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CEE urges EU to seize on Macron victory to kickstart reforms

By Elliot Wilson, Phil Thornton, and Lucy Fitzgeorge-Parker

Emmanuel Macron's victory in the French presidential race has given Europe's political leaders a final opportunity to deliver long overdue reforms to economic and political failures that had dragged down economic growth across the continent, CEE bankers and economists told *GlobalMarkets* at the EBRD annual meetings in Nicosia.

In interviews with *GM* on Tuesday, many warned the victory of the strongly pro-EU candidate had only bought European Union and CEE leaders more time to help reverse meagre

economic growth that had fuelled the rise of nationalism across Europe that had almost propelled Front National leader Marine Le Pen into the Elysée Palace.

Chawki Karam, assistant manager, business development, at the National Bank of Egypt, summed up the mixed verdict, saying: "This is just the beginning, not the end, of a long journey of problems and obstacles. With the UK, Brexit is ahead of the game — European countries will see what the UK is about to go through, will see the UK as a trial. This isn't over."

The CEO of a leading Armenian bank said European politicians needed to "prove their wisdom"

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Macron: needs to prove his wisdom

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FINAL WORD

Jean Pierre Mustier

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OBOR Serbian cash puts China on collision course with EU

By Elliot Wilson

Serbia is emerging as a key flashpoint between China and the European Union in the wake of Beijing's concerted push to buy assets across the western Balkans, and to invest directly and heavily in infrastructure projects.

China increasingly views Serbia as its premier trading partner in the CEE region. It sees the country as a crucial location because of its place on the map — and its future role as a conduit for

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Xi Jinping in Serbia: new hub

Turkey's new SWF raises wealth of worries among international investors

By Virginia Furness

Turkey's decision to set up a new sovereign wealth fund adds to mounting concerns about a weakening of the checks and balances that constrain government policymaking, according to senior asset managers.

The fund, established in August 2016, now owns many key public assets, which

it plans to use to grow and stabilise the Turkish economy. Those assets, including a 100% stake in Ziraat Bank, and a 51.1% stake in Halkbank, may now be used as collateral for Turkey's major infrastructure projects.

According to Oliver Weeks, chief economist at Emso Asset, establishing an SWF made no sense for a country

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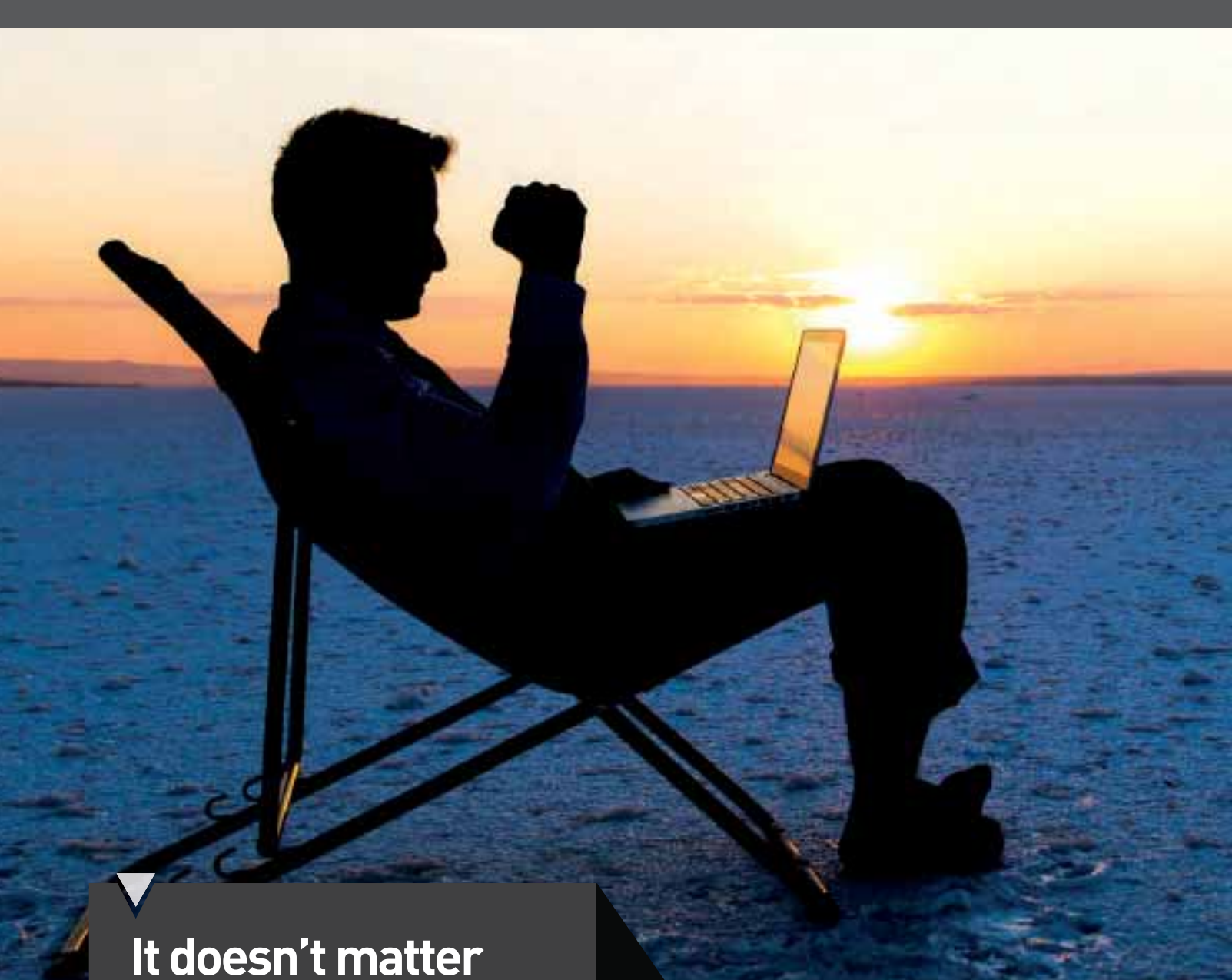


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OBOR

Continued from page 1

shipping Chinese goods directly into the wider European market — rather than because of its size and clout.

The European Commission has launched an investigation into whether a Chinese-funded \$2.9bn rail project — which would link the Serbian capital Belgrade with the Hungarian capital Budapest, 350km away — broke EU public procurement laws.

China-based experts said the Chinese government had been careful about selecting Serbia as its chosen medium through which to access Europe via Chinese president Xi Jinping's showcase \$900bn One Belt, One Road (OBOR) project, which is designed to build new overland and maritime trade routes linking East Asia with Europe.

"The Balkan region is key to OBOR," said Xiang Songzuo, chief economist at Agricultural Bank of China. "It makes perfect sense to turn the Balkans into a processing hub for Chinese-made goods."

Marinos Vathis, CEO of Serbia-based lender Vojvodanska Banka, said the one

"Serbia is the natural route into Europe. It's low-cost, it needs the money, and it's a flat country. It's a win-win relationship that is all about logistics." —Marinos Vathis

question that China has when it comes to Europe is how to access it. "They want to sell as much Chinese made goods as possible into wealthy European markets."

WIN-WIN RELATIONSHIP

He pointed to the decision by Cosco Shipping, China's largest shipping firm, to buy a 51% stake in Piraeus, Greece's largest port, for €280.5m (\$305m) last August. The port's new Chinese managing director, Qiu Fucheng, has pledged to boost capacity by 35% by end-2018, by building new facilities, upgrading existing infrastructure and transforming Piraeus into a key transit point for Chinese exports destined for key European markets.

"Piraeus is a key Chinese entry point into Europe," said Vathis. "At a stroke, they have solved the problem of how to offload products cheaply. The next challenge is how to transport goods through the Balkans and ship them quickly and cheaply into Europe, and what better way than via Serbia's rail network. Serbia is the natural route into Europe. It's low-cost, it needs the money, and it's a flat country. It's a win-win relationship that is all about logistics."

Xiang added: "Serbia has long been a good friend to China. It is a country that needs capital and it is desperate to create stronger trade links with the rest of Europe. And of course, it is where OBOR ends."

EBRD chief squashes talk of further expansion

By Phil Thornton

The EBRD has an "enormous job" still to do in its existing countries of operation, the bank's president said in a strong indication the lender is looking to halt the expansion that it saw it add six countries in Africa and Asia in 10 years.

Suma Chakrabarti told *Global Markets* that the bank needed to do more to ensure that the rewards of growth in countries where it lends money were more equally shared as part of its inclusive growth agenda.

However, he admitted that the only element of that new agenda where it so far had pronounced success was encouraging women into business.

In an interview to set the tone for the annual meetings that begin today (Wednesday May 10), Chakrabarti said he believed it had made a substantial contribution to development in the four south east Mediterranean (Semed) countries of Egypt, Jordan, Morocco and Tunisia. The bank is expected to begin operations in Lebanon imminently.

But he went on: "We have an enormous job to do in our existing 36 countries of operation. Some of these regions are new to us like Semed as well as Greece and Cyprus so we have a mammoth challenge to fulfil already."

Since Sir Suma was elected to take on another four year term in 2016, there has been speculation that the Bank might look to take on countries as far flung as Cuba

and Myanmar within its ambit.

The EBRD is using the annual meetings in Nicosia to push initiatives to boost inclusive growth and ensure that the prosperity that has come to EBRD's region since the end of the global financial crisis is more widely shared.

The bank said its investments and support for policy reform are aimed at delivering greater economic integration of three core groups that regularly remain on the margins of economic progress: women, the young, and people living in remote areas.

"Although we have been talking about these things the only area we have really done well on is women in business and it is now time we need to be serious about these other issues too."

"We are looking to widen that so now are talking about youth unemployment in many countries both in the Balkans and North Africa where it is a difficult issue economically socially and politically so we want to attract more young people into the labour market and into jobs, getting their skills updated and matched with what the economy needs."

REFUGEE CRISIS

One of its priority areas in terms of social exclusion is helping to deal with the arrival of refugees from Syria and other war zones in Africa and Asia. The Syrian conflict alone has seen 5m people



Chakrabarti: EBRD hit €1bn profit last year

flee to countries including Turkey, Jordan and Lebanon.

"We have heavily invested in municipal services to deal with this huge influx of refugees," he said, adding that his strategy of focusing on small and medium sized enterprises would help create jobs for young refugees. "That sector has to grow to absorb the extra labour that's there whether in southern Turkey or Jordan."

Chakrabarti will use the meetings to highlight how successful it can claim to have been, both in terms of results on the ground and its financial performance. "We want to showcase at the annual meetings that the EBRD itself has had an extremely successful few years in a time when other multilaterals are struggling to make money because emerging markets have become tougher."

The EBRD has recorded two successive years of record investment of €9.4bn in 2015 and 2016 and a 25% jump in profitability to €1bn in its latest year. This contrasts with the \$34m loss racked up in 2016 by the International Finance Corporation, the private sector-focused arm of the World Bank.

Turkey

Continued from page 1

running fiscal and current account deficits. "It is unclear what the role of this fund is," he said. "It makes their stance on fiscal policy a lot less clear, and how state-owned enterprises will be managed going forward."

The fund has an initial target of \$200bn. It will maintain the legal status of the banks and be governed under the Santiago Principles which are the accepted principles and practices of members of the International Forum of Sovereign Wealth Funds.

Following the constitutional referendum that will increase Turkey's president Recep Tayyip Erdogan's executive powers by 2019, some see this as part of a worrying trend.

Tim Ash, EM strategist at BlueBay Asset Management, said he was "not very enthusiastic" about the fund. "It doesn't change the ownership [of the entities] but will we see cannibalisation of management? It probably weakens them."

POLITICAL TOOL?

Following the government's victory in the recent constitutional referendum, some analysts argue that Erdogan will turn his attention to addressing Turkey's deteriorating economy. But to others, the extension of Erdogan's powers will weaken checks and balances and allow

him to tighten his grip on Turkey's institutions, and the SWF is evidence of this.

