

GlobalMarkets

MARKETS | DEVELOPMENT | ECONOMY WWW.GLOBALCAPITAL.COM/GLOBALMARKETS



MOLDOVA

Country focus

PAGE 6



BOSNIA AND HERZEGOVINA

Special Report: The Road to Sarajevo

PAGES 9-22

NEWS

- CEE banks pulling own weight 2
- Cat bonds in focus for Western Balkans 3
- Golden opportunity in Uzbekistan 3
- Row over hydro power plan 3
- FYI — no MMT 4 CEE 4
- Split over EU green grading 4
- Markets wait on Zelensky punchline 27

SPECIAL

- Bosnia catching up with China's help 12
- Belt & Road beefs up BiH 14
- EU remains a distant dream 18
- Banking on financial strength 22

AGENDA

What's happening in Sarajevo

PAGE 26

Balkans to Brussels: invest more or give way to China

By Elliot Wilson, Lewis McLellan and Mariam Meskin

China is winning the battle for hearts and minds in southeastern Europe as it pushes into the Balkan region, building infrastructure and investing in growth industries, rattling and disturbing western European policymakers.

Xiang Songzuo, chief economist at Agricultural Bank of China in Beijing, warned that officials, banks and policymakers in Brussels and other European capitals had “not invested enough in their southeastern neighbours.”

“This is why the Chinese government is

grabbing the opportunity to boost its presence in the area. The focus of western Europe’s leaders is western Europe, not eastern Europe or the Balkans. France and Germany ignore their eastern friends, and that is an error.”

Mirko Šarović, minister of foreign trade and economic relations of Bosnia and Herzegovina, said western Europe’s politicians and bankers needed to up their game in response to China’s strong push into the Western Balkans. “China is rather aggressive in this region, bringing companies here to do business,” said Šarović, speaking to *GlobalMarkets* at the EBRD annual meeting on Tuesday. “We have informed Brussels that

Continued on page 2 Šarović: EU needs to compete with China



© vijeceministara.gov.ba/

Istanbul election re-run 'prolongs recession and erodes Turkey's credibility'

By Lewis McLellan

The Turkish electoral commission’s decision to scratch the result of the Istanbul municipal elections, which Turkish president Recep ‘Tayyip Erdogan’s AK Party lost at the end of March, will delay Turkey’s recovery and erode investors’ already shaky confidence in Turkey’s institutions, onlookers have told *GlobalMarkets*. The rerun is scheduled for June 23.

The move has caused the lira to weaken from TL5.96 to TL6.15 to the dollar — a level not seen since early October 2018, when

Continued on page 27 Erdogan: ‘throwing everything he can’



Russia losing ground in Central Asia as key rival pumps in cash

By Elliot Wilson

Russia is at risk of being permanently marginalised in markets in Central Asia that until recently it viewed as part of its sphere of influence.

“All the foreign direct investment and trade data show China either rivalling Russia or beating it” in Central Asia, said

Charles Robertson, chief economist at Moscow-based investment bank Renaissance Capital. “It is really only in Kazakhstan where the strength of the Russian relationship is still strong and relevant.”

Until 2016, Russia was the leading *Continued on page 2*

Basel rules ‘curbing infra investment in emerging markets’

By Jasper Cox

New rules aimed at making financial institutions safer have been blamed for a slump in investment in infrastructure projects in developing and emerging countries over the last decade.

The task force of experts looking at the impact of the Basel III banking rules called on regulators to loosen liquidity requirements for infrastructure lending in domestic currencies. It also recommended development banks offer credit guarantees to make bank lending less risky.

A task force, co-chaired by Thorsten Beck and Liliana Rojas-Suarez, respectively professor of banking and finance at Cass Business School in London and senior fellow at the Center for Global Development think tank, found that finance volumes for infrastructure had stalled since about 2010 in developing and emerging countries, while doubling in advanced countries.

While other factors are also at play, Basel rules do not help, it said. Banks can only gain a certain amount of capital relief from using their own models rather than standardised ones. This could make project finance more expensive, particularly when external credit ratings for projects are non-existent in developing countries.

Continued on page 27

Russia

Continued from page 1



trading partner of all five Central Asian states: Kazakhstan, Turkmenistan, Kyrgyzstan, Uzbekistan and Tajikistan. That has all changed, thanks to the connection of new highways and energy pipelines linking the region with western China.

According to RenCap data, in 2017 82% of Turkmenistan exports — mostly gas and crude oil, flowed to China. The same year, the People's Republic became Uzbekistan's single largest trading partner, also overtaking Russia. Even in Kazakhstan, the region's largest, richest and most open economy, the share of exports has slipped steadily since 2008, with Russia's loss coming at China's expense.

Before the start of the decade, Chinese investment into Kyrgyzstan, the region's smallest and poorest economy, rarely accounted for more than 10% of the total. In 2017, it made up half of all inward FDI, with Russia comprising barely 15% of inward corporate and financial investment. "Chinese investment is roaring to get into the Central Asian region," said Artem Shevlev, an EBRD alternate board director for seven markets including Uzbekistan and Turkmenistan.

SLOW TO REACT

Russia maintains military bases across the region and continues to invest heavily in member states. But Richard Grieson, a deputy director at the Vienna Institute for International Economic Studies, said Russia had been "very slow" to react to the threat posed to its once unassailable dominance in Central Asia. "Russia's has long felt under attack by Europe and by the expansion of Nato. But long-term, the real threat to Russia comes not from Europe but from China.

"China is game-changer in the region," he said. "It is a \$13tr economy; Russia's economy is worth \$1.6tr. Beijing has more money than Moscow has ever had and is willing to put it to work across Central Asia.

"You are going to see Russian tensions with China rise in the region but also in the Western Balkans, where Beijing is funding projects and gaining influence in Serbia, Montenegro and Republika Srpska" — one of three political entities that make up Bosnia and Herzegovina.

"In Central Asia, Russia's power cannot just disappear, but it is tilting strongly in China's direction. Perhaps the only country that still tilts toward Russia is Kazakhstan, but even they are in play."

Local banking strength in CEE to offset growth slowdown

By Mariam Meskin

Growth levels across central and eastern Europe (CEE) are expected to decline this year, but the region has a trick up its sleeve: a well-developed local banking system that in the 30 years since the fall of the Iron Curtain has evolved into a self-sufficient source of financing for the region.

The IMF's World Economic Outlook, released in April, projects GDP growth across emerging Europe at 0.8%, a stark decline from recent years of prosperity such as 2018 when GDP grew by 3.6%. The EBRD is set to unveil a similar decline in growth later today (Wednesday).

Weakness in the eurozone and declining external demand for imports are set to weigh heavily on the local export-heavy economies. The Czech Republic and Slovakia are likely to be hit particularly hard by the weakening eurozone, given their open economies and their manufacturing systems that are connected to Germany.

But a well-capitalised lending system and tightening monetary policy in some of the region's countries are set to pull CEE through what is predicted to be one of the most challenging years for growth since 2015. Poland, Czech Republic and Hungary are some of the countries expected to

increase interest rates over the next year.

The evolution of fully functioning local loan and bond markets across CEE will ensure that banks are able to manage domestic demand, which is expected to help offset the worst effects of the predicted slowdown.

COMPETITIVE

William Jackson, chief emerging markets economist at Capital Economics, said: "Domestic demand is set to remain strong among these economies, which combined with the development of local markets will help to make this a relatively modest economic slowdown."

Poland and the Czech Republic, in particular, are two names receiving high praise for their transformations into largely self-sufficient economies, equipped with banking systems that can offer an abundance of liquidity to local borrowers at competitive margins.

"Central European economies have become less dependent on external financing," said Capital Economics' Jackson. "If you compare today to the crises in 2008 or 2011, banks in the region are less dependent on international lenders and their parent banks in western Europe and are now funded to a much greater degree by domestic deposits."



Ruhe: commercial banks are stronger

Charlotte Ruhe, managing director for central and south eastern Europe at the EBRD says: "We have to be cognisant that commercial banks are more present and stronger than ever in CEE — they are solid, liquid and competitive. We don't want to take business from them."

Even the development finance institutions that were once an integral part of the post-Soviet reconstruction of banking systems have diminished in influence, as local lenders have grown in independence.

Although the evolution of local markets has boosted the region, continued economic decline past 2020 could weigh heavily on banking systems across CEE, forcing banks to look outwards for help once again.

Balkans

Continued from page 1

if they want to invest here rather than China, we want money at better conditions to compete with Chinese funding."

NEW KID ON THE BLOCK

China's influence is being felt in all corners of the region. A senior official at the EBRD told *GlobalMarkets* that China was "increasingly seen as a threat by the EU" in the Balkans and across emerging Europe. "There is a huge new player on the ground, who we look at in amazement.

"But they create problems, because they operate so far outside the rules. We follow strict rules and they do not, building infrastructure that is good for the guy who commissions it, but not for the country."

This was a direct dig at a 165km highway in Montenegro. The so-called "road to nowhere", Chinese-funded-and-built, has already cost €1bn (\$1.12bn), and is projected by the IMF to need another \$1bn to be completed.

Charlotte Ruhe, head of central and southeastern Europe at the EBRD, said: "If the Chinese want to invest in EU accession countries and the EU, they need to play by EU rules — this is our bottom line. As long as they play by the

rules, we are perfectly fine.

"[W]e have very high standards for the way projects are procured and managed. We need to ensure that projects offer value for money for the governments involved. There is a lot of sensitivity around Chinese investment in the region, and the Chinese have seen that there is pushback to their approach."

Experts said Europe faced three major headaches in dealing in its own backyard with Asia's largest economy. Chinese exports into the CEE region had risen four-fold since 2014, Raiffeisen Bank says, with exports into southeastern Europe up eight-fold. Six countries, including the Czech Republic, Bosnia and Herzegovina Hungary and Serbia, posted a trade deficit with China of more than 3% in 2017.

Then there is the fear of frontier states succumbing to a Chinese style debt-trap, where financially fragile countries secure cheap loans from China, then struggle to meet their obligations. "The fear we have is seeing China pay for highways, then coming to own them when a sovereign cannot repay," said a senior development banker. "The juice in the game [for China] is not about building a project but about the profit it makes over the next 25 years, in loan repayments, and getting the sovereign to pay for maintenance."

HIGHWAY TO CHINA

But the far bigger fear, now felt keenly at the heart of Europe, is seeing China use the infrastructure it builds in the Balkans and beyond as a way to channel lower-cost goods directly into the region's biggest markets.

"Western Europe sees the infrastructure being built as the thin end of the wedge," said Charles Robertson, chief economist at Moscow-based investment bank Renaissance Capital. "Once highways through the Balkans are linked up to Piraeus Port [in Greece], they will use the route to channel low-cost goods straight into markets like Germany's. That will be great for China, but not for western Europe's big corporates. This is the last thing Siemens wants."

Added Agricultural Bank's Xiang: "China sees the Balkans as a perfect way to channel goods into Europe. Ultimately, China is investing in the Balkans because it wants to increase its influence over western Europe. The region is our back door into Europe."

Šarović said the annual meeting in Sarajevo this week was an opportunity to pitch for more investment from Europe. "From 2019 onwards, we expect more European investment in this region and in Bosnia. We are hoping for more help — it's necessary to finance development here. That's the point of this conference — to drive European investment here."

Market eyes EBRD role in cat bonds for western Balkans

By Jasper Cox

The EBRD is well placed to work with market participants and other agencies such as the United Nations Development Programme (UNDP) to roll out the use of catastrophe bonds and other insurance-linked securities in the western Balkans, an industry expert believes.

These tools could help countries such as Albania, Bosnia and Herzegovina, North Macedonia, Montenegro and Serbia manage the impact of natural disasters like flooding and earthquakes.

Particularly in light of climate change, finding a new way to transfer the risk of disasters on to the private sector could boost the financial resilience of governments, ILS proponents believe. ILS involves capital markets investors bearing the financial risk of catastrophes, in exchange for receiving a premium. They pay out in case of a disaster.

The EBRD is well-placed to participate in the plan, according to Kirill Savrasov, CEO of Phoenix CRetro Reinsurance. "That could be a really useful involvement," he said.

The concept of paying a premium for insurance can be off-putting for governments, and some of the departments

charged with dealing with catastrophes may be too preoccupied with immediate disaster relief to consider a solution like ILS. But involving finance ministries could encourage countries to look at disasters as a financial risk to be mitigated.

Stanislav Kim, programme specialist for recovery, early warning systems and response at the UNDP, said that countries became more receptive when they thought about the cost of disasters to the economy and the constraints it posed to development.

POOLING ARRANGEMENT

In the Balkans, a cross-country approach may make sense, given the similar risks and the costs of structuring a deal. "Ideally a pooling arrangement is great," said Savrasov. But he noted that political disagreements might make that difficult.

