker in Abu Dhabi said these investors, which are managing funds to keep reserves of high quality liquid assets, have to factor in their own cost of funds.

"Most sovereigns globally raise money at levels lower than those banks, so the maths doesn't work [for them to buy sovereign bonds]," he said. "It may work for African sovereigns but investors are cautious of being left with high default rate assets."

Asarpota disagreed, however. He said that as the investor pool deepened, more issuers globally were seeing the benefits of courting bond investors in the Middle East.

This is especially seen in the sukuk market. Asarpota said several Turkish companies were in advanced stages of bringing sukuk deals and US leasing companies were also planning them.



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21-22 **SOVEREIGN DEBT**
PROGRESS ON
RESTRUCTURING
STICKING POINTS

One of the bright spots in emerging markets in 2024 has been progress on sovereign debt restructurings. But while the market has taken great strides in refining a complex and often fractious process, concerns remain, particularly over the vital concept of comparability of treatment

What's happening

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QATAR 9-11 ENERGY

Qatar's natural gas will be a crucial transition fuel. But Qatar is also set to become a solar powerhouse

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ABDULLA MUBARAK AL-KHALIFA

CHIEF EXECUTIVE OFFICER, QNB GROUP

In an increasingly competitive Middle Eastern banking market, what makes QNB stand out from its peers?

To compete successfully, we rely on our winning strategy and value proposition. Our strong ratings, brand value, relationships and our international network are also key factors in our success.

Standard & Poor's rates the bank A+, Moody's Aa3 and Fitch A+, making us one of the highest-rated banks in the Middle East and Africa (MEA) region.

We continue to grow our brand value that currently stands at \$8.4bn and have maintained our status as MEA's most valuable banking brand. Finally, with a network that spans 28 countries in Asia, Africa and Europe, we are able to leverage our relationships as a full-service financial institution across a range of hard-to-access frontier and emerging markets.

What are some of the highlights from the bank's most recent set of financial results?

In 2023, QNB Group delivered robust net profit of \$4.3bn, an increase of 8% over the previous year. Operating income was \$10.7bn, an 11% increase. As a result, QNB remains the largest bank in the MEA region, and one of the world's top 50 banks in terms of market capitalisation, which reached \$42bn. One of QNB's strategic focuses is cost efficiency, where QNB Group has been able to maintain a market-leading cost-to-income ratio of 20%. In addition, our capital adequacy ratio remains comfortably high at 19.8%, well above both the Qatar Central Bank and Basel III requirements.

Across its corporate lending business, where is QNB seeing the most activity?

In the domestic corporate banking sphere, the multi-billion dollar North Field Expansion project is a major opportunity for us to continue to support Qatar's development in the coming years.

We are actively supporting initiatives across the value chain, ranging from wells, pipelines, LNG storage tanks,

new LNG tankers, all the way through to the expansion of Qatar's refining and downstream capacity.

Internationally, one of the key markets that presents a big growth potential for us is the Kingdom of Saudi Arabia. Furthermore, we see significant growth potential in our international branches in London, Paris, Singapore and Hong Kong. These financial centres allow us to capture market share for trade and investment flows with global and multinational corporate customers to fuel our growth.

How is the bank approaching the growth of FinTech and digitalisation?

Changes in the regulatory landscape, customer behaviours and the entry of new FinTech competitors are increasingly challenging the ways of operating in the banking sector.

This is leading to technological disruption and more financial disintermediation. Areas where QNB is exploring FinTech opportunities range from payments and digital wallets to solutions that provide further automation, integrate artificial intelligence and leverage machine learning.

Our QNB digital 3.0 programme focuses on investing in our IT capabilities to enable digitisation through the adoption of new technologies, and uplifting of our IT architecture and infrastructure. This improves efficiency and accelerates decision-making in a more customer-centric manner across our processes end-to-end.

To what extent do sustainability and environmental, social and governance issues feature in the bank's approach to lending and its own internal operations?

Banks play an important role in contributing to financial stability and economic growth. As the largest financial institution in MEA, we recognise the importance of ESG and have consequently embedded the topic of sustainability in our strategy, business and operating model. As a bank, the most impactful way to address the topic of sustainability is through our financing



activities, which are supported by our Sustainable Finance and Product Framework which offers over 30 sustainable products across all our businesses. Ensuring ESG is prioritised across our operations strengthens our governance while reducing environmental and social risks, all with the intent to make a positive contribution to our society and the environment.

What are the bank's strategic priorities over the next three to five years?

QNB's vision is to be one of the leading banks in MEA. Our strategy consists of three elements: focus on our core of being an international wholesale bank; leverage innovation as a strategic enabler; and embed sustainability into our business and operating model.

Focusing on our core means further uplifting our wholesale banking capabilities by enhancing our value propositions as a solution-led wholesale bank. The second element is to leverage innovation as a strategic enabler, capitalising on developments such as open banking, platforms, data and analytics, AI, digitisation and automation. At the same time, our strategy embeds sustainable practices across our business and operating model to deliver positive impact along ESG-related topics. ●

“ We continue to grow our brand value that currently stands at \$8.4bn and have maintained our status as MEA's most valuable banking brand ”



QATAR'S ECONOMY GOES FROM STRENGTH TO STRENGTH

Already in command of one of the world's largest sovereign wealth funds, Qatar's economic foundations are becoming ever stronger. Strategic expansion of its unrivalled natural gas deposits, fiscal restraint and a thriving non-oil sector combine to create a platform for transformative growth

Already this year, Qatar has celebrated not one but two credit rating upgrades. Both Moody's and Fitch raised the sovereign's credit rating one notch, to Aa2 and AA. Standard & Poor's already rated the country AA, giving Qatar the full complement of double-A ratings. The underlying drivers of the latest upgrades are a combination of Qatar's phenomenal gas deposits, combined with a savvy fiscal prudence.

Between 2026 and 2028, Qatar is expected to increase liquefied natural gas production from its North Field deposit — the largest gas deposit in the world — by a staggering 60%. There will be a further increase — smaller but still significant — of 18% between 2028 and 2030.

The oil and gas sector provides a huge chunk of government revenue, and LNG comprises the great majority of hydrocarbon exports. The sheer scale of the planned LNG increase is remarkable, and will give Qatar room to maintain the same level of revenue even if prices decline.

At the same time, the government is steadily unwinding the massive infrastructure capital expenditure programme it enacted to prepare for hosting the FIFA World Cup in 2022.

During 12 years of preparation, the country built hundreds of hotels and thousands of new homes, as well as a series of massive stadiums and conference centres. Reports have estimated Qatar's investment to prepare for the competition at over £200bn. Having created world class telecoms, transport and hospitality infrastructure, the authorities are returning to a more circumspect approach to spending.

"Our upgrade was based on high confidence that the North Field expansion will bring a large amount of new budget revenues, and similar confidence that spending will not rise at the same pace," says Cedric Berry, director of EMEA sovereign ratings at Fitch Ratings in Hong Kong.

DRIVING DIVERSIFICATION

There is no doubt hydrocarbons will remain the most important sector in Qatar's economy and a bellwether for the health of government revenue.

But their contribution to GDP fluctuates with oil and gas prices. Even though LNG exports are far more valuable to Qatar than crude oil, the price of oil still matters. Alexander Perjéssy, senior

sovereign credit officer at Moody's Ratings in Dubai, notes that in 2023 when oil prices averaged \$83 a barrel, hydrocarbons provided 39% of Qatar's GDP. Between 2011 and 2014, when they averaged around \$110, hydrocarbons contributed 55%.

Ultimately, the ramp-up of LNG production means that even if oil and LNG prices fall, the contribution of hydrocarbons as a percentage of GDP is not going to decline significantly over the next few years.

A single sector providing close to half of GDP could appear problematic from a diversification perspective. But there has been real growth in the non-oil sector in recent years. "Since 2013, the non-oil sector has grown by roughly 40%, whereas the hydrocarbon sector actually contracted by nearly 6%," says Perjéssy.

