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# Lagarde's big fiscal push hits European brick wall

By Phil Thornton, Virginia Furness, Oly West and Thierry Ogier

Advanced economies in Europe have rebuffed the call by the head of the International Monetary Fund, Christine Lagarde, for a co-ordinated switch towards fiscal policy and away from relying on unconventional monetary policy at the annual meetings this week.

Lagarde used a series of speeches and an interview with *GlobalMarkets* to urge ministers to embark on a three-pronged approach, which includes monetary policy, fiscal policy and structural reforms. "What is key is now action. So, my message to the members of the IMF tomorrow will be action, please," she said this week.

But both the European Commission, which *Continued on page 55*



Hammond: told *GlobalMarkets* there would be no big fiscal reset

# EM unprepared for Trump as candidate divides IMF meetings

By Elliot Wilson, Virginia Furness, and Oly West

With exactly a month to go until the polls open in the most important American presidential election in living memory, emerging market policymakers and economists appear dangerously unprepared for and vulnerable to the possibility of Donald Trump entering the White House.



Mark Mobius: full of praise for Trump

Gorky Urquieta, co-head of emerging market debt at investment manager Neuberger Berman, said that at the

moment, the Mexican peso was the only market that is reflecting a "Trump risk". *Continued on page 3*

# Morgan Stanley hails New York as winner from Brexit

By Owen Sanderson

New York will be the big winner from Brexit rather than any of the European financial centres, the head of Morgan Stanley said yesterday, while JP Morgan's CEO, Jamie Dimon, said Brexit made the chances of the eurozone not surviving five

years from now five times higher. James Gorman, Stanley's chief executive and chairman, told the International Institute of Finance that for reasons including financial infrastructure, *Continued on page 3*

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# Trump

Continued from page 1

“This suggests that markets are underprepared for a Trump victory [that] would inevitably cause disruption, given the uncertainty of what a Trump administration would ultimately do,” he said.

One reason may be that just like American voters, emerging market experts, from policymakers to investors to ministers, either love or hate The Donald, seeing him as the saviour of the developing world — or as a bringer of darkness and doom.

Mark Mobius, an emerging markets fund manager at Franklin Templeton Investments, and a long-time admirer of the potential and profits to be found in the developing world, was full of praise for the man who would be America's first Celebrity-in-Chief.

“A Trump presidency would mean a much more flexible environment for emerging markets and their relationships with the US,” the investment manager said. “He is a businessman, a negotiator, and a dealmaker, and this would be very appropriate for many countries in the emerging markets world, who would like to make bilateral agreements with America.”

Mobius praised Trump's unpredictability in dealing with the developing world, a facet of the man that many see as less an asset than an outright flaw. “The mere fact that Trump flew down to Mexico unexpectedly is an example of the kind of thing he would most likely do.”

## LEFT HAND, RIGHT HAND

Mobius also dismissed criticism of Trump's plans to build a 10 foot high barrier on the US-Mexico border, noting that a “wall is a very lucid picture” for many American voters. “In the US, people are being hurt by Mexican imports and drugs.”

Others, unsurprisingly, saw a Trump victory as an arrow in the eye for leaders in the developing world.

A leading European fund manager said a victory for the Republican Party nominee next month would “create terrible uncertainty across all markets. There is an argument that checks and balances would prevent him being too radical, but the problem is that he is so unpredictable. What will he do with [Russian president Vladimir] Putin? How will he act in the Middle East? As a fund manager, of course I am worried.”

But most of all, there is the concern that victory would cause instability across global markets. “With Trump, the right hand doesn't know what the left hand is doing,” said Sri Lanka's finance minister Ravi Karunanayake. “He talks up protectionism to one audience, then triumphs free trade at the next event. What he says does not make sense.”

# Jamie Dimon shows his softer side, calls for regulatory pause in Europe

By Owen Sanderson

Jamie Dimon, chief executive and chairman of JP Morgan, has called for a pause in the regulation of banks in Europe, to give them time to digest changes already in the pipeline. His calls echo those of the European Commission, which called on the Basel Committee last week to shelve some planned capital increases. “I believe, out of sympathy for the European banks, which have been deleveraging, catching up for the last seven years, that it's time to let them stop and digest, and get on with financing the economy,” said Dimon, speaking to the Institute for International Finance annual meetings yesterday.

Mike Corbat, chief executive of Citi, said a level playing field between jurisdiction was important in a world of free trade and convertible currencies.

“It does feel like real divergence is emerging today, when you look at the regulation and standards that are talked about, there are different constraints in the US and Europe, and that starts to get to a dangerous place.”

While worries about European banks abound, Goldman Sachs president and COO Gary Cohn said that US banks

were “in the best shape, by far”, and praised the rapid forced recapitalisation of the system after 2008 — compared with the European approach of hoping banks could earn their way out of their problems given cheap enough funding.

“The US banking sector in best shape it's ever been, hands down, no debate, by far,” said Cohn. “Living through those moments was horrible, but US banks came through and were Tarped whether they liked it or not... Other regions have taken the approach that they're not going to force capital on banks, they'll give cheap funding and let them earn their way out of it.”

