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# Street fury a portent of global unrest if economies cannot generate jobs

AI revolution could bring productivity or social ruin

By Elliot Wilson, Arthur Bautzer and Frank Jackman

Anger is erupting across the world, as workers spill on to the streets to protest against everything from corruption and wealth inequality to pervasive joblessness. Meanwhile, the US is in the grip of an artificial intelligence investment gold rush predicated on replacing more human work with machines.

Demonstrations have spread like wildfire over the past year, in countries from Peru to



Madagascar's Generation Z movement in September

Bangladesh and Indonesia. Each movement is driven by a particular resentment. In Nepal, protests escalated when the state banned social media—toppling prime minister KP Sharma Oli's government in September.

In Indonesia, deadly riots erupted when politicians awarded themselves new perks amid a cost of living crisis. And in Madagascar, fury about power and water shortages led to the ousting of President Andry Rajoelina in a coup orchestrated by an elite military unit.

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# World Bank abandons 'billions to trillions' dream but still seeks 'scale'

By Phil Thornton and Steve Gilmore

The World Bank looks set to finally abandon the 'billions to trillions' agenda it launched 10 years ago—a drive to multiply the effect of aid and development finance using private capital to fund the vast investments needed to achieve the Sustainable Development Goals.

In 2015 the Bank, then led by Jim Yong Kim, said it would col-

laborate with five regional multilateral development banks and the International Monetary Fund to generate the resources needed to deliver a multi-trillion dollar transformation in the developing world.

A decade on, UN Trade and Development (Unctad) this year declared investment in the SDGs "in crisis". Investment in developing countries fell by

between a third and a quarter

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Kant: hopes to create emerging market asset class

African states prep sustainability-linked debt to win investors

By Jon Hay

Public sector issuers in seven African countries are working with the World Bank to prepare sustainability-linked bonds or loans, as a way to attract new investors.

Kenya and several other sub-Saharan African nations, as well as a couple of state development banks, are interested in following the example of Côte d'Ivoire and the Development Bank of Rwanda.

Three deals are well advanced and likely to come to market in the next 12 months—whether

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Beginnings never end

# Financial leaders divided on whether AI spells opportunity or peril as 800m jobs are needed

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In richer Western states anger is — for now — visible through the lens of political fracture, with far right, and sometimes far left, movements surging, leading to gridlock in France.

It is easy to characterise the unrest as youth-driven — but that is simplistic. “This isn’t a Gen Z-specific thing,” said Mark Cogan, associate professor of peace and conflict studies at Kansai Gaidai University in Osaka. “This is what happens when people are not listened to, are marginalised and demonised. It’s what you get when people are at the end of their tether.”

Nevertheless, young people are at the sharp end. In the World Bank’s 2025 annual report, its president Ajay Banga wrote: “In the next decade, 1.2bn young people will enter the workforce in developing countries — but in those same countries, only 400m jobs” will be created. “That leaves 800m young people without a clear path to opportunity.”

## SEEKING WORK

If there is a unifying root cause of all the anger, it is the shortage of stable, well paid employment. In some parts of the economy, jobs have been eroded by globalisation, a process that was aggravated by Covid. Now there is a new, super-charged threat: the rapid onset of artificial intelligence.

**“You’re going to have an entire generation that went through Covid, coming out of college, not able to get jobs”**

—Maya MacGuineas, president of the Committee for a Responsible Federal Budget

AI was on everyone’s lips this week in Washington. “Listening to Kristalina [Georgieva]’s speech and some of the things Ajay said: these are the AI meetings,” said Josh Lipsky, senior director at the GeoEconomics Center, Atlantic Council.

Evangelists — including those invested in it — argue AI will bring huge productivity gains and economic benefits.

Ronald O’Hanley, chairman and CEO of State Street, said at an Institute of International Finance panel on Friday that while productivity gains had yet to materialise, “we’re just scratching the surface. I don’t think I’m being overly optimistic to say that we will see, at an increasing rate, a lot of impact there.”

But the technology is unprecedented and developing at incredible speed, with minimal governance.

“I think in AI, there’s this huge compartmentalisation,” said Maya MacGuineas, president of the Committee for a Responsible Federal Budget, at the IIF on Friday. “The good news is fantastic. The bad is that the huge disruptions and dislocations are going to leave so many people unemployed. You’re going to

have an entire generation that went through Covid, coming out of college, not able to get jobs.”

Marieke Blom, chief economist at ING, told *GlobalMarkets* she believes AI is having “a much more gradual effect on employment, for two reasons.”

“One, it takes time for companies to start to make use of it, and for it to have an effect on employment, that’s a slow process,” she said. “The technology is faster than the process within organisations.”

“Two, there’s a lot of new work being created via AI. I think there may be job losses in some place but there are going to be additional opportunities elsewhere. Net-net I don’t think we’ll see much higher unemployment because of AI.”

## BIG AND SMALL

Asked in a civil society townhall meeting on Tuesday how AI could bring more jobs in developing countries, Banga said: “Everybody is talking about Big AI — ChatGPT, that kind of stuff. What does it need to be successful? Computing power — lots of it. Electricity — lots of it. Data — lots of it. And people who understand how to use it — many of them. Tell me how many EM countries have these four and I’ll give you a medal. So be careful with the idea that Big AI will somehow allow a developing country to leapfrog.”

He added: “You have to figure out how to enable that Big AI to be useful to a developing country. I’m not certain it’s completely clear.”

Anshula Kant, chief financial officer of the World Bank Group, went further. “It can take away jobs,” she warned. This could cause rifts between the “haves and the have-nots” — rich and poor, urban and rural, men and women. “It is a cause of worry,” Kant said, “that further technology and advancement in AI can exacerbate this divide.”

Banga did praise the potential of ‘small AI’ — “tools that can be used on your phone, so computing power etc is much more local and manageable. If I’m a farmer in a cooperative in Uttar Pradesh in India or Kenya or Brazil and I can point my phone to a disease on a crop, and the AI tells me it’s equal to that insecticide, for \$3, that’s priceless. That’s small AI at work.”

Kristalina Georgieva, managing director of the International Monetary Fund, said at a press briefing on Friday: “We don’t want AI to turn into yet another vehicle for divergence. We would like it to help the process of convergence.” The IMF sees “a little bit of hope,” she said. “There is a recognition in many developing economies that they need to move fast so they can leapfrog with AI.”

She pointed to how this had happened with mobile banking and payments.

“My advice to low-income countries and developing economies,” Georgieva said, “is to eliminate first and foremost the technical obstacles. If you don’t have access to electricity, access to the internet, you cannot be part of the AI revolution.”

She added: “It is an advantage to build data centres, and all things being equal, it is an advantage to have cheap energy. But it is not prohibitive if you don’t have this. What will be prohibitive is not having a strategy on how to make AI work for everyone.”

Mohammed Al-Jadaan, Saudi Arabia’s minister of finance, said “I think human capital is as important for AI as energy. You shouldn’t underestimate that if you have [human capital], then you don’t need data centres in your country. You can tap data centres wherever they are. Africa and a lot of low income countries could have what it takes, if they focus on recalibrating their education system.”



Banga: ‘be careful with the idea that Big AI will somehow allow a developing country to leapfrog’

## NEED FOR ACTION

Meanwhile, in Indonesia for instance, ‘old economy’ jobs are

disappearing, to be replaced by gig work that means long hours, low pay and a glaring lack of economic security.

“The jobs under greatest threat there are those held by lower income workers,” said Cogan.

The deepening jobs crisis is not limited to low income states with weaker institutions. One in five Chinese youths is unemployed, according to the National Bureau of Statistics.

In the WBG annual report, Banga said: “By 2050, 80% of the world’s population will live in countries currently considered developing. We cannot afford to wait. The most expensive word in development is ‘later’.”

The pressure is on governments and multilateral organisations to engineer solutions to these towering problems. If they cannot, like so many once stable jobs — toll collectors, switchboard operators, data entry clerks — they too risk being swept away.

AI is indiscriminate — it will affect countries of all income levels.

“This is the maturation of globalisation,” said Cogan. “It isn’t an issue of jobs moving abroad any more — it’s the very nature of job creation. Jobs are not being outsourced but replaced by robots and AI. This transformation will increase economic anxiety — not just among the young, but everybody.”

Additional reporting by Jon Hay, Phil Thornton

## World Bank online dashboard helps countries evaluate targets for SLBs

Continued from page 1

as loans or bonds will depend on market pricing.

In sustainability-linked (SL) debt the borrower commits to pay lenders a financial compensation, usually a higher interest payment, if it misses certain sustainability targets.

Mostly used by companies, especially in Europe, SLLs and SLBs have also attracted emerging market governments. Chile, Uruguay, Thailand and Slovenia have all issued SLBs.

“Sustainability-linked financing has a few advantages, especially for emerging countries,” said Gianleo Frisari, a senior financial sector specialist at the World Bank, who is leading engagement on SL finance with public sector clients.

Unlike a green bond or loan, the issuer does not have to use the proceeds for green investments. Developing countries often do not have large volumes of green projects, and what they have may already have been financed by development banks.

Government measures to reduce deforestation, for example, may not involve hundreds of millions of dollars’ worth of spending. What matters is the government setting rules and enforcing them. Most of the cost is not outlays but forgone opportunities to farm or mine in the forest — and these cannot be used to back a bond.

For countries working on goals like that, SL debt can be very suitable. Governments are coming to the World Bank asking for its help to explore and issue sustainability-linked debt.

SL finance is “important because it can get commercial investors involved — typically it can mobilise

investors who would not look at these countries otherwise,” said Frisari. “With a sovereign SLB or SLL, we make these countries investable for a pension fund that needs a sustainability angle.”

In its Sustainability-Linked Financing Framework, published in July, Côte d’Ivoire defined targets to raise renewable energy, excluding hydroelectric, from 1% of generation capacity in 2023 to 11% by 2030.

It will also try to limit forest cover loss to 300,000 hectares across the period 2025-30, and reforest 1m hectares between 2021 and 2030.

Deforestation is disrupting rainfall patterns, threatening to make half the country’s cocoa-growing areas unsuitable by 2050.

In September Standard Chartered arranged a €433m SLL under the Framework, with the World Bank guaranteeing the first loss and MIGA the second loss. The interest rate will go down if Côte d’Ivoire hits its targets, and up if it does not.

### DEFINING AMBITION

The Green Bond Principles organisation has published qualitative SLB Principles, but the market has so far lacked central control or standards on how targets are set.

Since it works with multiple clients as a non-commercial adviser, the World Bank can help fill this gap.

“The big question is always ‘what’s a good target?’” said Dieter Wang, who leads the Bank’s methodological work on SL finance. “We are not standard setters, but we can provide the data, the methodology, and provide an option for standardisation and scalability.”