Construction sector growth has been huge. The rush to build hotels, offices, stadiums, conference centres and other infrastructure almost doubled the construction sector in the 10 years to the World Cup. There is now an oversupply of some kinds of real estate — notably hotels — suggesting construction growth will moderate. But the size of some of the infrastructure projects in Qatar's

Desert Rose
National Museum of
Qatar

4 | QATAR SPECIAL REPORT: Economic Outlook



"The progress made has been exciting ... and continuing the same trajectory will help us transition to becoming a truly knowledge-based society"

—Sheikh Abdulrahman bin Fahad bin Faisal Al Thani, CEO, Doha Bank

pipeline means construction and infrastructure will remain a major driver of the non-oil economy.

"Qatar has continued its rapid infrastructure development," says Sheikh Abdulrahman bin Fahad bin Faisal Al Thani, chief executive officer of Doha Bank. He points to the recently announced QAR20bn (\$5.4bn) Simaisma project. The 8m square metre development will create a new tourism hub with a golf course, theme park and 7km of waterfront.

"In addition to this mega-project, many other infrastructure development projects will continue to support economic diversification and growth," says Al Thani.

Bassel Gamal, group CEO of QIB, is expecting robust investment in infrastructure projects to enhance connectivity and support economic diversification. "QIB is committed to financing key infrastructure developments, helping to facilitate the construction of roads, bridges and public facilities that contribute to the nation's long term vision," he says.

The creation of free trade zones and industrial development is also driving construction sector growth.

"Qatar is strategically enhancing its industrial development by establishing various free zones to attract foreign direct investment and foster a diverse economic landscape," says Al Thani. "These zones focus on emerging technologies, logistics, industries and maritime. Investment-friendly policies such as 100% foreign ownership, zero income tax and corporate tax exemptions make Qatar a destination of choice and will support economic diversification."

KNOWLEDGE ECONOMY

But strong underlying growth in the non-oil sector is not confined to construction. Information and communications technology (ICT), transport, real estate and

finance have all grown significantly. "In terms of comparison with the rest of the region, there's been broad-based growth across different sectors," says Perjéssy.

ICT will continue to evolve, as powerful artificial intelligence and cloud computing tools are incorporated across the economy. Qatar — with its access to cheap power — is perfectly placed to act as a hub for the growth of energy-hungry computing power.

A spate of ICT projects have been announced over the last year or so, and many more are expected in the coming years.

Al Thani notes that Qatar National Vision 2030 is the cornerstone for developing the knowledge economy and innovative society. QNV 2030 has four pillars: human development, social development, economic development and environmental development. "The progress made has been exciting," Al Thani says, "and continuing the same trajectory will help us transition to becoming a truly knowledge-based society."

Gamal at QIB agrees: "We see great potential in the knowledge economy as Qatar continues to diversify its economic base," he says. "The emphasis on innovation and technology will drive growth in sectors such as education, research and digital services."

In trying to grow non-oil sectors like tourism, ICT and conferences, Qatar is in competition with its neighbours — most of which are pursuing growth in the same industries.

But Qatar faces less pressure to diversify as quickly as possible. This is where its relatively small size and population — under 3 million — act in its favour. Saudi Arabia's population is over 35 million and even Oman and Kuwait have roughly twice as many people as Qatar.

More significantly, Qatar's neighbours have a far larger share of citizens in the total population — the volume of new jobs that needs to be created to ensure political stability is proportionally higher.

"In Qatar, the estimates are that the local population constitutes anywhere from 10% to 15% of the population and only around 6% of the labour force," says Perjéssy. "That compares with north of 60% in Saudi Arabia, over 55% in Oman and more than 30% in Kuwait."

Qatar's public and private sectors are in a much better place to absorb the new cohorts of citizen graduates entering the labour force.

LOAN GROWTH MODERATES

A growing private sector needs a strong banking sector. Qatar's lenders — with their large balance sheets, impressive profitability and solid capital ratios — are well placed to support firms, from small and medium-sized enterprises to major corporations.

Loan growth, however, has been lacklustre recently. At the end of 2023, aggregate loan growth across the banking sector fell to a historic low of 2.8%, according to Fitch.

This is partly to do with the unique make-up of Qatar's economy. When LNG prices rise — as they did sharply after Russia's invasion of Ukraine — so do government revenues. The government has used some of this increase in revenue to pay back bank loans. At the same time, the frenetic economic activity that heralded the World Cup has tailed off.

But analysts are expecting loan growth to rise. Francesca Paolino, lead analyst for banks at Moody's Ratings in Dubai, says Moody's forecasts loan growth of 3% to 4% in 2024 and 2025. Fitch expects 4% credit growth in 2024 and 5% in 2025.

Paolino says loan expansion will come mainly from projects associated with the increase in LNG production capacity, but also from sporting events, business exhibitions and other related economic activities.

The Formula 1 Qatar Airways Qatar Grand Prix, Artistic Gymnastics World Cup and the final of the Beach Volleyball



© Photos courtesy of qatarenergy.qa and Alamy

World Pro Tour are just a few of the events taking place this year.

Nor is slower loan growth necessarily a problem. A more modest increase in credit to a broader range of economic sectors is far more welcome than a more rapid expansion of lending concentrated in a single, high risk sector.

MANAGING BANKING RISKS

Unsurprisingly, in a country as small as Qatar there is large concentrated exposure to certain sectors and individual borrowers. This in turn exposes banks to unexpected shocks, particularly if these sectors are relatively illiquid. One in particular keeps analysts awake at night — real estate. They foresee slight — but not serious — weakening in loan performance due to overcapacity. The main culprits are shopping malls and office buildings.

“In Qatar, the recent weakening in loan performance is mainly attributed to overcapacity in the real estate sector — shopping malls and office buildings — and in the service sector, mainly hotels. A more severe weakness in the real estate market will have a significant impact on the banking sector because of the concentration — real estate and contractors represent one-fifth of the Qatari banking system’s aggregate loan portfolio,” Paolino says. “At the same time, we do see the regulator very actively moving to address that issue. They have issued new

policy measures that should help monitor and mitigate the high risks in this sector.”

Another perennial issue for Qatar’s banking sector is reliance on external funding. Net foreign liabilities increased very substantially between the end of 2017 and mid-2021, when the central bank tightened regulation. These liabilities have declined, but are still sizable.

“Qatar banks’ overreliance on confidence-sensitive foreign funding has been declining following implementation of prudential regulations, but the level still remains high — 33% of total liabilities as of June 2024,” Paolino says.

Analysts, however, take comfort from the fact that the government has access to large foreign currency reserves and liquid assets, held at the sovereign wealth fund, the Qatar Investment Authority.

As the government demonstrated during its blockade by other Arab states in 2017, these sources can be called upon to close both a gap in the banking sector’s balance sheet and any balance of payments shortfall that might put pressure on the currency.

The central bank has also taken steps to force banks to lengthen the maturities of their external liabilities. That at once reduces the risk of capital flight and makes its possible impact on the financial sector less severe. Ultimately, the regulator will make sure banks’ external liabilities decline and lengthen.

RISKS RECEDE

This is salient because the main risk to Qatar’s macro-economic stability is geopolitical. There is a possibility — however slight — that events might make it difficult or impossible for Qatar to transport its LNG to its customers in Asia and increasingly in western Europe.

Qatar shares this risk with many of its neighbours in the Gulf Cooperation Council, which export oil and gas through a single choke point — the Strait of Hormuz. Nor does Qatar have — as Saudi Arabia and the United Arab Emirates do — any pipelines that bypass the strait, which Iran has threatened to close many times in the past.

The four year blockade that began in 2017 when several of Qatar’s neighbours tried to pressure it into a series of political concessions also looms large in the memory.

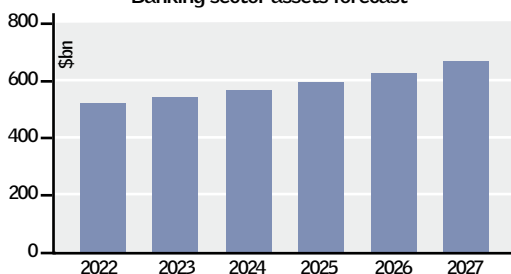
But analysts say the GCC and its rulers have gained a great deal of experience since the blockade — which failed to prompt any policy change in Qatar.