Rom Aviv, co-founder and managing partner at IBI ILS Partners, an asset management firm, said that investors could be receptive. "Provided the transaction is following proper modelling routines, there is going to be significant demand



Zenica, in Bosnia, hit by floods in April

for [natural] cat risks in the Balkans," he said. "Because such risks are generally unavailable to ILS investors, the addition of it to the portfolio may add solid diversification benefits."

The obvious structure for ILS in the Balkans, at least at first, would be parametric, where the pay-out is based on measurable attributes of a catastrophe such as wind speed or earthquake strength. This is as opposed to an indemnity structure, where the pay-out is related to actual losses incurred. Transparent mechanisms for assessing loss can be more difficult in the developing world.

But this is a long-term project. Countries need to "find the data", according to Kim, as there is a lack of modelling at present.

EBRD urged to intervene over 'damaging' North Macedonia hydro project

By Phil Thornton

Environmental campaigners have accused the EBRD of failing to monitor the building of a hydropower plant in a protected area in North Macedonia that has led to a river being almost run dry, endangering wildlife.

They called on the bank to intervene to force the developer to repair the damage or cancel the project, which they said breached the bank's environmental rules.

The EBRD said the area was declared a protected area only after construction began and they were working closely with the developer and opponents to ensure the project met its environmental standards.

The row relates to the 270KW Krapaska hydropower project funded by a €4.1m loan to Aktuel Energy Group under the EBRD's direct finance framework that the bank uses to provide finance to private enterprises.

CEE Bankwatch, an NGO, said it had struggled to obtain details of environmental and social due diligence as well as an assessment of the aquatic biodiversity the bank had carried out.

It filed a complaint to the bank's secretary-general Enzo Quattrocchio in February and was told "[t]he importance of good practices in construction have been reinforced to the client". EBRD also said it would insist the project managers carried out air, soil and water monitoring.

"Our visit showed this was simply a smokescreen," Davor Pehchevski, Bankwatch's national campaigner, told *GlobalMarkets*. He said he had visited the site last month and found the developer had started a test-run taking almost all the water, leaving a dry road instead of the riverbed below the dam.

"The river bed has been completely destroyed. It was dug up and the water diverted and there were clear signs of erosion all along the access road so wildlife could not access the river, especially amphibians and the endangered species that live there. I could see the water quality was terrible."

Igor Vejnovic, Bankwatch's hydropower co-ordinator, called on the EBRD to ensure these types of projects followed the bank's as well as national guidelines that were often weaker. "The project needs to be brought into line with EBRD policies or it should take some action against the client. They either have to make it compliant or somehow influence the clients to remove the dam."

Equity investors see golden opportunities in Uzbekistan

By Sam Kerr

Uzbekistan is on the verge of a capital markets revolution, with banks and investors keen to take part in economic liberalisation programmes that would see the government sell stakes in some of the country's prize assets to public investors.

The Uzbekistan cabinet last month passed a resolution to start selling government stakes in financial entities on the Tashkent stock exchange.

The IPOs of Sanoat Qurilish Bank, Asia Alliance Bank and Jizzax Plastmassa are expected to take place later this year, alongside secondary public offerings (SPOs) in Aloqabank and Uzbek Commodity Exchange.

The move is part of a plan led by president Shavkat Mirziyoyev who wants to liberalise the country's economy by reducing the government's role in businesses deemed "non-core". Mirziyoyev took office in 2016 and is seen as a moderniser.

"The regulators have dual objectives in the privatisation wave — first they want to reduce the dominance of the government in the broader economy, which means the government is reducing its stakes in non-core business and companies," said Sardor Koshnazarov, development and investment director at Silk Capital, which is advising the Uzbek gov-

ernment on a number of transactions. "The new agencies seem to have succeeded in convincing the country's top politicians that it should focus on core government businesses and should sell some stakes in non-core businesses.

"The government is also being decisive in boosting the capital markets by bringing in new IPOs and SPOs to the market, utilising local support and bringing foreign investors into the local capital markets"

MINERAL RESERVES

The three local listings set for this year will precede three further IPOs which will be marketed internationally. Uzbekistan's largest state mining companies — Navoi Mining and Metallurgical Company, Uzbek Metallurgical Company, and Almalyk MMC — are expected to hold dual local and international listings in 2022 and 2023.

Investing in Uzbekistan is an exciting opportunity for many investors. According to the IMF and Uzbekistan's State Statistics Committee, Uzbekistan has the third fastest growing economy in the CIS region, with average real GDP growth of 6.7% between 2013 and 2018 — consistently higher than the global average.

It also has vast mineral reserves, particularly in gold and uranium — Uzbek-



Mirziyoyev: plans to reduce state's role

istan is the ninth largest gold producing nation and the second largest in the CIS region, and has the third largest gold reserves in the world.

"When I go to the region in general, I meet with companies in Georgia and Kazakhstan for example who see plenty of opportunity in Uzbekistan," said a US-based emerging markets investor. "I recently went to Uzbekistan and I was incredibly impressed with everything I saw. The debt to GDP is very low and they have huge reserves.

"The equity market is still very young, but I see foreign interest and strong fundamentals as well as a change at the top of government, which is looking to openness and to bring in foreign capital. It really is an interesting time."

GlobalMarkets

MANAGING EDITOR

Toby Fildes

toby.fildes@globalcapital.com
+44 20 7779 7327

ASSOCIATE EDITOR

Phil Thornton

ON-SITE REPORTERS

Jasper Cox

+44 7985 919 236

Lewis McLellan

+44 7908 828 904

Mariam Meskin

+44 7455 204 187

Elliot Wilson

+44 7450 221 989

SENIOR OPERATIONS MANAGER

Barbara Fertalova

PRODUCTION EDITOR

Vicki Robinson

CEO - BANKING & FINANCE

GROUP, EUROMONEY

INSTITUTIONAL INVESTOR PLC

John Orchard

CEO ASIA

MANAGING DIRECTOR

Ruth Beddows

ruth.beddows@globalcapital.com

+44 20 7779 7386

GROUP PUBLISHER

Oliver Hawkins

PUBLISHER

Melissa Roache +44 (0)20 7779 8276

m.roach@globalcapital.com

SENIOR ADVISOR

Christopher Garnett

cg@chutecourt.com +447710306856

CENTRAL ASIA PUBLISHER

Mine Hekimoglu

minehekimoglu@aol.com

+90 5324131686

RUSSIA & CIS PUBLISHER

Alex Korol

akorol@euromoney.com

+7 903 720 8050

PUBLISHER,

MIDDLE EAST & TURKEY:

Adil Jilla of MEIAC a.jilla@meiac-uk.com

ASSOC. PUB., MIDDLE EAST &

TURKEY **Kaersi Jilla of MEIAC**

k.jilla@meiac-uk.com

(UK): +44 (0) 797 384 310 (Dubai):

+971 4 4548690

Shatha Tower, Office No. 1906, Media

City PO Box. 502118, Dubai, UAE

FROM THE PUBLISHERS OF

GlobalCapital

All rights reserved.

© Euromoney Institutional Investor PLC

GlobalMarkets/Emerging Markets is a

publication of: Euromoney Institutional

Investor PLC

8 Boulevard Street, London, EC4Y 8AX

Telephone: +44 (0)20 7779 8888

Directors:

Leslie Van de Walle, Non-Executive

Chairman of the Board

Andrew Rashbass, Chief Executive

Officer; **Wendy Pallot**, Chief Financial

Officer; **Janice Babiak**, Non-Executive

Independent Director; **Colin Day**, Non-

Executive Independent Director; **Tristan**

Hillgarth, Independent Non-Executive

Director; **Imogen Joss**, Non-Executive

Independent Director; **Lorna Tilbian**,

Non-Executive Independent Director

Printing by:

CPU Printing Company

+387 33 766 880

info@cpu.ba

Economists warn CEE against adopting modern monetary theory

By Phil Thornton

The new-fangled modern monetary theory (MMT) that says a country can borrow in its own currency without worrying about inflation or government deficits and debt is not the right recipe for central and eastern Europe, according to the EBRD's chief economist.

The idea that a country can run larger budget deficits has made MMT popular with left-leaning politicians in the United States such as Bernie Sanders and congresswoman Alexandria Ocasio-Cortez who want to fund schemes for healthcare or a Green New Deal to tackle climate change.

Sergei Guriev, EBRD chief economist, said the argument might work for the US, where government bond yields are so low that it can benefit from increasing sovereign debt provided the funds raised are used for productive purposes.

"This is especially true in countries where interest rates are below the GDP growth rates so countries naturally 'grow out' of debt," he told *GlobalMarkets*. "This unfortunately is not the case in most of EBRD countries of operations where debt sustainability is still a very salient issue."

His criticism echoed the verdict of the International Monetary Fund. At the spring meetings last month, incoming chief economist Gita Gopinath said there was "no free lunch", adding: "There are limits to how much countries can spend." The IMF's financial counsellor Tobias Adrian said: "Unsustainable fiscal policies are problematic. They can trigger crises."

CURRENCY WEAKNESS

Petr Krpata, chief EMEA strategist at ING bank, said MMT would not work for countries in the CEE that tended to be price takers in financial markets. He told *GlobalMarkets* the US was in a unique position because the dollar was the world's reserve currency.

"One of the by-products of MMT would be a sharply weaker currency," he said. "Clearing the bar for smaller currencies and more open economies to do something like this is way, way higher because their currencies would of course decline meaningfully. The idea that MMT could be applied to more open economies that are price takers is not on the cards."

James Knightley, ING's chief interna-



Guriev: debt an issue in the EBRD region

tional economist, said the imperative to tackle climate change was much greater in the US than in Europe. "The US is in a very different position than Europe," he told *GlobalMarkets*. "Europe is prepared to take very aggressive action — if you think of emissions targets and the fuel economy in comparison with the US."

A survey of leading economists by the Chicago Booth IGM Forum in April found 76% strongly disagreed and 24% disagreed with the statement that countries that borrow in their own currency could finance as much real government spending as they want by creating money. None agreed.

Romania, France support bolder versions of EU's sustainable economy taxonomy

By Jon Hay

Financial officials of EU governments met in Brussels on Tuesday to discuss whether to broaden the taxonomy at the heart of the union's Sustainable Finance Action Plan (SFAP). Some states, led by France, want it to be not just a label for the "green niche" but a guide to wider efforts towards a healthier economy.

The Romanian presidency, eager to secure agreement in the European Council of governments before the summer, is trying to reconcile the French scheme with the original proposal from the European Commission.

But the Romanian draft, seen by *GlobalMarkets*, contains a still bolder suggestion: that the taxonomy should cover all economic activities, grading them from green to brown, like the energy performance certificates on household appliances.

Many see the taxonomy as the SFAP's flagship policy — although critics regard it as a cumbersome distraction. It is intended to answer the question "what is green?" The EU hopes an official taxonomy of sustainable economic activities would accelerate investors' allocation of capital to greening the economy.

But the taxonomy has proved difficult to legislate. Some countries are dragging their feet. Others want the Commission proposal to be made more ambitious.

"There are a lot of unknowns. It's such a complicated file," said a lobbyist who follows the process.

This echoes battles in the European Parliament in February and March. Conservative MEPs threw out stronger safeguards for the environment and society, proposed by left wingers.

It is not simply that progressives want a stricter taxonomy, conservatives a looser one. The boldest idea is to make a fully inclusive taxonomy, evaluating the sustainability of all activities. Conservative MEPs rejected this as bureaucratic.

However, many are concerned that if the taxonomy is merely a list of "deep green" activities such as wind power, it will cover only a fraction of the economy and be of little help.

At a Council working group meeting on April 9, France proposed expanding the taxonomy to provide evaluations of all activities that contribute to one of the Commission's six environmental objectives (such as on climate change, water, pollution) and meet minimum safeguards on human rights.

Originally, only activities that made a "substantial" contribution, without "significantly harming" any of the other five objectives, would have been listed.

In this broader taxonomy, France wants impact assessments of how much a given activity helps or harms each objective.



Teodorovici: wants grading of all economic activities

Results would be given as a grid, with one of five grades for each objective. Based on these results, the activity would be deemed sustainable or not.

Romania's public finance minister Eugen Teodorovici proposes combining both approaches, so that the taxonomy would stipulate two categories of greenness: "fully environmentally sustainable" and a wider band of "transition activities".

But the most radical element of the Romanian proposal is to "further develop the grid... to classify those activities that are not eligible for either of the categories outlined in the regulation and make them available to the market in a non-binding manner".

This is tantamount to the "full taxonomy" of all activities favoured by NGOs such as the WWF.



TBC BANK

#1 BUSINESS SUPPORTER IN GEORGIA

Based on survey conducted by independent research company ACT among 750 company representatives nationwide 2018



Moldova dares to hope

Moldova starts from a low base in terms of economic growth, but bold financial legislation and efforts to attract investors are beginning to pay dividends

By Elliot Wilson

Where do you start? Pick a financial, economic or societal ailment, and Moldova suffers from it. Landlocked and poor? Tick — by any measure it is the poorest sovereign state in Europe. Vulnerable to Russian meddling? Tick — Transnistria, a breakaway sliver of land on its border with Ukraine said in January 2019 it would re-open its diplomatic office in Moscow.

