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Leaders in Middle East Banking and Finance

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Worst. Policy. Ever. Ten days from risk of Trump trade war

By George Collard, Francesca Young, Oliver West, Dominic O'Neill, Steve Gilmore

Less than two weeks before the US chooses its next president, one candidate has made protectionism his standard, vowing to slap arbitrary and punitive tariffs on all kinds of trade, especially with countries he sees as rivals. Donald Trump has ratcheted

up his hostile rhetoric on trade in the last few weeks. Based on his speeches, if he leads a second administration it would impose a 10% tariff on all US imports and 60% on all Chinese goods — unleashing a trade war. He has mooted tariffs as high as 200% on some Mexican goods. The policies run counter to



Donald Trump: vowing tariffs on friend and foe

decades of economic orthodoxy and international diplomacy and treaties to promote freer

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Financial regulation at risk of fragmenting as US deviates from Basel

By Dominic O'Neill

Financial regulators speaking to *GlobalMarkets* fear that the US authorities' climbdown in September on strengthening the Basel bank capital rules is ushering in a new era of international competition in financial regulation, undoing years of cooperation to harmonise rules and create a global level playing field.

Authorities in the US, but also in Europe and elsewhere, should be watchful of this trend, said Michael Hsu, acting Comptroller of the Currency — who heads one of the three US banking agencies, alongside the Federal Reserve and the Federal Deposit Insurance Corp.

"There should be a level playing field, absolutely," he told *GlobalMarkets*. But the risk of regulatory competition is now growing, Hsu

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China refuses tough medicine to revive economy, goes for more stimulus

By Steve Gilmore

China's policymakers are not prepared to take the difficult steps necessary to fix fundamental issues facing the country's ailing economy, according to senior economic analysts gathered in Washington.

Investors are going to be "disappointed" if they expect Chinese

authorities to abandon their focus on investment-led growth and rely more on domestic consumption, Haibin Zhu, chief China economist at JP Morgan, told *GlobalMarkets*.

But many economists say this will be the only way for China to avoid a painful and highly disruptive economic transition. The Chi-

nese Communist Party has overseen decades of stellar economic performance, but the model on which it is based is now fundamentally broken, they argue.

An all-consuming focus on supercharging investment and constraining domestic consumption

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Xi Jinping: leads a country headed for slowdown



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Success is a journey

China struggles to change economic gear

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has resulted in ballooning debt, rampant inequality and now an economic slowdown.

All eyes are on the housing sector, where chronic oversupply has sent prices tumbling and real estate developer debt is estimated at around Rmb60tr (\$8.4tr) — almost 50% of 2022 GDP, according to Swiss Re. “Domestic demand, consumption, housing — they continue to be the weak links,” Zhu said.

China-focused research firm Rhodium Group believes that without “significant fiscal reform” household consumption would contribute only 1.5 percentage points of GDP growth a year, limiting long term GDP growth to around 3%.

Logan Wright, a partner at Rhodium, said recently China’s share of the global economy had probably peaked. Its share of global GDP was 16.9% in 2023 — down from a historic high of 18.3% in 2021. The stock market has fallen 30% over the same period.

Government data released on Tuesday showed the Chinese economy grew at an annual rate of 4.6% in the third quarter — below trend and a sign that eco-

nomics momentum remained weak, according to Zhu.

The authorities have deployed a range of stimulus measures — including lower interest rates, mortgage rates and reserve requirements — although the exact size of the stimulus remains unclear.

STIMULUS PACKAGES

Zhu said JP Morgan’s expectations for Chinese stimulus this year were for a Rmb1tr (\$140bn) package aimed mainly at mitigating risks around local government debt, and an additional Rmb1tr for bank recapitalisation. “In the next two or three years we are thinking probably every year Rmb2tr of ultra-long treasury bonds that can be used for general purposes.”

The concern is that none of these measures addresses the fundamental issue of weak household consumption and a dependence on investment, which remains a dead weight on the entire economy. “The underlying issue for me is that you still see disposable income dragging,” said Alicia García Herrero, chief economist for Asia Pacific at Natixis, at the Institute



Haibin Zhu: domestic demand spending and housing are weak links

of International Finance conference in Washington.

Chinese finance minister Lan Fo’an has touched on boosting consumption in his statements outlining government stimulus plans. But Zhu said his comments betrayed the old reliance on investment as a driver.

“If you listen to the finance minister, he mentioned several directions on how to support consumption — number one was supporting income growth, which I totally agree with,” Zhu told *GlobalMarkets*. “But then he elaborated that in supporting income growth, [China] needs to support new investment projects and that can create new jobs. So it’s a very different [way of] thinking.”

Regulation fragmenting

Continued from page 1

thinks, because the memories of the 2008 financial crisis are fading — and events around the collapse of Silicon Valley Bank (SVB) last year have “already been forgotten”.

“We need to be careful,” Hsu said. “Sometimes competition can be used as a euphemism or as a tool to deregulate, and that then is not competition amongst private entities — that’s competition amongst regulatory jurisdictions to loosen regulation.”

US regulators attempted to beef up bank capital requirements last year in the wake of SVB, as part of the finalisation of the Basel III regulations, dubbed the Basel endgame.

Basel III is the version of the Basel Committee on Banking Supervision’s global accords introduced after the 2008 crisis.

But US regulators last year came up against a torrent of industry opposition. Lobbyists embarked on a publicity campaign that targeted people way beyond the banking sector.

In September, Michael Barr, the Fed’s deputy chair for financial supervision, said key parts of the proposed changes — including charges for operational, real estate and markets risk — would be either watered down or removed altogether, and smaller banks also be subject to less stringent requirements.

Although the Fed had previously

been accused of gold-plating the Basel requirements, regulators in the European Union and the UK have not seen its change of course as equalising things. They have delayed their own implementation of Basel III so that their banks are not put at a disadvantage to US firms.

BREAKING RANKS

Mario Centeno, governor of the Bank of Portugal, compared various economic blocs which are implementing Basel to a line of rugby players, which need to advance together.

He told *GlobalMarkets*: “The worst thing for me will not be that we are not moving fast enough, but if we are dismantling things that we already achieved.”

Global improvement and convergence of banking standards has been the Basel Committee’s goal since it was founded in 1974.

But Fernando Restoy, chair of the Basel Financial Stability Institute at the Bank for International Settlements and a former Bank of Spain deputy governor, told *GlobalMarkets* that delays were unwelcome — even if the Basel Committee had not seen any fundamental departures from the standards yet.

Basel III had been vital in helping the financial sector cope with shocks such as Covid-19, Restoy said. But he acknowledged that: “The political environment today is not the most comfortable for international standard-setting bodies.”



Michael Hsu: memories of 2008 financial crisis are fading

It is not just regulators that want level standards across countries — some banks want them too. In the context of efforts to harmonise European regulation, Bettina Orlopp, chief executive of Commerzbank, said a single regulatory market for banking services was crucial. Harmonising national deposit protection schemes would create cross-border financing opportunities to “really move liquidity and capital wherever there are growth areas across Europe,” she said. “You can’t do that at the moment.”

With the EU increasingly focused on finding ways to bolster its competitiveness including in financial services, many fear another Donald Trump-led US administration could ditch existing Basel implementation plans entirely and start all over again — which could add another three years

on to the process, according to a financial services lawyer in Washington.

Europe would then have to decide how to respond, said Tim Adams, president of the Institute for International Finance.

The most likely scenario is that a Trump administration would simply ignore the issue, according to Adams. He said it would raise questions about the wider Basel process of international regulatory cooperation if the biggest member was “wilfully and decidedly not compliant”.

Adams said the fact that regulators were still putting in place rules to prevent the next 2008 raised the question of whether it was needed at all. “We just had a variety of shocks in which the system performed admirably well,” he said, while arguing SVB was an idiosyncratic case. “I think that the risk of a financial crisis is infinitesimally small. We have plenty of capital and plenty of liquidity.”

In an interview with *GlobalMarkets*, Tobias Adrian, financial counsellor at the International Monetary Fund, insisted that fully phasing in the minimum Basel III standards remained vital. “When you see some major members of the Basel Committee which have not implemented the framework, you do have concerns that the international standard-setting process might be undermined,” he said. “Undermining this common commitment would risk unravelling bank stability globally.”

Additional reporting by Steve Gilmore

Economists quake at danger of Trump tariffs for inflation and cooperation

Continued from page 1

trade. Experts in Washington this week for the Annual Meetings of the World Bank and International Monetary Fund continually raised the alarm about the danger this one-sided attitude to trade poses to economies — including that of the US — and to multilateralism itself.

“We have to look outwards, not inwards,” said Felipe Chapman, finance minister of Panama, at the Atlantic Council on Tuesday. “I’m most worried about going back 100 years in protectionism. That is a wrong decision. It produced big wars in the past and has been the trigger of economic crises. There is plenty of history to illustrate that it’s the wrong path.”

Institutions like the World Trade Organization have kept the world safe for a long time, said JP Morgan chief executive Jamie Dimon at the annual Institute of International Finance meetings on Thursday.

Economists warn that tariffs will force up prices. “In a scenario where trade tariffs are imposed everywhere, it will entail a more inflationary environment and a global economy that will grow less,” Fernanda Guardado, chief Latin America economist at BNP Paribas, told *GlobalMarkets*. “That would also be true for the US, which will probably suffer from the outset of such a scenario.”