Gulf leaders have to choose carefully between their long term economic goals and short term geopolitical priorities. There is a sense that the heads of the various countries believe regional confrontation will not generate results. “The risk of a blockade as in 2017 is very low,” says Berry at Fitch. “It seems that everyone is much more focused on business than brinkmanship.” ●

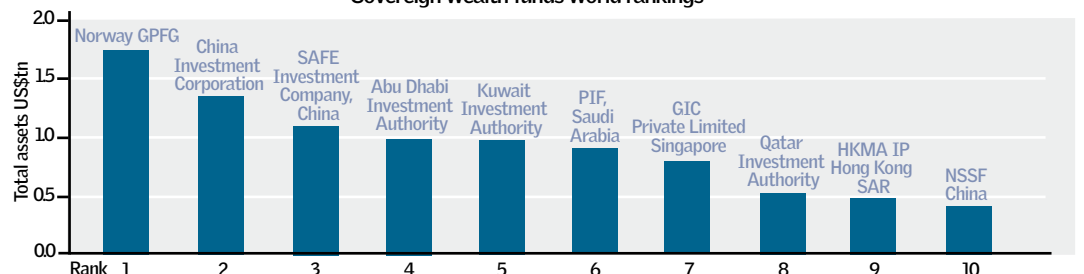
“Our [ratings] upgrade was based on high confidence that the North Field expansion will bring a large amount of new budget revenues, and similar confidence that spending will not rise at the same pace”

—Cedric Berry, director of EMEA sovereign ratings at Fitch Ratings

Banking sector assets forecast



Sovereign wealth funds world rankings



Sources: BMI, Sovereign Wealth Fund Institute

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AHMED I. HASHEM, ACTING GROUP CHIEF EXECUTIVE OFFICER, DUKHAN BANK

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

As Qatar progresses toward Qatar National Vision 2030, the economy is set for substantial growth — primarily

driven by the increase in liquefied natural gas production from the North Field expansion.

This positions Qatar as a key player in the global energy landscape, and enhances its economic strength and resilience. Qatar's commitment to diversifying its economy through tourism, advanced infrastructure and full digital transformation initiatives will be crucial in driving growth even further.

Qatar's financial and capital markets are set to lead the region in innovation, sustainability, efficiency and investor protection. These strategies exemplify Qatar's unwavering dedication to fostering sustainable prosperity and being a global economic powerhouse.

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

The evolving economic landscape presents both challenges and opportunities for Qatar's banking sector. Well regulated by the Qatar Central Bank, the financial sector has taken a proactive approach to strengthening risk management — through adopting Basel III standards and embracing FinTech innovations.

The country's strategy places strong emphasis on financial services as a critical component of its broader economic diversification goals, with a focus on digitalisation and technological innovation. Qatar's banking sector is therefore well equipped to navigate the complex challenges posed by global instability.

At Dukhan Bank, our customer-first strategy and an emphasis on digital transformation have underpinned our strong financial performance amid fluctuating global conditions.

Our commitment to continuous product innovation, designed to enhance the

customer experience, ensures resilience and growth. The use of state-of-the-art technology and other initiatives, such as fostering a highly tech-savvy talent pool, have proved successful in maintaining stability and achieving targets.

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

Dukhan Bank has achieved several exceptional milestones over the last year, exemplified by a historic net profit of QAR1.3bn (\$348m) for the year ended December 31, 2023.

This financial strength was further demonstrated by the bank's successful direct listing on the Qatar Stock Exchange. During the first half of 2024, the bank continued to build on this success, with a net profit of QAR784m.

We continue to push our drive for digital banking innovation, while consistently launching new services that cater to the dynamic needs of customers. This includes the 'Fawran' for instant money transfers; the Smart Kiosk for secure card printing; the first national prepaid 'Himyan' card; and the integration of seamless digital payment platforms.

These innovations were complemented by the declaration of Dukhan Bank's first interim dividend of 8% — equivalent to QR0.08 per share.

How is the bank addressing sustainability and ESG, and what role do these play in your strategy?

Dukhan Bank's ESG strategy is closely aligned with Qatar's National Vision 2030 and promotes the integration of sustainable practices across every facet of our operations.

We have established a dedicated ESG Committee to oversee the implementation of our sustainability efforts, focusing on three core pillars: sustainable finance, sustainable operations and community. Our strong governance practices ensure transparency and accountability, reinforced by regular ESG reporting.

Notably, we have launched several 'green' products, such as electric car financing, which underscore the bank's commitment to driving sustainable financial solutions.

Our digital transformation strategy also plays a pivotal role in reducing our carbon footprint through increased digitalisation, minimised waste and environmental exclusion screening.

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

Digital transformation is reshaping Qatar's banking landscape, enabling institutions to remain competitive in a rapidly changing global environment. Dukhan Bank is at the forefront of this evolution, leveraging cutting edge technology to deliver innovative and Shariah-compliant solutions.

Our artificial intelligence-powered virtual assistant 'Rashid', alongside advanced services such as 'Fawran', the Smart Kiosk and contactless payment, highlight our commitment to leading the sector by integrating seamless, secure and innovative banking solutions that enhance the customer experience.

By focusing on FinTech and our award-winning mobile banking app, as well as our best-in-class financial services, Dukhan Bank is ensuring it remains agile and well positioned to continue pioneering the increasingly competitive banking sector, particularly in the digital realm.

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

Dukhan Bank's priorities revolve around our commitments to digital transformation and sustainability, both of which align with Qatar's National Vision 2030 and aim to enhance the bank's market position.

We plan to invest heavily in advanced technologies — including AI, digital payment platforms and advanced mobile banking services — to offer seamless, innovative and secure financial solutions to our customers.

Through robust ESG reporting and adherence to the UN Sustainable Development Goals, Dukhan Bank is dedicated to responsible business practices that contribute to long term value creation, contribute to Qatar's wider economic objectives, and ensure that the bank remains a key player in the development of the region's financial sector. ●

“Dukhan Bank's ESG strategy is closely aligned with Qatar's National Vision 2030 and promotes the integration of sustainable practices across every facet of our operations”

BASSEL GAMAL, GROUP CEO, QIB

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

Qatar's economy is on a solid trajectory for sustained growth, driven by strategic initiatives aligned with Qatar National Vision 2030. Over the next few years, we expect to see continued efforts to diversify the economy, with a clear shift toward a knowledge-based framework that emphasises innovation and sustainability. Sectors such as technology, healthcare and education will play pivotal roles in shaping this future.

Energy will remain a cornerstone, particularly with the North Field Expansion Project, which will boost liquefied natural gas production significantly.

We are also witnessing rapid advancements in infrastructure and smart city development, which will contribute to Qatar's overall competitiveness and quality of life. Digital transformation is another major driver of growth, particularly in sectors like banking, where we at QIB are committed to leading the way.

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

The banking sector in Qatar is well equipped to manage potential challenges such as fluctuations in energy prices or geopolitical uncertainties.

Qatar's economy has taken significant steps towards diversification, which reduces the direct impact of energy price swings on the broader economy. From a financial standpoint, the banking sector remains robust, with high levels of capitalisation, strong liquidity buffers and prudent regulatory oversight.

These factors ensure that we can withstand external shocks and continue to provide seamless financial services to our clients. At QIB, we have a proactive risk management framework that allows us to respond swiftly to market changes, safeguarding both our customers and our business.

What are some of the highlights from QIB's financial performance over the first half of this year?

QIB's financial performance over the past year reflects our continued success and leadership in Qatar's banking sector. We have achieved several important

milestones, demonstrating our strength and resilience in an evolving market.

In the first half of 2024, QIB reported a 5.6% year-on-year increase in net profit to QAR2bn (\$567m). This is a testament to our strategic focus on sustainable growth and operational efficiency.

Our total income for the period grew 12.4% to QAR5.6bn, reflecting the robustness of our diverse revenue streams. QIB's total assets stood at QAR192.3bn, marking a 4.9% year-on-year increase, while customer deposits grew 5% to hit QAR122.7bn.

These strong financial results, and the fact that the bank's cost-to-income ratio is the best in Qatar, reflect our ability to innovate and grow, despite global and local challenges, positioning us to support Qatar's economic development in the years to come.

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

Our long term strategy centres around further developing our digital banking infrastructure and transforming QIB into a fully data-driven organisation. This includes a strong focus on customer personalisation and data-centric decision making.