"The cynical explanation is that the fund will not be subject to the usual audits by the court of accounts," said one EM economist. "They have said they plan to have a role in stabilising the FX, bond and equity markets, which is worrying."

Many in the market were concerned the fund would be used predominantly as a political tool, rather than one that promoted growth.

Viktor Szabo, senior investment manager at Aberdeen Asset Management agreed. "It is a surprising beast, given that SWFs are created to invest assets from commodities for example," he said. "Will there be transparency? No, given the way Turkey operates nowadays I don't think that will be the case. It seems to be a fund with multiple objectives and murky funding."

While the fund's stated aim is to invest in infrastructure projects — funding for which is much needed — investors are sceptical of the structure. "Probably better to call it a sovereign leverage fund, than a sovereign wealth fund," said Carmen Altenkirch, sovereign analyst at Axa Investment Managers in London.

"We will watch very carefully just how much debt this new fund accumulates and how economically viable the projects are it chooses to invest in. The risk is that projects are chosen for political rather than economic reasons."



Erdogan: sovereign wealth fund or sovereign leverage fund

The EBRD is supportive, however. "We have lots of positive experience working with sovereign wealth funds," says EBRD managing director for Turkey, Jean-Patrick Marquet. "With the newly established Turkish Asset Fund, we also see scope for constructive co-operation in several areas."

A DCM banker at a European investment bank said the fund fitted into the broader trend of SWF and development bank creation. "They are being expanded across the EM world. It is what Saudi is doing, and what Poland is doing with the PFR development bank."

But Aberdeen's Szabo disagreed. "It is a totally different story," he said. "I don't know why they aren't using a traditional development bank model in that case."

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Bond markets offer key to bridge \$5tr CEE infrastructure gap

By Virginia Furness

Emerging market countries must rely more heavily on bond markets to bridge the \$5.2tr shortfall in infrastructure financing, according to leading fund managers.

They should use products such as green bonds and liquidity supported PPP bonds, such as that debuted in a Turkish hospital project last year, to unlock more institutional capital and move away from traditional PPP financing.

"For EM, the big question is how do we bring more sticky money into infrastructure," said Greg Saichin, chief investment officer of global emerging market fixed income at Allianz Global Investors in London.

"The needs are huge but the big issue for debt managers is that a lot of these projects are greenfield and have many layers of risk that, if linked to providing daily liquidity to end investors, we are not able to take."

Another concern is that there are not sophisticated enough hedging mechanisms to deal with long term investments in countries that have high volatility in their local currency markets.

Saichin pointed to quasi-sovereign project bonds such as Mexico City's \$2bn green airport bond issued in September, as a possible solution, but noted that the credit

work to invest in such an issue was intensive.

"The low hanging fruit is to raise money through green bonds," he said. "There is more focus on this sort of investment and there is a ready pool of investors wanting to buy it."

POLITICAL RISK INSURANCE

Saichin is critical of the development financing institution (DFI)-led PPP model. "There is too much money sloshing around providing funding at concessional terms and it has been crowding out private investment. DFIs have the privilege in the pecking order and they set the bar too low in terms of risk-reward for private investors. Developing countries need to pay more to bring in more capital and de-risk their transactions."

Another solution is presented by project bonds with enhanced liquidity features that improve access to institutional funds for projects in sub-investment grade emerging market countries. They offer an alternative to traditional PPPs, according to Matthew Jordan-Tank, the EBRD's head of infrastructure policy and project preparation.

The product was first used to finance a



Elazig Hospital: breakthrough PPP model

hospital in Turkey and took the form of a €288m project bond for the Elazig Hospital with enhanced political risk insurance. The country was an obvious candidate, said Jordan-Tank, because it had a large infrastructure programme which included 30 greenfield hospital projects.

"Of course they could go for long term bank financing, but by combining this new risk mitigation product applied for the first time in Elazig Hospital PPP with political risk insurance from MIGA, there is a way to innovate, and to open up financing on the bond market," said Jordan-Tank. "The whole goal was to widen the pool of institutional investor money."

Although access to that pool was restricted by the Turkey's sub-investment grade rating, the liquidity backstop in the form of an unfunded facility provided by the EBRD meant Moody's rated the bond Baa2, giving it investment grade status, two notches above Turkey's sovereign rating.

Private sector remedies essential to help refugees, says EBRD

By Elliot Wilson

The EBRD is attempting to tackle one of the world's worst humanitarian emergencies — the refugee crisis in the Middle East and North Africa — by fuelling private sector growth to deliver economic development, a technique that it has pioneered in central and eastern Europe.

The bank is channelling a €900m (\$980m) package of internal and donor-driven capital that it unveiled last year to create employment and deliver much needed public services to the homeless and displaced, Bank officials told *GlobalMarkets*.

The commercially-focused approach to funding private sector projects specifically designed to mitigate the plight of millions of refugees is a direct response to a crisis that has altered the politics of Europe, and forced Turkey and Jordan jointly to accommodate 3.4m Syrian refugees.

Heike Harmgart, head of office, Jordan, at the EBRD, said the funding was being used in part to finance much-needed infrastructure that would benefit both inhabitants and refugees. She highlighted a \$24m investment in the Water Authority of Jordan, which will finance a 30km pipeline linking the capital, Amman, with a wastewater plant

in the north of the country. The new facility will serve 1.78m people, including hundreds of thousands of displaced Syrians.

"We are financing infrastructure projects in areas where there are lots of refugees, with a focus on services like the delivery of clean forms of energy, and the treatment of waste water and solid waste," she said. Amman is struggling to cope with the additional 25% in solid waste it has to process every day — a direct result of the humanitarian crisis that continues to engulf the region.

CLOSE TO BREAKING POINT

Janet Heckman, head of the bank's Southern and Eastern Mediterranean Region, pointed to the focus to deliver clean water to towns and districts encircling the northern city of Irbid, which lies just 10km from Jordan's border with Syria. "The inhabitants — and the refugees — used to get clean water once every week," she says. "Now, it's every day. It doesn't solve the wider problem, of course, but it does make the situation more tenable for host countries."

EBRD's hopes of opening its inaugural office in Lebanon by the end of the year will help it focus on similar and much-



Syrian refugee children at the Al Zaatari refugee camp in the Jordanian city of Mafraq, near the border with Syria

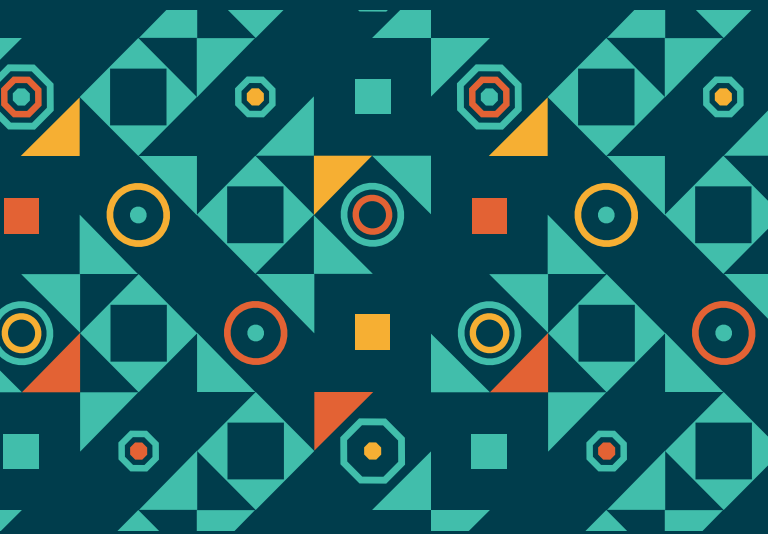
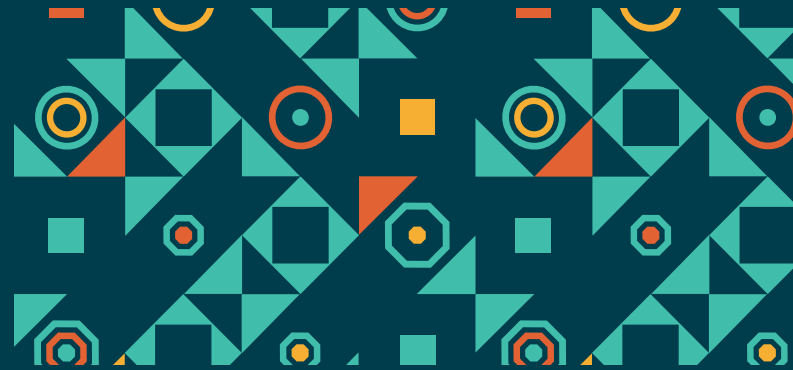
needed projects. In March, Lebanon premier Saad al-Hariri said his country, struggling to cope with a million Syrian refugees, was "close to breaking point".

The bank is also investing heavily in projects that improve the prospects for women across the region. Barbara Rambousek, lead inclusion economist at the EBRD, said more than 5,000 jobs had been created in Jordan and Turkey. An \$80m loan that underpinned the construction of the \$300m Abdali Mall in Amman, built to international environmental specifications, had led to the creation of jobs for 200 young and female Jordanians, Rambousek added.

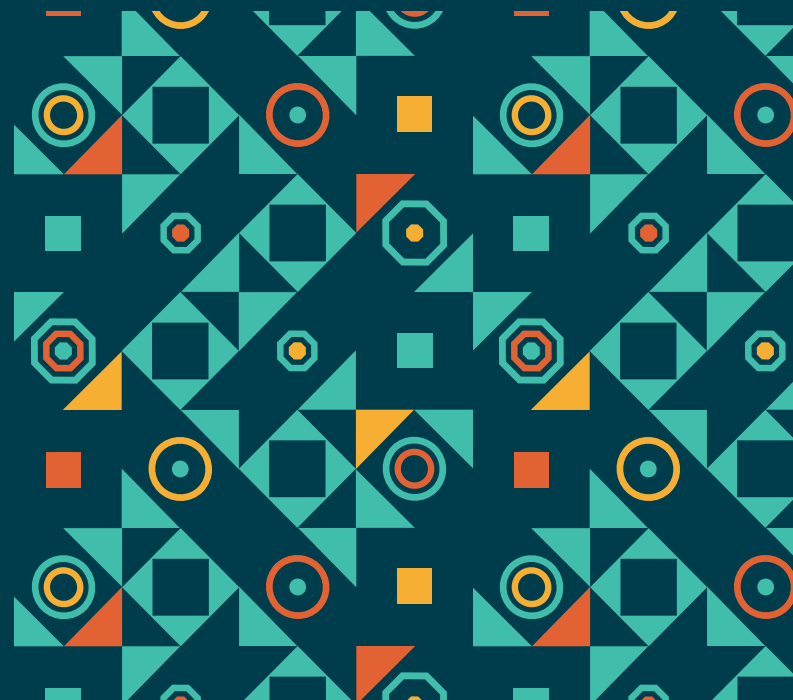
Suma Chakrabarti, the EBRD's president, said: "The refugee crisis has been a test case for us. We invest a lot in the SME sector through local banks and that sector has to grow to absorb this extra labour that's there. You can see that with our focus on training and advisory services for those who want to become entrepreneurs."

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Investors doubt Kazakh commitment to state sell-offs

By Elliot Wilson

Kazakhstan's commitment to its privatisation programme has been called into question by investors and fund managers.

Central Asia's largest economy rolled out plans to privatise a huge swathe of its largest state-run enterprises in October 2015, prompted by sharp falls in the global price of oil and its rate of domestic growth. Since then, the nation's \$67bn sovereign wealth fund, Samruk-Kazyna, has sold more than 120 assets via electronic auction, mostly small and mid-sized firms.

At a roadshow last month in London Berik Beisengaliyev, Samruk's head of assets optimisation, pledged to halve the number of firms the fund owned by end-2017, to around 300. That would be followed in 2017 or 2018 by the IPOs of Air Astana and uranium producer Kazatomprom, netting the state \$6bn.

However, investors and analysts have warned the privatisation process will be far more painful and drawn-out than government officials claim. They said some assets, particularly the larger ones, might never get sold.