What about the economy? Moldova falls awkwardly into the category of markets that offer a superficial semblance of growth without doing enough to impress frontier-market investors. The IMF in its latest World Economic Outlook, published in April 2019, tipped output to expand by 3.5% this year and by 3.8% in 2020.

That is in large part due to the fact that there are so few viable ways to put your capital to work. Viewed from any angle, the country is a capital markets-free zone. There is virtually no bond market to speak of and, while the sovereign has printed several multi-year bonds over the years, most are tiny, thinly traded, and denominated in lei, the local currency, putting them out of the reach of most foreign funds. In a February 2019 research note, Moody's noted that Moldova's credit profile was characterised by "low economic strength, reflecting low GDP per capita and a narrow economic base, as well as a limited institutional strength".

And these are just the headline problems. When asked last year to pinpoint his nation's principal challenge, president Igor Dodon pointed, not to poverty or corruption, but depopulation. "We've lost one third of our people," he sighed, adding: "This is going to be a stumbling block for us for many years to come."

In fact, each of these problems is equally the biggest, because they interconnect. Moldova is deeply poor, so its finer minds flee abroad as soon as they can — to London or

Berlin, Dubai or Hong Kong. An estimated 1m Moldovans have emigrated, leaving behind a population of 3.5m. Many return only to visit friends and family, and to mourn or celebrate the passing of lives or seasons. Remittances keep the economy afloat: the World Bank reckons they constitute one fifth of total GDP.

Most of the economic activity, such as it is, flows through the informal economy, thickening with each passing year the roots of corruption. Moldova ranked 117th in Transparency International's 2018 Corruption Perceptions Index. The Berlin-based non-profit said corruption was "becoming more ingrained in politics and society".

When Moldova does hit the headlines, it is rarely to trumpet good news. The country played a role in the Laundromat money-laundering scheme that saw \$20bn in dirty cash channelled out of Russia between 2010 and 2014. In November 2014, it was revealed that \$1bn had simply disappeared from three local lenders in as many days. The bailout that ensued cost more than 10% of total GDP.

PROMISING SIGNS

So what can be done? Is there a cure, or at least a treatment, for this impoverished backwater? Can the average young Moldovan keen to stay close to home, instead of jetting off in search of money and personal achievement, expect the next 50 years to be any better than the past half-century? Or will the country simply continue to plod along, step by heavy step, unheralded, unobserved and unchampioned, expecting little and achieving even less.

Moldova does have friends: individuals and institutions that believe in its future. The EBRD, for one, continues to put money to work in carefully selected projects, mostly in the energy and infrastructure space. It is channelling credit lines to several local lenders, including Victoriabank, Moldindconbank and Agroindbank, funding oil and gas pipelines, and financing new link roads

and bus routes in the capital, Chisinau.

Europe's leading multilateral development bank has, to date, invested €1.25bn (\$1.4bn) in 125 domestic projects. The list includes an \$18m loan, disbursed to the local unit of Turkish brewing group Efes, to build a wastewater treatment plant, proving that both a private sector and inward investment do exist.

A few scattered sectors show signs of genuine promise. "The IT sector already attracts huge foreign investments," the chairman of the board of Moldova Agroindbank, Serghei Cebotari, tells *GlobalMarkets*. He also points to tourism as an industry capable of spurring growth, if more investment capital is channelled into the space. Moldova's rugged terrain is a destination for everyone from backpackers to bird-watchers.

Of course, a few of the country's more admirable and selfless sons and daughters are willing to commit to and invest in its future. In 2016, after two decades working as an investment banker at BNP Paribas in Paris, Sergius Cioclea returned home to head up the National Bank of Moldova. Cioclea has barely wasted a moment, pushing through legislation that prevents a repeat of the 2014 debacle, monitors related-party lending and makes bank managers and shareholders more accountable. A new EU-style bank recovery and resolution mechanism has been set in place, to prevent taxpayers from being put on the hook for any future bank bailout.

Another positive note was the central bank's decision to allow local lenders to be sold, partially or wholly, to foreign investors. In 2017, Romania's Banca Transilvania bought 44.6% of Victoriabank, for \$6.3m — the first investment in the space by a foreign lender in over a decade. It upped its stake to just over 50% in May 2018. The EBRD currently owns 27.59% of Moldova's third largest lender. It is a progress of sorts, and it suggests that even Europe's poorest country can change — and, perhaps one day, dare to hope. **GM**

“We've lost one third of our people — this is going to be a stumbling block for us for many years to come

—Igor Dodon, President of Moldova

“Our time has come”
“We will make changes for the better together,” says a billboard for Moldovan president Igor Dodon in central Chisinau

MOLDOVA AGROINDBANK

MAIB bank hails EBRD investment as pivot to expansion



Moldova's leading commercial bank, Moldova Agroindbank, is viewed as one of the main pillars of the country's economic development. With its history going back to 1991 when the former Soviet republic declared its independence from the Soviet Union, the bank has imposed itself on the market as a highly trusted universal bank and a pioneer in financial services.

Having deeply embedded roots, Moldova Agroindbank, also known as MAIB, has overcome all downturns the country has gone through to emerge even stronger. The latest recession that Moldova's banking sector witnessed came as further proof of the bank's strong foundation. This persuaded well-known international investors, including the European Bank for Reconstruction and Development, to purchase a large stake in the bank in late 2018. The bank's chairman, Serghei Cebotari, says that the move has opened up new development opportunities, which will benefit both the bank, its clients and partners.

GM: MAIB has recently welcomed new shareholders — international investors. What impact does this move have on your bank?

SC: Indeed, HEIM Partners consortium, made up of the European Bank for Reconstruction and Development, and the equity funds Horizon Capital and Invalda INVL, bought a 41.09% stake in MAIB. This was a very important event for both MAIB and Moldova's society, as it will consolidate even more the bank's position and the country's financial sector as a whole. The move will give us winds to develop even more quickly, to extend our market shares and stay a worth-following viral example not only for the other banks, but other companies as well.

GM: What are your Bank's areas of operation, and what new products and services can MAIB offer?

SC: MAIB is a universal bank providing services to both private and legal entities, including micro enterprises, SMEs and corporate companies. All in all, our client portfolio includes over 900,000 clients, with the figure increasing by more than 52% over the past five years only. To provide quality services, we have a wide network of branches and agencies covering the whole country. Yet, to keep pace with the high-tech boom, our team has been investing huge efforts into putting in place a wide range of safe online banking applications and services, which make it possible for our clients to save their time and to bank comfortably



“ MAIB HAS A STRONG FOUNDATION AND IS POSITIONED PERFECTLY WELL TO MAINTAIN AND CONSOLIDATE ITS STATUS OF LEADER OF THE NATIONAL BANKING SYSTEM

and easily regardless of their whereabouts. MAIB seeks not only to go digital, but also to be digital, that is, to be there where its clients are and provide them with the flexibility they need to manage their businesses remotely.

GM: What can MAIB do to promote the development of Moldova's economy and financial system?

SC: MAIB has been the locomotive of Moldova's banking system and a driving force of the economy,

as well. Speaking of our direct contribution to the development of economy, the fact that in 2018, MAIB held a market share of 36% of newly issued loans is more than eloquent, I believe. MAIB is also a promoter of European business standards, putting transparency, accuracy and reliability on top of all its activities. In this respect, we work fully in line with Basel III principles. With the financial environment developing at light-speed, MAIB has been contributing to people's financial education through bilateral partnerships and via its own financial education projects implemented absolutely for free

at our MAIB Studio Avanti centre.

GM: How do you see the future of MAIB?

SC: As a bank of systemic importance, MAIB has a strong foundation and is positioned perfectly well to maintain and consolidate its status of leader of the national banking system. It is a highly competitive bank due to its professional and bold team, and does its best to constantly enhance its status of best employer. Moreover, it is turning into a country brand and a valuable asset at regional level as well. With such a legacy, Moldova Agroindbank will remain a highly reliable bank, enjoying a high top of mind ranking. Its value will further increase, due to its ability to quickly adapt to changes in the sector and emphasis on digitalization. MAIB will further be the best bank in Moldova, will keep on setting the tone on the market and will enter other foreign markets due to opportunities opened up by the IT revolution. ●

MAIB's performance indicators for 2018 (in Moldovan leu MDL)

Assets: 23,64 bln

Capital: 3,88 bln

Profit: 531,46 mln

MAIB's market shares

Assets: 28.4%

Capital: 27.2%

Loans: 35.1%

Deposits: 29.4%

Profit: 32.4%

Global Markets

Covering the global economy for over 30 years

2019 EDITIONS*

- IMF & World Bank Annual Meetings
12-15 Oct 2019, Washington, DC
- AIIB Annual Meeting
July 12-13, 2019 Luxembourg

2020 EDITIONS

- IDB, ADB, EBRD, AIIB, IMF & WORLD BANK

** EM publication dates may vary*

At the forefront of the international economic debate. Published daily at the key meetings of the major international financial institutions, highly acclaimed for its authoritative, incisive and hard-hitting editorial with access to an audience that includes some of the world's most influential opinion-formers from both public and private sectors.

Please contact Melissa Roache tel ++44 20 7779 8276 / mroache@globalcapital.com

ANNUAL MEETINGS INTER-AMERICAN DEVELOPMENT BANK WORLD BANK/IMF ASIAN DEVELOPMENT BANK EBRD SPRING MEETINGS AIIB

Global Markets

Covering the global economy for over 30 years

2019 EDITIONS*

- IMF & World Bank Annual Meetings 18-20 October, 2019 Washington, DC
- AIIB Annual Meeting 12-13 July, 2019 Luxembourg

2020 EDITIONS

- IDB, ADB, EBRD, AIIB, IMF & WORLD BANK

** EM publication dates may vary*

At the forefront of the international economic debate. Published daily at the key meetings of the major international financial institutions, highly acclaimed for its authoritative, incisive and hard-hitting editorial with access to an audience that includes some of the world's most influential opinion-formers from both public and private sectors.

Please contact Melissa Roache: tel +44 20 7779 8276 / mroache@globalcapital.com

ANNUAL MEETINGS INTER-AMERICAN DEVELOPMENT BANK WORLD BANK/IMF ASIAN DEVELOPMENT BANK EBRD SPRING MEETINGS AIIB

MARKETS | DEVELOPMENT | ECONOMY WWW.GLOBALCAPITAL.COM/GLOBALMARKETS

Global **Markets**

Special Report

ROAD TO SARAJEVO



© Photo by www.M1leyrme, flickr. Some rights reserved. Michal Humiwicz

In association with



**Raiffeisen Bank
International**



Regional Cooperation Council

UniCredit

ZiraatBank
1997-2008

10 | A VIEW FROM BOSNIA AND HERZEGOVINA

INVESTING IN BOSNIA OPENS UP ACCESS TO WIDER MARKETS

Welcome to Sarajevo, the capital of Bosnia and Herzegovina. I want to use this opportunity to point out immediately that Bosnia and Herzegovina represents much more than “post-war”, “complex structure”, “standstill in the process of government setup” and “programme with the IFI institutions”, which are the images which are sometimes used in the foreign media. Please allow me to explain why I have a different point of view which allows me to look at my country through the lens of accelerated and better progress in the future.

The Currency Board Arrangement, which the Central Bank of Bosnia and Herzegovina

(CBBH) has consistently implemented since its establishment, guarantees full convertibility of the national currency — the convertible mark — against the euro, which has two significant implications. The first is that investors and the business community can count on the absence of inflationary shocks due to excessively expansionary monetary policy. The second is that, due to the fixed exchange rate with our main trading partner, foreign exchange risk is significantly lower than with the currencies of other emerging market economies.

REFORM

Over the years, significant progress has been made in the prevention of money laundering and financing of terrorism. The domestic regulatory framework clearly stipulates that the national currency is the only legal tender in the country and sets out under which conditions and in which way financial transactions are carried out with foreign countries.

In our financial system, banks are the most important financial intermediaries, and the banking sector, which is in majority foreign-owned, is adequate capitalised, has high liquidity and is profitable. Although banking supervision is organised at the level of Bosnia and Herzegovina entities, the coordination is carried out by the CBBH. The last set of amendments to the laws regulating the work of financial intermediaries ensured a significantly higher level of harmonisation of domestic regulations with the Basel Princi-

ples and the regulations applied in the European Monetary Union. It also ensured that all banks, regardless of the entity in which they were registered, operated under equal conditions in the entire country.