Sergio Ermotti, chief executive of UBS, first pointed out that his institution was not European but Swiss, before laying the blame on the slow change of business models at some banks.

“Some European banks have been slow to realise the change in paradigm,” said Ermotti. “We need to accept that big banks are a problem for Europe. There's a need for critical mass, and good diversification of the banking system... each bank needs to find out its DNA, ask ‘what can I do for clients?’ and figure out how to get scale and geo-



Dimon: Europe's banks need time

graphical diversification in that area.”

He argued for consolidation in the system, but not simply to create larger banks — more to achieve scale in specific areas, noting also that it was very challenging to do a cross-border merger in Europe.

Ana Botín, chairman of Santander, said that her firm was not looking for any further consolidation (despite its acquisitive past), explaining that Europe wasn't ready for it, with liquidity still ring-fenced in national banking systems.

US banks chief executives were also quick to rule out large scale acquisitions in Europe. James Gorman, chief executive and chairman of Morgan Stanley said: “There's not much enthusiasm for banks getting bigger. It's more getting adjustments in business models in Europe to get return of equity above cost of capital.”

# Brexit

Continued from page 1

legal frameworks and skills, and accountancy services, New York was likely to come out on top.

He said this was not by design, but was one of the possible outcomes from the UK's departure from the European Union, and remained “very hopeful this can be done in a way that encourages as much business as possible to stay in London”.

Other senior bankers questioned the commitment of continental centres to capital markets. Andreas Treichl, chairman and chief executive of Austrian bank Erste Group, questioned whether the main continental competitors for London's financial services industry, France and Germany, had sufficient commitment to capitalism.

“Can you imagine Mrs Merkel saying ‘Ich bin für capitalism’ or Hollande saying ‘je suis capitaliste’? It's simply not going to happen, not with conservatism, not with socialism. You need capitalism for a capital market,” he said.

## WILL EUROZONE SURVIVE?

Jamie Dimon, chief executive and chairman of JP Morgan said the big danger of Brexit was about the implications of the vote for the survival of the eurozone and the wider EU.

Dimon said the immediate impact would not be earth-shattering. “It will reduce the GDP of the UK, but that's not a disaster. It will create years of uncertainty, but that's not a disaster. At some point we're going to find out what we have to know, then we'll know where and what we have to move and when.”

“For me the issue was always the long run impact on the eurozone. It has made the chances of the eurozone not surviving five years from now five times higher, in my view.”

For Douglas Flint, chairman of HSBC, the issue was also wider than the location of certain activities in the UK or elsewhere, though the bank recently reaffirmed its commitment to a UK headquarters.



Gorman: NY the winner

“For me, it will be the wrong debate if it focuses on what's in the Continent and what's in the UK,” he said. “The European time hosts the largest or second largest financial centre in the world, and one of the major themes since the crisis has been the consolidation of activity... London does it fantastically, it's a UK asset, a European asset and an international asset.”

“We have to ask ‘Does that cluster of activity serve the community in a way we want to retain?’ and therefore how do we get the benefits of that cluster in whatever form we want for the relationship between the UK and the EU,” he said.

The American bank chief executives all affirmed that they remained deeply committed to Europe.

“Europe's an \$18tr economy,” said Gorman. “It's a critical part of running a global financial institution, there's not even a remote question.”

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## OUT OF THE WOODS

Seen and heard in the corridors of the Annual Meetings

• **/Hessen hipster heaven** There the corporate plinth stands, quietly tucked away in a corner of the IMF's main lobby, like a teenager embarrassed by their complexion. On a blandly branded banner, the German land of Hessen urges investors to put their faith and capital to work in Frankfurt. Yes, it may be the world's most boring city. But it's also, the good burghers of Germany's financial capital insist publicly, "a place for bankers, hipsters and for you". *Geil!*

• **/Cool on Cairo** The IMF's engaging head of the Middle East and Central Asia, Masood Ahmed, stared around the media room and sized up his audience of harried hacks. "I'm sure there are plenty of questions about Egypt," he announced with a benign certainty. There was — one. "That's it?" he added, sounding genuinely offended. "I thought there would be more." Never was the presence of Abdel Fattah Saeed Huseein Khalil el-Sisi required more.

• **/Trumpian titters** Few people react impassively to any mention of Trump — even, it seems, global leaders and lawmakers, who are often compelled to mask their feelings. Yet The Donald is different. Summoning his name in interviews, one finance minister tittered, a central bank chief snorted, and an eminent economist from New England collapsed briefly in what seemed like a mild cardiac event. Heaven help these souls if he makes it to the Oval Office.

• **/Rambling man** Delegates at the IIF conference were treated to an epic ramble by CEO Tim Adams, culminating in the revelation that his fave piece of music was 'Fanfare for the Common Man', Aaron Copland's uplifting tribute to the human soul. Fanfare has a quirky history, having been used as an audience-warmer by Bob Dylan and the Rolling Stones — and also by Glenn Beck, during the arch-conservative US talk-show host's 2010 'Restoring Honour' rallies.