Michael Carter, founder of Almaty advisory firm Powerhut, said the key stumbling block was the layers of vested interests that stood to lose in the event of a major asset sale. "There is a lot of institutional and local resistance to this process," he warned.

STALLED SALES

An example is Air Astana, a profitable carrier that should garner huge interest if it realises plans to sell shares on the Almaty market, with a secondary listing in London. Beisengaliyev said investors had shown "huge" and "positive" interest in both Air Astana and Kazatomprom.

Carter said officials in Astana "keep putting stumbling blocks in the way that just make it harder to sell state assets". He pointed to a recent law enacted that requires any major domestic firm to be at least 51% owned by a Kazakh company or individual.

That requirement "makes it hard to value assets properly", said an Almaty-based banker. "The drive to sell assets starts in the office of [president Nursultan] Nazarbayev. But there are too many oligarchs living off things in public hands, and who don't want things to be upset. They will block and delay as long as possible. If real privatisation happens, it will only do kicking and screaming."

Carter added that when Kazakhstan first floated plans to sell off state-run firms in 2011, the aim was to complete six large privatisations within 24 months. In the end, it took four years to complete the IPOs of just two firms, fuel transporter KazTransOil and national grid operator KEGOC.

Clemente Cappello, founder and CEO of Sturgeon Capital, said that Kazakh politicians were "waiting for stronger market conditions" before tackling the sale of major state assets. "There is a clear political willingness to do this at the highest level, but getting it executed is taking forever," he said.

Russian economic revival masks long-term problems

By Elliot Wilson

Russia's economy may return to positive territory this year, but it faces an uncertain future as it struggles to break out of a long-term cycle of super-low growth, leading economists have told *GlobalMarkets*.

William Jackson, senior emerging markets economist at London-based Capital Economics, said the country was over the worst of the last recession. With consumer spending rising, and interest rates and prices set to continue to fall, he tipped Russian GDP to grow by 1.5% in 2017 and 2% in 2018, even though oil prices remain stuck at around \$50 per barrel. Jackson tipped the central bank to continue to cut interest rates, from 9.25% at present, to 8% by end-2017, and 6% by end-2018.

But he added that a raft of underlying weaknesses — terrible demographics, a shrinking labour force and weak productivity — remained there for all to see. "Nothing has changed," Jackson said. "Output per worker is flat or falling, and structural issues like the lack of property rights haven't been

solved. That's why I see growth falling back to 1% in 2019 and remaining there in the long-term."

Vladimir Tikhonov, Moscow-based chief economist at BCS Financial Group, pointed to the same flaws bedevilling the world's 12th largest economy. "The only way you're likely to see growth get much above 1% in the long-term is if the government pushes through serious structural reforms and channels far more capital into non-commodity sectors," he said.

OIL DEPENDENCY

Russia has proven capable of making the occasional judicious financial decision in recent years. Most notable was the central bank's decision to allow the rouble to float freely against other major currencies, a decision designed to help the country weather future fluctuations in oil prices.

But finance minister Anton Siluanov's April 2017 pledge to boost "ambitious" growth levels to 3.5% and beyond, by pushing through structural reforms and weaning the country off its continuing dependence on oil exports, are all but unattainable in the current economic



Siluanov: aiming for 3.5% growth

and political climate, experts warned.

Worse, experts warned, a lack of commitment to much-needed reforms would ultimately undermine political stability at home. "If growth remains at a super-low rate for good, government will be forced to make unpopular decisions, including cutting social costs and education budgets," Tikhonov said.

"I don't believe we will see social instability rising sharply within the year, but if we look at a longer time horizon, you're going to see more spending cuts, more people unhappy and an increasing in instability."

Mongolia back from the brink after u-turn on 'catastrophic' bank law

By Virginia Furness

The Mongolian government's last minute u-turn on a controversial banking law that threatened to undermine investment in the region has pulled the country back from the financial brink by unlocking \$5.5bn of funding including a much needed sixth IMF bail-out.

At 4am local time on April 14, Mongolia passed a law that would have mandated all large projects to run their sales revenues through local banks. The law was in direct contravention of an investment agreement between Mongolia's government and Rio Tinto over the Oyu Tolgoi mine on which the country's growth hopes are pinned.

"The passage of this law became a serious issue very quickly," said Nick Cousyn, chief operating officer at Ulaanbaatar-based brokerage BDSec.

"There was a real danger that if they hadn't repealed it, Rio would have stopped working there. They are the country's biggest tax payer. It would have been catastrophic."

The law change was not without its immediate consequences. The International Monetary Fund, which had reached a staff level agreement on a three year \$440m extended fund facility, told the government it would not com-

GDP growth	1991	1993	1997	2001	2009	Average
1 year	-9.3%	2.1%	3.3%	4.7%	6.4%	4.1%
3 year	-3.5%	3.6%	2.5%	7.4%	12.0%	6.4%
5 year	-0.4%	3.6%	3.0%	7.6%	11.1%	6.3%

*1991 excluded from average, as Mongolia had just transitioned to a market economy

Source: BDSec

mence the funding programme unless the law were repealed. "The IMF made it clear that they would not provide assistance with this kind of law on the books," said Cousyn. "Any infringement on the OT agreement risked compromising the \$4.4bn investments made from global donors like the EBRD, IFC and World Bank."

The Mongolian government's decision to repeal the law on May 4 was met with relief. The IMF's funding programme is expected to unlock \$5.5bn of total funding, including relief from the World Bank, Asian Development Bank among others.

COPPER BOTTOMED

Historical data point to GDP growth acceleration following IMF programmes. But much of Mongolia's prospects are still dependent on production from its copper and coal mines: some 30% of its revenues now come from mining. Once the Oyu Tolgoi mine reaches full production in

2021, it is expected to account for 33% of Mongolia's GDP.

While global commodity prices are weak, Randolph Koppa, executive vice chairman of the Trade and Development Bank of Mongolia, said that copper prices were more favourable, and more resilient in the long term.

Infrastructure spending is top of the investment list, but diversification of Mongolia's economy is also on the agenda. However, Koppa said that this could only happen once revenues from the mine were realised. The government has plans to open a new airport which Koppa said could be a transport hub to reach Asia from the US. The country's farmers are producing organic beef and cheese to export to China and tourism is a focus for the future.

Investor confidence in the region has also improved of late, with yields on the country's Eurobonds coming down from around 13% in September last year, to 5%-6% this month.



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Cyprus out to prove recovery has momentum



Cyprus's impressive economic recovery after the financial crisis is down to a mixture of luck and judgement. But with NPLs remaining extremely high, keeping the turnaround going will be tough

By Philip Moore

Seasoned observers of the Cypriot economy say they are not surprised by the speed with which it has rebounded from the devastating financial crisis of 2013, when the banking system imploded, unemployment rose from 11.9% to 15.9%, and real GDP shrank by 6%.

"In 1974, the economy lost 70% of its production capacity following the Turkish invasion, but within 2-1/2 years we were back to the pre-invasion levels," says George Syrichas, executive board member at the Central Bank of Cyprus. "It was a similar story during the first Gulf War. The economy ground to a halt in 1991 but expanded by more than 9% in 1992."

While these historical vicissitudes may have led local economists to take the recent recovery in their stride, the strength of the rebound since the dark days of 2013 has clearly wrong-footed many overseas commentators. For example, when the European Commission (EC) reviewed the progress that had been made under the Economic Adjustment Programme, in March 2014, it applauded the government for meeting its fiscal targets

"with considerable margin". Nevertheless, the EC's 2014 winter review predicted a 4.8% contraction in the economy in 2014 and a tepid 0.9% expansion of GDP in 2015.

In the event, real GDP shrank by only 1.5% in 2014, and when growth was restored the following year, it was at a much more impressive clip than the EC's forecasts suggested, with real GDP expanding by 1.7% in 2015.

The international community was also surprised by the performance of the economy in 2016, when GDP grew by 2.8%. The solidity of this recovery, underpinned by a buoyant tourism sector, low interest rates and falling consumer prices, supported a continued fall in unemployment, from 14.9% to 13.3% at the end of 2016.

This year, the government believes this momentum can be maintained, and is forecasting growth of about 3%. Others have rather more modest expectations, with EBRD forecasting 2.2% and Bank of Cyprus and the IMF expecting growth of about 2.5% this year. "Over the medium term, growth is expected to remain brisk, although moderating gradually from the rapid pace of last year," noted the IMF in early April, following its most recent post-programme monitoring (PPM) discussions in Nicosia. The IMF sees growth stabilizing at just above 2% from 2020.

In hindsight, some of the more unduly cautious views of Cyprus's growth prospects may be explained by the fact that the island has perhaps had more than its fair share of economic good fortune over the last few years. Much of this has been a by-product of events well beyond the country's borders. Its tourism sector, for example, has been a beneficiary of the geopolitical turbulence in a number of its regional competitors, most notably in Turkey.

Cyprus's longer-term economic prospects, meanwhile, were given a boost in August 2015, with the discovery by Italy's ENI of the Zohr gas field, which has potential reserves of 30 trillion cubic feet (TCF). Described by ENI at the time as "supergiant", the Zohr reserves lie in Egyptian waters. But as the Shorouk offshore block where they were discovered is contiguous with blocks inside Cyprus's Exclusive Economic Zone (EEZ), the Zohr discovery has encouraged a who's-who of international oil companies to refocus their attention on the potential of the eastern Mediterranean.

NOT JUST LUCK

It would be a misrepresentation, however, to attribute the turnaround in Cyprus's economic performance solely to good fortune. Peter Sanfey, deputy director for country economics and policy within the department of economics, policy and governance at the EBRD in London, says that the commitment of the government to the adjustment programme has been impressive.

"The government did well to meet the objectives of the adjustment programme ahead of schedule, and since then it has consistently continued to achieve its fiscal targets," says Sanfey. "Cyprus is a prosperous, well-run economy with a culture of impartial, independent civil servants which has served the country very well in recent years."

The strength of Cyprus's recovery story has not been lost on the ratings agencies, nor on international investors. Following a series of upgrades from the agencies in 2016, Standard & Poor's (S&P) notched its rating on Cyprus up to BB+ in March 2017, attributing the upgrade to the country's

East Mediterranean boom

The Homer Ferrington gas drilling rig, operated by Noble Energy drilling in an offshore block on concession from the Cypriot government



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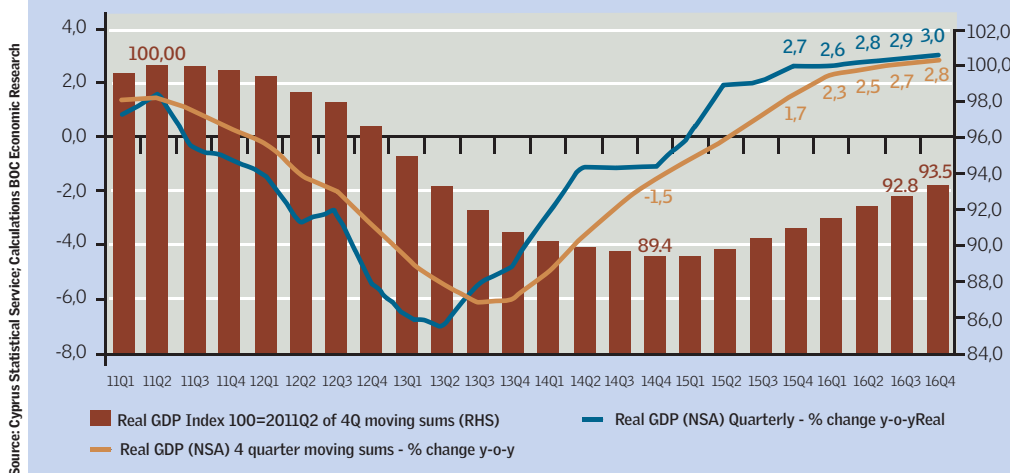
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Real GDP quarterly: index and % changes



Source: Cyprus Statistical Service; Calculations EBC Economic Research

“stronger than expected economic growth and fiscal progress”.