Despite the fragmented system of institutional competence, which is a consequence of constitutional setup, systemic risks in the financial system are monitored at an aggregate level. Regular interaction and exchange of information between monetary and fiscal authorities, as well as agencies in the field of supervision and deposit insurance, ensure the authorities understand the causes of systemic risks and how they are transmitted across macroeconomic segments. There is a room for strengthening of macro-prudential policies, as there is in other countries of the region and beyond, which I must stress are especially important given the Currency Board Arrangement.

Despite the complex structure, fiscal discipline is satisfactory. The existence of a coordination mechanism among fiscal authorities at different levels ensures medium-term planning of the consolidated budget and the management of public debt in a sustainable manner. Arrangements with international financial institutions are not a necessary precondition for servicing our debts to international creditors for two reasons. The first is that the legal framework provides a mechanism in which servicing of international obligations is a priority in relation to any other expenditure, even under conditions of temporary budget financing. The second is our low level of public debt, mainly under concession terms, and the fact that the planned servicing of external debt does not exceed one fifth of the planned revenues from indirect taxes, which provide funding for financing.

ENERGY

The fiscal consolidation which took place in recent years, the reduction of unregistered economy, economic growth, as well as excise duties policies resulted in continuation of activities in the field of road infrastructure construction in Bosnia and Herzegovina, and a stronger momentum in the field of energy sector reforms. The Framework Energy Strategy was adopted in September last year, and by the end of 2020, harmonisation is planned of domestic regulations with the requirements of the Energy Community, including those related to renewable energy sources and energy efficiency. Through bilateral programmes of international cooperation, a significant number of projects are already being implemented to strengthen the use of renewable energy sources, including wind farms. Funds for the continuation of road infrastructure construction have been largely secured for the medium term, mostly under concession terms.

Establishment of a sustainable system of financing of railway infrastructure is ongoing, among other things, through cooperation with international supranational institutions in the field of development of restructuring plans for railways.

AGRICULTURE

In the field of agricultural development, activities are carried out in accordance with the Strategic Rural Development Plan 2018 2021, with the aim of enabling the use of IPARD funds for the sustainability and competitiveness of farms. Establishment of efficient food safety and quality control systems resulted in the opening of the EU market for dairy and chicken meat products from Bosnia and Herzegovina, all the levels of processing included. In addition, there are strong trade links in the field of agricultural products, not only within the CEFTA but also with other countries. In the process of accession to the WTO, negotiations with Russia are the only ones that are currently still open.

Intensifying the development of business infrastructure is also one of the objectives in the short and medium term, and it includes the creation of a favourable business environment with a focus on reducing administrative and financial barriers for growth and development of small enterprises and projects supporting small and medium enterprises in order to strengthen competitiveness and increase employment in this sector. In 2018, the Registry of para-fiscal levies has been established, with the aim to reduce and harmonise them in the single economic space. Labour market reforms are currently being implemented to increase labour market flexibility and reduce tax burden. The goal is to reduce the size of the black market economies, improve working conditions, and strengthen the competitiveness of domestic producers.

Finally, a long-awaited step in the field of digitisation has been made recently, when operators have been granted permissions to introduce a 4G mobile network.

DYNAMIC ENVIRONMENT

My message to investors is that Bosnia and Herzegovina is a dynamic environment, where sometimes, due to political rhetoric, which is not unique to the countries of the region, we lose sight of the enormous potential that we have available, and that investing in Bosnia and Herzegovina provides access to much bigger markets. Therefore, I welcome all those who will visit Sarajevo and Bosnia and Herzegovina and have a chance to see for themselves the enormous possibilities for the development of this country. It is important to keep in mind that our values are not only our natural beauties and resources, but also our human potential that we are particularly proud of. ●



Senad Softić, Governor of the Central Bank of Bosnia and Herzegovina

“ Intensifying the development of business infrastructure is one of the objectives in the short and medium term ”

SECURING THE ECONOMIC POTENTIAL OF BOSNIA AND HERZEGOVINA

Bosnia and Herzegovina (BiH) is a middle-income country with a huge potential for growth, but unfortunately, it is the news and discussions about the politics that most of the time dominate the economic reform debate.

Bosnia and Herzegovina is a complex state and its constitutional organisation largely dominates economic developments. A state with two entities, Federation of BiH and Republika Srpska, as well as Brčko District, is not a common model, resulting in circumstances in which the area of investments is regulated differently than in centralised states.

While potential investors are sometimes confused about BiH's fiscal architecture, implicit competition between the subnational levels of governance of the two entities and Brčko District has kept both personal and corporate income tax rates at a nominal rate of 10%.

The indirect taxation system, with the single VAT rate of 17%, remained unchanged even during the great financial crisis, and serves as a major and reliable source of revenues.

On the positive side, with the ratio of net general government debt to GDP below 35%, average effective interest rate below 1.5% and average time to maturity above seven years, public finance stability appears secured.

On the negative side, in the post-war period, pension and health care system funds required huge social sector contributions which resulted in the high labour burden and high tax wedge.

Furthermore, like in other Balkan countries, negative demographic trends force policymakers to act fast in securing the sustainability of the social system. Social policy and social contributions fall under the scope of the BiH entities so the lower levels of governance and major reforms are necessary in order to ensure the best possible utilisation of funds for most vulnerable categories.

State-owned enterprises pose another source of risk for public finance, but also an opportunity in case of successful restructuring, which will only be on the agenda of the levels of governance in the future period.

PROTECTING THE TAX BASE

Like most complex systems, internal debate concentrates on revenue allocation among the levels of governance. However, we also closely follow international developments

and fully recognise the need for BiH to be a part of the global system for protection of the tax base, especially in the digital era where companies in the digital IT sector may benefit from different rules across different jurisdictions.

Despite recent bumps in global trade, globalisation and free movement of goods and capital, sooner or later, resulted in fewer obstacles for the free movement of labour. Practically, BiH has to fight not only to maintain its human resources but also to attract skilled labour from abroad. Failure to do so will result in the fact that BiH will continue to export goods of a very low level of sophistication with minimal value added. It is with this perspective in mind that we approach the EU integration process. The EU integration process requires improvements on the level of institutions in order for the country to grasp the benefits of the bigger and technologically more demanding market.

REFORMS

With or without the EU accession process, we are simplifying the administrative burden imposed on entrepreneurship and business. Both Republika Srpska and Brčko District have embarked upon reforms to limit parafiscal fees and this process is about to start in the Federation of Bosnia and Herzegovina. Municipalities implement different policies to attract business, including establishment

of one-stop shops which will enable speeding up of the procedure of business registration and creation of business zones.

Projected real economic growth rates for the next three years exceed 3.5%, which is 1 percentage point above the rates projected for the EU, but still insufficient to decrease the development gap with developed countries in foreseeable future.

However, we are aware that competition in the 21st century is global and that the economic development depends on the ability to adjust and implement digital technologies. We see increasing numbers of millennials working for foreign companies

“BiH has to fight not only to maintain its human resources but also to attract skilled labour from abroad”



Vjekoslav Bevanda, Minister of Finance & Treasury of Bosnia and Herzegovina

using their IT skills. This may signal what the governments should do in the future — invest in those self-developing sectors and support them, rather than creating big complicated reindustrialisation strategies. ●



Signing an agreement with the EBRD that will provide a €180 million sovereign loan to Bosnia and Herzegovina for the construction of a key road project, Corridor Vc, which, with a total length of approximately 15.8 km, will connect the country with European markets

China's focus means Bosnian economy no longer feeling left behind

The governor of the central bank of Bosnia and Herzegovina hopes global investors will understand the opportunities and will seek to exploit them but so far, the main source of that attention has come from China

By Elliot Wilson

Asked by a journalist what was most likely to blow a government off-course, the British prime minister Harold Macmillan famously replied: "Events, dear boy, events." That was in the early 1960s, but the sentiment is as relevant now as it has ever been. We might seek to write our own future, but events have a nasty habit of happening to us, without our verbal or written consent.

The hosts of this year's EBRD conference know more than most about this phenomenon. Over the past century, Bosnia and Herzegovina has been passed around like dip at a party. Austria-Hungary annexed it before its empire collapsed, upon which it was absorbed into the Kingdom of Serbs, Croats and Slovenes. Hitler then came and went, leaving it under Tito's control, as part of the Socialist Federal Republic of Yugoslavia. When the Soviet Union collapsed, civil war ensued. The 1995 Dayton Accords brought an end to the conflict, and a real country began to emerge.

Of course, this being the Balkans, nothing is ever simple. Politics in Bosnia and Herzegovina is a complex affair, requiring an awful lot of careful daily diplomacy. The country consists of the Federation of Bosnia

and Herzegovina, Republika Srpska, and the tiny self-governing Brčko District on its border with Croatia.

Executive power is wielded by the Council of Ministers, a cabinet whose chair is nominated by a presidency comprising three members (a Bosniak, a Serb, and a Croat, reflecting the ethnic mix), and confirmed by the House of Representatives, the lower house of government. The upper House of the Peoples comprises 15 members appointed by local parliamentary bodies. It is complex but, by and large, it works.

That has resulted in an economy that continues quietly to impress. In its latest World Economic Outlook, published in April 2019, the IMF tipped economic output to expand at 3%-3.5% every year until the mid-2020s. In its latest CEE Quarterly, published March 2019, Italian lender UniCredit, which operates in 10 countries in emerging Europe, including Bosnia and Herzegovina, said GDP would slow slightly to 2.8% this year and 2.9% in 2020, amid a global slowdown.

Inflation has long vacillated between 1.5%-2% and is forecast to remain within this band. The country does run a sizeable current account deficit of around 5%-6%, but again, it rarely varies, neither swelling nor narrowing. This, in short, is a nation

state that, perhaps unsurprisingly, given its turbulent history, craves stability.

IMF FINANCING

Yet that parity is often hard to achieve. Instability is rarely far away, and where it exists, it is often internally created and propelled. The country is heavily reliant on external institutional funding, notably from the European Union and the IMF. Bosnia and Herzegovina is not a member of the EU, but the single market has until recently been the single largest provider of funds and financial assistance. Between 1996 and 2018, it invested more than €3.5bn (\$3.9bn) in reconstruction, agriculture, and strengthening public administration and the rule of law.

The country's relationship with the IMF has been more stop-go. A €553m loan agreed by the Fund in September 2016, disbursed in 11 instalments, was agreed on the proviso that government would push through much-needed structural reforms designed to safeguard financial stability. Foot-dragging led to payments being halted in 2017, restarted in February 2018, and then frozen in place again last August, due to disagreements over a new law granting benefits to war veterans, and to recurring political instability, which involved a prolonged delay to the formation of a working tripartite government. UniCredit noted in March 2019 that an improvement in the political climate in February, stemming from the formation of both houses of parliament, was not likely to "trigger the resumption of IMF financing".

This year has also provided Bosnia and Herzegovina with a rare chance to showcase its finer plumage. In April, the country



Here and across the region, officials are looking to China, not Europe, to provide the funding and the additional growth that the country needs

— Gunter Deuber, head of economics, fixed income and foreign exchange research at Raiffeisen Bank International

Recent Capital Market Solutions inspired by RBI:



EUR 500,000,000

0.75% Landesschatz-anweisung due 2034

Bookrunner

Mar 2019 Germany




German Federal States
EUR 1,000,000,000

0.625% Landesschatz-anweisung due 2029

Bookrunner

Feb 2019 Germany



EUR 1,000,000,000

1.50% Green Bonds due 2025

Bookrunner

Jan 2019 Italy




EUR 500,000,000

0.25% Covered Bonds due 2021

Bookrunner

Jan 2019 Poland



EUR 500,000,000

0.875% Senior Bonds due 2022

Bookrunner

Nov 2018 Czech Rep.



EUR 500,000,000
EUR 500,000,000

0.75% Senior Bonds due 2023
0.875% Senior Bonds due 2028

Bookrunner

Nov 2018 Austria



EUR 600,000,000

1.45% Senior Notes due 2022

Bookrunner

Oct 2018 Czech Rep.



Republic of Croatia

HRK 10,500,000,000

Fixed Rate Note Taps due 2023 / 2029

Bookrunner

Jul 2018 Croatia



Republic of Slovakia

EUR 1,500,000,000

10-years and 50-years Fixed Rate Dual-Tranche

Bookrunner

Jun 2018 Slovakia




EUR 225,000,000
CZK 495,000,000

Schuldschein loan due 2023/2025/2028

Bookrunner

May 2018 Germany



EUR 600,000,000

1.625% Senior Bonds due 2026

Bookrunner

Apr 2018 UK



Republic of Belarus

USD 600,000,000

6.20% Sovereign Bonds due 2030

Bookrunner

Feb 2018 Belarus

Experience extending beyond Central and Eastern Europe.
Customised solutions for all Issuer's needs.

www.rbinternational.com

 **Raiffeisen Bank
International**

A deeper dive into China's belt-and-road

Five years ago, Bosnia's relationship with China was all but non-existent. Now, thanks to the rise of the Belt & Road Initiative (BRI), president Xi Jinping's grand plan to redraw the global trade map in his image, China has become one of the Balkan state's key investment partners, and the rapport seems to grow every year.