In June the Bank launched an innovative, publicly



Deforestation in the Tonkpi Region, Côte d’Ivoire

available online tool called the FAB Dashboard. It uses stores of information from the Bank’s Sovereign ESG Data Portal, which covers 213 economies and 171 indicators.

By comparing a country’s ESG targets with how fast similar countries — chosen by the user — have progressed in the past, the tool enables users to grade a country’s ESG targets on two axes — feasibility and ambitiousness. Targets that are too easy can thus be avoided — but so can those that are too difficult to implement, and therefore unlikely to be achieved.

Investors have often debated whether SL debt should be considered as having ESG impact.

But Wang said: “The investors we talk to which understand the issue and want to go beyond green bonds ask ‘what is the counterfactual?’” In other words, how would the country evolve if it did not take the sustainable transition path set out in the SL financing. “What they like about the structure is to hold countries responsible for targets that go beyond the election cycle.”

## MDBs see securitization as way to speed mobilisation

Continued from page 1

in 2024, across infrastructure, renewable energy, water, sanitation and agrifood.

“Trillions are wishful thinking,” Anshula Kant, the World Bank Group’s chief financial officer, told *GlobalMarkets*. “I think maybe we’ll get there after 10, 20 years, collectively as a full MDB community.”

The WBG mobilised some \$69bn of private capital in its financial year to June 2025, up on \$47bn two years earlier, Kant said. “We’ve been doing well, we’ve been growing. But clearly it’s billions — nowhere near the trillions we are thinking of.”

Nancy Lee, director for sustainable development finance at the Center for Global Development thinktank in Washington, said a better test would be hundreds of billions. “In my mind, the litmus test should not be ‘has anybody mobilised trillions of private finance for development?’ but rather, ‘are these institutions using the tools they have to

create the right conditions?’” she told *GlobalMarkets*.

Shriti Vadera, chair of the insurer Prudential, echoed Kant’s warning, saying reaching trillions of dollars was “not, in my view, completely plausible”.

### REACHING TO DO MORE

But if trillions are out of reach, MDBs — and concerned private institutions — are still searching for ways to lengthen the arm of development finance.

A majority of the investment needed was expected to come from local markets, Vadera said at an Institute of International Finance panel. “But the problem is, these markets tend to be — with notable exceptions — quite shallow and underdeveloped. So we have a role to play in developing that right now.”

She criticised regulators for incentivising — and even mandating — that insurance companies should only buy long term sovereign debt. “I can understand

the impulse for that, but I think it’s quite short term, because if we could develop depth of market there, we would have sufficient liquidity to accommodate both the need for sovereign debt as well as infrastructure and other types of instruments.”

### FAITH IN SECURITIZATION

In its own efforts to bring in private investors, the WBG aims to use standardisation to speed things up, hoping to create an emerging market asset class, Kant said.

She pointed to the inaugural \$510m securitization in September by the International Financial Corp.

“Can we standardise our origination and scale this up in a way which will be attractive for institutional investors, along the terms and lending conditions which they may find attractive?” she said. “We can use our capital in a catalytic way to mobilise these investors going in with us. So, we believe that this can really scale up. I don’t know whether we’ll get to the trillions, but surely it can bring scale.”

On Friday, WBG president Ajay Banga said that after the success of the securitization the next challenge was to

increase supply.

“We’re building a sustained pipeline across the Bank and working with partners in the EBRD and other multilateral development banks to see if you can create the right numbers for the institutional investor,” he said.

Lee at the CGD said the IFC transaction was a sign the Bank had realised the potential of operating at a portfolio level. “If any institution is well placed to securitize a big pool of assets, it’s the World Bank,” she said. “They’ve got the largest portfolio...[and] the most diversified portfolio. So they can create a pool that’s attractive to investors that want a diversified exposure across the developing world.”

She said that if the Bank was willing to pool its assets with other MDBs, that would have a “powerful driving effect”.

“I see no reason why ultimately, the MDBs shouldn’t be able to create large pools of assets, combining assets from across MDBs and offloading the risk to private investors or insurance companies.

“I think that the World Bank has recognised that that’s a way to do mobilisation at scale, as opposed to taking individual transactions and trying to find private partners. It’s a very positive development.”



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# Climate investments hold huge potential for jobs and growth, ministers argue

By Phil Thornton

If financial leaders act urgently to increase climate investments they could unlock a \$1tr-a-year growth opportunity that would create hundreds of millions of jobs and protect lives, according to three reports on Thursday.

Two separate alliances of finance ministers called for climate finance to be magnified to the 2035 target of \$1.3tr a year set by last year's COP 29 climate summit.

Meanwhile, a consortium of 20 thinktanks, NGOs and universities said investment in climate resilience and nature projects could create more than 280m jobs in emerging and developing countries by 2035, boosting the most vulnerable states' economies by as much as 15%.

The COP 30 Circle of Finance Ministers, coordinated by Fernando Haddad, Brazil's finance minister, set out five priorities which it will present at the summit in Belem in November.

It said mobilising finance to hit \$1.3tr would require "structured and sustained efforts" by public and private bodies. Its top priority is to scale up concessional finance and make best use of climate funds. The other four are: reform multilateral development banks; boost domestic capacity for climate finance; find ways to mobilise private capital; and strengthen regulation of climate finance.

The Circle, which includes countries as diverse as the UK and the Marshall Islands, said inaction on climate change disproportionately exposed the most vul-

nerable populations — which had contributed least to emissions — to "escalating climate risks".

"Every year of delayed climate action raises both the investment needed and the risks faced," the ministers said. "Urgent and coordinated action is indispensable to safeguard lives, livelihoods and sustainable growth."

Meanwhile, the older 70-strong Coalition of Finance Ministers for Climate Action issued a strong case for the economic benefits of tackling global warming.

They said the pro-climate policies Coalition members had enacted had enabled their economies to seize opportunities from the transition to a low carbon, climate-resilient economy.

"Climate action is central to both economic stability and development," said Matia Kasaija, Ugandan finance minister and co-chair of the Coalition. "Finance ministries [are] playing a more pertinent role in climate policies — aligning fiscal policy with climate priorities... and working towards a more predictable environment for unlocking the investment needed."

The Coalition has published a database of more than 500 climate policy actions by member countries. It showed that two thirds of countries were scaling up green bonds, emissions trading systems and blended finance to mobilise private capital for climate action. One in seven was integrating climate risks into public financial management while one in 10 was introducing

carbon taxes, phasing out harmful subsidies and expanding clean energy incentives.

"By aligning fiscal and general financial policies with climate objectives, we can create clear, predictable frameworks that attract investment, support innovation and ensure the transition strengthens — not destabilises — our economies," said Marko Primorac, incoming co-chair and Croatia's finance minister.

The Returns on Resilience report, launched by 20 partners, analysed the economic and financial benefits of investment in climate adaptation. It found that the adaptation and resilience market could reach \$1.3tr annually by 2030, while saving some of the 1m-2m additional deaths expected annually by 2050 without action.

The report also calculated the cost of failing to act. Temperature and rainfall shifts have already destroyed at least \$525bn of economic expansion over the past 20 years in developing nations.

Without intervention, both sudden disasters and gradual environmental changes like biodiversity decline could cost major global corporations \$1.2tr by the 2050s, amid a worldwide GDP reduction of 18% to 23%.

Despite the evidence, capital still flows in the wrong direction, the report warned. For every \$1 spent on resilient infrastructure, \$87 goes on infrastructure that does not include resilience considerations, such as buildings in flood zones.

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# Germany's Länder prepare for life after the debt brake

The U-turn made by Germany's federal government in the spring, to release the grip of the debt brake and engage in a burst of borrowing to finance infrastructure and defence spending, is the biggest change to the country's fiscal trajectory for many years.

The federal states have been running balanced budgets and their prudent fiscal management has made them some of the safest and most respected borrowers in the bond market.

Now they have explicitly been given more leeway to borrow — and there are needs to be met, with growing populations in some areas and social needs such as transport and education everywhere.

At the same time, they will receive grants from the federal government to make investments — although they will not have complete freedom on how to spend the money.

## NEW FISCAL REGIME

**Friedrich Luithlen, DZ BANK:** Let's start with the elephant in the room — the debt brake, which has now been relaxed. There will be lots of economic growth, at least we hope so.

**But the costs of financing the Länder will also rise. So how do you navigate between more growth, higher costs, perhaps also higher inflation and this relaxed debt brake?**

**Andreas Becker, State of North Rhine-Westphalia:** We need to differentiate between all the changes in the German Basic Law and how we deal with them.

On one hand, we have two major investment packages at federal level, one for infrastructure and one for defence — €500bn and €500bn-€700bn.

How will the Bundesländer handle the new environment? *GlobalCapital* gathered heads of treasury from five states, together with investment bankers, in Frankfurt in September to discuss how the Länder will use their new freedom and what effects Germany's increased borrowing could have on the country's capital markets.

The treasury officials also explored internationalising their investor bases, the role of sustainable finance and the potential of blockchain in the bond market. And they conclude: with freedom comes responsibility.

The Länder are not directly affected by this for the time being. The federal government does this all by itself and on its own payroll.

Where we could be indirectly affected is if the fiscal basis and rating were to deteriorate due to the creation of new debt. We just saw it on Friday afternoon — France has been hit by a downgrade. I don't see that this is a real peril at the moment, but if Germany were to lose its triple-A rating this would of course have an impact. We can do relatively little to influence this.

But we are even a bit favoured out of the packages, because the Länder get €100bn out of it, of which half or a bit more would flow to the municipalities.

But the money is not necessarily at our free disposal, because the Länder are also responsible for some federal military construction, for example. We in NRW will invest around €300m to €350m in barracks and other infrastructure every year.





**Bernd Loder**, head of supranational, sovereign and agency debt capital markets, DZ BANK

**Alexander Labermeier**, head of treasury, State of Hesse

**Andreas Becker**, head of treasury and pension fund, Ministry of Finance, State of North Rhine-Westphalia

**Markus Krause**, head of treasury, Ministry of Finance, State of Saxony-Anhalt

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

**Christoph Hünecken**, head of markets, Free and Hanseatic City of Hamburg Financial Services Agency (FSA Hamburg)

**Friedrich Luithlen**, head of capital markets and syndication, DZ BANK (moderator)

For various reasons, the Länder have refused this, in order to receive financial support from the federal government and thus have more time to balance their budgets.

We in NRW are actually very grateful for the debt brake up to this point, because it has helped us balance our budgets. Without it, it would have been very difficult to build up the political strength and stamina to save billions and not spend them. So we managed to balance our budget within eight years. This was 2016.

Of course, the situation has now changed. One crisis follows the next. The Länder budgets are under very strong tensions and we ultimately have to take countermeasures.

So we come to the real question — how we deal with this room for manoeuvre. Will we use this money simply to plug holes or are we really striving to finance sustainable investments?