• **/Palm presser** On the same panel, Gary Cohn, COO and president of Goldman Sachs, was asked about the future of financial stability. Flummoxed for a moment, the normally straight-talking banker finally turned to Mary Eddoes, head of JP Morgan Asset Management for a little help. "Mary, hold my hand," he begged, generating laughter from the audience.

• **/Trumpian slip** Jamie Dimon was also on top, freewheeling form, the chairman of JP Morgan claiming that he was preparing to write a book about the world's chronic low-growth malaise, and adding, apropos of nothing in particular, that he wanted to be president, but could never run for high office "because we torture those people". Dimon, back to fine form after being diagnosed with throat cancer in 2014, added that his campaign slogan would be: "Make America Fun Again".

• **/Hotting up** IMF chief Christine Lagarde is beginning to feel the heat after publicly voicing her desire to see Europe's humpen lenders clean up their collective act. German finance minister Wolfgang Schäuble ticked her off at a press conference yesterday, noting darkly that Europe had perfectly adequate rules in place, and "did not need multilateral financial institutions" telling it how to run its affairs. Game on!

## 'EU overstepping the mark' as CEE finance ministers call for reform

By Elliot Wilson and Virginia Furness

At a time when Europe has been left reeling by Britain's shock decision to leave the EU, leading politicians and regulators in eastern Europe are warning Brussels that it risks alienating members, and needs to fundamentally reassess its priorities.

With prime minister Teresa May confirming March 2017 as the start of Britain's exit process, and Hungary voting last week to reject the EU migrant resettlement plan, dissent in the ranks is growing.

While economists suggest that both the Czech Republic and Poland have a lot to lose if the EU adopts a hard-line approach and imposes a painful exit on Britain, the finance ministers of both countries had a certain degree of sympathy for the UK.

"I have a lot of understanding and sympathy for the many UK citizens who voted for 'Brexit'," Andrej Babiš, finance minister of the Czech Republic told *GlobalMarkets*. "That vote sent a very important signal to Brussels, in that the European Union needs to be reformed and needs to be reformed quickly."

Babiš echoed many Britons' concerns that regaining control over EU immigration was a priority though he believes that immigration quotas in Europe definitely will not work.

He said that Article 50 would have to keep

in place the four freedoms of the EU — goods, services, capital and people — that Europe considers inviolate. "We cannot and Brussels cannot move on that," he said.

"We need to become more protective, not less protective, of the region. We need the Schengen agreement in place, but we also need to close our borders and ensure that we regain control over who can come in and who cannot."

### BROKEN SYSTEM

For Piotr Nowak, Poland's deputy finance minister, Brexit is symptom of a broken system, evidence of the fact that the "current structure cannot hold". He lambasted the European Union for interfering in the ideology of its member countries, and losing sight of its role as arbiter of the economy.

"If you're talking about economy and legislation, and improving the standards of institutions, we are in favour of that," he said. "But some fundamental way of thinking has to be changed, and we should start talking about changing the EU treaty. The EU has gone one or two steps too far. The EC would like to have an impact on the way of thinking in particular countries, but this is too much."

The EU needs to take these challenges seriously, said Peter Kinsella, chief EM economist at Commerzbank in London,



Babiš: sympathy for Brexiteers

although he noted that the CEE region had benefited enormously from EU membership. "The EU needs a more streamlined decision-making system and they're verging too close to federalism rather than taking an inter-government approach."

Nowak warned that the EU's move to interfere in Poland was detracting from the important issues it should be tackling. He referred specifically to the EC's move to send Poland an official warning that changes to its constitutional court could endanger the rule of law. Nowak said that was a step too far. "They don't know our law and that is the problem, this is how we are running our country," he said.

Instead the focus should be on tackling issues like youth employment, and the real economy. "There is a real issue for young people trying to get a job, and we are afraid of that, but nothing is being done."

## No selling of souls in Sri Lanka: Karunanayake defends China policy

By Elliot Wilson

Sri Lanka is determined to continue to borrow from China despite racking up a debt pile worth 75% of its economy, the country's finance minister told *GlobalMarkets*.

Ravi Karunanayake said Sri Lanka would continue to do business with China. "Sure [Chinese FDI] concerns us — but China has deep pockets, and it's better to have some investment than no investment at all," he said.

"So long as we don't sell our soul we will be fine. The problem with the capital raised by the [previous government] is that it was [channelled into] questionable investments, meaning that we ended up with unused convention centres and under-utilised ports."

Official government data places Sri Lanka's total debts at \$64.9bn — of which \$8bn is owed to China — and the nation's debt-to-GDP ratio at 75%, more than Germany and on a par with Hungary and Canada. The same data reveal that more than 95% of all government revenue is being used to cut the colossal debt pile.

Many of its financial problems stem from the decision by former premier Mahinda Rajapaska to borrow heavily from Chinese development banks

— and use that cash to build vast infrastructure projects, many of which, including new airports and highways in the south of the island, remain unfinished, or largely unused.

Other challenges lie ahead, many of which are out of the country's control, most notably the pace at which the US Federal Reserve plans to hike interest rates in the months and years ahead. "We are at the mercy of the Fed," Karunanayake said. Once the fiscal discipline the minister yearns for is in place, the government will, he adds, "focus on boosting inward foreign direct investment, which has eluded us for too long."