Assuming new revenue from universal tariffs is recycled into the US economy then inflation could rise by 100bp, said Paul Ashworth, chief North America economist at Capital Economics. Another economist said even tariffs of 30% on Chinese goods, half the 60% Trump has threatened, could add 200bp-300bp to US inflation.

The sharp rise in interest rates in the past two and a half years has succeeded in getting inflation back to, or close to, central bank targets. But fresh inflation, triggering a slowing or pausing of the rate cutting cycle, or even a return to rate rises, would cause economic pain.

TRADE BLOW

But the danger goes well beyond inflation. Trade is the most relevant outcome of the US election, said Guardado. Trump wants to impose huge barriers and even if his opponent Kamala Harris does not bring in any new tariffs, she is unlikely to wind down those in place.

China would likely retaliate with its own tariffs.

“Tariffs on both sides will reduce output, so you will have lower growth, and increased inflation,” Robert Holzmann, the governor of Austria’s central bank, told *GlobalMarkets* in Washington. “It will happen in the concerned countries [the US and China] and worldwide because we’re an integrated global economy. How large the effect will be seen, but certainly it will be non-negligible and hurt us, both in the US and Europe.”

There is huge uncertainty over which countries Trump would target more than others — besides China — and which goods might bear the biggest

brunt, said Ashworth.

Mexico is in the firing line — somewhat surprisingly. Despite drawing Trump’s ire before the 2016 election, Mexico avoided tariffs in his first administration after it vowed tighter controls on its border with the US.

But this time, Trump has promised multiple, huge tariffs on Mexican goods. They include a 200% tariff on agricultural equipment maker John Deere’s products if it moves production to Mexico and a 100% tariff on cars imported from Mexico — later ramped up to 200%.

This may all be pre-election bluster. Trump is known for talking big and changing his mind.

But such action could deal Mexico a harsh blow. For every 10% decline in vehicle exports Mexico’s GDP could drop 0.6%, according to Capital Economics, alongside a sharp fall in the peso.

But Trump’s sabre-rattling against

the Mexican car industry might not be a major risk, thought one Mexican investment banker.

“The reality is that the industry is so intertwined between the two countries that it’s not a realistic proposal,” he said. “Talk to auto parts manufacturers in Monterrey: a gearbox alone crosses the Mexico-US border 30 times while it’s being made. It’s not as simple as bringing the car industry from Mexico to the US. And I don’t think Trump will even push for that — the big car makers would put up huge opposition.”

EUROPE MUDDLE

For Europe, a win for Trump in November would accelerate the structural shifts it is already struggling with: protectionism, reduced exports to the US and China and the need to spend more on defence, said Andrew Kenningham, chief Europe economist at Capital Economics.

Fitch warned on Thursday a second Trump presidency would cause “significant” trade disruption with the EU. Universal tariffs might have a modest initial impact but they would hit growth that was already weak.

Europe would suffer under universal tariffs, although Kenningham thought the region could avoid them in return for concessions, similar to how Mexico evaded them in the first Trump administration.

But if the US decides to prioritise its own interests more decidedly, the EU is likely to do the same.

One finance minister said Europe faced a big problem: it had focused far too much on competitiveness within the EU bloc rather than on what large external trading partners were doing.

“We forgot that there’s a world outside of Europe which is completely different,” Klemen Boštjančič,

the finance minister of Slovenia, told *GlobalMarkets* in Washington on Thursday. “So now the Chinese and the US are doing things which are different to us.”

Only in the last year has the question of the EU’s competitiveness in the global economy become an important issue, he said.

“The problem is that the Chinese and US can make decisions faster and more of us are becoming aware this is an issue,” said Boštjančič. “This will have to change. It is a key issue of the EU, where even France and Germany support change. We need a strong coordinative body within the EU to be able to make decisions.”

The continent needs to stop complaining about the US and China and focus on making itself competitive again, he argued. An example was the European car industry, said Boštjančič, something he called the pillar of European trade.

“Our hybrid vehicles that still run on petroleum are advanced compared to China, which is not the case with electric vehicles,” he said. “But because we were so focused on the green transition, we’ve been subsidising EVs. So for years we’ve been indirectly subsidising Chinese producers and Chinese industry.”

MULTILATERALISM UNDER FIRE

More fundamentally, Trump’s America First agenda undermines international cooperation.

This year’s IMF and World Bank Annual Meetings coincide with the 80th anniversary of the Bretton Woods conference which gave rise to the institutions, and a monetary management system that has endured ever since.

Other multilateral organisations have since followed, including the United Nations in 1945 and WTO in the 1990s.

“These are critical institutions,” said JP Morgan’s Dimon. “But now you have people that want to change that. They are autocratic nations and they want to change [the system].”

Russia hosted a BRICS summit this week, promoting an alternative to the institutions set up by Western powers in the 1940s.

A particularly pessimistic view came from Evan Medeiros of Georgetown University’s School of Foreign Service, who said the relationship between the US and China was only going to get worse over time.

This fracturing in the global architecture, symbolised by the BRICS summit and policies like tariffs, are a threat to the economic prosperity of all nations.

“Globalisation, and pushing for more, has helped the global economy,” said Retšelisitsoe Matlanyane, minister of finance and development planning for Lesotho, at the Brookings Institute on Thursday in Washington. “Policies that are pro-multilateralism will do a great deal of good for the world economy. Be it tariffs or in the financial space, we have to be able to integrate more.”



Klemen Boštjančič: EU needs faster decision making



Retšelisitsoe Matlanyane: multilateralism is good for world economy

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GlobalCapital

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GLOBALMARKETS IS A PUBLICATION
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EC4Y 8AX, UK
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PRINTED BY

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2 | LEADERS IN MIDDLE EAST BANKING & FINANCE ARAB BANK



ARAB BANK STRATEGY EXPANDS FRONTIERS

In a fast-changing market, Arab Bank has long demonstrated an ability to navigate difficult market conditions, while ensuring consistent growth in balance sheet and profitability.

An established presence across the Middle East and North Africa — coupled with a strong international network — gives the bank a competitive edge and a platform for expansion.

Strategic planning and prudent risk management have kept Arab Bank on a solid growth trajectory, despite wider market uncertainty. Diversified revenue streams and cost optimisation initiatives exemplify Arab Bank's responsive business model.

Over the past three years, Arab Bank has achieved a compound annual growth rate (CAGR) of 62% in net profits after tax, which reached \$829m in 2023. Net operating profit over the same period grew at a CAGR of 28% to reach \$1.8bn.

Building on this impressive growth, the bank reported strong financial results for the first half of 2024, reflecting its robust asset base and strong capitalisation.

Net income after tax was up 25% to \$503m. Net operating profit grew by 11%, driven by core banking activities and controlled operating expenses. The bank has a solid capital adequacy ratio of 17.5% and a strong common equity tier one ratio of 15.1%.

In its corporate lending, Arab Bank is taking advantage of concerted efforts towards economic diversification across the region. "This has resulted in a significant growth momentum in many non-oil sectors across several countries, especially in the GCC," says Randa Sadik, the bank's CEO. "We have seen varying levels of growth in several sectors, including renewable energy, real estate, construction, transportation, technology and infrastructure projects, in addition to a steady growth in trade finance triggered by increased trade volumes within the region and beyond."

In the thriving retail space, segmentation and

customer lifecycle management are at the heart of Arab Bank's strategy. "This approach is executed through customised offerings for salaried, professional and self-employed customers, catering to a wide range of the working population," says Sadik. "As over 70% of the MENA region has internet access, digitisation is also an important driver of our retail banking strategy."

Sadik notes that Arab Bank is also witnessing an increase in demand for financial planning and wealth management solutions, across several markets in the region.

"This is opening up new opportunities to deepen our relationship and increase share-of-wallet in this key customer category," she says. "We offer our exclusive programme for high net worth individuals, supported by our wealth management and private banking value propositions."

GROWING THE ECOSYSTEM

Digitisation is not just a feature of Arab Bank's retail offering, but is fundamental to its broader operations. Arab Bank was among the first MENA banks to pursue partnerships with the burgeoning FinTech landscape, accelerating innovation and integrating FinTech solutions into its platforms and systems.

The bank established a FinTech accelerator programme, ABX, back in 2018, and has invested in around 20 start-ups across MENA and beyond. ABX has also engaged with over 25 high growth potential start-ups on pilots and proofs of concept.

Most recently, Arab Bank launched its new banking-as-a-service platform — Omnify — in the United Arab Emirates and Jordan. This provides FinTechs with the opportunity to scale up their innovative solutions in their respective markets with the backing of Arab Bank. "As we enter the era of generative AI, we can see a new level of collaboration with the FinTech community developing cutting edge solutions," she says.

The bank's approach to sustainability and environmental, social and governance (ESG)



"We have seen varying levels of growth in several sectors, in addition to a steady growth in trade finance triggered by increased trade volumes within the region and beyond"

—Chief Executive Officer, Randa Sadik

issues is a holistic one. Arab Bank works to embed sustainability and responsible banking practices into every facet of its operations. "Sustainable finance is an important focus area for us," says Sadik. "Our customers and stakeholders increasingly expect us to finance projects and initiatives that help improve society and the environment."