QIB's new strategy also prioritises ESG integration. We are committed to driving financial inclusion and promoting sustainable practices across all operations. By embedding ESG principles into our business model, we are not only meeting our customers' evolving expectations but also aligning with Qatar's national sustainability goals.

Collaboration with FinTech companies and other partners will be another pillar of our strategy. We will continue to integrate cutting-edge financial solutions into our offerings, ensuring that our customers have access to innovative, user-friendly services that meet their financial needs and contribute to their overall experience.

Can you expand on how the bank is addressing sustainability and environmental, social and governance issues?

At QIB, sustainability and ESG are not just add-ons to our business but core components of our overall strategy. We are committed to integrating environmental, social and governance principles into

every aspect of our operations, aligning with both global trends and Qatar's national sustainability objectives.

One of our key initiatives is the launch of our Carbon Emission Tracker, developed in collaboration with Visa and a German FinTech.

This innovative tool empowers our customers to track their carbon footprints, based on their spending habits. As awareness around sustainable practices grows in the region, the Carbon Emission Tracker aligns perfectly with our mission to lead in responsible banking. It also reinforces our commitment to Qatar's national sustainability goals, demonstrating how the banking sector can actively contribute to environmental stewardship.

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

Digital transformation is fundamentally reshaping the banking landscape in Qatar, and QIB is at the forefront of this evolution. We have developed a suite of digital solutions tailored to the diverse needs of our clients.

One of our standout innovations is the launch of a dedicated app for low income earners, a segment that has historically faced challenges in accessing traditional banking services. This app enables users to perform essential banking activities such as international transfers and payments, directly addressing the needs of migrant workers. We've seen a remarkable increase in international transfers and an astounding 493% growth in direct corridors supporting transactions with key countries.

Our digital-first approach is aligned with Qatar's broader financial inclusion goals, ensuring that underserved communities can access secure and efficient financial services.

Our focus on technology-driven innovation extends to the entire banking ecosystem, with personalised digital platforms for various customer segments. By leveraging data, FinTech collaborations and cutting-edge technology, QIB is transforming how banking is experienced in Qatar. ●



“We are committed to driving financial inclusion and promoting sustainable practices across all operations”

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SHEIKH ABDULRAHMAN BIN FAHAD BIN FAISAL AL THANI

GROUP CHIEF EXECUTIVE OFFICER, DOHA BANK

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

In the next few years, the Qatari economy is expected to undergo significant transformation and growth, driven by a strategic shift towards diversification and sustainability. While the country's vast natural gas reserves will continue to play a crucial role, the focus is increasingly on developing sectors such as clean energy, tourism, sports, and technology.

The implementation of Qatar National Vision 2030, the Third National Development Strategy, Digital Agenda 2030, and the Third Financial Sector Strategy will be pivotal in steering the country's transformation. Implementing these national programmes will also help build economic resilience, talent development and digital innovation.

What impact do you expect global economic trends to have on Qatar's banking sector?

The rapidly changing economic landscape significantly impacts various industries, including banking. After a brief period of high interest rates, we now expect interest rates to reduce slightly. This rate revision directly impacts Qatar's banking sector, as lower interest rates will reduce borrowing costs and potentially increase credit growth.

The global demand for clean energy also supports Qatar, as the country is

the third largest exporter of liquefied natural gas. Strong LNG exports and fiscal stability help maintain liquidity and financial strength.

Additionally, the banking sector's ongoing digital transformation and alignment with global regulatory standards will allow it to remain competitive and resilient. Qatar's strategic investments in FinTech and sustainable finance could also open up new growth opportunities, even amid global economic uncertainties.

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

In the last quarter of 2023, Doha Bank embarked on a large-scale transformation programme. Though we are still in its early phase, the dedication and commitment of our workforce are reflected in our first half 2024 results.

Our net profit has increased by 10.3% to QAR432m (\$118m), the second highest increase in the Qatar banking industry. Our asset growth so far this year is 4.6%, the highest amongst our peers. Our capital adequacy stands at 19.7%, well above the regulatory threshold.

In March 2024, Doha Bank issued a four times oversubscribed \$500m international bond, which reflected investors' confidence in the bank's financial health and future direction.

What are the bank's strategic priorities over the next three to five years, and how does it plan to achieve them?

With the new leadership team, Doha Bank has articulated a new strategy for 2024-28. To execute this strategy, we have set up a transformation office managed by one of the world's top consulting firms.

We have also adopted a highly rigorous approach to executing our strategic transformation programme, which includes over 80 high-impact initiatives across 10 dimensions.

Our transformation programme is focused on our core business; stability and sustainability; and digital and IT. Focusing on stability will help us build resilience. Strengthening the core business is vital to ensuring the bank's finan-

cial health. Accelerating digital innovation will help us stay relevant in the future. These transformation principles will help us become a progressive bank that keeps innovation and customer experience at the heart of its culture.

How is the bank addressing sustainability and ESG, and what role do these play in its strategy?

ESG is a critical theme in our strategy. Though we have been practising ESG for over a decade, last year, we accelerated our efforts and added ESG as one of the core strategic guiding principles.

Doha Bank sets itself apart by creating a comprehensive ESG framework that spans all business units and takes into account all stakeholders in the ecosystem.

In the initial phase, we aim to assess environmental and social risks across our portfolio by embedding environmental and social criteria into our credit process. Subsequently, we plan to establish a robust ESG and climate risk management framework to help us identify, evaluate and mitigate climate-related risks and opportunities.

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

Digitalisation has been one of the top priorities for banks across the globe. The banks in Qatar are also keeping their focus on digital transformation. Over the last few years, we have witnessed financial inclusion and rapid growth in digital payments, enabled by emerging technologies, the FinTech sector and robust regulations.

Doha Bank has also been one of the agile players that proactively developed digital solutions for its customers. We will continue to embrace digital innovation by adopting emerging trends and technologies like artificial intelligence, with the aim of providing customer-centric solutions. ●



“The banking sector's digital transformation and alignment with global regulatory standards will allow it to remain competitive and resilient”





QATAR LNG EXPANSION TO FUEL GLOBAL TRANSITION

Photo courtesy of Alamy

Energy is integral to Qatar. Oil was its past and LNG is its future. The country's lower carbon natural gas will be a crucial transition fuel for the world's efforts to abandon coal and oil. But Qatar is also set to become a solar powerhouse, as it brings its considerable financial firepower to roll out new renewables

Qatar famously shares the world's largest natural gas deposit — North Field — with Iran. That endowment helped make Qatar — at one stage — the world's largest natural gas exporter. As the US and Australia have ramped up capacity over the last decade, Qatar has fallen to third. But it is unlikely to stay there. The country has begun a colossal phased increase of its production capacity. ING analysts say the phased increase will take Qatar's export capacity from 105 billion cubic metres to 193bcm by 2030 — an increase of more than 80%.

If this goes as planned, Qatar could be the second largest supplier of liquefied natural gas by 2030 — accounting for close to 25% of global supply. "The oil and gas sector is poised for transformational growth," says Abdulrahman bin Fahad bin Faisal Al Thani, chief executive officer of Doha Bank.

Over the very long term, Qatar faces carbon transition risk. The country is heavily reliant on polluting fossil fuels in a world that is increasingly filled with carbon taxes and other efforts designed to cut emissions. But in this new world LNG becomes more important — not less.

When Qatar first discovered its natu-

ral gas fields in the early 1970s, there was disappointment that the deposits were not crude oil. The authorities dragged their heels on developing the gas field, feeling that it was unlikely to be worthwhile. Fast forward 50 years and LNG is uniquely placed to act as a transition fuel for the world.

Estimates are that electricity produced from LNG has 30% lower emissions than that produced from crude oil and 45% lower than electricity produced in coal-fired plants.

Most of western Europe is well advanced in its efforts to phase out coal. But the twin giants of China and India are not. Over 50% of India's installed electricity generation capacity is coal-based. In 2023, almost 60% of China's electricity supply came from coal.

Europe, meanwhile, needs a replacement for the Russian natural gas it no longer wants to rely on. In late 2023, Qatar signed 27 year agreements to supply gas to Shell in the Netherlands and TotalEnergies in France — the largest and longest deals Qatar has signed with Europe.

Qatar may not be the world's largest supplier of LNG, but it is the lowest cost producer.