### FINANCIAL CITY

One major project kickstarted by the previous government remains on-track: the \$1.4bn Colombo International Financial City. Karunanayake said the zone would in time become an offshore financial centre built on UK financial laws and norms, catering to the global aspirations of India's currency, the rupee.

That ambition is interwoven with the hope that India, its giant sovereign neighbour, overseen by pro-business premier Narendra Modi, will transform South Asia into a genuine commercial, financial and industrial region in the years to come.



Karunanayake: 'FDI has evaded us for too long'

"We are certainly looking at positioning ourselves with India," the finance minister said. "We want to take advantage of regional trade, rather than, as has been the case until now, focusing on trade with Southeast Asia."

Sri Lanka has been busy in the international lending market this year, finalising its largest ever syndicated loan, and borrowing \$1.5bn from the IMF. Karunanayake refused to rule out a return to the markets in the months ahead, but said the focus in the short term would remain "above all, on instilling fiscal discipline. We are looking at the bond market and the loans market, but before we go back to the market, we want financial stabilisation to take place."

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Success is a journey

## Mystery of Mexico's lost growth foxes experts

By Thierry Ogier and Lucien Chauvin

Mexico's disappointing growth performance is one of the "great mysteries of Latin America", according to the World Bank's chief Latin American economist for the region.

The weak outturn is also an "irony" as the second largest Latin American economy seems to have done many of the textbook economic reforms, Augusto de la Torre told *GlobalMarkets*.

He is not the only one: Mexico's growth performance has continued to disappoint investors and puzzle analysts. The International Monetary Fund has forecast a drop from last year's already modest 2.5% GDP growth to 2.1% in 2016, before a light rebound at 2.3% in 2017. "This is a central issue for the region as a whole," de la Torre said.

Nevertheless, it is not the reforms themselves that need to be questioned, said Duncan Wood, president of the Mexico Institute at the Wilson Center. "All the reforms have been enacted. But they still require a lot of implementation. A lot of them will bear fruit in 10 or maybe 20 years. We may have to wait a long time until they play true," he said.

"The reforms have yielded benefits," added Jorge Familiar, the World Bank's vice president for Latin America. "If you look at currency depreciation, which in the end is part of the solution because depreciation is a way of adjusting to external imbalances, it has not translated into inflation and the reason why is because some of the reforms have had benefits that lowered costs of service in an important way, like in telecommunications," he said in an interview with *GlobalMarkets*.

Mexico's underperformance is also explained by a combination of external and domestic factors which reflect in a weaker peso, according to Martin Castellano, senior Latin America economist at the Institute of International Finance.

"Part of the explanation is the currency acting as an automatic stabiliser amid global headwinds, including uncertainty surrounding the US elections. Weakening of the macro fundamentals, however, is also part of the story. The oil price decline has taken a toll on public finances," Castellano told *GlobalMarkets*.

"While the government has met the fiscal consolidation targets thanks mainly to one-off revenue, it could not prevent an increase in the public spending-to-GDP ratio."

In the meantime, the "Mexico mystery" should not be an excuse to question the validity of reforms, said de la Torre. "The advice that Mexico could give to other countries in the region is 'do not expect the world economy to recover and commodity prices do go up again by miracle.'" No Mexican official was available to comment on the "mystery" issue.

## Pressure for more climate ambition needed in Marrakesh

By Jon Hay

Poor countries, NGOs and businesses must intensify pressure for action against climate change when nations gather in Marrakesh in November for the COP 22 conference, experts say.

Marrakesh is the first full gathering since the COP 21 meeting last December, when the Paris Agreement enshrined a global effort to limit warming to 2°C, or ideally 1.5°C.

"It should be a fairly celebratory COP, because we've got entry into force a lot earlier than was ever expected," said Camilla Born, policy adviser at E3G, a consultancy in London. "That is a massive sign of the commitment out there to Paris from countries and different constituencies."

But any complacency would be misplaced. "One thing has been haunting these talks for years," said Jan Kowalzig, climate change policy adviser at Oxfam in Berlin. "We are on track for 3°C. Everyone knows this. There have been lots of efforts to increase ambition in mitigation, but they have never resulted in anything that moves us away from that track."

Action on the scale required was "out of the question" in Marrakesh, he said. But discussions there could open the way to more ambition later.

Countries have raced to ratify Paris, partly so it comes into force before the

US election on November 8. Republican candidate Donald Trump has talked of rescinding the deal.

The goal was reached on Tuesday, when the European Union rushed through ratification, crossing the threshold that 55 states producing 55% of global emissions had ratified. Coal-reliant Poland won concessions to secure its support, and yesterday (Thursday) its parliament voted overwhelmingly to ratify.

It would now take a President Trump four years to extricate the US — though he could simply ignore the deal. "That is one of the limitations of the fact that a lot of actions in the US are taken under executive authority," said Eliot Whittington, deputy director of the Prince of Wales's Corporate Leaders Group in Cambridge. "But the Environmental Protection Agency's mandate is legislative, and if the US president was intent on doing nothing despite the Paris Agreement, that would be subject to challenge in the US courts."