If we succeed in translating this into investments that also spark growth potential, I don't think we will see such a big impact on the financial stability of Germany as a whole or the German Länder.

You have to bear in mind that Germany's debt ratio is by far the lowest. France, USA are around 120% and Italy, Greece far above that. And even there the roads are no better than here.

So we could raise and spend this money without suffering lasting damage. But the task will be to use this wiggle room to make sustainable investments and not simply to plug budget holes and generate a spree of consumption spending.

**Luithlen, DZ BANK: The good old distinction between investment-related and consumption expenditure, I believe, is as old as the Federal Republic of Germany. What is your view of the new fiscal flexibility coming for the state of Hesse?**

**Alexander Labermeier, State of Hesse:** These are always two sides of the coin. Additional federal debt and expenditure will certainly stimulate economic growth and thus tax revenue for the Länder and the federal government.

If economic growth picks up again in Germany and is accompanied by sensible investment spending, that is certainly the positive side of the coin. The Länder will benefit because the federal government will initially bear the larger share of the debt burden for defence and infrastructure.

But the other side of the coin is that taking on additional debt should not be a way to make life easier. All must continue to work hard on reducing bureaucracy and simplifying administrative procedures, because otherwise you simply have more money to spend in the existing structures and procedures. And the impulse is a one-off. You just spend more money. The lasting effect of a more efficient way can only be achieved in the long term.

The art of managing both is to spend the new money sensibly, invest it and at the same time step on the gas when it comes to reducing bureaucracy. Knotty timber, sharp wedge.

I wouldn't be as critical as my colleague just now. All three rating agencies have affirmed Germany's triple-A rating, in light of the debt packages.

I also found their forecasts interesting, which show the same debt to GDP ratio in 2030, with or without fiscal packages, because you have to take higher economic growth into account.

For Bund and Länder, initially, when the debt package was announced, there was a rise in interest rates, which then fell again.

We also have to see how quickly the money is spent. Additional federal debt of up to €1tr is a big increase. With the extra 0.35% of GDP, the Länder will certainly have a much smaller percentage

increase. So we assume that our financing conditions will not change significantly.

Of course, we're somehow following the federal conditions. But I would take a positive view, as the agencies as well as investors have a positive view of it as well.

**Luithlen, DZ BANK: Against the background of reducing bureaucracy, I am particularly pleased that we have two city states that are perhaps even closer to it, because a lot of bureaucracy takes place at the municipal level.**

**Berlin has been called 'poor but sexy' — Ms Badack-Hebig, how do you see the temptation that, with added spending flexibility, fiscal discipline will suffer?**

**Elke Badack-Hebig, State of Berlin:** Berlin has indeed made very strong efforts to make savings in consumption. We presented a €3bn consolidation



Andreas Becker: "the task will be to use this wiggle room to make sustainable investments and not simply to plug budget holes and generate a spree of consumption spending"

list with the third amendment to the Budget Act 2025 last December.

And we have now passed an administrative reform law, which should help to eliminate some duplication of responsibilities between our districts and the senate departments. Only time will tell whether we will succeed.

As a city state, do we have the opportunity to generate significant domestic growth in the defence area? I think not. Could we generate other domestic growth in the area of investment? Yes.

For the state of Berlin, the share of the federal investment grant from the special fund for infrastructure and climate neutrality is around €435m annually, or €5.22bn over 12 years. This allows us to make allocations to replacement construction of roads and bridges, school construction and digitalisation.

The credit authorisation for regular borrowing under the debt brake reform is much higher — €788m for 2025, according to the draft of the upcoming fourth amendment to the Budget Act.

And the draft of the double budget for 2026 and 2027 has a very strong investment component for both years. The investment volume will amount to around €5.8bn in 2026 and just under €6bn in 2027, so that the investment ratio will be around 13.3% in each year. Investments are planned for transport infrastructure, housing, security and education.

Now we will see how quickly these investments can be put on the road, so that economic growth is triggered.

Considering we will have structurally weak growth in 2025 in Germany as a whole, and Berlin has grown slightly above the national average in previous years, we are quite confident we will also succeed in the next two years.

**Luithlen, DZ BANK: So if Berlin is poor but sexy and is now making investment programmes to bring economic growth to the streets, then Hamburg is rich but modest?**

**Christoph Hünecken, City of Hamburg:** I would say perhaps, Hanseatically reserved.

But with legal amendments to the constitution and state budget regulations, we are creating conditions that will enable us to use this new structural debt.

The legal requirements are now in place. But the scope this creates should be used responsibly to invest in science and education, as well as in the infrastructure of a city that has been growing for years and will keep on growing.

The other aspect is — and I believe this will play a much greater role for us in the future — our founding at the beginning of the year of a Financial Services Agency Hamburg.

Hamburg is more or less organised as a corporate group, managed according to accounting and economic criteria — a very business-oriented view of things, with a profit and loss account, de-

preciations, pensions provisions and commercial balance sheet, in which most of our subsidiaries are consolidated.

The Financial Services Agency Hamburg will increasingly serve as a group financing unit. This means that borrowing by the Free and Hanseatic City of Hamburg will increase, because investments by subsidiaries will be financed through internal loans granted by the City of Hamburg.

We have significant population growth in Hamburg, and we will have to make investments early on, such as in the subway and the construction of schools.

**Luithlen, DZ BANK: And the investments are in housing associations, transport companies and municipal utilities?**

**Hünecken, Hamburg:** We have many subsidiaries in mind that are eligible for financing through the City of Hamburg's budget and the Financial Services Agency.

There is no obligation for our subsidiaries to finance themselves through us, but the Financial Services Agency offers an attractive option. And this type of financing will enable us to make significant efficiencies within the group. It is also a logical step, if we are setting ourselves up like a big corporate group, to make a further integration step by financing the group accordingly.

**Luithlen, DZ BANK: Ms Badack-Hebig, how do you see this corporate approach that Hamburg is taking? Is it written in the stars for Berlin?**

**Badack-Hebig, Berlin:** Finance ministers naturally swap ideas and examine good models for their own application. Berlin has scrutinised this very carefully. We do not have such a large investment portfolio as Hamburg...

**Hünecken, Hamburg:** We have over 300 corporate investments.

**Badack-Hebig, Berlin:** Berlin has 61, and some very big players. Our six state-owned housing companies have the largest municipal housing stock in Germany. They have developed their own financing activities. Before the state of Berlin issued sustainability bonds, two of them were already involved in social bonds for housing construction.

So the main question is currently how we can offer more advice. We intend to maintain separate funding activities, as we value the corrective influence of the financial market on funding activities of our state-owned companies.

**Luithlen, DZ BANK: Mr Krause — what is Saxony-Anhalt doing with the glut of money?**

**Markus Krause, State of Saxony-Anhalt:** As my colleagues mentioned, we have two different discussions.



Markus Krause: "it's about ensuring that this money is utilised and there is not just a big announcement. We need some visible effects and results to measure the efficiency of the spending programmes"

On one hand we have now an additional opportunity, in the discussion of new debt. This structural component that is now to change will be an additional component that will continue to be used.

But we already had several exceptions from the debt brake. There has been the option of declaring an emergency and then financing it with credits. In Saxony-Anhalt, for example, the emergency situation due to the Covid pandemic was still declared in 2025. This means we still have opportunities to service certain expenses under this emergency situation.

We also had the instrument of financial transactions, to increase financial assets.

All in all, what we see is the importance of explaining all the regulations. The debt brake is not simply a debt brake, it means 'yes but'. You have to explain what this 'but' means in figures, again and again.

We have done that for our Land for the last five years. The need for explanation has increased, regardless of the need for capital.

Finally, for Saxony-Anhalt we see a potential of new debt out of the structural component of around €380m. However, the state government is undecided whether these funds should actually be drawn and is waiting for the budget results by the end of the year.

On the other hand, the second topic is funds from the federal infrastructure programme. For Saxony-Anhalt it means potential spending of €2.5bn over 12 years.

Many infrastructure projects and measures are relatively far along in terms of their definition. There has been a cabinet decision in the State that local authorities can plan which projects can be prioritised.

So the additional money will help, but in military construction projects in particular, there are a large number of simplifications implemented in procurement law.

There are still many discussions between the Länder and also within the Federal Ministry

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of Finance, trying to make this simplification possible and extend them to civil construction.

At the end of the day, it's about ensuring that this money is utilised and there is not just a big announcement. We need some visible effects and results to measure the efficiency of the spending programmes.

## FUNDING PLANS

**Luihlten, DZ BANK:** Let's move on to the funding wave being planned. Bernd, perhaps you can give a brief outline of what DZ BANK expects.

**Bernd Loder, DZ BANK:** This is a highly attractive asset class. On average, Länder bonds trade just 5bp above KfW, a spread that reflects their lower liquidity. Nevertheless, they receive strong demand from asset managers, especially relative to covered bonds.

This year's issuance has already reached €55bn, surpassing last year's total by €5bn, partly due to significant frontloading by the segment's major issuers.

However, there is still a general lack of spread differentiation. Many investors tend to group all the credits together. But over the last few years, we've seen that it's not just supply and demand that moves spreads, but also the respective Land's individual credit story.

The growing presence of international investors is another positive development. While a strong domestic bid remains crucial — accounting for more than half of allocations — an increasing number of international investors are being drawn in by the attractive yields. Looking ahead, it is likely that supply will continue to increase rather than decrease.

**Luihlten, DZ BANK:** What do your funding plans look like for the rest of the year? Maybe you already dare to look ahead to next year.

**Labermeier, Hesse:** The basis of our strategy is liquidity planning. We look at ourselves for an entire year. What is the Land's income and expenditure?

The tax estimate flows into this, as do the spending programmes. And in this liquidity curve we make the next decision. Do we want to be cash long or not? Since the coronavirus, we have made the decision to be cash long.

There were also years when it was economically interesting because the curve was inverted at the front. This year it was a bit more expensive. But the position is taken strategically because we have to keep the Land solvent at all times. And be it coronavirus, be it the rating agencies or geopolitical risks, we always have this cash long position — €3bn to €5bn of cash overnight in our accounts.

From this comes the funding strategy. When do I want to finance the year? We have financed €8.5bn this year and are now 100% through, having financed a larger proportion in the first half of the year.



**Bernd Loder:** "over the last few years, we've seen that it's not just supply and demand that moves spreads, but also the respective Land's individual credit story"

It used to be the other way round. We tended to finance two thirds in the second half of the year because we didn't want to be cash long [for too long].

We expect this strategy to continue next year, raising around the same amount from the markets.

**Becker, NRW:** We have a similar situation. We always have a daily liquidity plan for an entire year. It is already established until the end of 2026.