It is also making major efforts to

make its LNG production as low emission as possible. It has exported cargoes of certified net zero or carbon-neutral LNG, and buyers have been prepared to pay a premium.

There are different definitions and auditing processes for low carbon LNG — and there are critics of the very idea of calling LNG low-carbon. But in a world where lowering emissions wherever possible is a priority, Qatar's ability to compete on price and emissions is an asset.

PETROCHEMICALS POWER

The growth of Qatar's oil and gas production has given birth to a thriving petrochemicals sector. BMI analysts point to the significant competitive advantage it enjoys because of Qatar's low production costs for oil and gas.

The main constraint on how successful Qatar can be at growing its petrochemicals sector, they say, is the lack of diversity in its product range. It is heavily oriented towards high volume, low value ethylene-based products and fertiliser.

BMI analysts say the country has significant potential for new cracker facilities and opportunities to develop exports across the full value chain.

Qatar is well aware of its potential and

"The oil and gas sector is poised for transformational growth"

—Abdulrahman bin Fahad bin Faisal Al Thani, CEO, Doha Bank

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"As the world shifts toward sustainable energy solutions, we expect significant advancements in this sector in Qatar"

—Bassel Gamal, chief executive of QIB

is expanding its capacity rapidly. It is a major producer of naphtha, having signed major supply agreements with Japanese, South Korean and Indian firms.

QatarEnergy and Chevron Phillips Chemical are building a new \$6bn production complex — the Ras Laffan Petrochemical Project. This will house the largest ethane cracker in the Middle East and one of the largest in the world. Ethane by-products are used in a wide range of products from plastics to pharmaceuticals. High density polyethylene derivative units will produce polyethylene for export and use in producing hard plastics.

Qatar's cutting edge science institutes are using the country's natural resources to develop new solutions for sectors with hard-to-abate emissions, like aviation. Qatar Airways is sponsoring research into sustainable aviation fuel. It aims to use SAF for 10% of its combined fuel volume by 2030, and recently signed a deal with Shell to source 3,000 metric tonnes of neat SAF for its flights at Amsterdam.

BLUE OR GREEN?

Major projects have broken ground in other areas. QatarEnergy Renewable Solutions and Qatar Fertiliser Co (QAFCO), both affiliates of QatarEnergy, are building the world's largest blue ammonia facility — the Ammonia-7 project.

Almost 190m tonnes of fossil fuel-based ammonia are used each year — the great majority of it to produce fertiliser. Estimates are that this 'grey' ammonia accounts for around 2% of the world's CO2 emissions.

To remedy this, all the world's ammonia production needs to become clean. Blue ammonia — produced from fossil sources with almost complete carbon capture and permanent storage (CCS) — is one solution.

Green ammonia — produced by electrolysis powered entirely by renewables — would be even cleaner. But the problem is price — blue ammonia is going to be far cheaper than green.

Its cost makes demand far stronger for blue ammonia than green, across a range of use cases.

One of them is as a shipping fuel. A recent EU-funded study by consultancy DNV estimates that the shipping industry's demand for clean ammonia will soar from 2.3m tonnes a year in 2030 to 62m in 2040 and 245m in 2050. Of that, DNV thinks over 75% will be blue ammonia. If it is right, Qatar is positioning itself to become a leading producer of the global maritime fuel of choice.

CCS is not a straightforward endeavour, but Qatar is one of the few countries with the finances, incentives and state-directed coordination to make it work.

The country has a carbon capture roadmap, and wants to store over 11m tonnes of CO2 a year by 2035. New CCS plants under construction will capture emissions from Qatar's LNG trains and compress it for injection into already available wells.

RENEWABLES RAMP UP

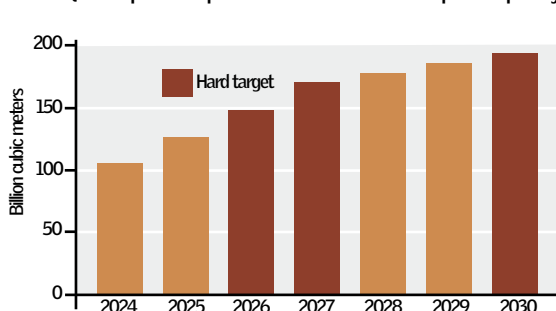
Qatar's oil and gas deposits can help it provide the world with a valuable transition fuel — LNG — and potentially cutting edge fuels of the future like blue ammonia.

But gas, although a cleaner fossil fuel than coal and oil, will not help the country achieve its carbon emissions reduction targets, says Carole Nakhle, founder and CEO of advisory firm Crystol Energy. "It is difficult for a country which sits on massive and cheap natural gas resources to look for alternatives," she says. "That said, given the wealth that Qatar has accumulated as a result of its gas trade, that small but very rich country can easily afford to invest in green energy to achieve its climate ambitions — a privilege that not many countries have."

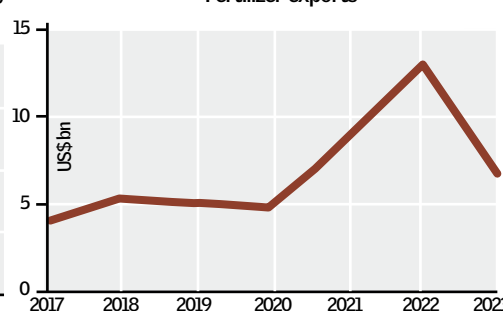
Recognising the need to pursue non-fossil fuel-based energy, Qatar has developed a National Renewable Energy Strategy.

Al Thani at Doha Bank frames the

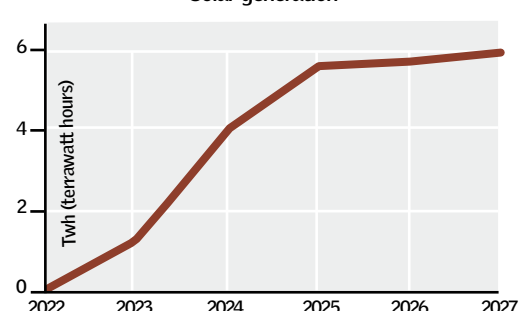
Qatar's planned phased increase in LNG export capacity



Fertilizer exports



Solar generation



strategy as aiming to increase the use of renewable electricity, alongside low cost natural gas-fired electricity generation, to improve the quality of life for present and future generations. There is an explicit target to increase utility-scale integrated renewable power generation to 4GW by 2030.

“As the world shifts toward sustainable energy solutions, we expect significant advancements in this sector in Qatar,” says Bassel Gamal, chief executive of QIB. “The focus on renewable energy sources is becoming increasingly critical, driven by both global trends and national objectives. QIB is committed to investing in sustainable energy projects, providing financial support for initiatives that align with our environmental goals and contribute to a greener future for the region.”

SOLAR DAWN

When it comes to actually rolling out renewable power, Qatar has perhaps been slower than some of its neighbours like the United Arab Emirates and Saudi Arabia. But the pace at which Qatar adds green energy to the grid is accelerating. BMI analysts expect solar to account for 60% of the total net growth in Qatar’s electricity generating capacity between 2023 and 2033.

Competitive tenders for large projects with defined land area and a reliable grid connection make projects straightforward for developers. Qatar has succeeded in attracting extremely competitive bids and strong interest from a wide range of developers — local and international — that further drives down costs.

Besides grid-scale generation, the country has kicked off multiple solar power projects including solar-powered desalination and manufacturing facilities. “Qatar has really speeded up,” says Robin Mills, CEO at advisory firm Qamar Energy. “There’s been significant acceleration on the solar power side.”

Qatar has also shown savvy restraint when it comes to some of the newer and less proven technologies. Saudi Arabia, the UAE and Oman are all vigorously pursuing green hydrogen.

But there are serious questions over to what extent green hydrogen can be produced at prices low enough to justify the various use cases — from an alternative fuel in power plants to a home heating solution. Various European countries have been scaling back their green hydrogen plans, as the true complexity and cost become clear.

“[Qatar] has been a lot more limited in its ambi-



Sheikh Mohammed bin Abdulrahman bin Jassim Al-Thani, Prime Minister and Minister of Foreign Affairs of Qatar, addresses the United Nations Sustainable Development Forum in September 2023

tions, but you could also say more focussed,” says Mills. This includes making its LNG as low carbon as possible, using it to create blue hydrogen and blue ammonia through carbon capture and tapping its enormous solar potential.