While Serbia is the primary focal point of BRI led-investment into the region, Bosnia and Herzegovina ranks second in total inward mainland investment and is catching up fast. In the five years to the end of 2018, the Chinese invested \$1.41bn in local projects, against \$1.12bn for Montenegro and \$690m for Croatia.

Indeed, inward investment over that period was greater than the total invested by China in the economies of Hungary, Slovakia, Bulgaria and the Czech Republic combined. Over the past year, China has inked deals with Bosnia and Herzegovina to construct local power plants and highways, upgrade its telecommunications network with the aid of controversial telecoms firm Huawei, and expand its dairy industry.

In a report on China-CEE relations, published in March 2019, Raiffeisen Bank said that while the Balkan economy remained "dominantly oriented toward EU countries in terms of the trade balance and inflows of FDI", China was rapidly becoming a highly valued partner, due to its ability to channel huge amounts of capital into infrastructure projects. Tourism, a key sector, would "benefit from tighter co-operation with China", helping to cut unemployment and boost living standards.

But Bosnia and other regional states would be wise to consider the long-term impacts of

opening the door to investments and interest from the People's Republic. Bosnia is hardly alone in the region in running a sizeable annual current account deficit, which is tipped by the IMF to widen to 5.1% in 2019, and to 6.2% in 2020, from 4.5% in 2018.

While most of the goods it imports come from Europe, cheaper products from China are starting to flow in fast. Bosnia and Herzegovina imported €610m (\$685m) worth of goods from the mainland in 2017, mostly textiles, footwear and machinery, a 9% rise in value terms over the previous year, yet it exported goods worth just €20m to Asia's largest economy.

WARNING BELLS

Raiffeisen said the BRI would improve regional infrastructure and accelerate overland trade from East Asia, much of which will flow through the Balkan region to Europe, after navigating western Asia and Turkey.

But it tempered its praise by pointing to several, now well-established mitigating factors. A blanket refusal to decouple funding and construction often forces capital-hungry BRI markets to permit projects to not only be funded by mainland lenders, but also to be built by Chinese firms, denying host states a golden opportunity to boost the number of people in skilled employment.

In Bosnia, mainland construction firms will build a four-lane highway linking Banja Luka and



Chinese Ambassador to Bosnia and Herzegovina, Ji Ping (left) and Deputy Minister of Communications and Transport of BiH Sasa Dalipagic signing a memorandum of understanding in April

Novi Grad, and a power plant in Tuzla. Both projects are funded by loans from Export-Import Bank of China.

As Raiffeisen notes in its report: "The fact that China not only provides loans, but also its own resources such as labour, raw materials and machinery, is attracting increasing criticism among countries."

China's rapid encroachment on a region long seen as Europe's backyard, is "causing warning bells to ring in the EU", it says, adding that China's involvement in strategic industries has begun to raise security concerns, as well as fears of fragile frontier states succumbing to so-called "debt-trap diplomacy".

Some CEE countries reacted by passing laws mandating state approval if a strategically important asset is bought by a foreign interest (read: China). For now, mainland investment is more than welcome in Bosnia and Herzegovina, a young state hungry for capital, growth, jobs and better infrastructure. Whether that will stay the case in the years to come, remains to be seen.—E.W.

hosted the 10th Sarajevo Business Forum (SBF), dubbed the "Balkan Davos", jointly sponsored by local lender Bosna Bank International and the Jeddah-based Islamic Development Bank. The event attracted participants from Turkey, Sweden and Morocco, and a delegation of 50 business groups from the Gulf region. The keynote speaker at the event was Malaysia's veteran prime minister Mahathir Mohamed.

EBRD MAIDEN EVENT

This week's conference, the first time the EBRD's annual event has visited Sarajevo, gives Bosnia and Herzegovina a chance to demonstrate its commitment to deregulation, and to promoting its status as a reliable and attractive investment partner. The London-based multilateral's active portfolio comprises €1.06bn spread across 155 projects, the bulk of which focuses on transport, infrastructure, power and energy, and

adding depth and strength to the private sector. EBRD officials expect to channel €300m into the country in 2019.

There is little doubt that, if stability can be guaranteed and if its natural, financial and human resources can be properly harnessed, Bosnia and Herzegovina's potential is vast. Its most immediate and visible attribute is its arresting scenery. Lonely Planet admires its "craggily beautiful" hinterland, dotted with waterfalls and medieval castles, and points to its "intriguing East-meets-West atmosphere, blending Ottoman and Austro-Hungarian histories". According to the national tourism board, 3.04m people visited the country in 2018, up 13.5% year-on-year. Many came to visit the historic centres of Sarajevo and Mostar, while others prefer to go wild, trekking and camping and rafting near Banja Luka and on the Drina river.

In an interview with *GlobalMarkets*,

Senad Softić, governor of the Central Bank of Bosnia and Herzegovina picks up on that theme and runs with it, pointing to the country's "excellent strategic location, vast natural resources, beautiful landscapes, skilled and competitive workforce, and growing industrial capacity". Tourism aside, the country is dominated by the export of metals and heavy goods, from wooden furniture, textiles and tobacco, to defence equipment and minerals. But the country is slowly developing a high-tech base, the governor says, noting that he hopes global investors "will understand those opportunities and will seek to exploit them". Asked what industries will add value to the wider economy going forward, he points to agriculture and IT and IT-related services.

Perhaps Bosnia and Herzegovina's biggest challenges involve discovering its investor identity and unlocking and realising higher



UniCredit is my Partner in CEE.

International Market Expertise

UniCredit offers both local and international expertise to its clients through 14 core markets including: Italy, Germany, Austria, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Romania, Russia, Serbia, Slovakia and Turkey.

As the leading bank in Bosnia and Herzegovina, UniCredit is pleased to welcome you to the 2019 EBRD Annual Meeting and Business Forum in Sarajevo.



Made in China in BiH

The agricultural co-operation between Central and Eastern European countries and China within the 16+1 framework was the focus of the 21st International Economy Fair Mostar in 2018; a power plant built by Chinese company Dongfang Electric Corporation in Stanari, Bosnia and Herzegovina

rates of growth. In many ways the two factors are interrelated. Economic output looks set to continue to grow at pretty much the same, steady pace until at least the mid-2020s. “Growth is OK,” notes Gunter Deuber, head of economics, fixed income and foreign exchange research at Raiffeisen Bank International. “The data is healthy enough and wages continue to rise, so we cannot complain about the situation, but taking a long-term perspective, where is the upside?”

“Something needs to happen to really take the country to the next level,” he adds. “We need to start seeing growth rates of 4%, 5%, 6%, or more. If that doesn’t happen, the number of young, ambitious and skilled people who leave the country as soon as they can, will continue to rise — though this is a problem across the whole of the Balkans.” A 2017 report published by the security ministry found that over half of the people born in Bosnia had emigrated, mostly to Germany and Austria. Inward remittances, which make up more than a tenth of economic output, jumped 9.3% year-on-year in 2017 to \$2.02bn, according to World Bank data.

Then there is the issue of job creation. Unemployment, despite trending down, is an issue that will take years to solve. UniCredit tips it to fall to 31% in 2020 from 34% in 2019 and 36% in 2018. It is part of a positive long-term progression — the jobless rate was in the early forties as recently as 2016 — but Raiffeisen Bank’s Deuber warns that declining unemployment is due “not necessarily to economic progress, but to the number of people who either continue to leave the country, or who are so frustrated with the status quo, they aren’t claiming welfare”.

CHINA CALLING

Perhaps the best way to inject more momentum in an economy that is barely breaking a sweat, is for public officials and local corporates, lenders and investors, to look east rather than west. Bosnia and Herzegovina’s key external partner is, and will remain, the EU. Directly and indirectly, Europe funds projects, lends capital to local firms and banks, and acts as a financial, economic and diplomatic guardian. According to European Commission data, the EU accounts for more than 70% of the overall direct investment in the Balkan region.

But the big step-change in recent years has been the arrival on the local and regional scene of another sovereign big-hitter. A decade ago, annual inward investment in the Balkans by the People’s Republic of China was more of a trickle than a flow. The advent of president Xi Jinping’s Belt & Road Initiative has changed all that. Both the overland “belt” and the maritime “road” pass near or through the mountainous Balkan region, and economies across both East Asia and Southeast Asia are investing heavily in the region, widely seen as a backdoor into Europe. (This is likely to explain the presence at April’s SBF of Malaysian premier Mahathir.)

Investment by China across the region has soared. The latest “17+1” annual summit, held last August in the Croatian city Dubrovnik, brought together officials from China and the 17 internationally recognised CEE nation states. Bosnia was one of the standout beneficiaries of the event, emerging with an armful of signed infrastructure projects set to be financed and built by China.

The list includes a highway linking Banja Luka with Novi Grad on the Croatian border. The first phase of the project, set to cost upward of €1bn, will be built by a state-run division of Jinan-based Shandong Gaosu Group, and funded by a €300m loan from Export-Import Bank of China. In March, Bosnian lawmakers approved a \$1.04bn loan from the Beijing-based development lender to expand a power facility in Tuzla, the country’s third largest city.

Two mainland firms, China Gezhouba Group and Guangdong Electric Power Design, will build the expanded plant, marking the largest investment in the Balkan state’s energy sector since the end of the civil war. Fadil Novalic, prime minister of the Federation of Bosnia and Herzegovina, called the loan a “historic moment” for the country, adding: “We have not had such an investment in 40 years.”

A 2018 study by the European Investment Bank found that more than one fifth of the €12bn in construction loans channelled into the CEE region by China in the 10 years to 2018, was directed into projects in Bosnia and Herzegovina. China is also investing in the country’s dairy sector, while controversial telecommunications firm Huawei is helping to build the country’s 4G network.

This shift toward a greater reliance on mainland Chinese capital matters deeply, notes Raiffeisen Bank’s Deuber. “For a long period of time, the region in general, and Bosnia [in particular], have felt like they are being ‘left behind’ by Europe,” he says. “Here and across the region, officials are looking to China, not Europe, to provide the funding and the additional growth that the country needs.” **GM**

REGIONAL COOPERATION COUNCIL

Western Balkans — in business we trust!



Regional Cooperation Council

By Majlinda Bregu, Secretary General of the Regional Cooperation Council (RCC)

Western Balkans might be home to many problems, but business sentiment remains overwhelmingly positive, standing at 61 points. If one is interested in “a full screen image” of the region, one needs to grasp another figure: 63% of the Western Balkans’ citizens are unhappy with the economic situation. It is easy to spot signs of disarray: rule of law; commitment by public officials to understand and resolve business-related problems; disputes; internationalisation of the region’s private sectors to reach higher intra-regional and international investment levels and stimulate more intense trade; unemployment at two digits; and an increasing brain drain, just to mention some.

Yet among the hyperboles and truth, a basic point gets missed. More than half of Western Balkans citizens believe the European perspective will make their lives better; it will strengthen the economic ties between the six Western Balkans economies (WB6).

By most objective measures, over the past several years, the region has experienced uninterrupted economic growth (trend 3.5% in 2019 and 3.8% in 2020). Still GDP per capita in Western Balkans is less than a third of the richest EU member state — Germany. The average FDI stock per capita in the Western Balkans is less than half of the FDI stock per capita in Eastern European EU members, and just one seventh of the EU average.

Nevertheless, the region provides a welcoming environment to investments, with corporate profit tax rates ranging from 9% to 15%, being among the lowest in Europe. Monetary and financial systems in the region are strongly dependent on euro.

One of the strongest assets that the region holds is human resource base, given that over the last years we have added more than 1.6m¹ of highly qualified people to the overall workforce. Furthermore, the Western Balkans region is a demanding domestic market, whose internal free trade agreement provides open access to almost 20m consumers.

This region needs to undertake a joint proactive approach in improving its business environment and presenting it to the global business community.

Standing on the gateway between the eastern and western part of the world, along with a network of FTAs and preferential trade sta-



“**STANDING ON THE GATEWAY BETWEEN THE EASTERN AND WESTERN PART OF THE WORLD, THE REGION CAN SERVE AS A SAFE HARBOUR FOR INVESTMENTS WHILST ENABLING EASY ACCESS TO THE GLOBAL MARKET**”

tus with third economies (EU, US, EFTA, Turkey, Russia and the CIS), the region can serve as a safe harbour for investments whilst enabling easy access to the global market.

Foreign investors have also recognised existing opportunities in the Western Balkans and as a result the region recorded the FDI inflow of €1bn in the past year.

However, the conventional wisdom speaks loudly: this is still modest and far below the true potentials of the Western Balkans.