The basis for this planning is the budget. At the moment, the draft plan for 2026 still contains the tax estimate from May. That will change in October. But our budget will probably not be greatly affected, because we always make additions or deductions to the tax estimate to anticipate the future developments. The tax estimate is only ever based on current law, and not on what is likely to come. We include that in our calculations.

We are always cash long. That is a very comfortable position. However, our liquidity does not determine the timing of our borrowing.

We look at market opportunities and investor demand and are therefore very flexible and can change our entire programme from one day to the next, because we always have alternative routes up our sleeve.

Our funding programme for this year — slightly above €12bn — is already done. Our latest market appearance was at the end of September with a €2bn seven year bond, which generated great demand in the market.

Next year will be very exciting for us, because in July we passed a new state law that means we will relieve our NRW municipalities of half their liquidity loans — around €10bn — for the long term.

We will transfer these to the Land's debt at the beginning of next year. We expect that around half of this will become due next year and we will have to refinance it, plus regular maturities of around €10.1bn, plus any new debt from the cyclical or structural components.

All in all, we expect NRW to have a borrowing requirement of around €18bn in 2026.

**Krause, Saxony-Anhalt:** Then it might be a good idea to go from €18bn to the other end of the spectrum of the Länder's borrowing requirements!

In Saxony-Anhalt our total debt stock is around €23bn. But we are coming from a time when we used to say our funding requirement was €1bn to €2bn a year. Now it is €3bn to €4bn. That means we can have more flexibility in our capital market approach.

Like the Länder colleagues, we have a liquidity forecast, we keep liquidity in the till, simply to be prepared. Who knows what will happen? This is the major goal of our departments — to ensure the State's liquidity at all times. On the other side, we need to be able to act at any time when the opportunity arises.

We in Saxony-Anhalt are in a much more comfortable situation because we can be very selective about products and timing.

Nevertheless, we have found that the first quarter is a very good window for us, especially at the beginning. It helps us react appropriately to the budget results of the past year and the necessary outcome regarding the use of the debt brake exemption.

Reacting appropriately to this has meant that our major funding activities were also in the first half of the year. That is why we can now focus on credit spreads and demand. We have issued €3bn this year and are still open to issuing between €500m and €1.2bn.

I have to let myself be surprised, in part, by where the journey takes us and what we see as the liquidity needs of different spending programmes. And the same is planned for next year.

**Hünecken, Hamburg:** We have a cash pool in which our major holdings participate. Depending on the situation, financing requirements can be covered at short notice from this cash pool. But in principle, we also have large stocks of cash, which we can utilise. In recent years, we've used these to make significant debt repayments. In 2023, the figure was €2.5bn; in total, it has been €3.3bn.

**Luihlten, DZ BANK:** In other words, if Hamburg Overhead Railway still has lots of cash and the water companies need some, they can use it?

**Hünecken, Hamburg:** In general, yes. This is done by our liquidity management.

We've done €3bn of funding in this year, and have around €3bn planned for the next three months.

Because we have now started to finance our subsidiaries via our model, we require between €5bn and €7bn in financing over the coming years.

**Badack-Hebig, Berlin:** Berlin's treasury started 2025 with a base and a maximum funding scenario, to

explain to investors what these numerous credit authorisations could imply.

Accounts of the fiscal year are settled at the end of March every year, so front-loading the following year also results from the fact that we only then have detailed accounting.

In this year's scenario, we started [with a funding plan range] between €7bn and €11bn — a very broad spread, since there were few signals from the budget as to how far we would want to use our numerous reserves.

Now, we anticipate borrowing needs of €9bn to €9.5bn for 2025. In the draft for the fourth supplementary budget for 2025, parliament will most likely — this is not the case in all Länder — make use of the 0.35% [borrowing] authorisation this year already. That's €788m. So we still have something we won't know for sure until the end of October.

We have funded €6.5bn so far. Depending on how this authorisation issue turns out, we still have between €2bn and €2.5bn to do this year. We will definitely be carrying out our sustainability bond project in October.

For next year I am counting on about €9bn. Since redemptions are €5bn, you can see that the instrument of financial transactions is very heavily used.

We are significantly strengthening our state-owned companies with capital injections and we have an investment programme in housing loans — both qualifying as financial transactions.

For example, there is a very strong need for investment in energy and heating. Buying the Berlin district heating network from Vattenfall is one thing. But the state-owned company needs to push ahead with the transformation now and say 'How can we decarbonise?' There is a need for deep geothermal boreholes, biomass or power-to-heat systems.

As a result, the equity base of the state-owned companies is being strengthened very significantly. Next year alone, we are planning €2.5bn in financial transactions in the budget draft. This will result in a total of €9bn of funding for the coming year.

## INTERNATIONAL INVESTORS

**Luithlen, DZ BANK:** You also need international investors for that.

**Loder, DZ BANK:** Regarding international investors, we have observed significant demand this year, specifically for long maturities, ie. 20 to 30 years.

While certain Länder like NRW and Berlin are active in this maturity segment, the market for such long-dated paper is otherwise small, with only the European Union, International Development Association and Austria being the other regular issuers. Consequently, the market at the ultra-long end is not particularly deep or active.

Is it simply too expensive for issuers due to the yield levels?

**Hünecken, Hamburg:** Our subsidiaries have longer term financing requirements than we do. They would rather have 20 years. So we are planning a long term transaction this year, financing to pass it on to the companies. Due to the financing requirements of our subsidiaries, I assume that the City of Hamburg will regularly issue bonds with longer maturities in the future.

**Labermeier, Hesse:** Last year we issued the first 15 year bond from the Länder for a long time — and it was in high demand.

This has now also been increased twice, so we are certainly looking at the long end of the curve as well. We do get diversification of investors when we issue these long bonds.

We also always look at the steepness of the curve, because we're paying the full interest rate out of the budget. You have to have a strong focus on rising interest rates or be issuing a proportion of the funding that is so small that it almost doesn't matter in the budget to justify this spread.

In the past, we established a long term overlay on the entire debt portfolio, so we had a fixed interest rate of almost 11 years for the entire portfolio. We are actually quite well positioned. But we con-



**Elke Badack-Hebig:** "We are significantly strengthening our state-owned companies with capital injections and we have an investment programme in housing loans — both qualifying as financial transactions"

sider these points of 15 or maybe even 20 years to be helpful for investor diversification.

**Becker, NRW:** NRW is interested in long maturities at low interest cost, and to achieve this, we catch the opportunities we get. Therefore we issued bonds for up to 100 years during the coronavirus years. Our average term is 20 years.

In this respect, we are very fortunate that our portfolio is not so much affected by all the changes in interest rates. More than half of our bonds will not mature until after 2035, and the sensitivity of the average coupon rate of the entire portfolio is less than 0.15 percentage points per year.

Taking into account the volume we have to cope with, we naturally also have to be flexible and, above all, take investor demand into account.

Yes, the curve is meanwhile very steep. Nonetheless, NRW has always said, especially in euros, we maintain a curve of one to 30 years and keep it alive.

That's why we issue 30 years every year. We did it in January this year. And even if it is a little bit more expensive, you can be sure that NRW will be back in the 30 year segment next year with



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an issue of at least €1bn, provided the demand is there.

Otherwise, we will keep our curve vital, especially five to 10 years, which will of course always be included, and we will also look at intermediate terms of 15 to 20 years.

In the last few years, the yield peak was around 20 years. That is why we have left them out. Now we have a more or less evenly steep curve, and can perhaps look at 20 years. But we are very flexible, you can talk to us and we listen to what investors want. That's why we don't want to commit ourselves. However, we are committed to the core terms of five and 30 years.

**Luithlen, DZ BANK:** Dollar versus euro is always an issue, but under the heading of 'de-dollarisation' now we are seeing, at least at the fringes, moves out of the dollar, by for example Asian or Latin American accounts, from US Treasuries into either dollar SSA names, or even euros, Aussie dollars, Singapore dollars. Do you share that experience?

**Becker, NRW:** Definitely yes. It is obvious that traditional dollar investors in particular are no longer investing quite so much in US Treasuries, but rather looking for alternatives in Europe, or even switching currencies and investing in euros instead.

It is particularly the major central banks, but also large asset managers which have traditionally only invested in dollars.

We have certainly seen this in the last 12 or 15 months, and the trend is rising. It is quite subtle — dollar portfolios remain, but new investments are being invested in euros or in dollar bonds of European issuers.

About a year ago, we decided to set up a short dollar curve of one to five years. We will complete it next year and then keep it alive accordingly.



Friedrich Luithlen: "we are seeing, at least at the fringes, moves out of the dollar, by for example Asian or Latin American accounts, from US Treasuries into either dollar SSA names, or even euros, Aussie dollars, Singapore dollars"

It is a way of supplying investors, which are now moving away from US government bonds but not necessarily from dollars, and are looking for alternatives.

**Loder, DZ BANK:** Adaptability is increasingly important, and as NRW has demonstrated, maintaining a flexible funding toolbox is crucial.

As Andreas has pointed out, diversification is occurring on two levels — there is a dollar diversification, away from US Treasuries into other dollar-denominated assets. And then there is a shift to the euro, but that is quite gradual.

In the medium term, we expect the euro to regain its importance as an investment currency. Furthermore, the current political uncertainty in Europe, particularly in France, is another positive factor for the Länder, as it drives many investors toward less volatile assets.

**Labermeier, Hesse:** Over the last decade, our order books have become more international, especially following the European Central Bank's withdrawal from its purchase programmes.

Of course, this has been more of an issue for the major issuers, but we are having order books with more than 50% outside Germany.

Responding to this shift, we have decided to regularly meet international investors on site and we do around five roadshows a year in Europe, because, unlike NRW, I don't think we'll be issuing foreign currency bonds any time soon.

But seeing investors on the ground, and answering many questions about the economic situation, the issuer profile, the debt programmes Germany is now undertaking and other issues, including political ones, shows that it makes sense to do this.

You can also see in the order books that we regularly have new names and investors from all over Europe, in addition to those from Asia and north Africa. Outside Europe — for example, Africa and Asia — we are getting up to 10% of our books, depending on the term. In Europe, Benelux is up to 15%, Scandinavia up to 15%, France, Italy also up to 15%. Spain has now been added. So European and worldwide investors are switching to Länder bonds.

**Becker, NRW:** We have been moving towards internationalisation since 2002 and have regularly approached investors outside Germany since then. And we've felt exactly what Alex said, with a little more emphasis. We've always had a relatively large foreign share in our books, but since the coronavirus pandemic this has increased significantly.

We regularly have a good share from Canada, Asia, north Africa, northern Europe and south America. The central banks there are always very active.

So you could say that we now have the whole world represented in our order books and the German share is really partial, sometimes only 25% to 30%.

As Alex said, you have to be on site regularly to pick up investors and explain things to them. Some-

times you're surprised when you're in your own bubble and think 'OK, everyone knows that', but not everyone does. You really have to go and explain things to people.