In 2022, the bank developed and launched a comprehensive Sustainable Finance Framework that lays the groundwork for Arab Bank to issue financial instruments such as green, social and sustainable bonds.

Arab Bank's ESG goals include growing its sustainable finance activities, committing to projects aligned with the UN Sustainable Development Goals, reducing its environmental footprint and improving gender equality and empowerment. Sadik highlights the bank's commitment to ensuring transparency in both measuring and reporting its progress in the space.

Delivering positive ESG impacts for all stakeholders and leveraging digital innovation to deliver superior customer experience are key to the Arab Bank strategy. The bank will continue to build on its position as a leading local and regional bank, using its well-established network to expand into new markets and create new business opportunities for success. ●

KEY COMPANY DATA

First half of 2024

- Total assets: \$68.7bn
- Net profit: \$502.8m
- Capital adequacy ratio: 17.5%
- Loan to deposit ratio: 75.4%





QNB'S BRAND SHINES BRIGHT

Alynchpin of Qatar's robust economic growth, QNB is playing a pivotal role in supporting major infrastructure projects in the country. But its strength extends across the whole Middle East and beyond.

A network spanning more than two dozen countries on three continents allows the firm to bring its full-service offering to developed and emerging markets alike.

Underpinning QNB's goal to cement itself as one of the leading banks in the Middle East and Africa (MEA) is a three-pronged approach.

The first component is a strong focus on QNB's core operation as an international wholesale bank. "This means further uplifting our wholesale capabilities by enhancing our value propositions as a solution-led firm," says Abdulla Mubarak Al-Khalifa, QNB's global CEO.

Competition is fierce, but QNB has a winning strategy and stellar profile in its favour. Al-Khalifa points to the firm's strong credit ratings, brand value and relationships across an international network.

QNB is one of the highest-rated banks in the Middle East and Africa, boasting A+ ratings from Standard & Poor's and Fitch. Moody's rates it even higher at Aa3. All three agencies cite QNB's flagship status, profitability and asset quality.

In 2023, QNB Group posted net profit of \$4.3bn, an increase of 8% over the previous year. Operating income was up 11% to \$10.7bn. The impressive results ensured QNB remains the largest bank in MEA and with a market cap of \$42bn one of the world's top 50 banks.

COST CONTROL

A vital factor in the bank's excellent financials is its strategic focus on cost efficiency. QNB Group has been able to maintain a market-leading cost-to-income ratio of 20%. In addition, its capital adequacy ratio remains comfortably high at 19.8%, well above both the Qatar Central Bank and Basel III requirements.

"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," says Al-Khalifa. "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."

An international market offering huge growth potential for the bank is the Kingdom of Saudi Arabia. QNB also sees significant opportunity

for growth in its 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," says Al-Khalifa.

In its home market, QNB is helping drive the engine of economic growth. The multi-billion dollar North Field natural gas expansion project is a major opportunity for QNB 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," says Al-Khalifa.

EMBRACING NEW TECHNOLOGY

The second element of QNB's overarching strategy is leveraging innovation as a strategic enabler capitalising on developments such as open banking, platforms, data and analytics, artificial intelligence, digitisation and automation.

Changes in regulatory landscape, customer behaviour and the entry of new FinTech competitors are increasingly challenging the ways of operating in the traditional banking sector. This brings technological disruption, financial disintermediation but also opportunities for banks like QNB at the cutting edge of digital development.

The bank is exploring FinTech opportunities across a range of business segments from payments and digital wallets to solutions that provide further automation, integrate AI 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," says Al-Khalifa. "This improves efficiency and accelerates decision-making in a more customer-centric manner across our processes end-to-end."



"We are able to leverage our relationships as a full-service financial institution across a range of hard-to-access frontier and emerging markets."

**—Abdulla Mubarak Al-Khalifa,
QNB Group CEO**

The last but by no means least element of QNB's strategy is embedding sustainability across its business and operating model to deliver positive impact across ESG-related topics.

Banks play an important role in contributing to financial stability and economic growth. As the largest financial institution in MEA, QNB recognises the positive influence its operations can have on the environment, society and governance.

"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," says Al-Khalifa. "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." ●

KEY COMPANY DATA First half of 2024

- Total assets: \$346bn
- Net profit: \$2.2bn
- Capital adequacy ratio: 19.2%
- Loan to deposit ratio: 98.7%



NBK: CREATING NEW GROWTH OPPORTUNITIES

In a highly competitive Middle East market, National Bank of Kuwait distinguishes itself through a multi-faceted strategy that underscores its resilience, visionary approach and the strength of its brand.

A well-crafted diversification strategy has allowed the Group to navigate adverse market conditions, mitigate risks and seize new growth opportunities. With a robust presence across four continents, NBK's extensive business portfolio allows it to capitalise on regional and global opportunities.

As the only banking group in Kuwait offering both conventional and Sharia-compliant banking services, NBK has a clear competitive edge in its home market.

This strategic edge not only diversifies the bank's revenue streams but positions it to tap into a growing and dynamic Islamic finance market.

NBK has made concerted efforts to expand the reach of its Islamic arm — Boubyan Bank — beyond Kuwait's borders. "This is part of a broader strategy to build a global Islamic banking network and position Boubyan as a premier source of Sharia finance worldwide," says Isam Al-Sager, NBK's vice-chairman and group CEO.

CUTTING-EDGE SKILLS

Across the broader corporate banking group, there is also an unwavering commitment to extending NBK's market leadership.

This manifests itself in deepening relationships with existing clients, while also seeking out new business opportunities — ensuring that NBK retains its top tier clients and continually expands its customer base.

Exceptional customer service, combined with a robust capital base, plays a critical role in attracting new clients who seek reliability, trust, and tailored financial solutions.

By diversifying across different customer segments and geographies, NBK has effectively mitigated risk, while capturing growth opportunities in various markets.

"This diversification is not just a defensive strategy but a proactive one, enabling the bank to maintain a balanced exposure profile, even in volatile market conditions," says Al-Sager.

"Growth across different customer segments — from large corporates to SMEs — demonstrates NBK's adaptability and its ability to meet the evolving needs of its clients."

At the heart of NBK's long term success is its unwavering commitment to investing in human capital, recognising it as a driver of sustainable growth and innovation. By focusing on nurturing younger talent, NBK aims to build a pipeline of future leaders equipped with the expertise and vision to navigate an evolving financial landscape.

Skill initiatives like the NBK Academy and the NBK Tech Academy underscore the Group's focus on cultivating a skilled workforce that drives innovation and maintains its competitive edge.

WEYAY LEADS THE WAY

NBK's steadfast commitment to advancing its strategic agenda is also reflected in technology investments. The bank excels at digital innovation, consistently delivering transformative banking experiences that align with the evolving needs of its customers. The launch of Weyay, Kuwait's first digital bank, exemplifies NBK's pioneering spirit in setting new standards for the banking industry by offering seamless and innovative banking solutions.

Similarly, Boubyan Bank's launch of Nomo, a digital Islamic bank, is an innovative approach to meeting the evolving needs of modern consumers, who require technological convenience in concert with Sharia compliance. Nomo leverages advanced digital technologies to provide a seamless banking experience, enabling customers to manage their finances according to Islamic principles on a user-friendly digital platform.

A GREEN VISION

NBK's strong brand reputation is



"Growth across different customer segments — from large corporates to SMEs — demonstrates NBK's adaptability and its ability to meet the evolving needs of its clients"

—Isam Jasem Al-Sager, Vice-Chairman and Group CEO, NBK

further demonstrated by its efforts to support clients in transitioning to greener business practices. "The bank collaborates closely with its customers, offering tailored financial solutions and advisory services that facilitate the shift towards sustainable operations," says Al-Sager. "This commitment not only aligns with the global emphasis on sustainability but also reinforces NBK's standing as a responsible and forward-looking financial institution."

The Group has made environmental, social and governance principles the cornerstone of its operations and lending philosophy, weaving these elements seamlessly into its overarching business strategy.

This commitment, crystallised in the Group's 2023 ESG strategy, is built upon several interrelated pillars, across governance, responsible banking, building on capabilities and helping local communities.

This reinforces NBK's dedication to supporting its customer base while driving sustainable growth and adapting to emerging challenges. In the coming years, NBK's priorities are firmly anchored in a visionary approach aimed at reinforcing its standing as the premier banking partner across all market segments, both within Kuwait and on the global stage.



KEY COMPANY DATA First half of 2024

- Total assets: \$122.9bn
- Net profit: \$954mn
- Capital adequacy ratio: 16.8%
- Loan to deposit ratio: 92.1%



CIB: A POWERHOUSE OF REGIONAL GROWTH

An unrivalled ability to grow its core business while tapping into new markets and pursuing new opportunities has solidified CIB's market-leading status. The Egyptian bank's dynamic business model and commitment to integrating leading technology across its operations have ensured a strategy that creates value for its customers, employees, shareholders and society.

"CIB has proven the strength and sustainability of its business model and flexible balance sheet by achieving yet another record year of success, while maintaining top-notch liquidity and solvency levels," says Islam Zekry, the group's chief financial officer.