“Qatar has a few clear areas where they are quite decisive about where they think they have an advantage,” he says. “That’s the advantage of being a smaller country, they don’t have to do everything.” ●

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Debt restructurings get more rational, but private lenders are still groping in the dark

One of the bright spots in 2024 has been progress on sovereign debt restructuring — Zambia, Ukraine and Ghana have restructured their debts. But while the market has made great strides in refining a complex and often fractious process, concerns remain, particularly over the vital issue of comparability of treatment

By George Collard

The sharp rise in interest rates since 2022 has put the debt positions of many emerging market sovereigns under pressure. A few defaults followed, although there was not the wave some had predicted.

Ghana completed a restructuring this month and Sri Lanka came close to a conclusion, following successful deals for Ukraine over the summer and Zambia earlier in the year. Negotiations took a long time, particularly in Zambia, where they lasted over three years.

“We have a healthier asset class now,” says Kaan Nazli, senior economist and EM debt portfolio manager at Neuberger Berman in London. “Looking at some sovereigns, there was an assumption early in 2024 that if we had another year like 2022 then they were in line for a restructuring.”

There are still sovereigns in default, including Lebanon, Ethiopia and Venezuela, the last of which has tens of billions of dollars of Eurobonds.

“What we hopefully see is another wave of negotiations in places which are still in default,” says Marten Bressel, EM fixed income portfolio manager at FIM Partners in London. “It’s unlikely we’ll see another wave of sovereigns going into default.”

Positives in recent restructurings have been

a wider role for the International Monetary Fund, a degree of consensus between traditional and new investors and the development of variable rate instruments to bridge gaps.

But there are still headaches — particularly over transparency and the comparability of treatment of different creditor classes. And in every process there are always disagreements that are difficult to predict.

COMMON FRAMEWORK STARTS TO WORK

The G20’s Common Framework for Debt Treatments, set up in 2020 to speed up debt restructurings, has come under fire because of the still long time restructurings under it are taking, epitomised by Zambia’s three and a half year struggle.

A principal problem has been reconciling ‘traditional’ EM lenders, such as Western nations and private creditors, with new faces, especially creditors from China. The latter have pushed back on many of the conventions of debt restructurings.

In Zambia’s negotiations, Chinese creditors proposed that multilateral lenders like the IMF take haircuts on their debt. This was never going to happen and it delayed the process by months.

But what the Framework has done is bring together creditors, such as the Paris Club and those in China, who had had very

little, if any, experience of carrying out debt talks together.

“From the point of view of taking steps towards solving the problem of dealing with a new and bigger creditor base in a large set of negotiations, the Common Framework has worked,” says Bressel. “More open communication has taken place and creditors have come to the table in a more efficient manner.”

There has been a clear learning process, says Théo Maret, an associate at debt advisory firm Global Sovereign Advisory in Paris — and not just in Common Framework deals.

The Common Framework is only for nations eligible for the World Bank-IMF’s Debt Service Suspension Initiative, something Sri Lanka did not qualify for.

“There was also learning across the Common Framework and non-Common Framework restructurings,” says Maret. “It went back and forth between Zambia and Sri Lanka, for example, even if there are differences between the two cases.”

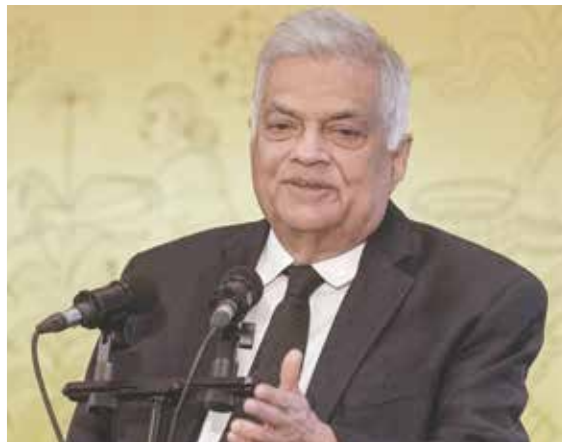
Another encouraging development from the restructurings has been the changing role of the IMF, which has always been involved, but not in the same way as now.

“The IMF and the official sector now play a big role in restructurings,” says Nazli. “They have always played a part, but

“*The IMF has lowered the bar for financing assurances before providing a programme. It’s a result of the increased trust that the IMF and the West have that China is playing ball*”

—Théo Maret, associate at Global Sovereign Advisory

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Siezing the momentum

Ghana's finance minister Dr Mohammed Amin Adam in September at a press briefing detailing Ghana's successful Eurobond exchange. Sri Lanka is in late stage negotiations for a restructuring — Sri Lanka's finance minister Ranil Wickremesinghe announced the agreement with bilateral creditors in June



The jury is out [on variable rate instruments].

Some are critical, believing they are too harsh on sovereigns, and there's been criticism too that investors are leaving too much on the table"

—Kaan Nazli, senior economist and EM debt portfolio manager at Neuberger Berman

at times for investors it felt like they were in the room but not physically."

One of the changes is the IMF's willingness to lend to a country before or during a debt restructuring, rather than waiting until after. IMF money has been a crucial factor in allowing many EM governments to avoid default since 2022, or in helping those in default muddle through while they restructure.

"IMF involvement before programmes are approved is a major improvement," says Maret. "The IMF has lowered the bar for financing assurances before providing a programme. It's a result of the increased trust that the IMF and the West have that China is playing ball. Things will take time and there will be hiccups, but China will not try and escape restructurings."

The IMF's role has caused some friction. In Zambia, for example, bondholders disagreed on the IMF's economic assumptions for the country, which contributed to the long process.

But that is where a third success comes in — the use of variable rate instruments.

VRIS — VARIED REPUTATION IN THE MARKET

VRIs are not a new concept but including them — or not — in debt restructuring packages has been a big theme in recent talks. Zambia, Sri Lanka and Ukraine used them but Ghana did not.

VRIs, or state-contingent instruments, are bonds or loans whose terms can change, depending on triggers being hit, usually reflecting the economic condition of the borrower.

The triggers are varied. Zambia's instruments are based on the country's assessed debt carrying capacity and the value of its dollar exports and revenues.

In Sri Lanka, they are linked to GDP growth, and in Suriname, which restructured in 2023, they were based on oil royalties.

"The jury is out," says Nazli. "Some are critical, believing they are too harsh on sovereigns, and there's been criticism too that

investors are leaving too much on the table."

Another criticism from bondholders is how to price these notes, when they do not know if and when any triggers will be hit.

With Zambia there was a sense that VRIs were the only way to reach a deal. In Ghana's case, investors wanted them but the government did not, and they did not end up in the restructuring.

"Things are getting more nuanced and more complicated in terms of pricing, but it was the only way to get these restructurings done," says Nazli.

Maret agrees, saying there was an acceptance that VRIs were the only option when there were clear disagreements between parties, like in Zambia. "But in grey areas like Ghana and Sri Lanka, where investors argue the IMF is too pessimistic in growth or foreign exchange assumptions, it's unclear they're always the right solution."

VRIs can be complex — investors have says particularly so in Sri Lanka. But for some, VRIs are helpful.

"You can question their complexity and how they are set up, but for investors like me, we now have instruments that allow you to assess risk in a much more efficient way," says Bressel at FIM. "You have very specific risk factors you can access via these instruments, and this creation of almost a new market has partially been a function of the Common Framework."

COMPARABLE WITH WHAT?

EM bond investors are confident there will be no sovereign defaults in 2025, barring major external shocks. The successes of 2024 leave a small group of countries in default, including Ethiopia, Lebanon and Venezuela.

Debt specialists hope that the struggles of the last few years, especially in Zambia, mean future restructurings will be a lot smoother and quicker.

But one concept is still a conundrum: comparability of treatment. The idea that

no creditor should get favourable treatment is a core tenet of debt restructurings and the Common Framework.

Few argue against it as a principle. But bondholders face a problem of transparency that makes it hard for them to come up with agreements acceptable to official creditors.