At the end of the day, it's only people who decide whether they buy this bond or not. And I have to look them in the eye from time to time and say 'I'm really there and what you're doing is a good thing.'

**Badack-Hebig, Berlin:** What Alexander and Andreas have described has been observable for us over the past five to seven years. This has enabled us to move away from the €1bn issue volume to €1.5bn, with an important European foreign placement.

**Hünecken, Hamburg:** We also have international books, perhaps not to the same extent as others round this table, but we have observed up to 50% international participation on occasion in our deals.

**Krause, Saxony-Anhalt:** We also have around 50% to 60% foreign share in our bonds — partly due to our standardised debt issuance programme, which only NRW and Saxony-Anhalt have.

It really pays off to have documentation in German and English, which reflects the demands of international investors in a very clear and broad approach. This was an outcome of our early attempt to approach international investors.

But I have also found that ESG or thematic bonds have led international investors to look at our capital market products. I still remember one book that had over 70% foreign placement — we were very proud of that result.

## SUSTAINABLE FINANCE

**Luithlen, DZ BANK:** That brings us nicely on to the ESG topic. Ms Badack-Hebig, what is your outlook for sustainable issuance?

**Badack-Hebig, Berlin:** The sustainable issue set for October will be our second sustainability bond after our inaugural deal in 2023.

According to our current framework, this is underpinned by projects which we finance through the budget. In other words, every sustainable project, be it green or social, can be found in one of our budget items.

What we do not currently include — and we still need to check whether this can be changed in any way in the next framework — is the equity injection that was used to purchase the Berlin heating network from Vattenfall. This would give us a large amount of expenditure for sustainable purposes in the future.

In the meantime, we have individual green projects which are included in the budget, mainly clean transportation projects.

Investors often ask: 'What is the strategy?' The overall sustainable strategy for Berlin is a two-pillar strategy.

We have the activities of the state-owned companies, which are doing their own sustainable financing and driving the transformation. We support them. That is one pillar.

The other pillar is based on eligible projects in the budget. For the second sustainability bond there will be numerous projects again, based on the projects we identified for the first sustainability bond.

However, we have seen a shift in e-mobility for police and fire brigade emergency vehicles. There was new activity in the ICMA category pollution prevention and control and we are very confident that the 33 eligible green and social projects will bring another good funding result.

**Labermeier, Hesse:** Adding to the subject of ESG, Hesse is an exclusively green issuer. We have now issued three major green bonds. Our aim is to issue a large liquid benchmark size, ie. at least €1bn every two years. Why only green bonds? We could certainly categorise all the Land's bonds as sustainability bonds. I issue €8bn in loans every year and in Hesse we spend €10bn on schools and universities alone. So what would be the added value of labelling that 'social'?

The news, I think, is not our social spending. It's about showing the projects for environmental protection. And in this regard, we have decided to issue only green bonds.

We also see a good investor base for them, which appreciates this approach. We have also seen a knock-on effect on our normal bonds, with green investors also buying the state's normal bonds because they have realised that the State of Hesse is a sustainable issuer.

This has now made us the largest green bond issuer among the Länder and also among the European regions.

And now for the first time, investors are asking a public body 'What impact have you achieved with the money I give you?'

Until now, investors have always bought our bonds because they have a great rating, because they have a spread advantage. With green bonds, we are moving directly to discussing projects with the investors and discussing the impact of them.

**Luithlen, DZ BANK:** Considering sustainability, what are your thoughts around defence spending? Can it be included?

**Becker, NRW:** For us, not directly yet, because defence is a task of the federal government. In 2015, we were the first Land to issue a sustainability bond, and since then we have issued at least one a year.

This year, the 12th one we issued was at least €1bn. And we will continue to issue in the future.

The underlying projects in our budget are picked out in regard to a stringent set of rules. We have set numerous exclusion criteria for our-

selves. Otherwise, as Alex said, in principle all bonds could be declared green or sustainable, because the corresponding expenditure on education exceeds the amount.

If the defence spending fits into the set rules it can be included. But we won't amend this set of criteria just to catch the defence spending.

The set of rules has proved its worth over the last 10 years. And it has also worked well with the Wuppertal Institute here in NRW, which prepares an impact analysis for each bond and each individual project, to show exactly how much CO<sub>2</sub> it saves, or how much additional green space has been created.

This is a well rehearsed procedure, and, due to the low volume of defence spending at the moment — €300m to €350m out of the €100bn budget — we do not need to adapt it.

The sustainability bonds have also opened up new groups of investors, who have gradually transferred to regular bonds. These sustainability or green bonds used to achieve financing advantages. We have noticed for about two years that this is no longer the case.

We are at the normal financing level, but we still have the advantage of having a group of investors in our books whom we could not otherwise draw out from the woodwork.

**Krause, Saxony-Anhalt:** In 2023 we created a framework for social bonds.

We wanted to support a special programme of the State, and included 60 individual projects out of it.

And we wanted to support the ideas and special views of capital market participants, for example by finding the right information and asking the most pertinent questions to grant a success of the programme.

What we learned then was that investors' demands for information are enormous.

And that helps a project manager to ponder what is the overall goal of a project, beside spending money. It is about actually making a difference. Who will benefit from this money?

We made a conscious decision to create a framework focused on social spending, simply to highlight and focus on the special challenges the Land faces.

Of course we are certainly not disconnected from climate change. But in our state, social issues in particular play a greater role, with challenges like age structure, access to education and health-care and population decrease. So it is these topics that are important and politically relevant to us.

At the same time, our state government has set itself the goal of creating one of the first sustainability budgets. We worked with a project group to sort all the individual items of the Land's budget according to the Sustainable Development Goals.

The preliminary results have already shown how diverse the budget is and how many hidden green activities we have in different projects.

I am incredibly proud and happy that the state is



**Christoph Hünecken:** "Since 2017 our state budget reflects the 17 SDGs and the budget items are allocated to these goals. Beyond that, the corporate objectives for all our subsidiaries include mandatory sustainability targets"

one of five Länder so far that have made progress on this issue. And I'm curious to see which additional facets we can prepare for 2026.

**Hünecken, Hamburg:** Let's look at the group level again. Since 2017 our state budget reflects the 17 SDGs and the budget items are allocated to these goals.

Beyond that, the corporate objectives for all our subsidiaries include mandatory sustainability targets, and a number of them are active in sustainable finance.

The Hamburg Investment and Development Bank has already issued social bonds. Our Hamburger Hochbahn has issued a green bond. Other companies have issued green promissory notes.

The size of our state budget is currently too small to generate sufficient "green volume" to issue a benchmark green bond.

With our creation of the Financial Services Agency, the idea is to bundle investments at group level, which means we don't just want to use the budget of the City of Hamburg to create a green framework. We also want to use green investments of our subsidiaries. Then we could go into the market regularly and in some volume.

However, we are currently examining the requirements for this and are in dialogue with the companies.

**Loder, DZ BANK:** On a related note, quantifying the greenium has become quite challenging, although the twin green and conventional bonds issued by the federal government serve as a key benchmark. It is sometimes difficult to recoup the cost of all the work put into sustainable finance projects. This can create a justification challenge for both the investors and issuers.

However, as Alexander has pointed out, there is a clear positive spillover effect on an issuer's conventional bonds. This improves investors' perception

of the credit, and our impression is that it results in larger and more granular order books.

Therefore, it remains to be seen how things will develop. We have had the honour of accompanying a number of these projects, and it is always very exciting.

## DIGITAL BOND MARKET

**Hünecken, Hamburg:** One of our aims is also to broaden the investor base.

**Luithlen, DZ BANK: What do you think about digitalisation in the bond market, including distributed ledger technology?**

**Krause, Saxony-Anhalt:** Our State issued digital commercial paper under the supervision of the Eurosystem's major phase of DLT tests and trials last year.

We were very happy to get that opportunity and that we successfully used it. We were able to gather a really wide range of experience in terms of organisation, legal framework conditions and requirements. How do you have to restructure the process?

Because it's not just that I now have an input screen. Above all, it's how to restructure myself, to suddenly digitise activities that were done manually.

That was a very big learning experience for us. As a result, we have already restructured many processes.

To be honest and with a smile, we needed one year recovering from this experience. That's why we haven't added a digital bond or anything like that. But we made some progress in the internal preparations.

Germany has created the right framework legal conditions some years ago and Saxony-Anhalt has already updated its legal framework for debt issuance to include electronic ways of issuance last year. That alone was a huge step, which will certainly lead to us being able to deal with this topic even more in the coming years.

**Becker, NRW:** Yes, I think so too. Digital bonds will become a big topic in the future, even if we are still in the early stages at the moment.

Just like Markus said, there are a lot of changes you don't even have on your radar and it's a learning journey.

So as not to be surprised at some point, we in NRW are now also embarking on this journey and examining the legal adjustments we need to make to our state debt system laws and the like, to be able to issue DLT bonds.

Depending on how quickly this happens, we will then follow this path. If it all works out the way we want, you can definitely expect us to try it out next year.

Not from a funding perspective, but to familiarise ourselves, so that when it really does have a

significant share of the capital market, we're not just getting started, but are ready.

**Labermeier, Hesse:** The question with new products is always whether there is a first mover advantage, or whether you should wait until the market has developed a standard — so that you can join the learning journey at some point, but not create five initiatives that have gone in the wrong direction.

The question is, when is the right time to get involved? I think it's getting closer now.

But you also have to say that the Länder already issue efficiently. If necessary I could launch a bond tomorrow. And it would be documented and completed in four days.

The expectation is always that digital will make things faster, easier and better. This idea has to be demolished first, that this can be done faster, easier and better than the old school way of issuing bonds. You still have to look for these efficiency benefits. That's the point.

But of course, I agree with Andreas. You have to observe, accompany and sometimes go through the hard work.

We saw it with the green bond, which is also a year's work, when a normal bond is three or four days. We do it anyway, also because of the greenium we still see. With digital bonds, the advantage is of course smaller and the work and initial hurdle is greater. But we are also keeping an eye on this.

**Badack-Hebig, Berlin:** I can only second that. We simply don't have the capacity to spend one year recovering from one bond issue.

**Krause, Saxony-Anhalt:** To be very clear, we see some real advantages of using DLT, already right now in this stage of development. We made the



Alexander Labermeier: "We have seen a knock-on effect [from green issuance] on our normal bonds, with green investors also buying the state's normal bonds because they have realised that the State of Hesse is a sustainable issuer"

conscious decision to do commercial paper, because we already have years of experience in this field.

What we experienced is that we were able to reduce the settlement time from T+2, which is normal for CP, to T+1. In theory, we could have reduced it to T+0.

Because CP is really a liquidity instrument, that means it could be a way to organise liquidity incredibly quickly and efficiently. I thought that was one real advantage we saw.