These upgrades, which have taken Cyprus to within touching distance of investment grade, are an endorsement of the confidence that international investors have shown in the sovereign. Since June 2014, when it returned to the international capital market for the first time since the crisis, Cyprus has enjoyed what S&P describes in a recent update as “unfettered access” to funding in the financial market.

Compelling evidence of an all-round recovery underpins the government’s upbeat assessment of the outlook for growth in 2017, which it believes will exceed most economists’ expectations. “2016 was a good year in terms of growth being positive, unemployment continuing to fall and inflation stabilising,” says Andreas Charalambous, director of financial stability at the finance ministry in Nicosia. “We see further improvements in the labour market this year and we believe inflation will continue to move in the right direction.”

“At the same time, public finances will remain strong with a continued primary surplus,” adds Charalambous. While the budget surplus swung from a deficit to a small surplus of 0.1% of GDP in 2016, the primary surplus continued to rise last year, from €299m to €478m, or 2.6% of GDP.

The IMF welcomes the fiscal progress that the government has made, adding that Cyprus should be aiming to achieve a primary surplus of 3% of GDP “for the next several years”. It cautions, however, that “guarding against fiscal slippages, including from the envisaged national health service as well as from wage and social benefit spending, will be essential.”

Economists are confident that the government will maintain its commitment to the fiscal restraint that will be necessary to preserve a healthy primary surplus, and that it will resist any temptation to loosen the public purse-strings in the run-up to the presidential elections in February 2018. “Aside from

some pay increases for nursing staff in 2019, the government is not making any extravagant promises about wage rises,” says Ioannis Tirkides, chief economist at Bank of Cyprus. “So far, wage demands from the unions have been reasonable, so although the government will need to be careful about public spending, I don’t see any immediate threat to the balanced budget.”

NO ROOM FOR COMPLACENCY

Policymakers recognise that there is no room for complacency, and Charalambous is realistic about the challenges that still face the Cypriot economy. “We’re satisfied by what we’ve achieved but it is not yet a case of mission accomplished,” he says. “We still have a heavy burden of leverage in the public and private sector which is reflected in high non-performing exposures (NPEs) in the banking sector and a high debt to GDP ratio. Although these ratios are declining, we recognise that our indebtedness will remain a constraint on growth.”

External observers agree. As the IMF commented in early April, “restructuring has gained momentum over the past year, but NPLs remain very high and a portion of previously restructured loans tend to re-default.”

“We still have a long way to go, but the improved economy is helping the banking sector to address its key challenges, and we are continually seeing new tools and techniques introduced regarding NPE management,” says Nicholas Hadjiyiannis, CEO of the Cooperative Central Bank (CCB). “This is allowing the banks to focus more and more on growing their business.”

The ratings agencies have also been encouraged by the reduction in impaired loans in the banking system as well as by the trajectory of the government debt. S&P, for example, says that it expects net general government debt to fall to below 90% by the end of 2018, compared with just under 100% at the end of 2015. A further reduction, to 80%, would be one of the drivers that would

exert upward pressure on S&P’s rating for Cyprus. The others would be accelerated economic growth and a further reduction in NPLs in the banking system.

In the meantime, economists remain relaxed about the debt, which at about €19bn (gross) was broadly unchanged at the end of 2016. As Bank of Cyprus noted in an update published in March, “debt affordability will be maintained as a result of the low interest rates prevailing in international markets, low average service costs of the Cypriot public debt and modest immediate funding needs.”

UNPRODUCTIVE PRIVATISATION PROGRAMME

There are, however, several other challenges that Cyprus faces besides NPL management and further debt reduction. Foremost among these is the island’s poor productivity, which has been a drag on profitability and economic growth.

Economists say that one way in which the problem of weak productivity could be addressed would be through an acceleration in privatisation, which has perhaps been the most conspicuous blot on the government’s economic track record over the last three years. “The faltering privatisation programme has been disappointing,” says Sanfey at EBRD. “When Cyprus entered into the adjustment programme, it indicated that it would privatise the telecoms company, CYTA, and the electricity utility. Neither has been achieved. We have indicated that we are ready to play a role in the privatisation programme, but that the government needs to make the first move.”

The failure to offload a minority stake in CYTA to a strategic buyer has not been for want of trying. But proposals for its sale have met with such fierce opposition from unions that the government is now reported to have abandoned talk of “privatisation”. It has chosen instead to refer to “denationalisation” as the way forward for its telecoms company.

Economists say that the government is under no budgetary pressure to accelerate its on-off privatisation programme. They argue that the principal benefit associated with the withdrawal of the state from a number of key local utilities would be a much-needed improvement in efficiencies and the attraction of inward investment.

The IMF is urging Cyprus to put a renewed commitment to privatisation towards the top of its to-do list. “Progress with macro-critical reforms has largely stalled,” it cautions in its April update. “Focus should be on expediting judicial reforms to strengthen legal enforcement of commercial claims and speed up court procedures, restarting the privatization program to increase economic efficiency and competition, and streamlining business procedures to attract new service sectors.” **GM**

“We see further improvements in the labour market this year and we believe inflation will continue to move in the right direction.”
— Andreas Charalambous, director of financial stability at the finance ministry in Nicosia

HELLENIC BANK

Technological transformation



HELLENIC BANK

Hellenic Bank is the second largest commercial bank in Cyprus, with market shares of 13% and 7% in deposits and loans respectively. Recapitalised following the crisis, it is now introducing innovative measures to restructure its loan portfolio, rebuild its loan portfolio and enhance operating efficiencies.

In this interview with *GlobalMarkets*, Hellenic Bank's chairwoman, Irena Georgiadou, outlines the progress that the bank has made since its recapitalisation and looks forward to the opportunities that are being generated by the economic recovery in Cyprus.

GlobalMarkets: What have been the main milestones for Hellenic Bank over the last few years?

Georgiadou, Hellenic Bank: We are probably the only systemic bank in the region which was neither bailed in nor bailed out during the financial crisis, and we had no recourse to any emergency euro system funding.

This is because back in November 2013, Hellenic Bank was recapitalised by private sector investors. Today, our main investors are Third Point of the US, Wargaming, the Cyprus-based Demetra Investments and the EBRD, which acquired a 5.4% stake in the bank in 2015.

Following our recapitalisation in 2013, our business model has been completely reformed and we have begun a technological transformation which is repositioning us as a leading digital bank.

GlobalMarkets: Non-performing exposures (NPEs) fell from a peak of over 61% in September 2015 to 59.2% at the end of 2015, and they continued to decline in 2016, reaching 56.6% by year-end. How would you describe Hellenic Bank's strategy for managing its NPEs?

Georgiadou, Hellenic Bank: We recognise that the high level of NPEs in the banking system is one of the main economic challenges faced by the Cyprus economy. This is why we have taken decisive steps to address this challenge by transferring the servicing of our entire book of NPLs onto an external platform managed by a specialized Czech company, APS Global.

This is a joint venture in which Hellenic Bank has a 49% holding, which we see as a breakthrough for the Cypriot banking sector. This strategic move will allow us to shift our attention and resources back to the good part of the bank and focus on growth and other revenue-generating activities.

GlobalMarkets: Hellenic Bank's loan to deposit

ratio reached 48% at the end of 2016, which suggests there is plenty of room for the bank to start rebuilding its loan portfolio. Where do you see opportunities to lend in the domestic economy?



“FOLLOWING OUR RECAPITALISATION IN 2013, OUR BUSINESS MODEL HAS BEEN COMPLETELY RE-FORMED AND WE HAVE BEGUN A TECHNOLOGICAL TRANSFORMATION WHICH IS REPOSITIONING US AS A LEADING DIGITAL BANK.
—IRENA GEORGIADOU, CHAIRWOMAN OF HELLENIC BANK

Georgiadou, Hellenic Bank: Our lending has been growing significantly over the last two years and we are committed to supporting economic growth by continuing to expand our loan portfolio. But even with the economy growing at an annual rate of 3%, there are insufficient lending opportunities in the domestic market for us to deploy all our liquidity.

We are focusing on viable SMEs and other corporates that are cash-generating. We are taking small and careful steps into the shipping sector, and are looking into opportunities arising from the big projects in the tourism sector – such as the ports, marina and casino developments. We also believe that there will be a number of opportunities for local banks arising from the gas potential in the Cyprus Exclusive Economic Zone (EEZ).

GlobalMarkets: Are more lending opportunities being opened up through your relationship with the EBRD?

Georgiadou, Hellenic Bank: Yes. We have an im-

portant strategic relationship with the EBRD which extends well beyond the support it gives us in its capacity as a key shareholder. We recently led a syndicated facility for EBRD which was on-lent to OTE of Greece, and we are exploring other opportunities for co-operating with the EBRD in selective trade financing and syndicated lending overseas.

GlobalMarkets: Hellenic Bank's cost to income ratio (CIR) has continued to fall, reaching 58.3% at the end of 2016 compared with 59.3% at the previous year end. Is the bank expecting to gain more efficiencies and cost reductions over the next 12-18 months?

Georgiadou, Hellenic Bank: We have embarked on an aggressive programme to further reduce our cost to income ratio, which remains a challenge for the bank. To date, our main focus has been on hiring advisors and consultants to support our restructuring, but the time has now come when we are ready to overhaul our business model by reducing our headcount and cutting back on our retail network. Reducing paperwork, improving customer experience and accelerating our move towards digitalisation will also help to generate greater efficiencies.

GlobalMarkets: Hellenic Bank is currently listed on the Cyprus Stock Exchange. Do you have any plans to follow in the footsteps of Bank of Cyprus by listing the bank's shares on the London Stock Exchange (LSE)?

Georgiadou, Hellenic Bank: It is true that the Cyprus Stock Exchange lacks depth and breadth, so over the long term a listing on an overseas stock exchange may be on our to-do list. We're happy with Bank of Cyprus's London listing because it has helped to put Cyprus on the map and alert investors to the recovery in the banking sector. We will continue to monitor the progress made by Bank of Cyprus, what it entails from a reporting perspective, and how markets react. However, a similar listing is not an immediate priority for us.

GlobalMarkets: Also looking to the longer term, what would the implications of Reunification be for the local banking industry in general, and for Hellenic Bank in particular?

Georgiadou, Hellenic Bank: The main benefit would be the normalisation of relations with Turkey, which would open up opportunities for the corporate sector as well as for the banks. As for Hellenic Bank, of course we would welcome a settlement, but we have not drawn up an action plan with a contents page.



CEE pings loudly on China's economic radar

Chinese cash may never quite come to dominate the CEE region. But it is here to stay

By Elliot Wilson

To ardent followers of China's brand of economic diplomacy, it all seemed eerily familiar. It was November 2016 and a state-owned financial giant — in this case, Industrial and Commercial Bank of China — was trumpeting plans to roll out a vast new investment fund aimed at snapping up foreign assets and ploughing the nation's cash into ambitious and faraway infrastructure projects.

But the target wasn't the Middle East or the landlocked but resource-rich wastes of Central Asia. Nor was it sub-Saharan Africa or Latin America, recent recipients of so much of China's largesse. This time, China's leaders were going after a new quarry: the disparate assemblage of 16 nation states — some developed, ambitious and moderately wealthy; others mired in poverty or locked into a lower-middle-income holding pattern — that make up Central and Eastern Europe (CEE).

It seemed to catch the entire region on the hop, yet the announcement was all too real. Jiang Jianqing, chairman of ICBC, the world's largest commercial lender by assets,

was on record, pledging to channel up to €10bn (\$10.9bn) into leading CEE retailers, food manufacturers and high-end technology firms. Infrastructure would also get a boost, with the new outfit, Sino-CEEF Holding, set to invest billions of dollars into new roads, rail lines, airports and power plants. Jiang was quick to emphasise the willingness of the region's presidents and premiers to contribute generously to the new investment fund.