The main task in Marrakesh is to plan negotiations to establish institutions and rules to make Paris work. "Ratification is very good news, but it's just signing a paper," said Jens Clausen, climate change adviser at Greenpeace in Copenhagen. "Rules means how you verify everything, what can count as climate



COP22 here we come

finance, how you account for forests. It might sound nerdy, but if you don't get the rules right, it will not work."

One area where ground rules are needed is finance. Rich states have promised to mobilise \$100bn a year to help poor ones fight and cope with global warming. But they are supplying far less, and much of what they count is commercial loans and export credit, said Kowalzig.

Another crucial task will be planning the 2018 meeting when countries volunteer ways to increase the ambition of their decarbonisation.

In that context, non-state actors can play a crucial role. "We've seen huge momentum from companies, regions, cities — the people who have to make this happen," said Kate Levick, policy director at CDP, an NGO in London. "We need that virtuous circle to continue: governments coming up with more detail, and demonstrable progress by other stakeholders to give governments confidence."

## EBRD prepares dinar as IADB readies Mexican treasury

By Craig McGlashan

The European Bank for Reconstruction and Development is set to complete a decade long project to sell a bond denominated in the Serbian dinar while the Inter-American Development Bank is about to provide a boon to the local Mexican peso market.

Both projects will provide support to capital markets activities in the respective countries, through bringing liquidity and sustainability, while, in the case of the IADB, allowing its clients to borrow directly in their home country.

The EBRD is nearly ready to bring a publicly listed Serbian dinar bond issue to the domestic Serbian market, which will be the latest development in its work to develop local capital markets.

"We're working on a publicly listed Serbian dinar bond issue for the domestic market," Isabelle Laurent, deputy treasurer and head of funding at EBRD, told *GlobalMarkets*. "This will be the first in the currency for a supranational issuer. We hope that we'll print the note in the next few weeks."

The issue will be the culmination of a decade of work by the EBRD, which has had its stumbling blocks along the way.

"Issuing local currency bonds in the domestic market can take a long time because of requisite regulatory changes, as well as developments in domestic politics," said Laurent. "Sometimes the ministry of finance will be more concerned about its own issuance, or sometimes the central bank is more concerned about competition for their domestic banks."

The deal will be another first for the EBRD, which in June sold its first public bond in Georgian lari, a five year floating rate note linked to the three month rate set by the National Bank of Georgia. EBRD has previously issued in lari, but only through privately placed issues.

### PESO PAYS OFF

Across the Atlantic, the Inter-American Development Bank is working on plans to launch a new local currency treasury, which will be its second after establishing one in Brazil.

"We are in the process of setting up local currency treasury in Mexico,



Fan: local treasury on Mexico

hopefully within the next several months, and we already have local currency treasury in Brazil," Laura Fan, head of funding, treasury division at the IADB, told *GlobalMarkets*.

"Our liquidity is predominantly in dollars, so by setting up local currency treasuries we can keep liquidity in that particular currency and it provides us more flexibility when lending to our borrowers in local currencies."

Unlike the EBRD, the IADB's treasury team does not have a mandate to develop local currency markets — that responsibility lies with the supranational's lending team — but "obviously by opening these treasuries we may assist with that mandate", said Fan.

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# World Bank's fund for the poorest set for \$75bn injection

By Phil Thornton

The World Bank is moving closer to securing commitments from donor countries for a record \$75bn three year replenishment of the International Development Association, its fund for the poorest countries.

Representatives of donor countries will gather on Monday in Washington after the end of the World Bank's annual meetings for a key summit ahead of a December deadline to secure a deal that kicks in next June.

An agreement that could deliver a 50% increase from the previous three year funding of \$52bn would mark the first achievement for President Jim Yong Kim since he was handed a fresh five-year term after a controversial election process.

The negotiations are centered on three alternatives scenarios — base, low and high — under which volumes range from \$65bn to \$80bn.

Axel van Trotsenburg, the World Bank vice president who is co-ordinating the negotiations, told *GlobalMarkets*: "We think we have the engagement with our partner countries that justifies the most ambitious replenishment possible."

"Clearly the more we can get, the more we can translate that into a bigger package. But I am a realist ... but I think it is good to gravitate towards \$75bn although we are always open to do more."

The next round of funding — known as IDA18 — is looking to be innovative both in terms of how the financing is arranged and the issues it is seeking to address.

The current proposals include a mechanism to use donor money to leverage private capital by a ratio of three to one, rather than two to one in IDA17. IDA was bolstered in its attempts to attract private capital last month when it received its first-ever public credit ratings of Aaa/AAA from ratings agencies Moody's and S&P.

The Bank is also proposing the creation of a \$2.5bn private sector window that will allow the bank's private sector-focused arms, the International Finance Corporation and the Multilateral Investment Guarantee Agency, to undertake operations with the private sector using the IDA balance sheet.

## PRIVATE SECTOR INPUT

But some NGOs have warned that IDA funds should not be diverted away from public sector lending. Oxfam urged the Bank to ensure that pro-poor development impacts were "prioritised above financial returns as investment choices are made".