"The lack of clarity on comparability is a problem," says Maret. "Bondholders cannot do anything because they do not know whether a deal will be comparable, and this is where I am less optimistic."

Official creditors get the first go at agreeing terms with a borrower, but they do not publish the terms of their deals. Private creditors, which includes bondholders, go next, but they do not have a clear idea of what they need to do to make their own agreement comparable to that of official creditors. They also, on top of that, have to satisfy the IMF's debt sustainability parameters.

This problem reared its head in Zambia, when the IMF and official creditors rejected the first bondholder agreement. Fixing things with the IMF did not take long, but it took months to come up with a new deal to satisfy official creditors.

"One point markets are questioning is the one-sided nature of talks," says Bressel. "For example, the assessment of comparability of treatment sits with official creditors, to the extent that their deal parameters are not publicised."

Some development experts, such as Hung Tran, senior fellow at the Atlantic Council's GeoEconomics Centre, have called for restructuring talks to include official and private creditors at the same time, or even in the same meetings.

WEIRD AND WOEFUL

While those involved in every debt restructuring can learn from past or concurrent processes, there are limitations.

Every country and situation has its own peculiarities. Ghana, for example, restructured its domestic debt, while Zambia did not. There was pressure in Ghana and Sri Lanka to get a deal done quickly because of elections, which would have complicated matters.

The problem of the idiosyncratic details of debt restructurings will go on, says Maret.

"For example, a Chinese policy bank may waive the event of default to provide more disbursement, and call it emergency funding, which should then not be restructured," he says. "But the Paris Club might insist on it being included."

Every restructuring has dozens of such "weird" technical matters, says Maret. "They can take months to be negotiated and are hard to anticipate." **GM**



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AGENDA

What's happening Friday, October 25

10.00am – 10.45am

Knowledge Café: **Bridging the Gender Divide in Infrastructure**

Location: MC Front Lobby

11.00am – 12.30pm

Growing Stronger: **An Urgent Call to Improve Child Nutrition**

Location: MC 2-800

11.30am – 1.00pm

Insuring Resilience, Covering Climate Change

Location: MC C2-350

11.30am – 12.30pm

Toronto Centre Executive Panel: **The Rise of AI: Transforming Financial Markets and Supervision**

Speakers: **John Rwangombwa**, Governor, National Bank of Rwanda; **Fundi Tshazibana**, Deputy Governor and CEO, Prudential Authority, South African Reserve Bank, Vice Chair, NGFS; **Stefan Ingves**, Chair Toronto Centre, former Governor Sveriges Riksbank; **Jonathan Dixon**, Secretary General, International Association of Insurance Supervisors; **Jennifer Elliott**, Advisor, Monetary and Capital Markets, IMF, Board Member Toronto Centre

Location: Cedar Hall HQ1-1-660

11.30am – 12.15pm

Knowledge Café: **Foreign Direct Investment: New Evidence on Future Directions**

Location: MC Front Lobby

12.00am – 1.00pm

Accelerating Progress by Working Together

Location: MC 13-301

1.00pm – 1.45pm

Knowledge Café: **Reforming Energy Subsidies: Challenge & Opportunities**

Location: MC Front Lobby

1.30pm – 2.00pm

Governor Talks: **South Africa: Monetary Policy After Covid**

Speaker: **Lesetja Kganyago**, Governor of the South African Reserve Bank Moderator: **Abebe Aemro Selassie**, Director of the African Department

Location: Cedar Hall HQ1-1-660

1.45pm – 2.45pm

Seminar: **Monetary Policy in a Shock Prone World**

Speakers: **Gita Gopinath**, First Deputy Managing Director, International Monetary Fund; **Rosanna Costa**, Governor, Central Bank of Chile; **Ricardo Reis**, A.W. Phillips Professor of Economics at the London School of Economics; **François Villeroy de Galhau**, Governor of the Banque de France; **Julia Chatterley**, Anchor and correspondent, CNN International

Location: HQ1 Atrium HQ1-1-700

3.00pm – 4.00pm

Creating Jobs and Boosting Growth: Delivering on the Marrakech Call for Action

Location: Meeting Halls A&B HQ1-3-430A&B

Down Time



Qatari Banks Reception
by Qatar Central Bank
October 25, 2024 – Washington DC, USA

6.00pm – 9.00pm

Reception:

Qatari Banks Joint Reception

With H.E. The Governor of Qatar Central Bank; H.E. The Minister of Finance of the State of Qatar; H.E. The Ambassador of the State of Qatar to the United States of America; Chairpersons of the Board of Directors, Management of the Participating Qatari Banks and the Qatar Financial Centre Authority

Location: Waldorf Astoria

7.30pm – 9.30pm

Reception:

Kuwaiti Banks Reception 2024

with His Excellency Basel Ahmad Al-Haroon, Governor of Central Bank of Kuwait

Location: Conrad Washington DC Grand Ballroom

Panama slashes budget

Continued from back page

meant the government would continue to take out bank loans, Chapman said: “not necessarily”. “It’s dynamic,” he said. “Our plan is to combine all sources of funding, and decipher the best terms, conditions and cost.”

FISCAL TIGHTENING

EM bond analysts told *GlobalMarkets* they believed the government had wanted to keep a pledge not to return to the international bond market in 2024. But they think Panama is likely to refinance the JP Morgan loan with a bond next year.

Chapman said it would be refinanced “in due time”, and that his goal was to “achieve better terms and conditions and a lower cost as time goes by”, helped by better fiscal policy taking effect.

“Panama taking a loan from JP Morgan was a surprise, and is expensive funding, but it is prepayable if they tap the [bond] market,” said Nathalie Marshik, a sovereign credit analyst at HSBC in New York. “It can be an incentive for the government to do the fiscal work, to negotiate with the Assembly to achieve the budget it wants and see its bond spreads fall. It is in the interest of the government to refinance this loan quickly.”

When Chapman took office he inherited a budget plan of \$36bn, which he

called “completely unachievable”. The new government’s adjusted budget is \$26.8bn, which he said was “more realistic in terms of revenues, expenses and fiscal balance”.

“It’s a very powerful message that we’re sending the people of Panama and global markets,” he said.

Fitch downgraded Panama in March after it had suffered one of the largest increases in debt-to-GDP and interest-to-revenues among its peers since 2019.

*“It is in the interest of the government to refinance this loan quickly”
—Nathalie Marshik*

This was then exacerbated by the closure of Cobre Panama, the country’s largest mine, in November 2023 after the Panamanian Supreme Court declared its contract unconstitutional.

Chapman said that what happened with First Quantum, the Canadian firm that operated the mine, was “extremely unfortunate” and the responsibility of both the previous government and the company. But he said the economic impact was a “one time event”.

Rajan: even-handed IMF is crucial

Continued from back page

said. “I want to leave it as a question. I don’t know that will be true.”

Unsurprisingly, Rajan fears the Fund’s Western bias could become even more pronounced under a second Donald Trump presidency: “He would try to use it, as far as I understand from past behaviour, as an organ of the United States. In the previous [Trump presidency] there were some ways in which the US representative could be persuaded that this is not the right thing.”

He said of the Trump camp: “They’re more determined to get their agenda, and the agenda is America First.”

Even without Trump, rising geopolitical tensions meant the chances of the Fund adopting a less partisan stance were “pretty much zero”, Rajan said. But he argued even-handedness was more important than ever, particularly given the need for authoritative inde-

pendent voices on trade disputes.

“What you have to see is the need for international institutions as the hostility between the large groups increases,” he said. “We need an honest broker as the fractures increase. The need for an impartial IMF will increase, but myopic politics will ensure it doesn’t happen. In the longer run, it makes the IMF much less effective.”

He said “I’m not holding my breath” on any major changes to the vote shares of China and India in the IMF’s next review. But he said an increase was clearly justified. Yet this could eventually lead to much more divided Fund governance, as in the UN.

“Rather than go dysfunctional, I would want to see more technocracy,” he said. “The politics enters at the board level, for sure, but the loan-by-loan decision is by management.”

THE final word

A new global resilience mechanism is needed to give developing countries repayment flexibility

By Sebastian Espinosa

In the coming years, developing countries will need to increase borrowing to finance the investments required by the looming climate crisis and the Sustainable Development Goals.

The global financial system needs to prepare — and adapt — for this necessary increase in public debt.