MAKING A CONNECTION

Connectivity is the name of the game. Connecting markets, people, integrating the WB6 into the EU single market. That is the reason standing behind the Western Balkans Regional Economic Area (REA). The REA aims at bringing goods, services, investments, business community, and skilled workers among the six economies.

Under this action, the Regional Cooperation Council (RCC) has brought the region’s governments and businesses together to work with us on enabling free flow of investments, human capital and communication, whose results will have direct implications on businesses and the quality of life of our citizens. Needless to mention, our work has horizontal implications on under-tapped potentials of

our region such as the SME base, industrial base, development of regional value chains and their inclusion in the global ones, increase of women and youth employment.

The businesses of the region support us in this thought, with almost 70%² of them stating that regional cooperation is important for their business operations.

So far, under the REA umbrella, and together with the region and the EU’s support along the way, we have:

- Achieved a historical regional agreement to eliminate roaming costs and paved the way for more substantial reductions of roaming costs between Western Balkans and the EU. For our businesses and citizens, this represents a milestone in the development of an open regional market.

- Initiated negotiations for a regional agreement that will enable the creation of a regional mobile expert pool and will facilitate free flow of human capital in the region, namely through mutual recognition of professional qualifications in the sectors of medicine and civil engineering, and recognition of academic qualifications attained at quality assured higher education institutions.

- Facilitated a first-ever common investment agenda for the region, leading to a shared investment space and reforms in the areas of investment entry and protection, along with promotion of the region as a good investment destination to the global business community. We are adding value to this work now by initiating the reforms in financial sectors so as to enable access to more funding opportunities for doing business.

AMBITIOUS

It is a rather ambitious undertaking, and certainly not the only one on the RCC’s work-desk, but we are very much conscious that economic reconciliation of the region will enhance a shared prosperity. ●

The Regional Cooperation Council (www.rcc.int) is an organisation that promotes regional cooperation with the purpose of European integration of South East Europe.

Majlinda Bregu is the Secretary General of the Regional Cooperation Council. She was the longest serving Minister of European Integration in Albania (March 2007 to September 2013). Mrs. Bregu has been elected as Member of Parliament of Albania for three consecutive legislatures (2005-2017).

¹ RCC SEE 2020 Strategy Annual Report on Implementation

² RCC Balkan Business Barometer 2019



Joining the EU remains a dream for Bosnia

Joining the European Union would put Bosnia and Herzegovina squarely on the investment map. But for now it seems that the hosts of this year's EBRD annual meetings are not ready to make the step up yet

By Elliot Wilson

Step by step. Bosnia and Herzegovina's hopes of joining the European Union rely on following this mantra. It is the best — and really the only — way to ensure that in the years and maybe the decades to come, this nation of 3.5m people puts itself in the best possible position of being able to join the world's largest single market.

The process will not be easy — nor has it been so far. All six western Balkan states aspire to EU membership, Bosnia included, but at present there is little immediate chance of the bloc's powerbrokers, particularly Germany and France, fully embracing the concept.

In April, French president Emmanuel Macron said all six had to resolve themselves to “work[ing] on the stability of the region”, and in particular, on ensuring that it does not backslide, falling prey to a resurgence of the kind of horrific ethnic conflict that gripped the region in the 1990s.

Bosnia faces a raft of challenges as it inches slowly along the road to accession. In 2015, it resolved a territorial fracas with Montenegro over a five-mile stretch of

Adriatic seacoast in the Sutorina valley. But border disputes with Croatia and Serbia linger, and show little sign of resolution.

From the outset, the accession process has been more stop than start. Bosnia has been recognised as a “potential candidate country” since 2003. A Stabilisation and Association Process agreement requiring it to carry out a number of institutional and structural reforms was signed in 2008, ratified in 2010, and enforced in 2015.

Bosnia formally applied for EU membership in February 2016 and will remain in this limbo state until its status is raised a notch, to official “candidate country”, a decision that can only be made by the European Council. To be sure, there is much that Bosnia and Herzegovina can do to further its cause and expedite this process.

'NO REFORM PROGRESS'

In an official fact sheet on the Balkan state published in April 2018, the European Commission pointed to the still-glaring need for reform at every level of economy and society. Despite the reform process being at a very early stage, “no progress ha[d]

been achieved” over the previous year, it wrote. Corruption was still “widespread” and remained an “issue of concern”, while “significant efforts were still needed regarding financial investigations [and] improving counter-terrorism efforts”.

There were a few ticks in its box, though one got the sense, reading the document, of a country being damned with faint praise. Bosnia had made some headway in fighting organised crime, and was doing a tidy job at overhauling its judicial system. But more effort was needed to improve freedom of expression, it said, pointing to political attacks on journalists and the continued prevalence of gender-based violence.

In an exclusive interview with *Global Markets*, Senad Softić, governor of the Central Bank of Bosnia and Herzegovina, insists the country has “come a long way in the process of EU accession”, and adds that being part of the bloc would boost growth, create more jobs, raise living standards, and ensure greater political stability.

He admits Bosnia had to “speed up the process of reforming its public administration and judicial system, and to intensify the fight against corruption and crime”.

The questions Bosnia struggled to answer related to issues of justice, freedom, and national security

Dünyanın Her Yerinde Ziraat Hep Yanınızda!

Ziraat Bank is With You All Around The World!



Ziraat Bank

More than a bank



Application approved

The official ceremony for Bosnia and Herzegovina's answers to the European Commission's questionnaire in Sarajevo, in February 2018 with European Union enlargement commissioner Johannes Hahn, Bosnian Prime Minister Denis Zvizdic, European Commission President Jean-Claude Juncker and chairman of the Bosnian Tripartite presidency Dragan Covic

Rule of law, the business climate, protection of investors, better infrastructure, enhanced institutional capacity: all of these factors have to be radically improved before the EU can view Bosnia and Herzegovina as a direct peer, a valuable and valued economic, financial and political partner.

Many of the challenges the country faces can and will only be resolved over time. There are no short cuts and the EU is a complex edifice. Joining the team will put Bosnia and Herzegovina squarely on the investment map. Capital will flow in and jobs and growth will follow. But it is manifestly clear that the country is not ready to make the step up yet.

When in March 2019 Milorad Dodik, the chairman of Bosnia's three-member state presidency, submitted to the EU a long-overdue set of answers to more than 600 questions posed the previous year, the EU found that 20 of them were left blank. The head of the Enlargement Commission, Johannes Hahn, played down the issue, noting that the overarching goal was in any case to secure a "positive opinion" of Bosnia's candidate status.

Referencing the incomplete document, Dodik was candid about the problem, noting that the government was "not in a position to respond... because of a lack of comprehensive information". A dearth of

data is a problem in most frontier states, particularly those desperately trying to stitch a country together from scratch.

But it is notable, and not a little worrying, that the questions Bosnia struggled to answer related to issues of justice, freedom, and national security.

UPHILL BATTLE

Europe in turn faces its own dilemma. It can only do so much to transform frontier markets on its distant borders into fully functioning Western-style democracies that protect citizens' rights and investors' interests. Brussels also faces an uphill battle in convincing richer states to admit poorer nations into its club, and at present none of the official candidate candidates, a list that includes Serbia, Turkey and Albania, look set to be asked, in the near-term, to join the single market.

Gunter Deuber, head of economics, fixed income and foreign exchange research at Raiffeisen Bank International, believes that for Bosnia and Herzegovina, joining the EU is "light years away. They have not even started accession negotiations, and even when they do, my guess is that it will take them 10 or 15 years, or longer."

He draws a comparison with Cyprus, which joined in 2004 after seven years of accession talks, but which, 15 years later,

remains a divided state. "Bosnia faces the same challenges on its borders," Deuber adds. "So I'd be surprised if we see anything substantial happen before 2030."

For whoever is running the European project at the end of the next decade, this may be problematic. So long as the people of Bosnia and Herzegovina believe a better future — one in which they are seen by the leaders of Germany and France, and by the suits in Brussels, as a peer and a partner — is possible, the country will continue to move forward in a positive manner.

But, adds Deuber "if people on the ground feel that accession is a long time away, that it won't happen, that it won't change their lives and surroundings, or those of the next generation", they may lose hope. "In that situation, you can run up against a situation where the country's existence could again be threatened."

To some, talk of unravelling at this week's EBRD conference in Sarajevo might seem out of place, even a little disrespectful to the hosts, but it would be wise, at a time when a far larger and richer Atlantic state is busy unravelling as it leaves the European Union, to remind ourselves that for countries like Bosnia and Herzegovina, joining the EU matters deeply. For the west Balkan state, it has to be the only and the right way forward. **GM**

EUROMONEY

Asia

Private Banking Seminar and Debate

September 20 2019 | Singapore

For more information, please contact:

Lily Zhu

E: lzhu@euromoney.com

T: +44 (0) 20 7779 8921 | www.euromoneyconferences.com/asia-pb-singapore

1969
EUROMONEY
2019

50

Banking on Bosnia's financial strength

The strength of Bosnia and Herzegovina's banking sector is one of the tiny country's overlooked successes, posting despite double digit growth in income and in return on equity



By Elliot Wilson

Bosnia and Herzegovina is an unusual economy. It is neither big nor particularly rich — indeed, on a per capita basis, only four other European nation states are poorer. Unemployment, despite falling slowly in recent years, remains elevated at eye-watering levels. Most skilled workers leave to seek a better and richer life abroad. The economy is dependent on transient sectors like tourism, and on the export of minerals, energy, and heavy goods such as defence equipment and furniture.

Yet there is one standout sector where the country excels and does so to an extent that will likely surprise the casual observer: banking.

Gunter Deuber, head of economics, fixed income and foreign exchange research at Raiffeisen Bank International, says Bosnia and Herzegovina's banking sector is “one of the country's most overlooked stories, and one of its biggest success stories.”

As is the case across much of southeastern Europe, as well as the wider CEE region, the banking sector is dominated by foreign players, notably Italy's UniCredit, Vienna-based Raiffeisen, and Turin-headquartered Intesa Sanpaolo, along with Russia's Sberbank and NLB Group, the largest banking and financial group in Slovenia. UniCredit, the largest lender by assets, revenues, deposits and customer numbers in Bosnia and Herzegovina, posted consolidated profit

of €43m (\$48.2m) in the market in the first nine months of the calendar year 2018, up 5% year-on-year. (It has yet to publish its full-year results for the Balkan state). Net fees and commission jumped 8.8% over the same period, with operating income up 4.8% and outstanding customers loans rising 12.2%.

Like most lenders with a national presence, the Italian lender has to operate separate banking groups in the Federation of Bosnia and Herzegovina and Republika Srpska, an additional cost that everyone has to endure and absorb.

Raiffeisen Bank, the third largest onshore lender by assets and revenues, posted after-tax profit of €43m in the full year

2018, an annualised increase of 13.1%, with total assets rising 6.5% year-on-year and total outstanding customer loans up 9.3%, to €1.29bn.

In September 2018, the Brussels-based European Banking Federation said the banking sector was a valued “generator of business” to the local economy. It noted that sector-wide banking assets grew 8% year-on-year in the previous full financial year, with total deposits rising 12.2%, to €10.8bn, and total outstanding loans expanding 7.1%, to €9bn. “All banks,” it said, ended the year “with historically good results”.

INCOME GROWTH

Wherever you go, you hear the same positive stories and good news. Vedran Obućina, an analyst at Central European Financial Observer, an information provider overseen by Poland's central bank, describes a banking sector that is “safe and stable and... well capitalised and highly liquid”.

Raiffeisen Bank's Deuber points to the lender's success in regularly posting “double digit growth in income and in return on equity, which we have been doing here for several years in a row. There are very few markets anywhere in Europe where that kind of return is possible.” Most of the growth, he says, stems from a belief in the country's future, and from citizens who leave for work purposes, but who also repatriate a large share of their income and savings.

He adds: “The real story here is on the

consumer side. You see a lot of people wanting to invest here, talking to us about credit financing, and taking out a mortgage to build a house.”

That view is shared by Senad Softić, governor of the Central Bank of Bosnia and Herzegovina. He tells *GlobalMarkets* in an interview that the banking sector is “broadly sound”, and benefits from a “strengthened institutional, regulatory and supervisory framework that is addressing remaining potential vulnerabilities. This is being done in line with best-in-class European and global practices.”

Softić also points to the importance of promoting financial inclusion and also innovation in financial technology. In April 2019, Sarajevo hosted the fourth annual FinConf conference, attracting delegates from across the world, including senior economists at UniCredit and the Jeddah-based Islamic Development Bank.

POSITIVE SPILLOVERS

Financial inclusion in Bosnia and Herzegovina has risen strongly in recent years, though the authorities still have plenty of work to do. According to World Bank data, published in its 2017 Findex report, 59% of citizens have access to a formal financial institution, a higher level than Albania (where the ratio is just 40%) but lagging neighbouring Serbia (71%) and Croatia (86%).