All of CIB's main business segments have enjoyed significant growth so far this year. The firm's institutional banking loan book increased by 28% in the first half of 2024 to EGP253bn (\$5.2bn) and its institutional deposits grew by 19% to EGP293bn.

Stellar loan growth has not come at the expense of asset quality. On the contrary, the bank's non-performing loan ratio has declined to just over 4%.

The increase in loans and deposits was accompanied by impressive profits. CIB recorded net income of EGP27.5bn (\$570m) for the first half of 2024 — up 96% on the same period in 2023.

"CIB's financial performance, both historically and presently, is a proof of its sustained success and resilience in a dynamic financial landscape," says Zekry. "This success is further evidenced by the bank's ability to adapt to changing market conditions while maintaining strong performance."

Three main themes form the core of CIB's strategy: capitalising on the success of its corporate and liabilities franchises; growing and diversifying revenue streams to achieve sustainability and resilience; and becoming a digital leader in sales, customer service and operations.

CIB recognises that digital transformation is key to achieving business sustainability. Through integrating first class technology into its offerings, the bank strives to provide customers with a seamless and secure banking experience. It consistently prioritises the development of digital channels, data analytics, innovative solutions and customer satisfaction.

This in turn allows CIB to manage costs, ensure sales efficiency and offer distinctive

digital value propositions. Zekry says: "Placing customers' needs at the heart of the bank's products and services has significantly contributed towards CIB's digital transformation."

SUSTAINABLE SOLUTIONS

CIB also plays a leading role in the burgeoning sustainable finance market. It was the first Egyptian bank to issue a green bond programme, which funds a diverse range of green projects and has helped drive portfolio growth and green asset utilisation to over \$130m.

In partnership with the International Finance Corporation, CIB has signed a \$100m senior debt agreement for green financing. "This financing underlines CIB's steadfast commitment towards sustainable finance and is a significant milestone that will deliver comprehensive and innovative financial solutions to our clients," says Zekry. "This partnership enables CIB to offer sustainable solutions that will mitigate climate change, such as green buildings, resource efficiency, renewable energy and industrial energy efficiency."

The institutional pillars of CIB's approach to sustainable finance incorporate finance, governance, management, communication, education and innovation. A constantly evolving strategy allows the bank to offer innovative sustainable finance offerings, cultivate risk management, integrate environmental, social and governance practices across its operations and develop its disclosure practices. "CIB acknowledges its vital role in serving the environment and society," says Zekry, "and is committed to leading Egypt's transition towards a green and low carbon economy."

DRIVING TRADE

Long a market leader in Egypt, CIB is bringing its unrivalled strength across all facets of modern banking to new frontiers.



"CIB acknowledges its vital role in serving the environment and society and is committed to leading Egypt's transition towards a green and low carbon economy" —Islam Zekry, Chief Financial Officer, CIB

Its acquisition of CIB Kenya in 2022 was the first by an Egyptian bank in Sub-Saharan Africa. CIB Kenya's focus is on digital banking solutions and trade finance activities — helping drive the growing Egypt-Kenya trade corridor and supporting Egyptian small and medium-sized enterprises and large corporations in Eastern Africa.

CIB Kenya recently opened its seventh branch in Mombasa and underwent a comprehensive product revamp. The Kenyan operation has launched a variety of products to serve corporate banking and retail customers, to provide the Kenyan market with personalised financial solutions.

"These products underscore CIB Kenya's commitment towards creating a brand that offers exceptional value and a superior banking experience," says Zekry. "CIB Kenya aspires to become East Africa's digital and business hub, helping both countries benefit from regional integration efforts and becoming members in several trade agreements, such as the African Continental Free Trade Area." ●



KEY COMPANY DATA First half of 2024

- Total assets: \$21.9bn
- Net profit: \$576.3m
- Capital adequacy ratio: 26.2%
- Loan to deposit ratio: 38.7%

6 | LEADERS IN MIDDLE EAST BANKING & FINANCE KFH

بيت التمويل الكويتي
Kuwait Finance House



DIGITAL INNOVATION HELPS KFH HIT NEW HEIGHTS

A financial pioneer with a global presence and outstanding reputation, Kuwait Finance House has created a brand distinguished by credibility and trust. The firm is the largest listed company on the Boursa Kuwait — with a market capitalisation in excess of KD12bn (\$39bn) — and stands out as the most profitable of the nation's banks.

The group's impressive profits and solid financial position are in part down to its reach, which spans 640 branches across 12 countries, including Bahrain, Turkey, Saudi Arabia, Egypt, Germany and the UK.

In 2023, the net profit attributable to shareholders reached KD584.5m (\$1.9bn) — an increase of over 63% on the previous year and the highest across the entire Kuwaiti banking sector. For the first half of 2024, the group's profits reached KD 341.2m (\$1.1bn) — an increase of 2.3% compared with the same period in 2023.

Acting group CEO Abdulwahab Al-Rushood says KFH's strong performance across the various markets in which it operates provides a solid foundation for sustainable growth. "KFH's entities, particularly in Kuwait, Bahrain and Turkey, played a crucial role in boosting operating profit," he says.

The group's leadership in Islamic finance is another factor driving success. "KFH's expertise in Sharia-compliant banking has allowed it to capture significant market share over the years, tailoring Islamic financing products to continue attracting new customers in new markets," says Al-Rushood.

KFH has also ensured exemplary performance by managing the challenges of interest rate hikes, inflation and market volatility. A comprehensive approach to active oversight — centred on asset and liability management, hedging, capital adequacy and stress testing — has allowed the firm to weather all market conditions.

In recognition of KFH's financial strength,

market value and respected brand, the firm has received numerous prestigious global awards and maintained a top credit rating from global agencies. Forbes ranked KFH first in Kuwait and 10th in the whole Middle East region for market capitalisation and profitability in its Top 100 Listed Companies in 2024.

DIGITAL TRAILBLAZER

KFH's strategic priorities include making sure its core banking business maintains sustainable profitability, expanding its growing customer base and promoting a solid innovation and digital transformation strategy. The bank prides itself on maintaining excellence across its various digital services and platforms.

"KFH is a leader in offering innovative services and financial solutions," says Al-Rushood. "We are leveraging cutting edge technologies like robotics and artificial intelligence to streamline back office operations, and utilising big data analytics to make informed business decisions."

These advancements showcase KFH's commitment to harnessing frontier and emerging technologies for comprehensive digital transformation. The group has multiple initiatives to create new and improved digital channels.

This includes the creation of Tam Digital Bank, which KFH launched in October 2023 as the first Sharia-compliant digital bank in Kuwait.

Amid the surge of Islamic financial transactions across different markets, Al-Rushood anticipates a further globalisation of Sharia-compliant financial products. "This is a significant challenge that requires maintaining key

influencing factors such as operational efficiency, cost management, innovation, technology and cybersecurity, as well as social responsibility," he says.

ENVIRONMENTAL AWARENESS

Sustainability and environmental, social and governance considerations have become increasingly central to banks' oper-



“KFH's expertise in Sharia-compliant banking has allowed it to capture significant market share over the years”
—Abdulwahab AlRushood,
Acting Group CEO

ations and leadership strategies.

Al-Rushood notes KFH has embedded ESG factors into its core strategies and decision-making processes. This includes developing ESG policies and frameworks to guide the firm's operations and investments. KFH is also including ESG factors in its risk management frameworks, particularly related to climate risk and social responsibility.

"Banks are recognising the importance of sustainability and ESG, as both a responsibility and an opportunity to drive long term value and align with stakeholder expectations," Al-Rushood says. "KFH operates under Sharia principles, which are aligned with goals to develop more sustainable banking practices."

The group has participated in several United Nations Development Programme initiatives that have helped it align its strategy and investments across business lines with the UN Sustainable Development Goals. "We are financing initiatives that take carbon emissions mitigation into consideration," says Al-Rushood, "increasingly linking our investment plans with SDGs, and promoting initiatives to build awareness around environmental products, such as green sukuk." ●

SPONSORED REPORT

KEY COMPANY DATA First half of 2024

- Total assets: \$118.8bn
- Net profit: \$1.2bn
- Capital adequacy ratio: 171.5%
- Financing to deposit ratio: 97.25%





BOUBYAN BRINGS EXCELLENCE TO ISLAMIC FINANCE

A trailblazer when it comes to customer-centric innovation and digital excellence, Boubyan Bank has a new five-year plan, to ensure its position as a leading, full-fledged Islamic bank for high value individuals and companies.

Sharia-compliant finance has seen huge developments in recent years, from regulatory evolution and market expansion to product innovation and financial inclusion. There has never been more demand for banks like Boubyan that have the insight and expertise to provide diverse customer groups with cutting edge Islamic services and products.

“Countries like Saudi Arabia and Malaysia continue to strengthen Islamic finance laws and others like the UK have introduced specific regulations to support Islamic banking,” says Adel Al-Majed, Vice-Chairman and Group CEO of Boubyan Bank. “Sukuk issuance has grown substantially, driven by demand for Sharia-compliant investment options in the Middle East, Southeast Asia, and Africa. Sovereign and corporate sukuk have become popular financing tools, allowing governments and businesses to raise capital in a Sharia-compliant manner.”

Continuously evolving to meet new challenges and ambitions, Boubyan has already established a reputation for excellence in its provision of Sharia-compliant finance. A new strategy — Boubyan 2028 — aligns with the bank’s overall mission and will integrate environmental, social and governance considerations across its operations.