This may not be monetised, but simply from a risk perspective, which should be the focus of all our attention, in terms of liquidity, the experiment has given us a little more certainty that this possibility exists.

**Becker, NRW:** And if at some point this should be a functioning market, and you can settle at T+0, then perhaps it could also reduce hedge costs on the bank side, so that it can then really be economically advantageous, not only for the investor, but also for the issuer.

**Luithlen, DZ BANK: Thank you very much for your contributions and the open and lively discussion. Before we finish, let me quickly tell you about some of the initiatives we have been working on in the digital space.**

At DZ we have worked with partners including KfW, the European Investment Bank, Siemens, NRW.Bank, BayernLB, Union Investment and others, in various functions around DLT-based transactions.

We have acted as crypto-bond custodian, we have been sole adviser on the structure of DLT transactions. We have been bookrunner on syndicated DLT trades and a smart derivative counterparty. In many cases we have had more than one function on the same deal.

We are pushing this development because we believe that among the R&D deals so far, the DLT-based Smart Bond Contract format will represent the future constitution of bonds.

The SBC holds the promise to deliver on the EU's Savings and Investment Union, save significant costs in back offices and opens new ways to work on issuance-specific data use cases.

European legislation and a successful implementation of the Pontes and Appia initiatives at the ECB are two key developments that enable mass adoption.

We believe, further, that there are versions of DLT modality that should allow both high quality liquid assets and ECB collateral eligibility, as well as secondary market liquidity provision.

Once that is achieved, we will see a rapid shift to a new DLT-based issuance standard. That standard will be open, transparent and carried by the industry as a whole. That's why we code everything in the open, are platform-agnostic and publish our white papers on the subject. 

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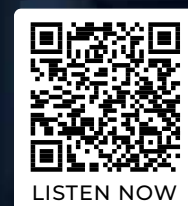
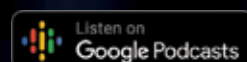


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# The Vision thing: investors fret as Saudi projects stall but jobs are the test

By Francesca Young

In the last decade there has been an explosion of 'Vision' plans from emerging market governments, with many targeting 2030 as the finish line but some as far out as 2050.

Saudi Arabia's Vision 2030 has been the most talked about, with its futuristic construction projects like the Neom site on the Gulf of Aqaba. There are also Qatar National Vision 2030, Kuwait Vision 2035, Abu Dhabi Economic Vision 2030, Egypt Vision 2030...

But after the Public Investment Fund — Saudi Arabia's sovereign wealth fund — took an \$8bn write-down on so-called gigaprojects earlier this year, there have been questions over whether these plans serve the purpose they are intended to.

"The danger is with these Vision plans that they can be too state-led," Arnab Das, global economic counsellor and global macro strategist at Invesco, told *GlobalMarkets*. "There is a need for that because they need to coordinate and push things through, but if there are too many state decisions and not enough from the market you lose the dynamism and liberation that comes from private sector involvement."

One advantage of Vision plans is that for countries — like oil-rich states in the Gulf — that do have wealth, just not development yet, they help to focus spending within the country.

"The Saudi PIF is an example of using the national patrimony of [hydrocarbon] resources in the ground to finance a new growth strategy at home, like a kind of development bank, instead of a traditional sovereign wealth fund that invests in assets abroad," said Das. "It's about driving domestic growth through investment at home, rather than [investing their]

export surpluses in the US, EU, UK or other EMs, as they might have done before Vision 2030."

## LINE IN THE SAND

Saudi's Vision 2030 is often spoken about with cynicism by international investors. Some of the plans, such as The Line, a linear city initially planned as 170km long and now being reported as closer to 2km in its first phase, are extravagant, costly and running behind schedule.

They are now warily eyeing the huge amounts Saudi is borrowing in the bond market — just under \$60bn this year between the Saudi state-owned entities — and braying for clarity on progress.

But Kristian Coates Ulrichsen, a fellow for the Middle East at the Baker Institute in Houston, argued that this grousing is not what should matter most for Saudi Arabia.

"What investors fear is not that the plans will be cut back, but that as the costs escalate Saudi will charge on ahead and not cut back if it needs to," said a debt capital markets banker in the region.

He said the key to making Vision plans useful was states being willing to accept that they would need to change and reprioritise them as they went along.

PIF's writedown on the gigaprojects came amid lower oil prices and a growing Saudi fiscal deficit.

"I think [Saudi's] Vision 2030 is exactly that — it's a vision, not a plan," said Coates. "It's a sort of roadmap. Even if we get 30% of the way there, we're a lot better than where we started."

That may be true, but some of the gigaprojects were launched with such fanfare it may have raised expectations, especially among international investors.



Construction of the King Salman Park in Riyadh, slated to be one of the largest urban parks in the world

But Coates said: "Ultimately, Saudis will judge Vision 2030 by whether they have jobs and a better quality of life, not by whether The Line gets built on time."

## SOCIAL CHANGE

And Saudi Arabia has made significant progress in other areas. It has already surpassed some of its targets, years ahead of schedule.

"For Saudi there are a lot of inherently very good measurements, like creating new jobs for the Kingdom or increasing the proportion of women in the workforce to 30%," said Coates. "It is already 37%."

He described an "uneasy tension" between the two sides of Vision 2030: the tangible objectives that Saudi citizens will benefit from and measure, and the rest.

But even as some of the many Vision plans fall short of hopes, Das said they were not useless.

"We've seen rich countries, particularly in Europe, falling behind in some areas, while China became a leader in tech, not a follower," he said. "MAGA was essentially [a reaction to] this for the US. I'd argue that Europe needs a plan."

## Regulatory 'fragmentation' threatens stablecoins' Hindenburg moment

By Frank Jackman

Regulators cajoled each other this week to align their approaches to digital currencies, to avoid regulatory "fragmentation". The market is mushrooming and could hit \$2tr by the end of 2028, Standard Chartered estimates.

"The future of finance is, for sure, digital," said Kristalina Georgieva, managing director of the International Monetary Fund, on a panel this week. "I'm telling countries to accept the reality: fiat money is moving digital. Do not close your eyes to reality."

As crypto assets cross over into the mainstream and proliferate, regulators are racing to keep pace.

Stablecoins are high on the agenda. In theory they are stable assets, pegged one-to-one to liquid, real-world assets, like hard currencies or highly rated government bills.

But given stablecoins' growth and gargantuan appetite as debt investors, alarms are ringing about their influence.

The largest stablecoin, Tether, has

\$181bn outstanding. In its last reserve report in late June, almost 80% of its coins were backed by \$130bn of short term debt or cash-like instruments.

In its Global Financial Stability Report this week, the IMF warned that "because stablecoins may be subject to run risk, fire sales of stablecoins' reserve assets — such as bank cash deposits and government securities — could spill over into bank deposits and government bond and repo markets."

Regulators are anxious to prevent this contagion. The US is leading the way, for now. In July, President Trump signed the Guiding and Establishing National Innovation for US Stablecoins — Genius — Act, establishing federal stablecoin regulation.

This week, Sarah Breeden, deputy governor of the Bank of England, said on a panel at DC Fintech Week: "With the flurry of activity in the US this year, I hear people say that the UK is behind in its work on stablecoins," she said. "I must say I don't recognise this." She said the UK hoped to finalise stablecoin legislation next year.

## ALL MESSED UP

However, Georgieva said: "There is a real risk of fragmentation if frameworks don't gel. Are we going to be in a fragmented world [...] and in a regulatory environment so messed up that we create even more friction?"

The Financial Stability Board echoed that fear. On Thursday, it published a review of global regulatory frameworks for crypto assets that found "significant gaps and inconsistencies" in implementing crypto and stablecoin recommendations.

"Implementation progress remains incomplete, uneven and inconsistent," said Arthur Yuen, deputy chief executive of the Hong Kong Monetary Authority and chair of the team that prepared the report. "This creates opportunities for regulatory arbitrage and complicates oversight of the inherently global and evolving crypto-asset market."

The FSB found that although progress was being made in regulating crypto assets, legislation on stablecoins was mostly "lagging" globally.

However, considering how fast stable-

coin technology was evolving, a "light touch to regulation" was needed, said Jeremy Allaire, chief executive of stablecoin issuer Circle, at the IMF this week.

We "must be very careful when implementing regulation [for stablecoins]," warned Ajay Banga, president of the World Bank Group, on an IMF panel this week. "We don't want to kill it via regulation. Regulate correctly, don't overregulate."

In 2022, Jon Cunliffe, then deputy governor of the Bank of England, suggested a regulatory framework could save crypto assets, including stablecoins, from having a Hindenburg moment.

When the Hindenburg airship went up in flames almost 90 years ago, it destroyed the whole industry. For Cunliffe, the same could happen in the early days of the crypto securities market, without a strong set of rules.

Of course, regulation is not a panacea for stopping disaster. "Look at banks," said Umar Farooq, co-head of global payments at JPMorgan. "They've been regulated for hundreds of years, but every 10 years one explodes."

# LATAM SOVEREIGN RATINGS HOLD FIRM — FOR NOW

Latin America's governments are weathering trade rifts, tariff shifts and policy uncertainty. Across much of the region, ratings are holding up under strain, but fresh elections and structural challenges could test that resilience. *GlobalMarkets* spoke to **Shelly Shetty**, Head of Asia and Americas Sovereigns at Fitch Ratings, about the region's credit outlook, fiscal landscape and the major political contests in the year ahead

## How are shifting global trade and tariff dynamics affecting Latin American sovereigns?

Changing trade and tariff dynamics have probably been the biggest risk for the global economy. Effective tariff rates have risen materially, although the degree of impact across Latin America varies.

Mexico has been the most affected, since it was among the first countries hit with 25% fentanyl tariffs. There's also uncertainty around the 2026 review of the United States-Mexico-Canada Agreement. Progress has been made in aligning Mexican exports with the agreement, and as a result, effective tariffs have increased more slowly than expected.

Still, we see Mexico as among the slowest growing economies in 2025, reflecting both external uncertainty and domestic dynamics.

Brazil has faced some of the highest tariffs — around 50% before exclusions — but its relatively closed economy means the growth impact is more muted.

The rest of Latin America has fared better, with headline tariffs near 10%. Competitiveness has not been significantly affected, especially compared with parts of Asia, where tariffs are 15% to 20%.

Another potential channel of impact is US immigration policy. Increased deportations could reduce remittances, particularly affecting Central America and Mexico.

## What is the economic growth outlook for the region, amid this uncertain external backdrop — and how is this affecting credit trends?

Even without external uncertainty, growth is weaker in Latin America than other emerging regions, due to structural issues such as low saving and investment rates, limited reform momentum and governance constraints.

We forecast median growth of 2.7% in 2025, slightly down from 3.2% last year, but above the pre-pandemic average. Larger economies like Mexico and Brazil are slowing, while Paraguay should grow close to 5%.