Not all markets in central and eastern Europe are equally welcoming to heavy inward investment from foreign lenders. Over the past decade Hungary has returned a sizeable slice of its financial sector to local hands, while foreign ownership in several other markets, including Bulgaria, Czech Republic and Poland has been slowly inching down in recent years.

Yet central bank governor Softić has no compulsion about allowing the sector to be owned or controlled by foreign institutions, noting: “[W]e expect positive spillovers from changes in the banking system in the EU to have impact on our own systems.”

Of course, there are challenges to operating in one of Europe's smaller banking markets. Raiffeisen Bank's Deuber points to the complexities involved in operating in a country that, due to its split nature, has two industry regulators. “You have one central bank but two financial regulators, which makes it a little odd for an institution like ours, operating in a relatively small market.” **GM**

“
We expect positive spillovers from changes in the banking system in the EU to have impact on our own systems’

—Senad Softić,
Governor of the
Central Bank of
Bosnia and
Herzegovina

The Central Eastern European Forum

14-15 January, 2020 • Vienna

14-15 January 2020 will mark the 25th anniversary of the **Euromoney Central and Eastern European Forum**. The event will once again bring together over 1000 of the region's most prominent issuers, investors, investment bankers and financial service providers to debate the outlook for the year ahead.

Over two days delegates will enjoy exceptional networking opportunities and interactive discussions with some of the region's top policy makers. For anyone with an interest in doing business in the region, the Central and Eastern European Forum is not to be missed.

"The conference offers unique opportunities to get in contact with members of the banking community, public officials and researchers of the region."

Ewald Nowotny, Governor, Oesterreichische Nationalbank, and Member of the Governing Council, European Central Bank

"One of the best forums to share ideas and exchange knowledge among experts in the field of economic policy. This has definitely become one of my regular programmes in January. See you in 2020!"

Gábor Gion, Minister of State for Financial Policy Affairs, Hungarian Ministry of Finance

"A very particular, interactive and fruitful panel. As always, Euromoney Conferences lead to an open and lively exchange of ideas and views among Governors of the region and beyond, over the most recent topics and challenges central banks are dealing with."

Gent Sejko, Governor, Bank of Albania

"The Euromoney CEE Forum, Vienna, is the regional event where we meet colleagues and business partners early in the year. Above all, it is an excellent opportunity to exchange views and ideas. The panels are rich in content and in participating experts."

Marjan Divjak, Director General, Ministry of Finance, Slovenia

Building a Pan-Baltic covered bond market

In a roundtable discussion organised and chaired by *GlobalCapital* at the ECBC's 29th plenary meeting in Riga, covered bond market participants heard from the people responsible for the Pan-Baltic Covered Bond Framework and were able to understand both how this market is being built and what the prospects for issuance are



The starting point for the discussion was the reason for a covered bond at all given the funding situation of the banks both in terms of high levels of deposits and, in many cases, access to cheap intra-group liquidity. The need to reduce dependence on parental liquidity and short term and potentially volatile deposits in the interest of financial stability was emphasised. A point made from the audience was that the relatively healthy loan to deposit ratio at banks in the region was partly due to the paucity of other local fixed income investment opportunities and that covered bonds should also be recognised as a healthy development for the buy-side of the market.

The roundtable then went on to discuss the rationale for covered bonds to be developed on a pan-Baltic basis. The relatively small size of the mortgage market in each of the three countries was felt to be particularly problematic for covered bonds due to investors in that market having a strong preference for larger, liquid bonds.

Representatives of all three countries briefly summarised the development of the laws in their country so far. Estonia is the most advanced with a covered bond law recently having been passed by parliament. It was acknowledged that further work was needed to ensure integration of the law with the Latvian and Lithuanian laws, to reflect the final outcome of the Covered Bond Directive and to develop certain secondary regulations. In Lithuania a law has been drafted and is currently subject to review with the intention for its submission to parliament after the summer recess. A similar time frame is being targeted in Latvia even though the law there is still being drafted. Clearly there is considerable goodwill from all stakeholders to ensure that the Latvian law progresses rapidly to "catch up" with the process in the other countries.

WHAT IS A PAN-BALTIC FRAMEWORK?

One of the key topics discussed was what a "pan-Baltic" covered bond framework actually means.

As a member of the project team explained, the objective was to have three separate covered bond laws — one in each country — but to make them as similar as is practically possible given national specificities. This was necessary as banks in the region operate with different business models — some are based in one country with branches in the other two, some operate as full subsidiaries in all three countries and some only operate in one of the three countries. For all possible permutations a prospective issuer must be able to use a covered bond law in the country in which they are supervised. Thus covered bond laws must exist in all three countries, but should be similar wherever possible and should be able to easily interact with assets in the other countries — this needs legal changes in both the country of the issuer and the country of the assets.

A lively discussion followed on the topic of whether this was necessary given existing EU rules on enforcement of creditor rights granted in another EU member state's covered bond law. As a lawyer from the working team pointed out, there is a big difference between having the right to enforce and the practicality of actually doing this, in particular given the sensitivity and complexity that always accompanies changes to insolvency or bank resolution rules in a country.

One speaker pointed out that the design of the framework can best be understood by looking at the alternative frameworks that the project team had rejected. In response to a question from the audience it was pointed out that it would be impossible for a law in one country to make the necessary changes to the other countries' laws. And the alternative of a bank issuing separate covered bonds in each country and

pooling them in a combined covered bond — as is contemplated in the Covered Bond Directive — was quickly ruled out given the far higher cost implications in a smaller mortgage market.

CHOICE OF MODEL

A further topic of discussion was the choice of model within each country. Before the pan-Baltic framework had even been contemplated Estonia had adopted a "ring fence" approach for cover pools while Lithuania had decided, in common with most new covered bond frameworks, to retain the assets in a separate legal entity owned by the issuer. Latvia, after detailed consideration, has chosen to adopt the Lithuanian model. The choice of model was "not for fun", as one speaker put it, but was based on what was actually possible within each country's legal framework.

As the project team emphasised, and investors and rating agency confirmed, the choice of model was of more importance to structurers than it was to investors or to the eventual rating of the bonds — the objectives of the pan-Baltic framework are not compromised by the need to adopt different models in the three countries. A researcher with an investment bank confirmed that topics such as over-collateralisation, the quality of the assets and the risk protection for investors were all far more important.

SUCCESS?

This led to a discussion of what a successful pan-Baltic covered bond framework would look like. The objective is that, despite different starting points in terms of legal background, all three laws should facilitate a seamless transfer of assets cross-border and should offer both investors and issuers similar outcomes. Representatives of rating agencies and investors confirmed that such an outcome would be constitute a successful outcome for pan-Baltic covered bonds.



Moderator: Bill Thornhill, Covered Bond Editor, *GlobalCapital*
Speakers: Thomas Cohrs, Head of Syndicate and Origination, FI / SSA, Nord/LB

Ints Dalderis, Advisor to the Minister, Ministry of Finance, Latvia

Max Ehrengren, Head of Treasury and ALM, Luminor Bank
Kaarel Eller, Head of Legal Department, Ministry of Finance of the Republic of Estonia

Vilma Macerauskienė, Deputy Director, Financial Market Policy Department, Ministry of Finance, Lithuania

Imants Tiesnieks, Senior Expert, Capital Market and Insurance Policy Division, Financial Market Policy Department, Ministry of Finance, Latvia

Valdas Vitkauskas, Senior Banker and Head of Financial Institutions, European Bank for Reconstruction and Development (EBRD)

The ECBC's 29th plenary session: using covered bonds to benefit the real economy



The first ever European Covered Bond Council plenary meeting in central and eastern Europe was dominated by discussions of the product's geographical expansion, the implications of the new Covered Bond Directive and the role that covered bonds can play in the development of green and sustainable finance.

The choice of Riga as the venue for the 29th plenary meeting of the European Covered Bond Council (ECBC), held on April 24, was a strong signal of support for the development of the product outside its traditional homelands such as Germany and Denmark, according to the welcoming remarks from chairman Niek Allon. Riga in particular was chosen given Latvia's role in the development of a pan-Baltic framework for covered bonds — an ambitious plan to develop a combined market for covered bonds across all three Baltic states, a point made by the Latvian finance minister Janis Reirs in his keynote speech.

The first panel of the day, consisting of senior members of the ministries of finance of all three countries, the EBRD and Luminor (the largest bank in the region), picked up on the theme of the pan-Baltic framework and put it into the broader context of the need for the development of capital markets given the limited size of all three economies and their current over-reliance on the banking system. Pan-Baltic co-operation under a memorandum of understanding between the finance ministries of all three states is not just about covered bonds; it also covers topics as diverse as the treatment of derivatives and the inclusion of equities in a common index across the three countries. Although the idea of co-operation is straightforward, as one panellist pointed out, the devil is in the detail when it comes to co-ordinating products across different legal systems.

Charlotte Ruhe, the EBRD's managing director with responsibility for the region, in her keynote speech, made the point that co-operation such as this should be seen in the light of the Vienna 2 initiative — a project to increase the stability of funding in countries with banking systems historically owned and funded by western European banks and thus increase the availability of credit for the real economy in particular in times of stress.

UNTAPPED POTENTIAL

The second key theme of the day was the recently enacted Covered Bond Directive, a topic introduced by Mattias Levin, deputy head of the group responsible for Capital Markets Union within

the European Commission and discussed in the second panel of the day by representatives of the Commission, European Parliament and market practitioners.

The directive, according to Levin, had the dual objectives of justifying the favourable regulatory treatment that covered bonds currently enjoy under EU law and looking at ways to address the untapped potential of the product to fund the wider economy, for example by an expansion of the assets that can be used in cover pools. At the same time, as both Levin and the panellists emphasised, it was important to recognise the national specificities in current covered bond markets and the fact that the market is well functioning and survived the financial crisis with its reputation enhanced. "If it ain't broke, why fix it?" as one panellist put it.

The implications of the directive, and other de-



velopments such as the end of quantitative easing on the market was discussed in the third panel of the day which brought together representatives of the investment banking community. The new issue market for covered bonds this year has been dominated by unexpectedly strong demand but there were divergent views expressed on both how sustainable this bull run is and the extent to which it is part of a wider fixed income market rally. The panel also considered the changes to the investor base that have occurred and the extent to which these were driven by yield levels

or regulatory treatment of the bonds.

The plenary was also updated on progress in the newest covered bond market, that in Brazil. There are already over €1bn equivalent of bonds outstanding in domestic private placements in the South American country but dollar and euro deals issued to offshore investors are also expected in the near future.

SUSTAINABLE DEVELOPMENTS

The final topic of the day was the extent to which the covered bond market can aid wider societal goals such as reductions in carbon emissions and broader sustainability objectives. Covered bonds have already been used to finance many environmentally positive loans to home-owners — for example to upgrade investing housing stock's energy efficiency rating with the development of a parallel green covered bond market. Sustainability covered bonds are at an earlier stage in their development but early signs of investor interest in the asset class are encouraging.

Mario Nava from the European Commission in a keynote speech explained some of the discussions on this topic recently in Brussels and noted the unprecedented speed with which directives have been passed to further environmental goals as the green discussion becomes less of a niche topic and more fundamental to all discussions. He called on the market to follow this lead and, as he put it, not to delegate the green topic to the last panel of the day in conferences.

The final panels of the day covered the Energy Efficient Mortgage Initiative's pilot study being conducted by the European Mortgage Federation and involving — so far — 45 banks and other lenders. In particular the efforts of the industry to demonstrate an empirical basis for preferential



risk weights for mortgages with green objectives. Key themes of these panels were the need for historical data to justify the treatment and the practical difficulties of obtaining it — several IT firms are participating in the project to overcome these hurdles. The ultimate outcome, according to the initiative's co-ordinator Luca Bertalott, is to justify lower risk weights for bank lenders, thus making it easier for them to finance loans with broader societal benefits — another way in which covered bond technology can be applied to wider societal goals.