“Boubyan 2028 aims to grow and strengthen our local and international presence, diversify products and services, and explore new growth opportunities,” says Al-Majed. “We will continue scaling our core businesses, in addition to exploring strategic partnerships to ensure growth momentum.”

Execution of the bank’s strategy will result in continued customer centricity, with the aim of growing market share, innovating on existing and new business lines and creating significant value for shareholders. Boubyan is experiencing strong growth across all its business segments, but in the retail sector Al-Majed singles out the bank’s PRIME and Premium segments for special mention. PRIME is the youth segment, where

Boubyan is at the cutting edge of developing new products and services. “These efforts have yielded exemplary results,” says Al-Majed. “Today the bank holds a significant market share among the Kuwaiti youth. While maintaining this share year on year is in itself an enormous feat, the bank succeeds in overachieving its expectations by increasing growth every year.”

In the Premium market — affluent customers — growth has been just as impressive. Entering its third year of existence, the Premium segment is a perfect combination of Boubyan’s outstanding customer services, coupled with innovative, state-of-the-art Premium lounges that offer wealthy customers privacy and financial support.

SUPPORTING DIGITAL DEVELOPMENT

FinTech and digital technology are changing the Islamic finance landscape faster than ever, providing new avenues for ethical and Sharia-compliant investment. Faster services, growing product options and personalised services are widening the Islamic finance market.

Boubyan has taken a highly structured and active approach to engaging with local FinTech and start-up communities. “We have already launched multiple Hackathons, Accelerators, and innovation challenges, within the bank and externally,” says Al-Majed.

Boubyan is proud to have sponsored almost 80% of the FinTech applicants to the Central Bank of Kuwait’s Regulatory Sandbox. In addition, Boubyan has multiple ongoing engagements with FinTechs for strategic, implementation and operational advice and support.

Boubyan also provides a wide variety of financial services to FinTechs. In addition to the more traditional services, it continues to invest



“ Today the bank holds a significant market share among the Kuwaiti youth ”
—Adel Al-Majed, Vice-Chairman and Group CEO, Boubyan Bank

heavily to ensure it can provide new services like banking-as-a-service, BIN sponsorship, wallet acceptance and embedded banking.

More recently, Boubyan has started engaging with FinTechs and start-ups from a venture capital perspective, from very early to late stage investments. “Boubyan has made significant progress in this space,” says Al-Majed, “and will shortly be announcing key investments, focusing on strategic positioning in sectors that are critical for Boubyan’s core business and long-term vision.” ●



KEY COMPANY DATA First half of 2024

- Total assets: \$28.9bn
- Net profit: \$161.7m
- Capital adequacy ratio: 178%
- Loan to deposit ratio: 88%



CBQ SETTING INDUSTRY BENCHMARKS

Commercial Bank of Qatar has distinguished itself through a forward-thinking approach and a series of impressive, first-to-market innovations. When it comes to digital technology, CBQ acts and others follow.

The firm was the first lender in Qatar to launch a dedicated merchant app accepting mobile and QR code payments. It was the first to issue digitally signed statements and the first to offer augmented reality, which helps customers locate merchants with exclusive offers for CBQ cardholders.

“Commercial Bank is at the forefront of FinTech innovation and digitalisation, continuously evolving to meet the demands of an increasingly digital economy,” says Omran Al-Sherawi, head of assets and liability management.

Unsurprisingly for a firm dedicated to setting a benchmark for digital banking solutions, the CBQ Mobile App is ranked number one in the Middle East.

The platform combines a seamless and intuitive user experience with best-in-class security protocols, ensuring customer data is safeguarded in an evolving digital landscape. Peerless functionality such as 60-second cross-border remittances is revolutionising the speed and ease of international transactions.

The launch of CBQ’s digital wallet with tap-to-pay functionality has also enhanced customers’ payment experience. Whether making payments locally or internationally, customers enjoy faster, safer and more efficient transactions.

The CB Wallet also provides greater control over card usage and is designed to improve speed and security at point-of-sale transactions.

The focus on innovation extends throughout the bank’s corporate operations. A prime example is its recently updated corporate trade portal. This advanced platform streamlines and enhances the trade finance experience for businesses through greater efficiency and transparency in transactions.

“This portal represents a significant leap forward, especially since we are the first bank to incorporate Optical Character Recognition technology in Qatar,” says Al-Sherawi. CBQ has introduced new fields and artificial intelligence-

powered tools to improve client experience and reduce turnaround times.

A GREEN LEADER

CBQ is leading the way on sustainable finance as well. Its issuance of a debut green bond — a highly successful Swiss franc transaction — underscores its role as a responsible financial leader. The Sfr255m bond was the largest Swiss franc green deal from Qatar and the largest Swiss deal of any kind from the country for over a decade.

“Our issuance of a green bond underscores our role as a responsible financial leader, channelling capital towards environmentally friendly projects,” says Al-Sherawi.

This commitment is evident in CBQ’s A rating in MSCI’s ESG rating scale, testifying to its strong environmental, social and governance practices. “The bank places significant value on ESG and will be focussed on this theme across both the financing and client offering space,” says Al-Sherawi.

The firm’s mindset is to view challenges as opportunities to advance the Qatar National Vision 2030 and the UN Sustainable Development Goals. CBQ has launched a series of initiatives as part of its commitment to supporting Qatar’s National Strategy for the Environment and Climate Change.

They include a CB Green Mortgage Loan, which offers competitive rates and supports sustainable property investments. A CB Green Vehicle Loan promotes electric and hybrid cars. “In 2023, we financed QAR2m worth of electric vehicles and collaborated with BYD and Volvo to boost electric car adoption,” says Al-Sherawi. “Our operational efforts also include reducing our carbon footprint, with a 25% reduction in greenhouse gas emissions targeted by 2030.”

A LEAP FORWARD

Ultimately, the bank’s strategic priorities are



“Commercial Bank is at the forefront of FinTech innovation and digitalisation, continuously evolving to meet the demands of an increasingly digital economy”

—Omran Al-Sherawi, Head of Assets and Liability Management, CBQ

inspired by its Five Cs approach, which revolves around five themes: Corporate Earnings Quality, Client Experience, Creativity and Innovation, and Culture and Compliance.

CBQ has showcased its strong execution of an initial five year strategic plan elaborated in 2016, which resulted in excellent bottom line momentum and outstanding financial performance.

Impressive growth is evident across both corporate and retail segments. A dynamic card business provides a wide array of tailored promotions and exclusive benefits that resonate strongly with CBQ’s diverse clientele.

The firm’s wealth management division has seen a remarkable expansion. The bank provides highly personalised and bespoke financial solutions designed to meet the unique needs of its high net worth clients, and offers a dedicated team of experts.

Meanwhile, the Bank’s own diversified investment strategies and robust risk management practices have allowed it to combine growth and profitability with stability and reliability.

“Our focus is to build on this success to ensure sustainable growth,” says Sherawi, “while embracing the new innovations around digitisation, artificial intelligence and ESG to help our clients thrive.”●

KEY COMPANY DATA First half of 2024

- Total assets: \$44.2bn
- Net profit: \$432m
- Capital adequacy ratio: 172%



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What's happening Saturday, October 26



8.00am - 8.45am

Press Briefing: **African Finance Ministers**

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

9.00am - 10.00am

IMF-IAIS High-Level Panel: **Climate Change Protection Gaps and the Insurance Sector**

Opening remarks: **Gita Gopinath**, First Deputy Managing Director, IMF

Speakers: **Jonathan Dixon**, Secretary General, IAIS; **Andrew Mais**, President, the National Association of Insurance Commissioners; **Jérôme Jean Haegeli**, Group Chief Economist, Swiss Re Institute; **Fundi Tshazibana**, Deputy Governor, South African Reserve Bank

Closing remarks: **Shigeru Ariizumi**, Chair, Executive Committee, IAIS

Moderator: **Tobias Adrian**, Financial Counsellor and Director, Monetary and Capital Markets Department, IMF

Location: HQ1 Atrium HQ1-1-700

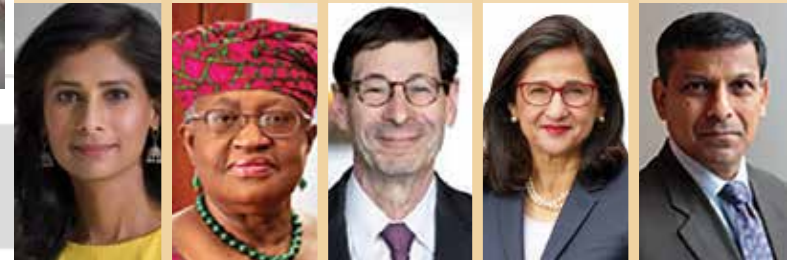
10.30am - 12.00pm

State of Africa Region: **2024:**

Education and Skills for Africa's Future

Location: Building: MC Global Hall

Don't Miss



11.30am - 1.00pm

Per Jacobsson Lecture

Opening remarks: **Gita Gopinath**, First Deputy Managing Director of the International Monetary Fund

Speakers: **Ngozi Okonjo-Iweala**, Director-General, World Trade Organization; **Maurice Obstfeld**, Senior Fellow at the Peterson Institute for International Economics; **Minouche Shafik**

Moderator: **Raghuram Rajan**, Katherine Dusak Miller Distinguished Service Professor of Finance at the University of Chicago's Booth School

Location: HQ1 Atrium HQ1-1-700



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LISTEN NOW

Poland eyes industrial dividend from defence ramp-up

By Francesca Young

Poland has its sights set on developing its military equipment manufacturing, in a move that could prove a boon for its economy. The country has the highest level of defence spending as a share of GDP in Nato, but finance minister Andrzej Domanski told *GlobalMarkets* how Poland was using a significant chunk of that cash to boost its own production of weapons.