Nor is Sino-CEEF the only fund pumping mainland cash into regional projects. Back in 2015, a Warsaw-based investor, CEE Equity Partners, was handed \$1.5bn by Export-Import Bank of China (Exim), one of a trio of China-controlled policy lenders, and told to go forth and invest. So they did. In the past 18 months the fund has bought shares in a raft of regional firms ranging from Slovakian lighting specialist JLR to Hungarian voice and data carrier Invitel Group.

WHY?

But why focus on a culturally diverse region stretching from the Baltics in the north to the Balkans in the south and from the elegant spires of Prague to Russian-occupied eastern

Ukraine, which boasts few major multinationals, suffers from human and capital flight and lacks much in the way of natural resources. What is China's motive here? Why Central and Eastern Europe? Why now?

They are good questions. A booming bilateral trade relationship can hardly be the primary reason for China's belated interest. Mainland exports to the CEE accounted for 2.7% of all Chinese exports in 2015, according to the Observatory of Economic Complexity (OEC), a data tool created by the MIT Media Lab in Massachusetts. Compare that with the US (the destination for 18.4% of all mainland exports in 2015) or the European Union or Japan, which respectively accounted for 16.2% and 6.2% of all Chinese-made goods.

It's even harder to make a compelling case for ICBC's investment pledge when you drill down to a sovereign level. Poland, the CEE region's largest economy, accounts for around 0.6% of Chinese exports, reckons Tatiana Lysenko, chief emerging Europe economist at Standard & Poor's. For the Czech Republic, the region's second largest economy, that share falls to 0.2%. "Generally," notes William Jackson, an emerging-markets economist at Capital Economics,

The end of the road
One Belt, One Road, where
the CEE is a major leg of
the vision



"The CEE is a region worthy of China's attention"

—Stefan Kawalec, Capital Strategy

"For China, the region presents an opportunity to ease excess capacity at home"

—Gu Hongfei, Central and Eastern European Centre for Asian Studies

"China's new emphasis on high-end technology, innovation and knowledge-based industries could be really beneficial for the CEE region"

—Chris Hartwell, Center for Social and Economic Research

"CEE-China ties are a trifling matter. China makes up a small share of CEE exports and the CEE region makes up a small share of Chinese exports."

In truth, China's interest in a region that has, notes Chris Hartwell, president of the Centre for Social and Economic Research (Care), a Warsaw-based think tank, "spent 20 years re-orienting its trade links toward western Europe and away from [its former political masters in] Russia" is complex and nuanced.

On a purely commercial level, China's interest in Europe's eastern reaches is easy to explain. Mainland exports to CEE countries totalled \$63.8bn in 2015, according to the OEC, while the value of goods travelling in the opposite direction was \$10.8bn. Thus, China's export-to-import ratio with the CEE region that year was 593% compared to 355% with the United States, 228% with the UK, 218% with the EU and 211% with Africa.

That data is yet more eye opening when viewed at the sovereign level. The Czech Republic's trade deficit with China was a whopping 8.9% of GDP in 2015. Other regional states have lower, but far from insignificant, trade deficits with the People's Republic: Slovakia's stands at 5.2% of GDP, Estonia's is 4.5% and Poland's is 4.1%. Compare those to the trade deficits that major developed nation states run with China, from the US (1.8%), to France and the UK (1.2%), to Germany (0.6%). Little wonder, notes Stefan Kawalec, founder of Warsaw-based financial consultants Capital Strategy and a former chief economic advisor to the Polish government, that "the CEE is a region worthy of China's attention".

Slowly, then, a picture begins to emerge. At a very basic level, China views the region through the prism of trade. CEE states have little in the way of energy reserves or natural stores of commodities to offer China but it is teeming with ambitious and low-to-middle-income economies that are in the main democratic and open to free trade. And that makes them "natural destinations for Chinese capital, goods, investment and labour", says Gu Hongfei, an associate at the central and Eastern European Centre for Asian Studies, a Budapest-based think tank that draws together academics from 12 CEE and Asian states. "For China, the region presents an opportunity to ease excess capacity at home."

Others see a deeper vision at work, one that plays to the comparative advantages of both sides. Eastern Europe offers investors two genuine and compelling benefits: high levels of employee skill and low unit labour costs. China's own labour costs are rising fast as its economy gets older and richer but thanks to its vast foreign exchange reserves, which stood at just over \$3tr at end-March 2017, it boasts vast pools of accessible and fungible state capital.

This, says Care's Hartwell, will result "not necessarily in a huge expansion of bilateral

trade, but in an acceleration of investment from the Chinese side that will drive trade into the CEE, through it and beyond. China's new emphasis on high-end technology, innovation and knowledge-based industries could be really beneficial for the CEE region. There is a nice symbiosis there and it could drive innovation for all of Europe." Capital Strategy's Kawalec believes China is keen to use the region as an industrial base camp, manufacturing consumer goods and specialised high-end products at a lower cost before shipping them to wealthier western European markets.

CONNECTING THE DOTS

Then there's infrastructure. If there is one thing China does effortlessly well it is this. Mainland construction firms have in recent years built maritime toll bridges in Mumbai and highways in eastern Africa; future plans include new rail lines in Latin America, ring roads encircling Kazakh cities and a giant road and rail system linking western China with the Pakistan port city of Gwadar.

So it makes sense to fund and build infrastructure projects across Central and Eastern Europe, particularly when, as Capital Strategy's Kawalec notes, they help "facilitate the transport of Chinese-made products to European markets". Or, to put it another way, to convey goods made by mainland-owned factories located within European Union-area CEE states to the likes of Germany and France.

China's interest in the region varies from state to state, experts say. Larger regional economies such as Poland and the Czech Republic, boasting developed-world-level infrastructure, have less need of mainland cash to fund roads and tunnels. But Hungary, a country that has benefited in the past from Chinese aid and which is currently struggling to see eye-to-eye with the EU, is more likely to welcome mainland capital with open arms.

BALKAN FOCUS

Another likely target for China is the Balkans. "China wants Serbia to become a key logistics and transportation hub that can be used to convey Chinese-made goods to Europe and to open markets that might be closed or restricted," says Care's Hartwell. "China really has been targeting the underbelly of Europe in the Balkans, and Serbia is probably one of the largest recipients of Chinese tied aid. The Balkans seem to be more of a multiplier for them in terms of infrastructure."

Standard & Poor's Lysenko believes the need for China-originated infrastructure capital is greatest not in the non-EU western Balkans but in the Black Sea states of Bulgaria and Romania.

Focusing on poorer markets that mainstream capital often bypasses, rather than scattering cash to the wind in the hope that some of it will stick, makes good sense. After

all, China is a newcomer to a region long dominated and influenced by Russia and the big economic beasts of western Europe. Infrastructure capital is also flowing into the region from Russia (which is funding two new €12.5bn reactors at a nuclear plant on the Hungarian stretch of the River Danube) and the EU, which is half way through a three-year plan to channel €21bn into Europe-wide (including CEE) infrastructure projects. In the short run at least, China will not have everything its own way.

OBOR — WRAPPING SOFT POWER AROUND HARD ASSETS

Encircling this entire discussion is an acronym that may come to define the 21st century. China's vastly ambitious One Belt, One Road plan, or OBOR, is often misunderstood, in large part because few outside China (and possibly very many living within its borders) do not, or cannot, grasp the project's ultimate intent.

Whether you view it as a genuine game-changer, a paper tiger or just a handy phrase designed to give China's globalisation plans focus and definition, no one can accuse it of lacking ambition. OBOR spans 65 countries, 60% of humanity, and more than 25% of the world's GDP. Its overland route, which starts in the Chinese capital, stretches eastward through Central Asia and Russia — whose own trade ties with China have improved markedly in recent years — and Poland, culminating at the great Dutch port of Rotterdam.

Paul Sheard, chief global economist at Standard Poor's, believes OBOR is all about "wrapping soft power around hard assets". He says it speaks to China's desire to achieve multiple goals, from increasing its global reach and influence, to boosting returns on its external financial assets, to winning over foreign markets and making them reliable and stable conduits for its capital and exports.

In this sense, Central and Eastern Europe is very much part of China's long term plans. A strong CEE region is critical to the OBOR project and thus crucial to China's long term interests. Viewed in this light, the decision by major Chinese lenders such as ICBC and Exim to pump capital into a region far from the country and traditionally under the political, financial and cultural aegis of Russia, Germany and the EU makes an awful lot of sense. Chinese cash may never quite come to dominate the CEE region. But it is here to stay. **GM**

See online for an interview with Jiang Jianqing, chairman of the Industrial and Commercial Bank of China and head of the Sino-CEE Holding Company: www.globalcapital.com/article/b12x781hf31plz/building-a-new-platform-for-co-operation-between-china-and-cee

Global DCM teams hunt for gold among CEE corporates

Five years ago, banks had every reason to pile into the booming primary bond market for central and eastern European (CEE) corporate issuers. But then volumes bombed as market conditions changed and sanctions were imposed on Russia — the country that provided the lion's share of supply. Yet still banks compete in what appears to be a dwindling new issue market dominated by just two global firms. Why do they bother and how?

By Ralph Sinclair

The years 2012 and 2013 marked peak activity in the recent history of the CEE corporate primary bond market. Some \$19.3bn worth of new bonds were priced of benchmark size in euros and dollars in the first of those years followed by \$28.9bn the following year.

Dealers piled in to grab some action. In 2009, there was just an average of 2.2 book runners on each of these types of deal. That rose to four in 2012 and 3.3 in 2013. But with so much business sloshing about, that still meant banks were likely earning plenty in fees.

Russian borrowers dominated the flow bringing three-quarters of the supply. But when so many Russian borrowers were frozen out of capital markets in 2014 following EU and US sanctions over the country's annexation of Crimea, supply plummeted and has not recovered. Just \$7.9bn of similar supply came in 2014 and even less in each of the next two years — \$6.4bn and \$6.2bn respectively, according to Dealogic.

Naturally, some dealers have fallen away from the market. The last few years have been marked by firms such as Royal Bank of Scotland, Credit Suisse, UBS and Deutsche Bank all rowing back from involvement in emerging markets to varying degrees as they prioritised reinvestment, or in many cases fire-fighting, in other parts of their empires.

Despite that, the banks competing for what, compared to some markets, is a dribble of business number in their teens, are

taking on what many acknowledge to be the two dominant forces: JP Morgan and Citi. Still more banks are looking to break in to the market too.

REDEEMING FEATURES

Their incentives for doing so vary. Firstly, there is a belief volumes will rise. One head of CEEMEA origination at one of the market's top banks predicts total CEE corporate issuance will rise to over \$15bn this year. He thinks a last chance to raise cheap money before the US raises rates too far and the gradual reintegration of Russian borrowers will drive supply.

Russian bond issuance from all sectors hit \$52bn in 2013 before plunging to \$10bn, \$3.75bn and \$13.9bn in the next three years respectively. "Corporate issuance in Russia is thawing — the Gazprom deal was evidence of that," says a head of syndicate at one firm in London referring to the gas giant's \$750m 10 year bond from March, which was followed by a £850m (\$1.1bn) April 2024 bond soon after.

Indeed, all of the bonds from CEE corporates this year of benchmark size in euros or dollars, at time of writing, have come from Russian issuers, while total issuance from the country stands at \$8.3bn so far.

"If you aren't sanctioned, you are privately owned and have a good business, there is no reason bond deals can't be done," says one head of EM origination at a mid-table US firm.

Then there are the many redemptions of bonds issued in the boom years that will

need refinancing. Of the \$99bn of bonds issued since 2009 analysed for this article, \$11.2bn will redeem this year, and apart from the \$7bn scheduled to repay in 2019, redemptions come in at between \$12bn and \$15bn every year until 2023.

For the big firms, bond mandates seem to roll in regardless, almost, even if they are not making loans to borrowers, for which a bond mandate is an established reward. "We lend smart and selectively," says Stefan Weiler, head of CEEMEA debt capital markets at JP Morgan in London. "Issuers certainly do not want to sacrifice execution but at the same time they still need to reward their lending relationship banks. That means there will often be a place on a mandate for non-lenders with the capability and platform for bond distribution, so that borrowers can achieve best execution."