"The Bank should have clear criteria for selecting investments that will be



van Trotsenburg: ambitious

backed by IDA funds," it said in a position statement. "Such criteria should include, for example, that the investment will benefit the poorest within countries, and promote gender equality."

But van Trotsenburg said the initiative was a way of promoting private sector investment in riskier environments. "We are trying to see how we can create jobs in difficult environments. The public sector will not be able to do this alone."

He said in times when public sector finance was constrained that it was right to see what the private sector could do. "IDA has always benefited from a robust discussion of the development challenges. If there are differences [of opinion] let's discuss [them]."

# No euro guy for Uruguay

By Olly West

Uruguay is taking unusual steps to take advantage of the divergence in monetary policy across the world and diversify currency risk in its funding portfolio.

Bucking the trend of Latin American sovereigns issuing euro denominated bonds, Uruguay is contemplating swapping some its existing dollar debt into the European currency.

It may use some of the proceeds from its recent global bond for the swap.

What may sound like a racy strategy is in fact about reducing risk, Herman Kamil, director of public credit for the South American country, told *GlobalMarkets*. Favourable cross-currency basis swaps and lower yields in the euro market make it a doubly attractive option.

"We have previously carried out swaps from dollars into pesos, but that swap market is thin," said Kamil. "So we've decided to try to swap at least a small part our dollar debt into other hard currencies."

"This is not speculative; we are doing it from a risk management perspective. It allows us to reduce currency risk and at the same time take advantage of lower interest rates in other currencies."

Uruguay has already swapped a \$500m dollar loan from the World Bank into Japanese yen, using the World Bank itself as the counterpart, for the swap, said Kamil.

By swapping the liabilities from dollars into yen, the government was able to lock in negative interest rates.

## CURRENCY MOVES

As the public credit head admits, whether these swaps end up being cheaper or not ultimately depends on movements in these currencies. But it is not only about cost: Uruguay exports goods to Europe, so it is a natural hedge for the economy.

"We plan to deepen our strategy of diversifying the currency risk within our hard currency portfolio," said Kamil. "We want exposure to the dollar, yen and euro."

The most obvious way to do this would be to issue in these currencies. Mexico is a frequent issuer in yen, while Mexico, Chile, Peru and Colombia have all issued euro denominated bonds in the last two years. And Argentina made its comeback to the euro market after 15 years on Wednesday with a €2.5bn deal.

But on a post-swap basis, these bonds usually trade well wide of each issuer's dollar curve. In other words, it is cheaper to issue in dollars and swap the proceeds into euros than it is to issue in euros.

"What is favourable is not only the interest rate differential but also the cross-currency basis swap," says Kamil.

As Uruguay has easy access to dollar markets, it is far more straightforward for the country to take advantage of issuance windows in the US than in a euro market it has not visited in a decade, he said.

# Nigeria pivots growing pension funds towards infrastructure and property

Olivier Holmey

Nigerian pension funds, once small in size and riddled with corruption, are ridding themselves of their old ways and becoming important drivers of the country's economy, Chinelo Anohu-Amazu, head of Nigeria's National Pension Commission, has said.

Pension funds now total NGN5.84tr (\$19bn), the bulk of which — as much as 69% — is invested in federal government bonds. "The idea," Anohu-Amazu told *GlobalMarkets*, "is to move away from government bonds and into much needed infrastructure and real estate. That's a push we're working really hard on."

"We have to create a dramatic shift towards infrastructure."

Nigeria, a country with a population of over 170 million, is in dire need of better roads, bridges and public transport. In its Global Economic Index for 2016-17, the World Economic Forum said the lack of infrastructure was the biggest problem when trying to do business in Nigeria — ahead, even, of corruption — and ranked the country's infrastructure 132nd out of the 138 countries it tracks around the world.

Pension fund money could become a real force in changing that state of affairs, Anohu-Amazu said. She said she was focused on the many millions of Nigerians in need of a home, and the lack of modern

railways around the country.

Because Nigeria's infrastructure is so unsatisfactory, any improvement to it could unleash huge economic potential.

Nigerian regulators are keenly aware of that fact. For that reason, they approved last month plans to enable the investment of up to \$20bn of pension money to that area of the economy.

Beyond that, Anohu-Amazu also wants to divert money towards private equity funds. She thinks corporate governance standards would improve if private equity investors were more active participants in Nigeria's economy, thanks to the scrutiny they place on the firms in which they invest.

The more Nigerian workers have pension schemes, the more likely these ambitions are to be realised. For that reason, the Pension Commission is also focusing efforts on trying to raise the number of contributors — as things stand, only seven million contribute. "There is scope for raising it, especially when you realise there's a whole gamut of people in the informal sector."

That's not an easy task, however. "Most of them are totally off the grid," she said. "You don't know where they are, you don't know where they work."

One other problem she has had to tackle head on, since she was confirmed as head of the commission two years ago, is that of corruption. "We had a lot of



Anohu-Amazu: wants to use private equity funds

issues with the pension system in Nigeria — a lot of transparency issues, cases of mismanaged funds."

Anohu-Amazu is adamant the commission is clean, having stamped out malpractice. "We have totally eradicated it," she said.