Macroeconomic stability has held up, supported by flexible exchange rates, inflation targeting regimes, contained current account imbalances and sound external liquidity in most. Central banks are easing amid disinflation, and expected US rate cuts add flexibility. We see growth slowing further to about 2.4% next year as China cools and oil prices fall.

Despite headwinds, sovereign ratings in Latin America have held up well. We've had more upgrades than downgrades this year — Argentina and El Salvador were upgraded, while Bolivia was downgraded.

Positive outlooks now outnumber negatives,

especially among smaller Central American and Caribbean countries, with Paraguay also recently assigned a positive outlook. Most of the larger countries are on stable outlook, although we did put Colombia on negative outlook earlier this year.

## What are the main fiscal trends in the region and what challenges do you see ahead?

Fiscal consolidation since the pandemic has been fairly good, with median deficits narrowing toward pre-pandemic levels — a contrast with regions like Asia, where progress has lagged.

But larger economies such as Brazil and Colombia still run high deficits and Mexico's remains moderate but persistent. Credibility around fiscal rules has weakened somewhat, as seen in Peru and Colombia.

Looking ahead, moderate growth, subdued commodities, high financing costs, and social pressures will complicate further adjustment.

Some governments, including Mexico's, also face

**"Despite headwinds, sovereign ratings in Latin America have held up well. We've had more upgrades than downgrades this year"**

strains from weak state-owned enterprises such as Pemex. Debt ratios are rising in the large economies, while smaller Caribbean and Central American credits running primary surpluses are seeing debt decline.

## Beyond headline debt and deficit numbers, what deeper structural risks are most relevant to your sovereign rating outlooks?

Structurally, public finances remain a relative weakness. The region's narrow revenue base reflects high informality, tax evasion and exemptions, while commodity dependence of revenues introduces volatility. Stabilisation funds are rare and have eroded — for example, in Chile and Peru — and are small in Mexico.

Efforts to improve tax administration have helped in countries like Mexico and Paraguay, but it's uncertain how durable those gains will be. In the longer term, countries will need structural tax reforms to broaden the base, address spending needs and consolidate further.

Rising fiscal rigidities are another concern. Many governments have used capital expenditure as an adjustment tool, making budgets less flexible. Growing pension costs, social spending and interest payments all add rigidity. In Brazil,

prolonged high interest rates have sharply increased debt service costs, and about 90% of the budget is already committed to mandatory spending.

Pension costs remain a headwind, though Brazil and Uruguay have passed reforms in recent years, while Paraguay is planning a reform. Other countries, such as the Dominican Republic, still face rigidities from transfers to the electricity sector and quasi-fiscal deficits that weigh on flexibility and credit profiles.

## Looking ahead to the 2026 election cycle, how significant are political transitions for sovereign credit risk in the region?

Governance challenges and institutional weaknesses weigh on the credit profiles of several countries. World Bank governance indicators have generally slipped over the past decade, especially in larger economies, while smaller credits have shown some improvement.

Overall, Latin America still scores below other emerging regions on rule of law, corruption and government effectiveness. Elections will be important to watch to see whether policy direction improves or deteriorates.

Before 2026, two key votes are coming up this year in Argentina and Bolivia, both rated in the 'CCC' category. In Argentina, the mid-term election will test the durability of President Milei's adjustment programme and his ability to govern effectively. The US's support is important, but it remains to be seen if Argentina uses this period to rebuild reserves to manage sizable foreign currency debt maturities ahead.

Bolivia faces a bleak outlook, with high deficits, inflation, weak external liquidity and bond payments due early next year. The government will need to decide between a pragmatic adjustment — cutting subsidies, rebuilding reserves and securing multilateral support — or some form of debt restructuring. Social unrest is also a risk.

Looking to 2026, the key elections will be in Colombia and Brazil. Both face high fiscal deficits and rising debt burdens, and post-election fiscal adjustment will be crucial to restore investor confidence. Colombia may need another tax reform, while Brazil's next administration will face the challenge of boosting investment, reinforcing the fiscal anchor and achieving primary surpluses to stabilise debt. ●



## Developing nations achieve massive solar panel growth

By Arthur Bautzer

Middle and low income countries are quietly enjoying a solar power boom, driven by Chinese imports.

According to thinktank Ember, countries in the Global South imported more solar panels from China than the North last year, after imports more than doubled in two years.

Gerben Hieminga, senior sector economist, energy at ING, told *GlobalMarkets* that in Africa, "total imports of solar panels grew 60% in the past 12 months, equivalent to the capacity of 15 to 20 large scale gas or coal-fired power plants. You cannot build these plants in a year."

Pakistan's transformation is particularly striking. Its panel imports jumped from 3.3 GW in 2022 to 17 GW in 2024, Ember said. This year's are expected to be even higher.

The vast majority were imported by private individuals rather than utilities, which Singh said "has created a serious technical challenge for the country's grid".

Vikram Singh, senior director at RMI, said there "is no one-size-fits-all approach" to the energy transition. "In simplistic terms, there is a top-down policy and enabling environment approach," he said. "At the other end of the spectrum, in countries like Pakistan, there has been a rapid bottom-up approach, whereby the loosening of import duties for solar PV via private channels has enabled tremendous scale and speed."

The drivers of the solar boom are manifold, including tax incentives. But at its core is "China's severe overcapacity in solar manufacturing," Hieminga said.

Goldman Sachs says China's production potential alone covered 200% of global solar panel demand in 2024.

Overcapacity has driven panel prices to record lows. According to the International Energy Agency, the average annual global wholesale spot price (excluding tariffs and non-market costs) for PV modules declined nearly 45% year-on-year in 2024, falling to \$0.09/W.

### FOSSIL FUEL IMPORTS COULD FALL

The full impacts of this rapid shift are only just coming into view. Hieminga believes rapid growth in solar generation could lead to falls in fossil fuel imports.

In the short term, he said, this will occur "only via less imports from the energy sector, mostly impacting coal and gas demand."

"Electrification in demand sectors, like electric vehicles, heat pumps and air conditioning, take a lot more time. Manufacturing is much harder to electrify, as its processes depend on molecules like oil and gas. In these areas, solar panels are not as transformative as in the power sector."

# US industrial policy: 3D chess or 'dangerous turn'?

By Steve Gilmore

In the struggle to free itself from Chinese-dominated supply chains, the US government has turned to its rival's own playbook — taking stakes in domestic companies. But investors and analysts are wondering whether this out-of-character behaviour by the US signals long term strategy or short-sighted panic buying.

"It reminds me of Disraeli buying shares in the Suez Canal and Churchill buying shares in Anglo-Persian [Oil Co]," said Daniel Yergin, vice-chair of S&P, at the Institute of International Finance this week. "This is new territory."

In July, the US government became the largest shareholder in rare earth producer MP Materials, part of a landmark public-private partnership to expand its production of magnets used in electric vehicles, robotics and defence. The following month, the government paid \$8.9bn for a 10% stake in struggling chipmaker Intel.

President Trump's description of his meeting with Intel CEO Lip-Bu Tan suggests more such arrangements on the horizon: "He walked in wanting to keep his job and he ended up giving us \$10bn for the United States, so we picked up \$10bn, and we do a lot of deals like that. I'll do more of them."

Calls for a coordinated US industrial

policy that teams with allies to create new critical mineral supply chains have been growing for years. But it remains unclear whether these equity stakes are the first steps in such a coordinated strategy.

The question, said Clay Lowery, IIF executive vice-president, is: "Does the US know what it's doing?"

Reception of the two acquisitions has been very different. Even organisations traditionally friendly to Republican administrations balked at the Intel deal. The Cato Institute said it "marks a dangerous turn in American industrial policy." Scott Lincicome, its vice-president of general economics, said Intel had been a "technological laggard" for years, losing ground to competitors like Nvidia, AMD and TSMC.

"Adding a layer of political oversight to Intel's already complex turnaround effort is far more likely to hinder than help," he said.

The MP Materials deal has met more approval. "The MP investment was good opportunism," said Emily Kilcrease, senior fellow at the Center for a New American Security. This is "a textbook case" where government investment and price support can help the production of critical materials that are challenging from an economic and environmental perspective, she added.

Yergin framed the move as "trying to

send a message to the market" but said the key issue was the underlying economics of rare earth production. The US ranks second to last when it comes to development time for rare earth mines. "It takes 29 years to bring a major new mine [online], so there is a lead time problem here and a skill problem," he said.

Equity stakes will do nothing to remedy either of these. "Trump coming in and taking 5% of a lithium company doesn't mean that that project is going to get built faster," said Chris Berry, president of battery metals-focused research firm House Mountain Partners. "Nor does it mean that the project is going to ultimately be 100% successful."

Ultimately, for the US to get its new interventionist industrial policy right, the people in government making the acquisitions will have to make very smart decisions. "We have yet to see if that's the case," said Sam Jaffe, principal at deep tech consulting firm 1019 Technologies. "The Chinese government has been very smart in the last decades in its position as a shepherd of large industrial companies and guiding them to an integrated industrial policy. If US bureaucrats can do the same, it has the chance to be something special. If it just turns into a political reward mechanism, it could end negatively."

## MDBs to help local governments increase capital raising

By Arthur Bautzer, Phil Thornton and Jon Hay

Multilateral development banks are taking a growing interest in increasing financing for local government, including states, provinces and cities.

Several senior MDB officials backed the idea this week. Federico Galizia, chief risk officer at the International Financial Corp, divides MDB financing into three buckets: sovereign-guaranteed, public sector non-sovereign-guaranteed and pure private sector.

"I expect the central bucket to be an expanding one going forward," he told *GlobalMarkets*. "Where do two thirds of the emerging market population live? In cities. Where is investment going to be? In cities. For everything cities need — traditional, urban, municipal investments, there is not enough funding at federal or central government level. I expect that to be the growth space."

The MDBs can play a significant role in helping subregional entities with lim-

ited fundraising experience, through funding, guarantees and technical assistance.

Makhtar Diop, managing director of the IFC, said at a townhall meeting with civil society organisations on Tuesday: "Decisions [affecting economic and social development] happen at state level or municipal level.

"Those entities are not financially strong enough to carry their mandate. They don't have technical capacity and they can't borrow money on the market. We are going to work on these three elements — help their governance, help their ability to raise money, help their ability to be physically and fiscally sustainable — and attract money not just from government but from private capital." He said this would be "fleshed out in more detail in the near future".

Ajay Banga, president of the World Bank Group, said that "municipal bonds



Mumbai: Indian cities could issue more bonds

are an interesting thing to keep helping cities develop," adding that the Bank was working to foster them in India.

Ming Zhang, global director for urban, resilience and land at the World Bank, said urbanisation was a "land value appreciation" process, so a lot of financial value could be extracted from the land as it was developed. "That is a basis for financing," he said. "This can be property tax, tariffs, charges [or] land-based financial mobilisation."