One senior business head for the region familiar with the top two put it to *Global Markets* more bluntly. "Those borrowers have to have one of the top banks on the mandate to get best execution," he says. "If a deal goes badly, that funding official will have to explain to his management why he didn't hire a top firm."

But banks underwrite less per deal than they used to and so earn less in fees on each mandate. Last year, average notional per deal per bookrunner of new benchmark CEE corporate bonds in euros and dollars was \$207.7m. That is down from \$257m the year before and \$234.6m in 2013.

At the same time, it is not a cheap busi-

Spotlight mode

Eastern Europe at night
Budapest, Hungary in the
foreground and Kiev,
Ukraine in the distance

ness to be in. “You need full coverage,” says one head of EMEA syndicate at a firm looking to make a push into the CEE market. “You need bankers on the ground and a pretty much full time DCM staff at headquarters. Then you need an active emerging markets syndicate desk as well as trading and sales. It is a full service area. There are a lot of mouths to feed for so few deals.”

ALMs RACE

That means firms need to be smart in winning business. Refinancing is king for CEE corporates, especially with rates more likely to go up on dollar debt than not. This has sparked a spree of refinancings from the region, often part of an asset-liability management (ALM) exercise involving buying back existing debt as borrowers look to lock in low funding costs.

“A lot of the very high volumes of bonds that printed in 2012 and 2013 were five year bonds,” says Weiler, “so it is natural that issuance generally is now driven by refinancing activity, which means that many deals now include a parallel liability management transaction.”

Of global emerging markets bond supply last year, half was refinancing, according to one senior banker at a major global house. “If you look at the CEE volumes, which primarily means Russia,” he says, “something like a third to half of all new issuance comes along with a tender offer.”

And it is here that some banks are putting up a fight to win more mandates, hiring not just debt capital markets bankers, but teams of asset and liability management and ratings advisory staff to give their shop the edge in pitches as companies try to smooth out their redemption profiles to keep credit ratings up and funding costs down.

“Clients... expect banks to commit dedicated resources for best advice on liability management or credit ratings projects,” says Weiler. “Whereas most, if not all, of our competitors outsource these services to teams that see EM as a second priority, I have dedicated resources for ratings and liability management sitting in my team, which def-

initely provides a competitive advantage.”

But securing bond mandates for those not blessed with a monstrous and storied global emerging markets business is still a fine way in to the CEE market, even if it is a tricky course to steer. “The incentives for a bank to be in the CEE bond business are less transparent than, say, the Middle East or Turkey where it is clearer what you will get out in regards to what you put in,” says the EMEA syndicate head. “But if you have given a borrower liquidity somewhere, then the bond mandate is your payout.”

That is, of course, if the bond actually comes with fees. “You do hear of deals being done for no fees every now and again,” he adds, “but for CEE corporates, the fee discussion is less aggressive than it is for their sovereigns.”

Those sovereign bonds are also key for a bank looking to put its name up in lights among CEE corporates, which is why dealers need the full suite of expensive staff.

With the government so often the biggest issuer in each market, a few deal tombstones from the sovereign on one’s desk is a quick way up the league tables to demonstrate relevance, knowledge and commitment to a corporate looking for bond market access.

“The recipe for success is having a platform and coverage depth that can successfully service both, sovereigns and corporates,” says Weiler.

Then there is the trading in CEE debt itself, which can more than pay its way. “There is money to be made on the trading side where liquidity is reasonable enough for you almost to be able to run a prop desk,” says one senior capital markets banker at a firm looking to push into the sector. “It isn’t a badly traded market at all.”

THE BIGGER PICTURE

Of course, being in a conversation about financing through bonds or loans for CEE corporates also means banks bring up the real money spinners — IPOs and derivatives solutions.

One US bank involved in CEE corporate bonds but neither a top dealer nor a big

lender said his firm and a number of competitors who have scaled back their involvement would now only get involved in bonds for a company if there was no cost or if it provided a future opportunity to work on an IPO or a trade sale. “Being one of six on a bond mandate as reciprocity for doing loss-leading loans doesn’t get you paid,” he says.

Like IPOs, derivatives solutions can also pay. Providing corporates with structured trades to make their finances more efficient gives banks another chance to charge fees and, some cynics would say, squirrel a little (or a lot) extra away amid the fog of financial complexity that these trades arrive shrouded in.

“Bond fees are probably only about 20% of what a bank makes from being in the business,” says the EMEA syndicate boss looking to barge in on the CEE market. “The structured side — making things more efficient for a client using derivatives and so on, which all goes together as part of the whole, is where the money is — it’s not just about the \$1bn bonds you see.”

A senior origination banker at one of the top firms for CEE corporate debt confirmed that there was big game to be felled from the derivatives business for CEE corporates. “The trades are significant,” he says.

But the reality is more nuanced than assuming any joker with a fully populated zloty curve and Warsaw’s top corporate treasurers on speed dial can sit back and watch the cash roll in. “These are elephant trades,” says the senior origination banker. “You see just a few each year.”

This makes the profits they generate volatile, unpredictable and uncomfortably lumpy — not an exciting cocktail for banks worried about returns on capital. Certainly, dealing in complex structures with CEE firms is not a cheap use of resources.

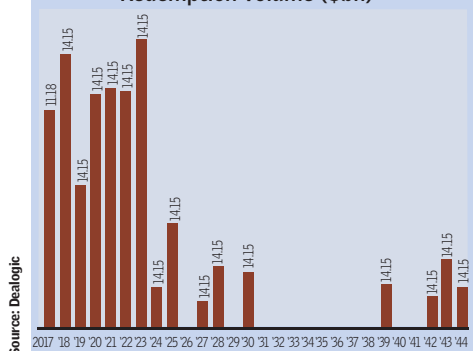
“It depends how quickly you can offload the risk once you’ve executed the client-facing trade,” says one head of EM origination at a mid-tier US firm. “If it sits on your book and the market goes against you — and emerging markets are fickle — you can lose a lot of money very quickly.” **GM**

“There will often be a place on a mandate for non-lenders with the capability and platform for bond distribution, so that borrowers can achieve best execution”

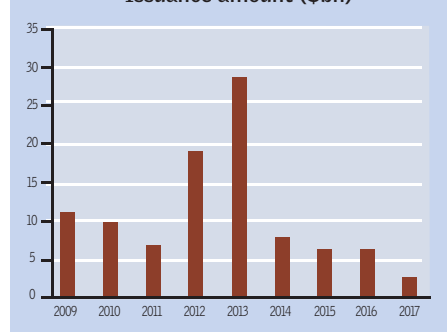
—Stefan Weiler, JP Morgan

Nuancing the curve

Redemption volume (\$bn)



Issuance amount (\$bn)



www.globalcapital.com/globalmarkets

Greening the CEE economy: do those who would benefit see the point?

Central and eastern Europe is inefficient at using energy and has not done much to clean its power system. Both areas offer huge wins for countries and companies that invest wisely in greener technology. But policy is central. Badly structured incentives can lead to backlashes. More seriously still, too many powerful people in CEE, for good reasons and bad, think green development is not a priority

By Jon Hay

“If these [CEE] countries were not EU member states, practically nothing would have happened on energy efficiency or renewables”

—Ada Ámon, Energiaklub

“We have financed renewables in the Czech Republic, Bulgaria, Romania. But from a developer's perspective, there's not so much interest in these markets”

—Allan Baker, Société Générale

Living in Krakow is equivalent to smoking 2,500 cigarettes a year, claims Andrzej Gula.

He was so concerned about the health effect of the haze that often blankets the city from coal smoke that in 2012 he set up pressure group Krakow Smog Alert.

The eye catching slogan is based on the air concentration of benzo[a]pyrene, one of the main carcinogens in coal and wood smoke, engine fumes and cigarettes. In Krakow this pollutant is at seven times the EU standard.

Using petitions, social media and street protests, the group persuaded the city to ban burning solid fuel in inefficient, small home boilers from 2019. The municipality will refund householders 100% of the cost of switching to cleaner district heating, gas or electricity if they take the step in the first year, 80% in the second and 60% in the third.

This is a big win for the citizens of Krakow but just one of thousands of changes that must take place across central and eastern Europe if a sustainable, healthy economy is to be built. The economy in CEE, just like everywhere else, is built on unsustainable burning of hydrocarbons. But the changes in mindset, policy and technical equipment needed here take particular forms.

Because of the region's Communist history, it achieved a high level of industrial development using machinery less efficient, on average, than that in western Europe. Use of coal is high in many countries.

Yet there are bright spots too. Several east European countries — including Albania, Croatia, Serbia, Romania and Turkey — use much higher proportions of clean energy than rich states like Germany, France and the UK. They exploit natural hydropower and geothermal resources.

THE ROCKY ROAD FROM PARIS

All countries in CEE have signed up to the

Paris Agreement, which commits them to at least some degree of decarbonising their economies.

This direction of travel is popular. “There is an awareness of climate change in society and an eagerness to take part in the solution — and a high expectation towards the government to do something about it,” says Ada Ámon, director of Energiaklub, an NGO based in Budapest. There is no strong movement of climate change scepticism. But as CEE remains poorer than western Europe, cleaning up the economy struggles for attention. Countries and regions have other problems to deal with.

Negotiations between EU states about how they will share out the effort of complying with Paris are not going to be easy.

Countries in CEE tend to have higher carbon emissions per unit of GDP than west European ones — but because they are poorer, they still use less energy. Poland's per capita CO₂ emissions, for example, were estimated at 7.9 tonnes in 2013 against 9.4 in Germany and 10.1 in the Netherlands.

This makes it harder for many to accept that CEE should shoulder much of the burden.

“Mostly governments are not interested in figuring out new ways of doing business and making the whole economy greener,” says Ámon. “The main things happening in CEE are what the EU requires. If these countries were not EU member states, practically nothing would have happened on energy efficiency or renewables.”

The coal mining lobby is strong in countries like Poland, where it exerts a particular hold over the Law and Justice Party, which regained power in 2015.

“We want a national programme for thermal modernisation,” says Magdalena Kozłowska, a programme assistant at Krakow Smog Alert. “Most of the single family houses in Poland are energy-inefficient. We want the government to support energy efficiency programmes.”

But so far, even modest demands like regulating boiler efficiency and labelling dif-

ferent grades of coal are resisted by the energy ministry.

In Hungary, where 53% of power comes from the Paks nuclear station, the government of prime minister Viktor Orbán wants to more than double its capacity, using reactors made in and partly financed by Russia. Environmentalists are fighting the plan, which will cement Hungary's energy dependence on Russia and require billions of euros from the taxpayer.

Meanwhile, it is impossible to build a wind turbine in Hungary because it must be at least 12km from a settlement. A similar rule stifles onshore wind in Poland, which has also raised taxes on wind turbines.

CLEAN ENERGY OPPORTUNITY

There are two main challenges for CEE. One is the energy intensity of the economy. In the Czech Republic, it takes 2.5 times as much energy to produce one euro of GDP as the EU average, according to environmental consultancy E3G. Slovakia, Poland and Hungary are all above 1.7 times.

The second problem is the sources of energy. Hydroelectric and geothermal plants are important but require very specific geographical conditions. Progress in adopting newer, more versatile clean technologies — wind and solar — has been halting.

All countries in the region except Romania derive less than the EU average share of their energy from wind power and all but Bulgaria are below average for solar.

Changing the energy system is where there is most scope for international financial institutions — both public and private sector — to make a difference.

“Renewables and the transition to gas — these are two things we hope to do in the region,” says Nandita Parshad, managing director of energy and natural resources at the EBRD in London. “The most significant impact has been the shift to renewables. It hasn't come easy or cheap in the region. Affordability has been a challenge but what is happening in the renewables



space today is really changing that.”

The cost of clean energy technology has fallen markedly, thanks to innovations like bigger wind turbines. In a recent German offshore wind farm tender, two of the three bidders offered to build it without any subsidy.