But though the commission might now be in working order, there are still indications of problems with fraud in some parts of the pensions sector. Earlier this year, the Nigerian watchdog Economic and Financial Crimes Commission reportedly arrested Nelly Mayshak, director general of the Pension Transitional Arrangement Directorate — an institution dealing with legacy customers of a previous pension scheme — over an alleged NGN2.5bn fraud.

## African central bank trio confident they have 'tools to do the job'

By Lucien Chauvin

The governors of the central banks of three countries that have faced some of the toughest economic challenges in eastern and southern Africa have set out their plans to restart growth and return inflation to low single digits.

In interviews with *GlobalMarkets* the monetary policy chiefs for Zimbabwe, Zambia and Rwanda said they believed they had the tools to deal with increasing fiscal and current account deficits as commodity price remain weak, and with rising levels of inflation.

Investors and analyst say the efforts point in the right direction, but they also say these and other countries also need to deal with systemic issues that hamper investment.

Zimbabwe central bank governor John Mangudya said his country faced increasing fiscal and current account deficits that were feeding off each other.

He is, nevertheless, upbeat, saying the answer is straightforward. "In Africa we need to change the narrative from politics to production. We need to stop talking and focus, because increasing production lets you increase employment and exports, and reduce dependency and, in the end, poverty," he said.

In Rwanda, National Bank governor John Rwangombwa said the challenges from commodity prices were complicating policy choices, even though the economy was still on track to expand by 6% this year.

He said low prices for the country's exports, as well as drought, were having a negative impact on inflation, which had jumped from 2.5% last year to 6.9% for the past two months. "It is worrisome, but we believe that we will be able to get inflation down around 5%," he said.

### SEDITION CHARGES

Zambia is in a similar situation, but it has the added negative of political uncertainty caused by recent elections. Opposition leader Hakainde Hichilema, who lost the August general election to President Edgar Lungu, was arrested on Thursday on sedition charges, his party reported.

Central bank governor Denny Kalyalya said turbulence created by low commodity prices, particularly copper, had been complicated by the political process. "This has made it harder to make decisions and this has led to a wait-and-see attitude on the part of investors," he said.

He said high interest rates, around 20%, and inflation, just shy of 19% in September, were creating risks that are keeping capital away. "We know this will pass, but the effects right now have been far reaching on the ground," he said.

While the steps listed are important, companies in the region and analysts also want to see actions to reduce red tape and corruption.

Reginald Max, who heads up GE's development and investment unit in Sub-Saharan Africa, said these and other governments in the region need to simplify investment procedures. "Encouraging investment means eliminating red tape. Looking at a 1,000-page document with lots of caveats is really a disincentive for companies considering investments," he said.

## Maduro executes 'self-coup' as Venezuela loses China's support

By Lucien Chauvin

Venezuela's political crisis continues to deepen, with President Nicolás Maduro's refusal to send Venezuela's 2017 budget to the National Assembly or set a date for state elections nothing short of a "self-coup", according to Luis Nunes, a Venezuelan political scientist.

"We are faced with a government that is increasingly outside the law. Maduro is disregarding the constitution at will," Nunes told *GlobalMarkets*.

He said the decision was not only based on the country's spiraling economic chaos, but also the fact that China has signaled to Maduro's government that it was no longer willing to loan it money. China has loaned Venezuela \$65bn, more than half the \$125bn loaned to Latin America between 2005 and 2015, according to the Inter-American Dialogue's China-Latin America Financial Database.

Benjamin Creutzfeldt, a postdoctoral fellow for China-Latin American-US Affairs at the SAIS Foreign Policy Institute, said China was trying to reduce its high-risk lending. "The first call to China came from countries that said 'we need you', but now it is coming from countries that do not want loans, but investment. China is learning from its mistakes," he said.

The administration announced this week that it would send next year's budget to the government-aligned Supreme Court instead of the opposition-controlled National Assembly. The move is based on an economic state of emergency, extended for another 60 days in mid-September, which allows Maduro's administration to implement economic policies without having to consult lawmakers.

It creates yet another political impasse and adds to the country's already dire economic mess, with the World Bank forecasting GDP to contract by 10% this year and the Institute of International Finance expecting inflation to come close to 1,000%. Reported unemployment is close to 20%.

### ELECTION DELAYS

The government appointed National Election Council has also refused demands by lawmakers to set a date for the election of governors, which should be held by the end of the year. Opposition Congressman Eudoro González said it appeared that the government had no intention of holding the election, another constitutional violation.

"They don't want Venezuelans to vote, the government knows that at this point it could not even win an election



Maduro: refused to send the budget to National Assembly

for a condominium board," he said in a telephone interview on Thursday.

The ruling party currently holds 20 out of 23 governorships. If the December 2015 congressional elections are an indicator, the ruling party will lose heavily. Opposition parties won a supermajority in the last year's vote, taking 112 seats in the 167-member unicameral National Assembly.

Looming over the disputes is a possible recall vote to cut short Maduro's six-year term that ends in 2019. The Electoral Council has set October 26-28 for opponents to gather signatures from at least 20% of the electorate to force a recall.