What's happening Wednesday, May 8

For the most up-to-date schedule information, please download the MyEBRD19 app available from the Apple and Play store 



9.00am – 5.00pm

CSO Exhibition: Connecting for Solutions

Location: Networking Area, Level 1

9.30am – 10.30am

Board of Governors' Opening Session

Location: Great Hall, Level 1

11.00am – 12.30pm

Panel: **High-level panel on Western Balkans with participation of the leaders of the six WB countries**

Location: Great Hall, Level 1

12.30pm – 1.30pm

Networking lunch

Location: Marquee

1.30pm – 2.30pm

Civil Society Programme: **Investing for impact and financial returns: trade-off or trade-on?**

Moderator: Alan Rousso, Managing Director, External Relations & Partnerships, EBRD

Speakers: **Margaret Kuhlow**, Finance Practice Leader, WWF International; **Mila Lukic**, Partner, Social Sector Funds, Bridges Fund Management; **Zoran Puljic**, Director, Mozaik Foundation; **Rosanna Sarkeyeva**, Regional Manager – ECA, Triodos Investment Management
Location: Sala 101, Level 1

1.45pm – 2.45pm

Country investment outlook:

Slovenia: the right mix of qualities

Moderator: Milan Martin Cvikl, Alternate Director, EBRD

Speakers: **Ajda Cuderman**, SPIRIT Public Agency – Ministry of Economic Development and Technology; **Metod Dragonja**, State Secretary, Ministry of Finance of Slovenia; **Grzegorz Zielinski**, Regional Director, Poland and the Baltics, EBRD – Warsaw

Location: Congress Hall, Level 4, Swissotel

2.00pm – 3.00pm

Panel: **Digitalisation: preparing SMEs for the future**

Moderator: Ben Hall, Europe Editor,

Financial Times

Speakers: **Georgina Baker**, Regional Vice-President, IFC; **Dusko Radovic**, Owner and CEO, Transfera doo; **Qais Sabri**, Director, EON Aligner, Alexios Seibt, Principal, Arthur D Little Austria GmbH; **Tatjana Zbasu Mikuz**, Managing Partner, South Central Ventures

Location: Blue Hall, Level 4

2.00pm – 6.00pm

Board of Governors' Plenary Session

Location: Great Hall, Level 1

2.30pm – 3.30pm

Partners Session: **The Belt & Road initiative: how does it change the region?**

Raiffeisen Bank International session

Moderator: Harald Kreuzmair, Head of Group Funds & Securities Services, Raiffeisen Bank International AG
Speakers: **Gunter Deuber**, Senior Director, Head of Economics, Fixed Income and FX Research, Raiffeisen Bank International AG; **Admir Eminović**, Executive Director for International Operations, Euro-Asfalt;

Lukasz Januszewski, Member of the Board, Markets & Investment Banking, Raiffeisen Bank International AG; **Mattia Romani**, Managing Director, Economics, Policy & Governance, EBRD; **Charlotte Ruhe**, Managing Director, Central & South Eastern Europe, EBRD

Location: White Hall, Level 2

3.45pm – 4.45pm

Country investment outlook: **Turkey: rebalancing and transforming the economy**

Moderator: Arvid Tuerkner, Managing Director, Turkey, EBRD – Istanbul

Speakers: **Berat Albayrak**, Minister, Ministry of Treasury and Finance
Location: Congress Hall, Level 4, Swissotel

4.00pm – 5.00pm

Special Event: **Green cities = improved lives**

Moderator: Josué Tanaka, Managing Director, OSP, EE & Climate Change, EBRD
Keynote: **Edin Forto**, Prime Minister of Sarajevo Canton, Canton, **Nandita Parshad**,

Managing Director, Sustainable Infrastructure Group, EBRD

Speakers: **Nigel Jollands**, Associate Director, Energy Efficiency & Climate Change, EBRD; **Sahar Nasr**, Minister of Investment and International Cooperation, Ministry of Investment and International Cooperation; **Lin O'Grady**, Deputy Head, Sustainable Infrastructure Policy & Project Preparation, EBRD; **Sarah Ouziaux**, Marketing & Innovation Director – Belgium & Assoc. Territories, Tractebel Engineering SA; **Igor Radojičić**, Mayor, City of Banja Luka; **German Velasquez**, Director, Division of Mitigation and Adaptation (DMA), Green Climate Fund (GCF); **Erion Veliaj**, Mayor, City of Tirana
Location: Blue Hall, Level 4

4.00pm – 5.00pm

Civil Society Programme: **Just transition in the Western Balkans and beyond: avoiding 'stranded communities' in co-operation with civil society**

Location: Main Hall, Level 1, Hotel Holiday
Moderator: Marianna Wiedenbeck, Acting Principal Manager, Civil Society Engagement, EBRD

Speakers: **Elisabetta Falcetti**, Director, Sector Economics and Policy, EBRD; **Petr Hlobil**, Director, CEE Bankwatch Network; **Deger Saygin**, Director, SHURA Energy Transition Center; **Vedad Suljic**, Director, REIC; **Peter Vajda**, Senior Environmental Expert, Energy Community Secretariat; **Oben Çoban**, Director of External Relations & Strategy, Save the Children Turkey

5.00pm – 6.00pm

Sustainable and inclusive tourism in South-eastern Europe

Moderator: Lucy Hockings, Presenter, BBC World News, BBC Global News Ltd

Speakers: **Burak Baykan**, CEO D-Marin/Regional Director Dogus Group; **Tarik Bilalbegovic**, Partner, Ascendant PF; **Vlaho Kojakovic**, Director, Property & Tourism, EBRD; **Dino Sokol**, Executive Director, Hoteli Zlatni rat, BlueSun; **Goran Zivkov**, Founding Partner, SEEDEV
Location: Sala 101, Level 1

5.00pm – 6.00pm

Partners Session: **Green bonds: development potential in CEE**

UniCredit Session
Speakers: **Andrea Diamanti**, Head of CEE Corporate and Investment Banking and Private Banking, UniCredit; **Antonio Keglevich**, Head of Green Bond Origination, UniCredit Bank AG; **Marijana Kolić**, Executive Director, Croatian Bank for Reconstruction and Development; **Mihaela Nadasan**, Executive Director, Banca Transilvania; **Marko Vukadinovic**, Head of CEE FIG, UniCredit
Location: White Hall, Level 2

5.00pm – 6.00pm

Panel: **Sustainable and Inclusive Tourism in South-eastern Europe**

Moderator: Lucy Hockings, Presenter, BBC World News, BBC Global News Ltd.
Speakers: **Burak Baykan**, CEO D-Marin/Regional Director, Dogus Group; **Tarik Bilalbegović**, Partner, Ascendant P.F.; **Vlaho Kojakovic**, Director, Property & Tourism, EBRD; **Dino Sokol**, Executive Director, Hoteli Zlatni rat, BlueSun; **Goran Zivkov**, Founding Partner, SEEDEV
Location: Sala 101, Level 1

7.30pm – 10.00pm

Cultural Performance and Reception for all participants
Location: Zetra Hall



*All events will take place in the Parliamentary Assembly Building unless otherwise noted

Turkey

Continued from page 1

the country was just beginning to recover from its economic crisis. Turkey's credit default swap spread, another indicator of investor confidence in the country, has also widened 25bp to 465bp.

Erdogan's AK Party won 51% of the national vote, but lost key races in Ankara and Istanbul. While it accepted defeat in Ankara, the AK Party blamed "organised crime and corruption" for the loss in Istanbul, with ineligible voters supposedly able to cast votes and polling station officials appointed without being approved.

On Sunday, the Turkish official news agency reported that prosecutors investigating the election had uncovered illegal payments to 43 of the voting officials from associates of Fethullah Gulen — a cleric accused of inciting the 2016 coup attempt.

"Erdogan is just throwing everything he can at these people to see what sticks," said an emerging markets portfolio manager. A second investor said: "This means another two months of election uncertainty. The country urgently needs costly economic reforms, and these have been postponed for another couple of months."

DISRUPTIVE ELECTIONS

Elections are typically extremely disruptive to Turkey's economy, as Erdogan attempts to stage-manage the country's economy into growing and providing a boost to his popularity. Ahead of the June 2018 elections, he strong-armed the central bank out of hiking rates, triggering the currency crisis that blew through the country last summer.

Ahead of the municipal elections, he intervened in the FX market, instigating a ban on Turkish banks lending the lira abroad. The ban caused a liquidity squeeze, propping up the currency's value in the short term. But the locals have lost faith in the currency and are moving their savings to dollars.

CB SHOCK

Meanwhile, the central bank removed the line from its guidance including a provision for raising rates if necessary, causing a market shock.

"We'd been anticipating a rate cut in June, but after this, ideally rates will be higher for longer, but that will prolong and worsen the recession," said Arvid Tuerkner, EBRD's managing director in Turkey. "Of course, the question is how will the market react if Turkey cuts rates before the market thinks they're ready to."

While the currency and asset prices have both weakened the biggest casualty is Turkey's credibility with international investors. "Turkey doesn't have natural resources," said a third emerging markets portfolio manager. "Keeping investor confidence is key. Rerunning elections in this obviously forced way is going to make FDIs very hesitant."

Turkey is facing diplomatic as well as economic challenges. Its purchase of the S400 missile system from Russia has drawn the ire of the US. "Turkey desperately needs to find a solution to the S400 question, because more sanctions from the US would be disastrous," said the second investor.

Turkey's NPLs are climbing, with the final level yet to crystallise. The Turkish banking watchdog forecasts an NPL ratio of 6% by the end of 2019, but Tuerkner felt that might be optimistic. Although he was quick to stress that Turkey would not be facing an NPL shock of Greek magnitude, he added that "Turkey has acknowledged this problem, but not the full scale of it."

Investors hesitant on Zelensky ahead of Eurobond issue

By Lewis McLellan

Ukraine's wildcard president-elect Volodymyr Zelensky and his unknown agenda are keeping investors uncertain about the country's economic future ahead of a possible Eurobond issue.

Even a month after his election victory, Zelensky's policy direction has yet to become clear. "[Zelensky] didn't campaign with a clear agenda or manifesto," said an asset manager based in Ukraine. "So we don't really know what to expect from him."

Zelensky, a comedian before winning power, has shown a willingness to stand up to Vladimir Putin, bickering with the Russian president and promising "several moves" in response to Russia's expansion of its offer of passports to several categories of Ukrainian citizens. His decision to send a delegation to the European Union promising judicial reform and anti-corruption measures will comfort investors.

But while the Ukrainian president elect's pro-Western leanings are encouraging to investors, by far the most important factor in Ukraine's future is its relationship with the IMF.

The country's economy is still too weak to support itself without infusions of cash from supranational institutions. While wooing the EU is impor-

tant, Europe has made its offers of cash contingent on Ukraine's compliance with the IMF's recommendations.

In December, the IMF approved a \$3.9bn stand-by arrangement with the country. This allowed for the dispersal of \$1.4bn immediately, with the remainder to be made available upon completion of semi-annual reviews, the first of which is believed to be scheduled for this month.

EUROBOND PLANNED

The traditional sticking point between Ukraine and the IMF has been the country's unwillingness to hike tariffs on gas prices to bring them in line with market rates. However, with gas cheap in European hubs, the need for a price hike appears to have disappeared for the moment.

The main potential obstacle to the next tranche of IMF funding is the legal battle between oligarch Ihor Koloimoisky, who is rumoured to have backed Zelensky's campaign, and the central bank over the nationalisation of Privatbank.

With the election over, Ukraine is expected to hit the bond market before the summer break. "They picked up some cash pre-election with a private placement," said an emerging markets DCM banker in London. "But they'll



Zelensky: standup politician

need to come back for more soon."

DCM bankers said that Ukraine was targeting the euro market, with a maturity of up to 10 years. Ukraine has to cover a \$1.4bn maturity in May, and another \$3.3bn or so by the end of 2019.

The market was closed to the Ukrainian sovereign in the run up to the election — the second round of which took place on March 31. Zelensky clinched the election with 73% of the vote, unseating the incumbent Petro Poroshenko who, despite a reputation for being market-friendly, was hamstrung by corruption scandals.

Basel rules

continued from page 1

Furthermore, banks can only be exposed to a counterparty to the extent of 25% of their tier one capital under the 2014 Basel large exposures framework. This could force smaller banks out of the market, according to the task force.

It also highlighted two standards on liquidity that made infrastructure finance more burdensome. The net stable funding ratio (NSFR) pushes banks to match long-term lending like infrastructure with long-term funding, which is perhaps less accessible. Secondly, the liquidity coverage ratio (LCR) demands 100% high quality liquid assets for special purpose vehicles (SPV) commonly used for project finance.

NEW ASSET CLASS

Their report recommended that infrastructure finance be categorised as a specific asset class. This would mean that if some projects were determined to be less risky under certain criteria, banks could receive better capital treatment.

Agreement on how to quantify the risk of infrastructure finance could



D4R7 highway: this Slovakian road was funded but other projects may struggle

enable the issuance of securities backed by projects, possibly through an aggregator SPV — a walled-off subsidiary for the purpose of pooling and selling loans. This type of financing could help global banks take projects off the balance sheet and find capacity for new ones, it said.

The Basel rules are the banking standards laid out by the Basel Committee on Banking Supervision, a body of central banks and supervisors. Basel III, which sets out new capital requirements for banks, is the first to

respond to the global financial crisis. Its standards are non-binding until they are adopted by the relevant legislators around the world.

Russia and Turkey are compliant with the liquidity coverage ratio and risk-based capital element of Basel III, but the rules on the large exposures framework are not yet in force in either country, according to the Financial Stability Board's report last November. The NSFR is in force in Russia but not in Turkey.



European Bank
for Reconstruction and Development

2020 ANNUAL MEETING

13–14 May 2020

For information and regular updates:
www.ebrd.com/am