But cheaper kit has not unleashed a new wave of investment in CEE. “I don’t see a huge amount of activity,” says Allan Baker, global head of power advisory and project finance at Société Générale in London. “It’s been a very slow market for some time. There is no lack of will on our side — we have financed renewables in the Czech Republic and elsewhere in the CEE. But from a developer’s perspective, there seems to be not so much interest in these markets.”

The main reason, as so often in environmental matters, is government policy that is either unclear, unfavourable or unreliable.

Sabrina Schulz, head of the Berlin office at E3G, has recently finished a round of meetings with renewables investors in the region. She says: “The main takeaway is that investor confidence is extremely low, largely due to regulatory uncertainties and barriers in all countries. They really don’t see an opportunity to put money in.”

Even if renewables can compete on price with conventional power, generators need a stable regulatory environment, suitable grid connections and the like.

SUBSIDISE WISELY

But most renewable development still depends on some government mandated financial support. How this is administered is critical to whether the investment climate is attractive.

Many CEE countries have already been through one or more subsidy programmes, often when renewables were more expen-

sive than now, and in some cases bear the scars. An over-generous Czech system for solar farms has left generators making fat profits and provoked a backlash.

“Now, when it makes sense for emerging countries to do it and take advantage of their cheap labour forces to develop a new energy sector, they don’t want to go there again,” says Andrzej Ancygier, a climate policy analyst at Climate Analytics in Berlin.

Financiers can get comfortable with a wide range of subsidy structures. The crucial factor is not the size of subsidy but its reliability.

SG and many other banks are not willing to take pure market risk on the price of power — they want some kind of price agreement up front. And when it comes to tariff structures, Baker says: “The fundamental thing for us is that we need the consumer to be paying the cost of renewables. One of the lessons from Spain is that if the government subsidises directly it raises the risk of retroactive change.”

Spain promised to make up the shortfall between regulated power prices and renewable generators’ costs — but got into arrears and had to cut the subsidies.

Consumer-pay systems still rely on political backing, but at least the state has no financial incentive to move the goalposts. SG prefers contracts for difference and feed-in tariffs, where the price is pre-agreed, to systems that rely on generators selling green energy credits. The price for these can be unpredictable.

EFFICIENCY ELUSIVE

Almost as important as shifting to clean energy is energy efficiency. Improvements here face a different problem: much of what needs doing is small, fiddly and has an un-

certain or unexciting payback.

Ámon at Energiaklub believes a successful energy efficiency drive requires costs to be shared between three providers: public grants, debt finance and the beneficiary’s own money. If any of these is missing, it will be difficult to make it work.

But crafting such programmes is tricky and there are few simple examples to copy.

For the EBRD, this is “front and centre”, Parshad says. All its bankers try to push energy efficiency in their projects and the bank makes credit lines to local banks for it.

The International Finance Corp runs training programmes for banks on green building standards. Jean-Marie Masse, chief investment officer of the IFC’s financial institution group in Washington, says efficient buildings can often get green certificates but these are only awarded once the building is complete. Do banks, which have to lend much earlier, encourage developers to go for such standards or give them any credit for it? Masse believes they should. “The value of the building will be better, its operating cost will be lower, it should be able to be rented or sold more quickly,” he says.

A new bid to stimulate energy efficiency investment is a \$2bn fund the IFC is setting up with Amundi, the French asset manager, just to buy green bonds issued by emerging market banks. By focusing on banks, the IFC hopes to use their networks, local skills and capital to aggregate a myriad small loans.

All these organisations, says Ámon, “are trying to make sure governments understand that moving towards this green economy concept is not against the economic development of these countries. They have to understand it’s not as complicated as they think and they would make much more gains than they expected.” **GM**

“
Renewables and the transition to gas — these are two things we hope to do in the region”
— Nandita Parshad, EBRD

A clearer vision

Krakow Smog Alert demonstrates in Waraw; wind farming in northern Poland; Smog covering Pristina, Kosovo; trying to breathe in Sarajevo

GEORGIA'S MACROECONOMIC OUTLOOK



Georgia's diligent work in the past on developing its economy has not been in vain. The real economy has grown at about 5% on average annually since the global financial crisis; that in a period characterised by a major slowdown in growth rates throughout the world. IMF's longer-term forecasts of Georgia's future real output growth also stand at about 5%, one of the highest in the region.

The country is steadily progressing towards deeper integration with Europe. Georgia signed the Association Agreement with the EU in 2014 after which the Deep and Comprehensive Free Trade Agreement (DCFTA) came into force, providing excellent opportunities not only to export-oriented firms, but also for importing technologies and know-how, and fostering healthy competition throughout the economy. These will be supported by a visa-free travel arrangement between Georgia and the EU, which has been in effect since March 28, 2017. In the context of increasing the economy's openness, which is one of Georgia's main advantages, one should necessarily mention finalisation of the recent free trade agreement with China.

The aforementioned facts underline the strong potential of the Georgian economy, which is also reflected in robust foreign direct investment inflows which in recent years on average amounted to more than 10% of GDP — one of the highest indicators not only in the region, but probably for a much wider set of economies. Peaceful transition of the political power in 2012 highlights the commitment of the country to political stability as well as the maturity of the institutions, which is probably the first prerequisite for building a truly investor-friendly environment.

A stable political environment, prospects for becoming a regional hub for logistics and financial services due to its strategic geographic location and relatively developed banking sector, openness of the economy to interna-

tional trade, high energy-production potential as well as a strong and robust rise of tourism and related industries provide investors, both domestic and foreign, with ample opportunities for doing business in Georgia.

On the monetary and supervisory policy front, National Bank of Georgia has been steadily gaining credibility in recent years. Independence of the National Bank in its monetary policy decisions guarantees that inflation in the country is low and stable. Indeed, annual inflation has been at about 3.3% on average since 2009, the year when the central bank switched to an inflation targeting regime. The floating exchange rate ensures that the price — and wage — competitiveness in the country remain well in line with the trading partners and that the economy adjusts to external conditions in a timely manner without excessive exchange rate corrections. The National Bank has introduced a risk-based supervisory framework that became a success model for other countries; since 2014 the National Bank has

“ THE STRONG POTENTIAL OF THE GEORGIAN ECONOMY IS REFLECTED IN ROBUST FOREIGN DIRECT INVESTMENT INFLOWS WHICH IN RECENT YEARS ON AVERAGE AMOUNTED TO MORE THAN 10% OF GDP.

—KOBA GVENETADZE, PRESIDENT OF THE NATIONAL BANK OF GEORGIA



been part of the Basel Consultative Group. Consistent and prudent monetary and supervisory policies of the National Bank of Georgia have gained full support from leading international organisations such as the IMF, EBRD, WB and ADB.

Notwithstanding these apparent successes, there still are serious challenges. Further development of the economy and increasing potential gains from international trade

require more skilled labour. Infrastructure in the country is far from fully adequate for a country with a vision of becoming a logistic hub and a major regional tourism destination. High financial dollarisation exposes the country to balance sheet risks and complicates the conduct of monetary and supervisory policies. In addition, in times like the recent turbulent past, enhancing communication of policymakers with the public, though difficult, needs to be improved.

That's why the Georgian authorities have been working on the economic development plans that focus on the education system, infrastructure projects, incentivising investment, de-dollarisation and better communication and interaction with the public.

The government is planning to introduce education reforms that will advance the professional education system, something that's been causing skill mismatches in the labour market for a long time. In turn, university reforms are meant to contribute to the research potential of the country and ensure it becomes a regional education and research hub. The National Bank of Georgia has accelerated its work on financial education at various levels, which should contribute to financial stability in the country. The government's infrastructure projects are intended to support productivity of companies and entrepreneurs by increasing the quality of roads throughout Georgia. These investment projects are expected not only to provide a short-term boost to the economy, but also to increase its long-term potential.

The National Bank of Georgia, on its part, is further contributing to economic progress by developing a comprehensive market-based de-dollarisation plan, based on successful international experiences, and by bringing its communication, which already is comparable to that of some advanced countries, to an even higher level. Maintaining and further strengthening central bank independence, continuing with prudent monetary policy consistent with price stability — the

main objective for inflation targeters — and of exchange rate flexibility, strengthening prudential regulation that ensures correct pricing of foreign currency risk and developing capital markets are the main pillars on which de-dollarisation plan is based on.

All of these past progresses and planned reforms are about to transform Georgia into a truly open, flexible, stable, pro-growth and investor-friendly economy.

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What's happening Wednesday, May 10

For the most up-to-date schedule information, please download the MyEBRD app available from the Apple, Android and Blackberry store



9.00am - 10.00am

Board of Governors' Opening Session
Location: Zenon Kitievs A&B, Level 0, Filoxenia Conference Centre

10.15am - 11.15am

Jordan Investment Outlook Session: Jordan: opportunities for public private partnerships for a greener economy
Moderator: **Heike Harmgart**, Head of Jordan, EBRD, Amman
Speakers: **Imad Fakhoury**, Minister of Planning and International Cooperation, EBRD Governor, Jordan; **Susan Goeransson**, Director, Head of MEI, EBRD; **Terje Osmundsen**, Senior Vice-President, Scatec Solar
Location: Jean Monnet Auditorium, Level 0, Filoxenia Press Centre

10.15am - 11.45am

Integrating Eastern Europe's regional gas markets
Speakers: **Petru Ion Vaduva**, CEO,

Transgaz SA; **Milosz Momot**, Senior Policy Coordinator, European Commission, DG NEAR; **Jayesh Parmar**, Partner, Baringa; **Erik Rakhou**, Senior Manager, Baringa; **John Roberts**, Senior Fellow, Atlantic Council
Location: Kerynia, Level -1, Filoxenia Conference Centre

11.00am - 12.00pm

Bosnia and Herzegovina Investment Outlook Session: Improving the business climate and supporting private sector development
Moderator: **Holger Muent**, Director, Regional Head of Western Balkans, EBRD
Speakers: **Ian Brown**, Associate Director, Head of Bosnia & Herzegovina, EBRD; **Gordan Milinic**, Director, FIPA; **Josip Polic**, Associate Banker, EBRD; **Mirko Sarovic**, Minister of Foreign Trade and Economics, EBRD Governor, Bosnia and Herzegovina;
Location: Yiasemi, Level 0, Filoxenia Press Centre

Don't Miss

10.00am - 11.00am

Civil Society: Town hall with EBRD President Suma Chakrabarti
Moderator: **Biljana Radonjic Ker-Lindsay**, Head of Civil Society Engagement, EBRD
Speakers: **Pierre Heilbronn**, Vice President, Policy and Partnerships, EBRD; **Alain Pilloux**, Vice President, Banking, EBRD; **Alan Rouso**, Managing Director, External Relations and Partnerships, EBRD; **Josué Tanaka**, Managing Director, Operational Strategy and Planning, Energy Efficiency and Climate Change, EBRD; **Alistair Clark**, Managing Director, Environment and Sustainability, EBRD
Location: Elia, Level 0, CSO Meeting Room 1, Filoxenia Conference Centre



11.00am - 1.00pm

The role of Civil Society in promoting transition resilience
Moderator: **Cristina Buzasu**, Acting Principal Manager, Civil Society Engagement, EBRD
Speakers: **Alan Rouso**, Managing Director, External Relations and

Partnerships, EBRD; **Joan Hoey**, Regional Director, Europe, The Economist Intelligence Unit (EIU); **School of Public Policy research team**, Central European University
Location: Elia, Level 0, CSO Meeting Room 1, Filoxenia Conference Centre

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2011
2013
2015



Sustainability, EBRD
Location: Elia, Level 0, CSO Meeting Room 2, Filoxenia Conference Centre

11.30am - 1.30pm

How important is trust for the functioning of institutions?