# Urgent action needed to prevent an uninsurable future

By Steve Gilmore

Amid fears that extreme weather could render entire regions and industries uninsurable, senior insurance figures told *GlobalMarkets* that while the risk is real, solutions exist — but they require urgent action, innovation and a repricing of risk.

Günther Thallinger, a board member of Allianz, has been one of the loudest industry voices warning that climate change could move swathes of the world beyond the insurance industry's ability to provide coverage. But there is crucial nuance to the concept of 'uninsurability'.

Nancy Watkins, principal at global actuarial and consulting firm Milliman, said that "permanent uninsurability" — especially where climate change was a driver — described when flood-prone areas were subject to sea level rise and there was "no real intervention that can make the area inhabitable or reduce the frequency of floods".

But this did not apply to many areas currently facing a crisis of insurance availability, she added.

"The first thing to do is accept that risk is higher than we want it to be — and that the risk is owned by people, communities and governments, not the insurance industry," Watkins said. "Not enough has been done because there's been a misguided focus on getting insurers to act differently or subsidising the risk by getting someone else to pay for it."

Michel Liès, chairman of Zurich Insurance Group, told *GlobalMarkets* there needed to be "more coordination and discussion around risks and how to price them". He pointed to the Swiss village of Blatten, where in May insurers covered the costs of evac-



uating households before a massive section of the Birch Glacier collapsed and covered the town. This highlighted the need for open debate on risk pricing, rather than politically motivated criticism of insurers for their charges, he said.

## PILOT PRODUCTS

Steven Rothstein, chief programme officer at advocacy organisation Ceres, said new tools were another piece in the puzzle. "The state of California's regulator, for example, has just allowed catastrophe modelling, which is a much more detailed and sophisticated, forward-looking way to set rates," he said.

Across the globe, major insurers are experimenting with new products to address growing protection gaps in vulnerable areas. "For example, Prudential is piloting in India a heat stroke product, combining climate resilience with healthcare," Shriti Vadera, chair of the UK insurer, told a panel at the Institute of International Finance. "But we can't make it com-

mercial unless it's going to be in some form of public-private partnership, where we have either a first loss or some other type of support from the public sector."

Jonathan Dixon, secretary general of the International Association of Insurance Supervisors, told *GlobalMarkets* there needed to be a focus on risk reduction measures, rather than price caps. These included everything from improving roof materials and drainage designs to creating national disaster risk funds. But a focus on risk reduction "does require very much a public-private partnership, because a lot of the response is in the realm of local governments," he said.

Liès also pointed to the Insurance Development Forum (IDF), a PPP led by the insurance industry and supported by international organisations. On Friday, the IDF launched an Infrastructure Resilience Development Fund, securing a first close of \$340m to finance resilient infrastructure in emerging markets and developing economies.

Ultimately, the sheer increase in extreme weather goes far beyond the ability of either the private or public sector to manage alone. Rothstein said that in the 1980s, the US would experience a storm where damages and costs surpassed \$1bn about 3.4 times a year on average. Data from the National Centers for Environmental Information showed 27 such events in 2024.

"The physical risks are increasing — fires, floods, tornadoes and other events around the world — and that is making some places either uninsurable or unaffordable," Rothstein said. "There is not a sufficient sense of urgency."

## US Argentina aid creates 'bizarre' governance, sidelines the IMF

*Continued from back page*

Ellis gave his reasons: "Bolivia could play an important role in the emerging coalition of US-friendly states across the region, and in the push-back against China and organised crime."

Having ostensibly provided a \$20bn currency swap line and bought pesos, Treasury secretary Scott Bessent said on Wednesday that the US government was preparing an additional \$20bn support package. Multiple media agencies reported Bessent saying this would be a private sector solution, with funding from banks and sovereign wealth funds.

### OPAQUE

But the details of what the Trump administration is actually providing are frustratingly opaque. "The lack of transparency is incredible," said Maric.

Hung Tran, a senior fellow at the Atlantic Council's GeoEconomics Center, said the situation raised questions, including "who is in the driver's seat?" when it

comes to dealing with a crucial IMF borrower, and what the Fund should do.

"Should it [the Fund] change the conditionality to make the programme more socially and politically acceptable to the population? Or should it double down on the current programme?" Tran said.

Caputo and central bank governor Santiago Bausili told an Atlantic Council audience that Argentina was finally on a path to normality, underpinned by Washington's support and fiscal discipline.

Bausili described the new \$20bn swap line as a signal of confidence, not dependence. "Other countries such as Mexico [have] an outstanding swap with the ESF — the Exchange Stabilization Fund," he said. "The idea is to put in place a more updated version of a facility like that one, [which will be] active within the next two weeks before the mid-terms."

Argentina's mid-term elections are scheduled for October 26 and Trump has suggested that US financial help is contingent upon Milei winning.

There is certainly progress worth

pointing to. Milei has reduced inflation, turned a budget deficit into surplus and enjoyed economic growth.

### PESO PAIN

But the spectre haunting the halls of Argentina's treasury is the fragile peso. The Argentine Treasury has spent some \$1.5bn since the start of October trying to support it. The currency has fallen 31% against the dollar this year, 24% of that since Argentina made it easier to buy dollars in April.

The central bank has been trying to keep the currency within a band. "It's been an extraordinarily tough year," said Vladimir Werning, deputy governor of the Banco Central, on a panel at the Institute of International Finance on Thursday. "The elephant in the room is the mid-term election. Unfortunately in emerging markets when you come from a very short period of high inflation... Argentines hold dollars when they worry about events. If things normalise money demand should come back."

The central bank hopes that after the election, the peso will bottom out and find a steadier level.

Others believe it is still overvalued. Tran points out that inflation has come down from triple digits to 40%, but despite the steep fall, the currency continues to appreciate on a real terms, trade-weighted basis.

The central bank using precious dollar reserves to support the currency has led to a situation, he said, in which "The overvaluation of the peso has always been the trigger of poor trade performance, poor export performance, current account deficit."

Argentina is now using US support to help stabilise its currency, but some argue that is just propping up overvaluation.

Much depends on politics — both domestically and in the US. Who knows who will be in power [in the US] in 2028?" said Maric. "You can see in the local market that liquidity is all over the place because monetary policy instruments are being determined by the US."

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## US and world economy at risk from AI bust

By Arthur Bautzer

The end of the artificial intelligence boom is among the greatest risks facing the global economy, the International Monetary Fund says.

Its latest World Economic Outlook places AI among the top risks. "There are echoes in the current tech investment surge of the dotcom boom of the late 1990s," said Pierre-Olivier Gourinchas, the IMF's chief economist, on Monday.

The direct risks from the AI bubble popping appear to be overwhelmingly concentrated in the US, but a fall in US growth would have severe global repercussions.

"There's a lot more uncertainty around the US," Marieke Blom, chief economist at ING, told *GlobalMarkets*. "The base for growth is smaller in the US [than Europe]. Consumers have been saving very little but seem to be saving more now, house prices are going down, which may have an impact on consumption via wealth effects, the trade war with China is ongoing, AI has both investment and equity wealth effects. Those are relatively large uncertainties for the US, which may affect Europe."

A particularly concerning development is AI investment's high contribution to growth. Blom

estimates about a third of US GDP growth is related to AI capex.

"The only net positive growth in investment we are seeing in the US is in the tech sector," she said. "That will probably continue, but it doesn't make sense for it to sustain itself for more than a year. You need to see business investment elsewhere for growth to continue then."

Benedicte Kukla, chief strategist at Indosuez, Crédit Agricole's wealth management arm, told *GlobalMarkets* she saw the US economy as "caught between the short term pull of protectionist policies and the long term transformative potential of artificial intelligence."

Kukla pointed to a number of ways that AI was driving the US economy. Nearly half of trade flows in early 2025 were made up of AI-related goods like semiconductors, according to the WTO. To that can be added AI-linked stockmarket gains encouraging consumption.

### TREASURY TROUBLE

Were the AI bubble to burst, the US economy would therefore be exposed in several ways: business investment would stumble, consumption would be hit by the reversal of wealth effects, and there could be

further repercussions on financial stability.

In addition, there is no guarantee Treasuries or the dollar would rise in such a crash, as they did in 2008.

Brad Setser, a senior fellow at the Council on Foreign Relations, has shown that, contrary to popular belief, foreign investors pulled money out of the US during the 2008-9 financial crisis. Instead, dollar strength and inflows into Treasuries were the result of carry trades funded in dollars being unwound.

This year, tariff-linked instability has instead brought dollar weakness. Setser has also found global investors seeking relatively high US returns have accounted for most of the inflows into the country in recent years, as opposed to reserve managers seeking a safe haven.

"Easy financial conditions are masking but not arresting some softening trends, including in job creation," Kristalina Georgieva, the IMF's managing director, said when presenting the Outlook. "History tells us this sentiment can turn on a dime."



Kristalina Georgieva: 'sentiment can turn on a dime'

## Who controls the Argentine 'Frankenstein'?

By Steve Gilmore and Arthur Bautzer

Donald Trump's decision to bail out his Argentinian ally Javier Milei with financial support from the US Treasury has thrown a political cat amongst the fiscal pigeons.

President Milei's economic team has toured Washington, pitching Argentina's stabilisation as a success story.

"If we continue on this path, if we continue with our policies," said finance minister Luis Caputo, "we have our own 'whatever-it-takes' from the most powerful country in the world. This is an opportunity we are not going to waste."

But US support is unlikely to be either bottomless or unconditional.

With Argentina being the International Monetary Fund's biggest borrower, investors and analysts are asking who is in charge of its fragile economy.

"What is here now is a Frankenstein combination of the Argentine government, the US Treasury and the IMF," said Branko Maric, a macroeconomic strategist who left US hedge fund Discovery Capital Management earlier this year. "The IMF is losing credibility," he told *GlobalMarkets*. "You cannot have programmes for countries where the political driver is the US administration. Do IMF reviews matter? Do IMF targets matter? What's happening is bizarre at every level."

Nigel Chalk, the IMF's deputy west-

ern hemisphere director, said "We welcome the support of our partners... including the US." The US swap line was helping "stabilise" Argentina's economy and would "complement" the IMF's programme, he said.

Meanwhile, some hawkish US voices want to replicate the Argentina playbook in Bolivia, where a run-off between two right wing politicians on Sunday will leave the country with its first conservative president for almost two decades.

R Evan Ellis, Latin America research professor at the US Army War College Strategic Studies Institute, argued in an opinion article this week that "whoever wins on October 19th, the US should be



Team Argentina: central bank president Santiago Bausili (left) and minister of the economy Luis Caputo (centre) at the White House in Washington on Tuesday

prepared to support an aggressive IMF package, and to give a strong signal of US financial support as it did with the Javier Milei regime in Argentina."

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