A framework of sorts exists for dealing with sovereign debt distress, but the international financial community must change the way developing countries borrow in the first place, to make debt distress less likely.

It is especially urgent for lower rated countries with high borrowing costs.

OPPOSITE INTERESTS

Sovereign debt crises can have multiple origins. More often than not, lax fiscal policy and excessive borrowing over years are the root of the problem, especially when growth flags and the country loses market access.

But sometimes exogenous shocks — a sudden deterioration in terms of trade, a slowdown in a major trading partner, sustained exchange rate depreciation or a natural disaster — can tip a borrower into payment difficulty.

This is the paradox at the heart of sovereign debt financing. A sovereign's payment capacity is almost never fixed, whereas the repayment terms of its debts invariably are.

Calls for flexible repayment terms that adapt to a sovereign's evolving capacity are nothing new. In recent years there has been growing interest in 'counter-cyclical' debt — GDP-linked bonds, or instruments with debt service varying according to prices for a country's main exports.

The idea is simple: to give borrowers temporary buffers against unexpected deteriorations in payment capacity, while encouraging them to repay more quickly when times are good.

A move towards counter-cyclical financing is already under way in the form of 'pause clauses' — contractual terms that allow debt service deferrals if a sovereign borrower is struck by a predefined natural disaster.

Such proposals face difficulties, not least how to ensure that the variable chosen really does track the sovereign's payment capacity.

However, the biggest obstacle such proposals



The GFRM would not be a lender or a development finance institution, but an intermediary and shock absorber"

have failed to overcome is that they run counter to what bond investors typically want. Unlike equity investors accustomed to providing buffers in a corporate balance sheet, debt providers are used to knowing precisely when they will get their money back.

SQUARING THE CIRCLE

One way to bridge this gap between the kind of debts developing countries need and those investors want to provide would be to create a new Global Financial Resilience Mechanism.

The GFRM would not be a lender or a development finance institution, but an intermediary and shock absorber.

Countries would have the option of issuing bonds via the GFRM, which in essence would be a passthrough structure. The sovereign would remain the borrower and investors would still be exposed to its credit risk.

In simplified terms, borrowers would accelerate repayments to the GFRM when their repayment capacity was strong, and reduce them when it was weak — all based on predefined parameters. Meanwhile, the GFRM would ensure investors received a fixed repayment stream.

The triggers for changes to repayment schedules would vary by country, but follow set templates for the sake of simplicity. Calibration points could include GDP growth, receipts from specific goods or services exports or climatic shocks.

Symmetry in the form of accelerated repayment when payment capacity is strong would be the *quid pro quo* for reduced payments when it is con-

strained, supporting responsible debt management by the sovereign.

To bolster financial resilience and further reduce risk, amortising structures would be prioritised throughout, rather than bullets.

To act as a shock absorber, the GFRM would build up a liquidity pool. Some of this could be prefunded by donors, but the rest would come from accelerated repayments from those countries experiencing enhanced payments capacity. If needed, the GFRM could top up by issuing its own bonds from time to time, using a preferred creditor status to obtain low pricing.

Just as the GFRM would not provide any form of credit enhancement or guarantee to bondholders, it would also not be a mechanism for debt relief or restructuring.

There will be several ways to deal with a debt instrument that benefits from GFRM support which becomes distressed and needs to be restructured, and the pros and cons of each can be considered further down the line.

FLEXIBILITY CAN TAKE VARIOUS FORMS

The primary purpose of the GFRM would be to strengthen the financial resilience of developing countries by making bond financing more adaptable to their evolving payment capacity. It could also be used to provide repayment flexibility on debts owed to official lenders.

A further step would be to remove predetermined triggers. There is no reason why a sovereign borrower cannot retain some choice as to how fast it repays, so long as there are clear drop-dead dates for final payments.

This could bridge another gap: that investors like bullet bonds, while amortising ones are better for countries that want to avoid large repayment spikes.

Later and separately, the GFRM could open up new possibilities for pooling borrowing and credit risk, helping small states whose scale of debt often means they have to overpay.

The GFRM will not consign sovereign debt distress to the past. But by recognising the fact that sovereign payment capacity is dynamic rather than fixed, it could make it less frequent. **GM**

J Sebastian Espinosa is managing director at White Oak Advisory.

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IMF must be reformed to prevent Western bias, Rajan argues

By Dominic O'Neill

The International Monetary Fund is increasingly at risk of being pressured to tilt resources to countries favoured by the West, warned Raghuram Rajan, former governor of the Reserve Bank of India, in an interview with *GlobalMarkets*.

Rajan, also a former IMF chief economist and now a professor at the University of Chicago, said funding needs in crisis-hit countries could be growing.

But he said the difficulty United Nations organisations have faced in responding to the crisis in the Middle East, because of the UN's veto system, showed that the IMF needed to move to a more professionalised executive leadership for day-to-day decisions, which would not be at the mercy of political influence.

A supervisory board would remain political and set general rules.

"I think we should learn from [the



Rajan: world needs an 'honest broker'

Middle East] that the worst thing we can do is emasculate existing organisations," he said. "There's more of a chance of that [at the IMF] as we get more protectionist, and as budget constraints bind more. Would the US be very happy if an organisation made decisions which looked a lot more China-friendly, and put the organisation's capital to work to help China's

neighbours and friends? Obviously not. But the Western alliance basically believes that the rest of the world should be happy when it does this."

The US, Europe and their allies have disproportionate influence over the IMF because their quota shares, which determine voting power, have not fallen as their share of global GDP has declined. The US has 16.5% of the votes and European Union countries 29.4%, while China has only 6.4% and India 2.75%.

WEST IS SHORT OF CASH

The risk of bias is getting worse, according to Rajan, because Western countries no longer have enough money to supplement IMF resources with their bilateral lending, as they did in the past, when friendly countries were in trouble — as in the 1994 Mexican debt crisis.

Rajan said: "I think there is a danger that [the Fund] would be increasingly used by the large shareholders to solve

the international problems that most concern them and not necessarily the international problems that are most important."

He pointed to the quota system, which is supposed to determine how much lending an individual country can get. "It's funny how it's waived in some cases and not in others," he said. "There's a potential for bias. Who do I want to help? I want to help the country which is more sympathetic to me: maybe it's a neighbour, maybe it's fighting my enemy. The IMF increasingly has to pick sides."

Apart from Ukraine, Rajan noted that Egypt, Pakistan and Argentina were all among the Fund's biggest borrowers. "I think that if it hadn't been that these countries were a little more sympathetic to the board, perhaps the IMF would have had stronger conditionality," he

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Panama's 'good problem' — too many credit offers

By Oliver West

Panama has turned to JP Morgan for a \$1bn three year loan, which its finance minister said was symptomatic of "a good problem to have" — it has more offers of credit on good terms than it needs.

It is highly unusual for Latin American governments to use commercial bank loans like this, except when they have nowhere else to turn. But that is not Panama's case.

The country took the loan last week to help finance its

budget needs, paying 150bp over the six month Secured overnight financing rate (Sofr). The New York Fed quotes the 180 day Sofr average as 5.3%, suggesting an initial all-in cost of around 6.8%. This is higher than the yield its three year bonds are trading at — 5.38%, according to MarketAxess.

The difference is caused by the steep inversion at the short end of the dollar yield curve, as the market is pricing in rate cuts. The loan has an upfront fee of 50bp and an arrange-

ment fee of 1%.

Bond market specialists interpreted Panama's move as meaning the government did not want to raise its global bond funding costs by issuing more paper.

Felipe Chapman, who took office in July after conservative José Raúl Mulino became president, told *GlobalMarkets*: "We are receiving more offers of credit than we need, and on much better terms and conditions than when we initiated this administration."

He outlined the govern-

ment's main financing tools as the global bond market, domestic bonds and commercial bank loans.

In February, Panama issued its most expensive international bond since 2009 — on both a spread and all-in yield basis. A month later, Fitch spoiled its full house of investment grade ratings by downgrading it from BBB- to BB+, citing "fiscal and governance challenges".

Still, the minister said Panama had received "a lot" of offers from commercial



Felipe Chapman: will refinance loan 'in due time'

banks, including immediately after it signed the JP Morgan facility.

Pushed on whether this

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