“We will allocate over 50% of the money to purchase equipment but also to develop our own production capabilities,” said Domanski. “We also want these huge investments to create space for the use of innovative solutions in other sectors of the economy.”

Poland is the world’s second largest maker of batteries. It is becoming a destination for foreign direct investment in chip manufacturing and it is a European hub of electric vehicle manufacturing, and therefore of electric motors.

These components are also used in military drones. There is also a possibility of manufacturing Ukrainian missiles in Poland.

The European Investment Bank in May said it would waive a previous requirement that dual use projects eligible for financing of security and defence derive more than 50% of their expected revenues from civilian use.

The development bank also made EU companies whose activity is partly in defence eligible for financing using EIB-backed intermediated credit lines.

The measures are expected to speed up investment and improve access to a further €6bn of EIB Group financing for the European security and defence sector. Poland seems in a prime position to lap that up.

“We believe that strengthening the capacity of the European defence industry should be our main objective now,” said Domanski. “We could benefit here from the help provided by the



Andrzej Domanski: ‘strengthening the capacity of the European defence industry should be our main objective now’

European Investment Bank. This is not only about defending peace in Europe, but also about the competitiveness of our economy and jobs.”

He said he saw an opportunity to raise awareness of financing prospects and thus encourage private capital

investment in the defence sector.

In civilian technology, EV manufacturing may become a brighter spot for Poland’s economy after the European Commission said earlier this month that it had garnered enough support in an EU vote to impose tariffs of up to 45% on imports of Chinese-made electric vehicles. Poland was one of 10 member states that backed tariffs. Five including Germany voted against, with 12 abstentions. The majority believed Chinese state subsidies for EVs were unfair and supported tariffs to level the playing field for the European car industry.

Domanski was clear, though, that this was only part of the solution.

“We will be competitors,” he said. “And the outcome of this competition will depend not by how successful we are in containing or de-coupling each other, but by our ability to keep up with or even outperform China in areas that will matter most for our future.”

BRICS membership becomes a way to signal non-commitment

By Steve Gilmore

If the purpose of the BRICS group — originally Brazil, Russia, India, China and South Africa — is to amplify its members’ global influence, it may be having some effect. Looming geopolitical divisions are forcing countries to declare who their friends are, and the BRICS membership is growing.

At a more practical level, the group is still far short of a genuine political or economic bloc. The close of the latest BRICS summit in Kazan, Russia, this week marks 15 years of regular meetings — which have accomplished almost nothing.

The group’s New Development Bank disbursed only \$1.2bn of financing in 2022. A Contingent Reserve Arrangement to provide lending between members has achieved little.

With the addition of new members earlier this year — Egypt, Ethiopia, Iran and the United Arab Emirates — the collective membership looks more ill assorted than ever.

“Let’s not waste time talking about whether it’s a geopolitical bloc — if anything, the BRICS expansion makes it clear that it isn’t,” said Monica de Bolle, senior fellow at the Peterson Institute for International Economics. “On almost everything, the BRICS countries are not on the same page.”

What has changed, said de Bolle, is the political backdrop. Tension between China and Russia on one hand and the US and Europe on the other is ramping up.

Iran is increasing its military trade with both

China and Russia. The US confirmed in September that Iran had delivered close range ballistic missiles to Russia. On Monday, the US added six Chinese companies to its export blacklist for helping Iran develop weapons of mass destruction.

From this perspective, a core of BRICS members do share a common interest, said Richard Fontaine, CEO of the Centre for a New American Security thinktank. “They want an alternative payment mechanism because they want less sensitivity to US sanctions,” he said. “The Chinese are increasingly trying to have energy shipments come overland, not seaborne where they are vulnerable. These countries are defending themselves against what they see as Western domination, and they’re determined to do something.”

In this context, joining the BRICS denotes being friendly with China and Russia.

It is a step too far for some countries. Argentina has decided against joining, as has Saudi Arabia. Other states have opted to become ‘partner countries’.

On Wednesday, the group announced 13 new partners including Malaysia, Indonesia, Vietnam and Thailand. But that does not mean they have joined China’s camp.

At an IIF panel on geopolitics, Michèle Flournoy, co-founder of WestExec Advisors and a former US under-secretary of defence, referred to these countries as “swing states”. In Asia, nations like Vietnam and Malaysia have China as their primary trading partner and the US as their main security guarantor.



Vladimir Putin meets Iranian president Masoud Pezeshkian on the sidelines of the BRICS summit in Kazan

“These countries wake up every day and hope they don’t have to choose,” said Flournoy.

For these countries — several of which are wary of Chinese military power — BRICS membership is about signalling non-alignment.

“Where the BRICS have become more relevant is that the world is splitting into US-centric and China-centric,” says de Bolle. “Many of the countries in the global south are simply not interested in taking part in this [divide].”

But rising tensions between certain BRICS members and the West makes membership deeply problematic for genuinely non-aligned states like Brazil. “[President] Lula has been having an extremely difficult time in navigating membership,” said de Bolle.

President Luiz Inácio Lula da Silva is keen to strengthen Brazil’s relationships but — like many other leaders — he has no desire to be labelled China-dependent. The greater the threat of conflict, however, the harder this line will be for countries in the global south to walk.

Paraguay urges country's private sector to turn to global bonds

By Oliver West

Private sector banks in Paraguay should follow the government into international bond markets to take advantage of investor appetite for one of Latin America's few consistently improving credit stories, finance minister Carlos Fernández Valdovinos told *GlobalMarkets* this week.

This year was an important one for Paraguay in bond markets, as Moody's gave the country its first ever investment grade rating and the government issued its maiden international bond in the guarani currency.

But the minister believes the private sector is best positioned to take advantage of these developments. "We were already trading as investment grade before the upgrade, so the big winner should be and will be the private sector," said Fernández Valdovinos. "The private sector is still very underdeveloped in terms of looking at what projects they can finance offshore. The sovereign has shown the way, and the private sector has to take advantage."

Although Paraguay has issued at least once a year since its debut in international bond markets in January 2013, bank or corporate deals from Paraguayan

borrowers have been few and far between.

However, the investment grade rating, as well as having a local currency reference point after the government printed G3.643tr (\$500m) of seven year guarani paper in February, should help spur more, believes the minister.

"The first candidates should be the banks," said Fernández Valdovinos. "They are the natural first agent to go out in the market. After our New York law guarani deal, they could also issue local currency abroad. Then it would be [public-private partnership] projects."

Paraguay's bond issues have typically been extremely well received. The government rarely issues more than \$500m and benefits from scarcity value. The minister said he was confident private sector issuers would take advantage of residual demand from emerging market investment funds that cannot find the Paraguay sovereign paper they would like.

However, the government intends to keep coming back to the international bond market in both dollars and guarani, even if the deals are smaller than those from most of its LatAm peers.



Carlos Fernández Valdovinos: Paraguay strategy is to provide liquidity every year

"Our strategy is to commit to being present every year so there's liquidity," said Fernández Valdovinos. "We're conscious that we have to give liquidity to the guarani bonds, so we'll very probably carry out the same process [of issuing annually] as we did in the dollar market. I say very probably because obviously it depends on the interest rate."

Moody's upgraded Paraguay from Ba1 to Baa3 in July, citing "robust and sustained economic growth" and a belief that the economy was "more resilient to shocks".

MDBs slammed for climate loans to poor countries that emit little

By Phil Thornton

The World Bank and other multilateral lenders are being urged to change the way they lend to poor countries as research shows economies that contribute virtually nothing to climate change are taking on billions of dollars in debt to mitigate it.

A new study to be released next week but seen by *GlobalMarkets* shows that 63% of climate-related funding by multilateral development banks in 2022 went towards mitigation — measures to reduce the amount of greenhouse gases entering the atmosphere.

Yet the study by the Breakthrough Institute, an environmental research centre in Berkeley, California, found that low income countries with under \$1,145 of income a head contribute less than 0.5% of global emissions.

These countries, which are among the most vulnerable to climate change, facing severe consequences such as extreme weather, food insecurity and economic disruption, receive some finance to help them adapt to climate

change. But they are also taking on substantial debt to finance mitigation measures.

Vijaya Ramachandran, a lead researcher on the study, said the current allocation of climate finance risked pushing low income, low emitting countries further into debt for projects that did not meet their most urgent needs.

"They're paying for the consequences," she told *GlobalMarkets*. "They're being asked to borrow money to finance projects to tackle climate change, and we think it is unfair, given how they're not responsible for the problem."

She said analysis of data on the World Bank's portfolio over the period 2000 to 2024 for 29 low income countries that were responsible for very few emissions showed an allocation of \$14bn on adaptation and \$12bn on mitigation.