Moderator: **Milica Delevic**, Director, Governance & Political Affairs, EBRD
Speakers: **Francis Malige**, MD, Eastern Europe & Caucasus, EBRD, Kiev; **Marin Mrcela**, President of Group of States against Corruption/Groupe d'Etats contre la Corruption (GRECO); **Ivan Vejvoda**, Director Europe project, Institute for Human Sciences; **Tsogt Tsend**, Judge, Administrative Court of Appeals, Mongolia

Location: Halkos, Level -1, Filoxenia Conference Centre

12.00pm - 1.00pm

Kazakhstan Investment Outlook Session: **Modernisation of Kazakhstan - new investment in the region**

Moderator: **Mattia Romani**, Managing Director, Economics, Policy & Governance, EBRD
Speakers: **Erbolat Dossaev**, CEO, JSC National Managing Holding 'Baiterek'; **Natasha Khanjenkova**, Managing Director, Central Asia and Russia, EBRD; **Nurlan Kussainov**, CEO Astana International Financial Centre Authority; **Anuar Omarkhojayev**, Deputy Chairman, JSC National Managing Holding "Baiterek"; **Bakhyt Sultanov**, Minister of Finance, EBRD Governor, Kazakhstan; **Bolat Zhamishev**, Chairman of the Board, Development Bank of Kazakhstan
Location: Jean Monnet Auditorium, Level 0, Filoxenia Press Centre

1.00pm - 2.00pm

Networking Lunch
Location: Networking Lunch Marquee

2.00pm - 3.00pm

Moldova Investment Outlook Session: **Investment opportunities of the Republic of Moldova**

SeminarPick

2.00pm - 3.00pm

Greece Investment Outlook Session: **Reinvigorating investment for sustainable growth**

Moderator: **Sabina Dziurman**, Regional Head of Greece & Cyprus, EBRD, Athens
Keynote: **Dimitri Papadimitriou**, Minister of Economy and Development, EBRD Governor, Greece
Speakers: **Ioannis Arapoglou**, Corporate Finance Director, Copelouzou; **Theodore Fessas**, Chairman, SEV; **George Handjinicolaou**, Board Chairman, Piraeus Bank SA; **Evangelos Mytilineos**, Chairman and CEO, Mytilineos Holdings SA; **Alain Pilloux**, Vice-President, Banking, EBRD; **Mathios Rigas**, Chairman and CEO, Energean Oil & Gas SA
Location: Kerynia, Level 1, Filoxenia Conference Centre



Moderator: **Dimitri Gvindadze**, Head of Moldova, EBRD
Speakers: **Octavian Calmic**, Ministry of Economy, EBRD Governor, Moldova; **Sergiu Cioclea**, Governor, National Bank of Moldova; **Thomas Moser**, President, Danube Logistics SRL
Location: Jean Monnet Auditorium, Level 0, Filoxenia Press Centre

2.00pm - 3.00pm

Forum Partner Session: **UniCredit 'Social infrastructure in emerging economies. The case for new financial instruments**

Moderator: **Andrea Diamanti**, Head of Corporate Investment Banking, Central and Eastern Europe, UniCredit
Speakers: **Paolo Bozzolo**, Head of CEE Project & Commodity Finance, UniCredit; **Suzanne Gaboury**, Director Agribusiness, FMO; **Ekaterina Miroshnik**, Head of Infrastructure, Russia, Central Asia and Mongolia, EBRD, Moscow
Location: Yiasemi, Level 0, Filoxenia Press Centre

2.00pm - 4.00pm

Civil Society Working Level Session: **EBRD Projects in Natural Resources**
Moderator: **Cristina Buzasu**, Acting Principal Manager, Civil Society Engagement, EBRD
Speakers: **Nandita Parshad**, Managing

Director, Energy and Natural Resources, EBRD; **Eric Rasmussen**, Director, Head of Natural Resources, EBRD; **Aida Sitdikova**, Head of Energy and Natural Resources in Russia, Caucasus and Central Asia, EBRD; **Alistair Clark**, Managing Director, Environment and Sustainability, EBRD; **Dariusz Prasek**, Director, Operations, Environment and Sustainability, EBRD; **Michaela Bergman**, Director, Chief Social Counsellor, Environment and Sustainability, EBRD
Location: Elia, Level 0, CSO Meeting Room 2, Filoxenia Conference Centre

2.30pm - 4.00pm

Civil Society and green cities
Moderator: **Marianna Wiedenbeck**, Associate Manager, Civil Society Engagement, EBRD
Speakers: **Mattia Romani**, Managing Director, Economics, Policy & Governance, EBRD; **Nigel Jollands**, Associate Director, Policy & Climate Finance, EBRD; **Anuela Ristani**, Chief of Staff, City of Tirana; **Dimitri Zenghelis**, Co-Head Climate Policy, LSE; **Sorin Ionita**, Director, Expert Forum; **Nicholas Stancioff**, Co-founder, Latvian Baltic Energy Efficiency Fund
Location: Elia, Level 0, CSO Meeting Room 1, Filoxenia Conference Centre

11.00am - 4.00pm

Board of Governors' Plenary Session

Location: Zenon Kiteivs A&B, Level 0, Filoxenia Conference Centre

11.30am - 1.30pm

Civil Society Working Level Session: **EBRD Projects in Power & Energy Utilities**

Moderator: **Marianna Wiedenbeck**, Associate Manager, Civil Society Engagement, EBRD
Speakers: **Harry Boyd-Carpenter**, Director, Head of Power and Energy Utilities, EBRD; **Aida Sitdikova**, Head of Energy and Natural Resources in Russia, Caucasus and Central Asia, EBRD; **Alistair Clark**, Managing Director, Environment and Sustainability, EBRD; **Dariusz Prasek**, Director, Operations, Environment and Sustainability, EBRD; **Michaela Bergman**, Director, Chief Social Counsellor, Environment and Sustainability, EBRD; **Mikko Venermo**, Associate Director, Lead Oversight Adviser, Environment and

DownTime

6.00pm - 8.30pm

Reception

(all participants)

Location:

Archaeological Site of Kourion



Macron

Continued from page 1

and solve problems that until now, no one could solve. “Europe’s problems are still just starting, and to pretend [otherwise] would be [stupid].”

One head of a European bank who declined to be named, said: “It postpones the inevitable by several years. Europe is an abomination of bureaucracy dominated by Europe. France is a sick second-string player. France is highly diseased.”

THE CLOCK IS TICKING

Mario Holzner, deputy director of the Austrian think tank WüW, said following the surge in nationalism seen with Brexit, France and Germany had four years after the German elections in September to bring forward solutions to the continent’s economic and social problems. “This is a last chance to change policies with regards to the euro and taxation.”

He said the rise of the Front National and other right-wing parties across Europe had put in doubt the continued commitment of western European EU member states to free movement of labour and West-East fiscal transfers on the scale of the past decade. “This is very welcome. The main issue is that the existence of the EU is less endangered than before.”

Liam Carson, emerging European economist at Capital Economics, said fiscal transfers were “incredibly important”, and in 2015 had been worth 2%-4% of GDP for many CEE economies. “The election of Macron perhaps removes some of the risk hanging over fiscal transfers.”

ACCESSION ACCELERATION?

Macron’s victory may also accelerate the path for accession countries wishing to join the EU — although the former investment banker has not talked about the issue. Sergiu Cioclea, governor of the National Bank of Moldova, said a stronger EU project would be more appealing to neighbouring countries. “When there is doubt in the main capitals of Europe it distracts from the project and prevents the formulation of a unified neighbourhood policy. If Euroscepticism is rising in historical EU members, it’s always disadvantageous for potential new candidates.”

Regional financial markets gave a cautious welcome to the news with the Czech crown and the Polish zloty strengthening by 0.4% on Monday, with the crown hitting a four-week high and the zloty touching 20-month highs. Stock markets rose on Tuesday after falling on Monday.

“Macron will lead in the long term to more stable market conditions, investments will gain more and it will trigger more consumption,” said Sakir Somek, assistant general manager, international financial institutions, at Istanbul-based ABank.

Carson said Poland, Hungary and the Czech Republic would gain from their status as open economies. “The manufacturing sectors in particular are well integrated into the eurozone,” he told *GlobalMarkets*. “The election of Macron is good for free trade and I would say it is an encouraging development for the CEE as a whole.”

George Handjinicolaou, chairman of Piraeus Bank said under Macron, France could establish a more equal partnership with Germany, and rebuild a more harmonised and focused Europe. But he added: “It’s going to take time.”

However others said any rally was less a celebration of Macron’s victory and more relief Le Pen had not become the figurehead of the eurozone’s second largest economy.

“If Le Pen had won, Europe would have become broken,” Somek said. “For now, the European project as many before dreamed it — a harmonious project — is possible, one that brings together richer states with the CEE region [states]. For now.”

THE final word

CEE: maturing economies need mature policies

By Jean Pierre Mustier

We are at an historic moment for central and eastern Europe (CEE^[1]): never before have living standards been higher in both material terms as well as in terms of personal freedom and opportunities for the population. It is no surprise that investors call these countries “the developed markets of emerging markets”. While the CEE countries deserve praise for their achievements, the region’s leaders need to recognise the EU’s role in this success story.

First, European integration gave new EU members a blueprint for a Western-type democracy based on free elections and a clear division of power. As a result, the region ranks ahead of other developing countries in quality of democracy, rule of law and personal freedom.

Second, the new EU members received large foreign investment that helped transform command economies into efficient, export-oriented market economies. And when foreign direct investment dried up in the aftermath of the global financial crisis, CEE took advantage of generous EU financing. By 2020, EU funds ploughed into CEE will be more than twice the size of the Marshall Plan (in comparable prices). EU funds helped improve transport and IT infrastructure, transform subsistence agriculture into modern farming, support entrepreneurship, arts and crafts, develop workers’ skills, and much more. While some countries like the Baltics, Hungary and Poland proved better than others at absorbing EU funds, their positive impact can be felt throughout the region.

Third, the EU helped these countries go through needed, albeit painful adjustments after the global financial crisis. The initial impact of harsh austerity measures was disruptive: wages and pensions were cut, unemployment and bankruptcies surged and lower asset prices left the population much poorer than before. But after three painful years, these countries returned to rapid economic growth. Small budget deficits and debt allowed new EU members to keep low tax levels. Combined with a competitively priced labour force, this led to a second wave of foreign investment that further increased exports and external surpluses. Living standards increased at the fastest pace among emerging markets and reversed post-crisis losses on the back of stable currencies and rapidly-growing wages. Moreover, growth has been more inclusive than anywhere else, as shown by the lowest GINI coefficients of all emerging market regions.

Fourth, European integration brought freedom of



movement, which has helped reduce social tensions at a time when living standards were affected by austerity measures. It also exposed more people from the region to European values, and opened the possibility of returning higher-skilled migration in the future. Not surprisingly, a majority of CEE economic emigrants who vote in their countries’ elections choose parties that support free markets and personal freedoms.

THE BLAME GAME

Yet, despite the leap in living standards, personal freedom and unprecedented generosity from the EU, the CEE region is not immune

to populism, nationalism and euroscepticism.

A growing number of CEE politicians blame European institutions and foreign companies for the region’s lower living standards compared to the eurozone’s (and for most other inconvenient issues), forgetting that convergence takes time, albeit less time than it took other emerging markets.

And at the extreme — and of significant concern — multinational companies (the largest investors, employers and tax payers in CEE) have been hit by sectoral taxes that targeted, among others, banks, retail chains and utility companies. Such targeted surtaxes threaten to undermine economic growth and thus the pace of convergence in living standards.

The overwhelming argument for businesses to invest in the CEE region has always been — and continues to be — the prospect of the countries’ continued integration with the rest of the EU and with that, the continued convergence in living standards. This is evident not only in the deepening economic integration, but also in the sharing of European institutions, ultimately anchored in shared liberal values — as indeed preferred by a majority of CEE citizens.

Importantly, were this vision of shared values and European integration to be questioned by the CEE population and its leaders, businesses would naturally have to apply a new and higher risk factor to our investments in the region, which would lead to a reduction in inward investment, if not even outflows.

CEE countries belong in the EU and their common interest is to help build a strong, functioning union that can help improve living standards for all its citizens. **GM**

Jean Pierre Mustier is chief executive of UniCredit Group

[1] CEE: Baltics, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia.

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