"For the poor countries, we felt \$14bn for adaptation was much too low," she said. "That's a very small number, over a span of 24 years, [when] it's adaptation that needs to be the focus."

World Bank president Ajay Banga

has committed the Bank to deploy 45% of its lending toward climate, with public financing split half for mitigation and half for adaptation, by 2025.

Ramachandran said a 50-50 split might make sense for the overall portfolio but for the poorest countries the Bank must rebalance towards adaptation as much as possible, given countries' capacity and borrowing constraints.

"I think they've got the message, and I think they're moving in the right direction," she said. "I would like for them to say that they are going to be funding more adaptation in the poorest countries, and that they're going to do so on the cheapest terms possible."

A spokesman for the World Bank Group said: "While our climate financing stood at 44% in our last fiscal year [to June 2024], we recognise the need to keep pushing on adaptation, because the poorest people on the frontlines of climate change need our support more than ever."

He said the Bank designed its projects "to ensure they are resilient and deliver development benefits despite the changing climate, and we support countries through a range of tools to enhance their resilience to climate shocks".

The International Development Association, which provides concessional funding for low income countries, has committed nearly \$100bn to climate action since 2011, with 54% going to adaptation, he said.



Vijaya Ramachandran: low-emitting countries should not pay for others' pollution

CREDIT IMPROVEMENTS

"A track record of institutional reforms [...] has improved our assessment of institutional and governance strength," said the rating agency. Since it first issued international bonds in 2013, Paraguay's rating has steadily improved from Ba3/BB-/BB- to Baa3/BB+/BB+.

Fernández Valdovinos said Paraguay's credit improvements had occurred over at least a 22 year period, and that the upgrade had had no effect on the urgency to keep improving. "It's not the end of a race, but the start of a new race in which we'll have to be even more competitive," he said. "We have to continue with consistent policy and to correct our flaws."

"We want good policies that are recognised by the market, rating agencies and multilaterals — but, more importantly, for the benefits to be felt by the Paraguayan people." The minister said he was "not obsessed" by chasing further investment grade ratings. "The ball is in [S&P and Fitch's] court," he said. "If we continue to work well, the upgrades will come sooner or later."

Below or not below? The 2% question for ECB governors

By Dominic O'Neill

Eurozone inflation is already below the European Central Bank's 2% target, prompting a new policy debate: should the ECB keep trying to look tough on inflation, or relax and give the economy more room to breathe?

Annual inflation fell to 1.7% in September and GDP growth in the second quarter was a measly 0.6%.

After cutting interest rates at its monetary policy meeting last week, the ECB said inflation was expected to rise in the coming months because previous sharp falls in energy prices would drop out of the annual rates. "Inflation should then decline to target in the course of next year," it said, adding that "the risks

to economic growth remain tilted to the downside".

Robert Holzmann, governor of Oesterreichische Nationalbank, Austria's central bank, told *GlobalMarkets* monetary policymakers should prefer to have inflation below the target.

Often seen as a spokesman for the ECB's hawkish wing, Holzmann said undershooting 2%

would be beneficial, by reinforcing the central bank's credibility.

"I think at the beginning it makes sense to undershoot, because if you remain at 2.5% people will say we don't take the 2% target seriously," he said. "There is quite likely a temporary undershooting of inflation. It's useful to be first somewhat below the target, before moving back again. But this would not be a failure of monetary policy."

Banco de Portugal governor Mario Centeno, one of the bloc's more dovish members, told *GlobalMarkets* the eurozone had spent the past year repeatedly lowering its expectations for growth and inflation.

"One of the risks we see now for economic activity and inflation is if monetary policy transmission dampens demand more than needed," he said. "The best place to be is when inflation hovers around 2%. If we tighten too much, we may end up below 2%. And that proved in the past very difficult to overcome. We spent 10 years trying to get inflation [up] to 2% and we failed."

For 13 years from 2009 to 2022 ECB rates were near or even below zero, before rising fast in the inflation shock of 2022-3.

Centeno said monetary policy in the eurozone remained tight, even after three cuts in the ECB's policy rate. In June, September and last week, the ECB cut its deposit rate by 25bp, bringing it from 4% to 3.25%.

Centeno said the ECB should be "gradual, consistent and predictable" in bringing rates down to the

theoretical neutral level, when monetary policy was neither in tightening nor expansionary mode.

But Holzmann downplayed the suggestion that the ECB was causing low growth in the eurozone, including a recession in Austria. He pointed to factors such as lower growth in China and a rising household savings rate.

"The interest rate at 4% and now 3.25% is not a driving force of too much saving — maybe a little bit at the beginning — and our data shows financing conditions are not a constraint for enterprises," he said. "Monetary policy is not the primary constraint on growth, it is rather driven by other macro elements."

Far from failing in its campaign to raise inflation in the 2010s, the ECB might have been "too successful", Holzmann said.

"A situation may emerge in which we remain a little bit below 2% but it would not be sensible to do the same policy as before, with all forces moving inflation up to 2% — in other words putting a lot of money on the table, which afterwards creates inflation."



Robert Holzmann: 'it makes sense to undershoot'



Mario Centeno: sees risk of dampening demand more than needed

World Bank's outcome bonds accelerate as investor interest grows

By Phil Thornton

The World Bank has a "significant pipeline" of outcome bonds it plans to issue in the next 18 months, as it strives to increase its output of these complex instruments which can enable risk-averse investors to finance difficult development projects.

Michael Bennett, head of derivatives and structured finance at the Bank's treasury in Washington, said his team was working on a number of new issues to raise money to support sustainable development projects. Investors' principal exposure is like a regular World Bank bond but they get a slightly lower guaranteed coupon — the rest of the coupon can vary, contingent on the success of a project. If it succeeds fully, they earn more than they would on a normal Bank bond.

Since 2021 the Bank has issued five outcome bonds totalling almost \$500m, with money saved from the lower coupons financing projects such as rhinoceros conservation in South Africa, water purification in Vietnam, and most recently reforestation in the Amazon, with a \$225m bond in August.

The deals have gathered strong inter-

est. Around 15 investors signed up to the club deal for the nine year Amazon bond, which generated \$36m of capital to support the reforestation activities of Mombak, a Brazilian company. Investors will get their money back from the sale of carbon credits.

But each deal is bespoke, requiring complex and time-consuming structuring. The bonds are not yet a tool to address development needs at large scale.

The World Bank is working on making the process more efficient and increasing the size of transactions to enlarge their impact.

Interest in working with the Bank is growing, from project operators, investors and investment banks.

"Right now, we're probably working on seven or eight potential issues, which could all come to fruition in the next 12 to 18 months," Bennett told *GlobalMarkets*. The first could come out in the first quarter of next year. "Based on the demand, we think the investor base would be there for that level of issuance."

Bennett said investors were attracted by the fact that all of the deals' principal is protected, earning them an AAAp rating from S&P. At the same time, investors'

financial return is based on measurable development outcomes, which means they can say their money goes to support a specific environmental or social project.

This is a much more direct sense of impact than investing in a use of proceeds green bond, for example, from a multilateral institution.

"I think it's a really nice structure for essentially high grade fixed income investors and we wanted to create a structure for them, because they are looking for opportunities to support positive impact with their portfolios," said Bennett. "There's clearly a high degree of confidence investors can take that their money is directly supporting and their return is linked to the performance of a specific project."

"Because the returns they're going to receive are connected to outcomes, they're obviously going to get very clear outcome reporting, and those outcomes have to be objective and have to be able to be determined by a third party."

An important feature is the complementarity of the project to what the World Bank is already doing in that country. Looking ahead, Bennett said that while climate finance and carbon



Michael Bennett: 'We definitely have no intention to be the whole market here'

reduction were important themes, it was also looking at outcomes in areas such as health, food security, the blue economy and biodiversity.

While the World Bank has pioneered this asset class — as it did with the first green bond in 2008 — Bennett is confident other multilateral development banks will follow suit. "We definitely have no intention to be the whole market here," he said.

The Bank is aware of other issuers working on transactions that would expand the market. "Frankly, if some other issuer comes up with a better way to do it, that's great as well," said Bennett.

African finance ministers call for homegrown rating agency, slam incumbents for bias

By George Collard

African countries need to be given fairer treatment by the dominant Western credit rating agencies, said three finance ministers from the region, and the continent should also strengthen its own rating agencies.

The three major rating agencies — Moody's, S&P and Fitch — show a bias against African countries and are too quick to downgrade and too slow to upgrade, said ministers at an event on African debt and credit ratings at the Brookings Institute in Washington on Thursday.

Only two African countries, Mauritius and Botswana, enjoy investment grade ratings. In 2023 half of the sovereign rating downgrades were in Africa and of the 43 upgrades, just four were from Africa, according to Ahunna Eziakonwa, assistant secretary-general and director of the United Nations Development Programme's Africa sector.

"There is a rush to judgment and an explicit and implicit bias," said Ahmed Shide, minister of finance for Ethiopia, which is the only African country now undergoing a debt restructuring, after a default at the end of 2023.

African sovereign ratings are the first to bear the brunt of downgrades when there are shocks in the global economy, ministers said.

"Rating agencies are not kind to our

economies," said Retšelisitsoe Matlanyane, minister of finance and development planning of Lesotho. "We have asked investors, what are you afraid of? We have done everything. And what they are afraid of is what the rating agencies are saying about our economies without actually understanding the fundamentals, the anatomies and the workings of our economies."

But bias, whether implicit or explicit, is not the only problem. "The market is too concentrated," said Matlanyane. "We need more entrants into the market to level the playing field."

INCOMPLETE COVERAGE

The discontent with ratings is not limited to sovereigns. The major agencies have very little coverage of state-owned and private sector companies in Africa, limiting their ability to access capital.

This does not just apply to overseas investors. "Even in Africa our pension funds, sovereign funds and central banks use the rating agencies to make investment decisions," said Mutesi Rusagara, minister of state for public investment and resource mobilisation in Rwanda. "We're locking out African capital, not just foreign capital."

The upshot is that perceived unfair ratings mean African countries are paying more to borrow money than they should be, especially compared with non-African countries with the same ratings.



Ahmed Shide: condemned agencies' 'rush to judgement'

"African countries face challenges getting affordable development financing due to ratings," said Shide. "These ratings do not always reflect economic strength and it leads to higher borrowing costs. The atmosphere of vicious debt traps is long-lasting."

There is work to be done on both sides, Shide conceded. African countries need to improve their data sharing, for example. But rating agencies also need to be more transparent about their methodologies and the metrics they use to assess risk, he added.

One solution would be the development of Africa's existing rating agencies, such as Nigeria's Agosto & Co, Sovereign Africa Ratings and Moody's-owned GCR Ratings in South Africa and Bloomfield Investment in Côte d'Ivoire.

There is also a case for forming a new one. "What we want to see change is having an African rating agency," said Rusagara. "Whether we are creating new agencies or supporting existing ones, the endgame is strong coverage for Africa and coverage that is more reflective of the situation on the ground."

growth over the past few years mean it would be able to repay that bond from its own coffers, without having to refinance it in the bond market.

Chile and Uruguay are the only two previous sovereign issuers. Uruguay is the only one to have used a symmetrical structure for the coupon: it can move up or down.

Financing linked to the environment remains an active area for EM governments. "More than one" debt for nature swap is planned for next year, said an investment banker in Washington, and pipeline for a "range of borrowers" is building for future years. So far, these deals have largely been executed for EM borrowers in bond market distress. Barbados, the Bahamas, Belize, Ecuador and Gabon have used them so far.

Romania considers novel bonds in hunt to finance growth

By Francesca Young

Romania is collecting feedback from bond investors this week on their appetite for several new instruments it might issue to fund infrastructure spending, including blue bonds, social bonds and ESG (environmental, social and governance) bonds.

Alin Andries, the secretary of state who oversees the debt management office, said Romania was not yet structuring these labelled deals. But he "wants investors to know we are open to diversify into new markets and new instruments on a forward-looking basis".

Part of his mission this week at the IMF and World Bank Annual Meetings is to conduct a non-deal roadshow to gauge investor enthusiasm for new securities.

"Economic growth in Romania during the last decade was higher than other peer countries, and our objective is to continue to implement policies that will maintain and support the sustainable economic growth," Andries said. "We want to continue to invest in infrastructure, not only in highways and railways, but also in education and health infrastructure, to provide better public services to our citizens. The level of investments in Romania was very high during the last year."

The Baa3/BBB-/BBB- rated country has had a huge year for international bond issuance. It has raised €10.2bn in euros and \$6.1bn in dollars on public markets, plus another €716m via private placements.

Its strategy in borrowing those amounts has been to simultaneously make strides in diversifying its bond market access. This year the sovereign printed both its first Samurai note in the Japanese market and its first green bond.

Since it has prioritised growth, however, the country's budget deficit remains high. Last year it was 6.6% and Andries said that in the short term he was not expecting it to fall to 3% — the number required by the European Commission for joining the euro, one of Romania's goals.

"Our medium-term fiscal plan is that after seven years, we expect the deficit to be below 3% and at that point we can discuss adherence to the eurozone," Andries said. "It is an important objective for us, but is not a short-term one. Our focus before that, though, is becoming a full member of the OECD [Organisation for Economic Co-operation and Development] in 2026, which will put us on the right track. We're hoping that by the end of 2025 we can finalise this discussion."

Sustainability-linked bonds

Continued from back page

sovereign is also expected to issue an international conventional benchmark bond early in the year.

SLB WORKS FOR MONGOLIA

An SLB for Mongolia will get around debt market restrictions it has laid on itself that make it difficult for it to issue green bonds. Mongolia has the technical framework to print green bonds and set up a Sustainable Development Goal framework in 2023.

But the country's debt issuance strategy prevents it issuing use of proceeds labelled bonds. All government bond issuance has to be debt-neutral and include liability management.

Green or sustainable bonds require an issuer to spend the money on defined green projects, so such issuance would add to Mongolia's debt pile, contradicting the debt strategy.

However, Mongolia is drafting an SLB framework, which would not trigger the problem.

Its KPIs include greenhouse gas emissions reduction, the construction of green and affordable housing and the planting of trees.

It might be a while yet before Mongolia issues an SLB, however. It does not have a Eurobond maturing until 2026, a \$600m 5.125% note. And the country's fiscal performance and economic

Slovenia and Mongolia working on sustainability-linked bonds

By Francesca Young
and George Collard

Two governments are considering issuing sustainability-linked bonds with interest rates that can change depending on hitting environmental targets — a product that, among sovereign issuers, has so far been the exclusive province of emerging markets.

Both deals are in the early stages of planning, but Slovenia's could come as soon as next year. Mongolia's is more likely to be the year after.

"It is too early to be discussing the size and tenor, but we would expect that a benchmark size transaction in euros is possible," said Marjan Divjak, direc-

tor general at Slovenia's Ministry of Finance.

In a sustainability-linked bond the issuer — usually a company, but Chile and Uruguay have also issued them — defines one or more targets to improve its sustainability performance by a certain date during the deal's life. If it fails to hit the target, the interest coupon will step up as a penalty. In a few deals, the coupon can also fall if the issuer reaches a harder target.

Divjak said the framework for Slovenia's deal had not yet been set up and sustainability key performance indicators and targets were still to be decided, but they would likely be tied to national

strategies.

Slovenia, rated A3/AA-/A, has printed use of proceeds sustainability bonds — similar to green bonds — twice before.

Divjak said Slovenia was attracted by the possibility SLBs afford, which sustainability bonds do not, to use the proceeds for any purpose.

He expects the investor base to be similar to that for the sustainability bonds, but wider. He is hoping there will be a "small but measurable greenium" of more favourable pricing for the SLB, compared with the country's conventional curve.

Slovenia has a transparent methodology of picking bookrunners for its



Marjan Divjak: hoping for small 'greenium'

international bonds, based around a primary dealership system that guarantees one of the spots on the mandate for the bank that most actively trades its bonds — currently Deutsche Bank, according to Divjak. That methodology will also be used for the SLB. The

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World Bank to scrap parametric triggers for loan relief after climate disasters

By Phil Thornton

The World Bank's executive board is set to approve a change to the climate-resilient debt clauses it has applied to some loans, after criticism that the terms were too restrictive, *GlobalMarkets* can reveal.

The Bank is changing the clauses so that they can be triggered if the borrower declares a national emergency after a natural disaster.

Since June 2023 the World Bank has offered climate-resilient debt clauses (CRDCs) to small states and small island economies, on its IBRD flexible loan product and International Development Association credits.

The offer began with new loans, but in late 2023 was expanded to cover existing ones too.

Borrowers can defer paying principal and interest for up to two years, if they are hit by an earthquake or tropical cyclone of a specific magnitude.

However, the 45 eligible countries had complained that other disasters, more frequent but equally damaging, such as floods and droughts did not trigger the payment break.

"A number of countries were telling us that for them, earthquakes and hurricanes are not the relevant perils, but they're suffering from droughts and floods," Dirk Reinermann,

director of IDA resource mobilisation, told *GlobalMarkets*.

Small island developing states have around 1% of the world's population, but are in the front line of multiple global crises, notably climate change.

The difficulty for the Bank was that it was hard to come up with an acceptable, objective parametric measure of droughts and floods that could apply to all countries. Instead, Bank officials decided the declaration of a national emergency would be enough to trigger the break clauses.

Currently, hurricane winds must reach 178km/hour for

over a minute or 160km/hour as a 10 minute average. Earthquakes must register 7.0 on the Moment Magnitude scale.

"Now we're going to say any country that declares a national emergency on the basis of a natural disaster or a health disaster [can get relief]," Reinermann said.

Aid agencies had praised the CRDCs as reflecting a broader commitment to making disaster financing more effective and adaptive to the growing climate risks faced by low and middle income countries. The CRDC is offered at no cost to borrowers.



The World Bank was not the first public sector lender to offer the clauses. UK Export Finance, an export credit agency, said it would offer CRDCs on direct sovereign loans in November 2022, followed soon after by the Inter American Development Bank.

Members of the Commonwealth Ministerial Meeting on Small States, which met in Apia, Samoa, this week, called on both public and private creditors to adopt CRDCs and other disaster risk finance initiatives to enhance the resilience of vulnerable countries.

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