## Europe and China greatest threats to global growth — S&P's Sheard

By Elliot Wilson

The world remains a divided realm, the chief economist of ratings agency Standard & Poor's warned, with some countries rising and growing, and others facing years of steady decline.

Asked by *GlobalMarkets* to highlight the greatest threats to global growth rates in the years ahead, Paul Sheard picked out Europe and China, adding a secondary concern in the form of Britain's impact on regional and global growth, following the UK's majority decision on June 23 to leave the European Union.

China remained "a big potential risk factor" to global growth, Sheard warned, noting that how the world's second largest economy managed the transition from a producing to a consuming market was "full of uncertainty", and likely to impact everything from growth to inflation to commodity prices for years to come.

He pointed to China's massive debt overhang: net debt stood at \$25tr, or 237% of GDP, at the end of the first half of the year, with corporate debt at 170% of economic output. "These metrics look worrying," Sheard said. "The question is whether policymakers have the resources and the policy capacity to work through these problems [and find] solutions to them. China has been good

at scanning the world and figuring solutions in the past."

He added: "Given that China has for years been the biggest single contributor to global growth, things could go very wrong if this particular problem is mishandled. A big shock in China, whether stemming from a sharp fall in growth or a sharp rise in the level of non-performing loans at domestic state banks, would move the needle sharply on growth."

### US STRUGGLING FOR TRACTION

The third negative factor weighing on the global economic outlook, he added, was the United States, which, while superficially healthy, was still struggling for traction.

"America is facing a slew of challenges in the months ahead," Sheard said. "They are facing an unusual election" between a largely pro-international trade candidate, and another who appears to have a more protectionist mien. "There is clearly an unusual lack of predictability surrounding the United States' future trade policies. If America emerged from the election with a more protectionist attitude, that would clearly be bad for the global economy."

There were a few bright spots, he added, most notably India, whose economy is set to grow by between 7% and



Sheard: India is bright spot

8% this year and next, according to projections from the IMF. "India doesn't get talked about that much, but they have had a good monsoon this year, growth is in the high single digits, and they have a capable and pro-business premier — with Narendra Modi continuing to push through reforms such as the recent national sales tax, the GST, and a capable government. They have long been in the shadow of China, and they are much earlier in economic process [than their East Asia sovereign peer] but they have more runway to play with, and they have a very demand oriented economy."



# Back to the future as IMF shrugs off Greek debacle to focus on EMs

By Phil Thornton

**T**he independent report into the International Monetary Fund's handling of the eurozone financial crisis may have come out as the economic commentariat was heading off for their summer holidays but its critical conclusions certainly hit home.

The immediate reaction ranged from "lacerating" to "damning" while one analyst said it gave credence to the Fund's harshest critics.

The report by the Independent Evaluation Office (IEO) criticised both the way the Fund's officers failed to foresee the magnitude of the risks in the eurozone and the way that they handled the resolution of the crisis especially in Greece.

In particular it censured the Fund's failure to push for restructuring of Greek debt, its over-optimistic forecasts for the outcome projections and how it became too close to eurozone policymakers to act as an independent assessor.

Overall it said: "The IMF's handling of the euro area crisis raised issues of accountability and transparency, which helped to create the perception that the IMF treated Europe differently."

This final conclusion tapped into a deep

The IMF's independent watchdog gave the fund a strongly worded rebuke over its handling of the eurozone crisis. But analysts doubt this will change the way it deals with the stream of emerging markets beating a path to its door for help

well of resentment that has built up among both emerging and developing countries that has often surfaced at previous IMF annual meetings.

Countries in east Asia and Latin America in particular feel that the IMF, which has been run by a European since it was founded 70 years ago, treated the eurozone very differently from the way it responded to their regional crises in the 1990s and 1980s, respectively.

In particular, the idea that the IMF overcame its own preference for a restructuring of Greece's debt — the medicine it applied to many emerging markets — but instead provided exceptional access financing to Greece will stick in their gullet.

IMF managing director Christine

Lagarde, a former French finance minister, was quick to repudiate the criticisms saying that the overall conclusion she drew was that the Fund's involvement in the euro area crisis programmes had been a "qualified success".

But for many observers, the Greek debacle has left a sour taste. Luiz Vieira, co-ordinator of the Bretton Woods Project (BWP), a civil society organisation that monitors the IMF, is not convinced that if a similar crisis were to break out again in another peripheral economy such as Portugal or in Italy that the IMF would act differently.

"I think the IMF would be similarly pressured into doing something that they may not want to do. They may feel it is not within the bounds of their mandate," Vieira says.

## In Beijing

Christine Lagarde with China's premier Li Keqiang in July

Jan Toporowski, economics professor at the School of Oriental and African Studies at London University, doubts that emerging markets will benefit from IMF largesse.

"They won't treat them as nicely because they don't have the financial infrastructure that the ECB and the European institutions provide," he says. "The IMF can't act as a central bank and create credit but can only refinance existing debt."

#### RED HERRING

However, the IMF has supporters in the private sector. Holger Schmieding, chief economist at Berenberg Bank, who held the same post at Bank of America Merrill Lynch, says debt restructuring is a "red herring".

The IMF should have made clearer that it was not providing debt assistance from the outset. "Unlike all other countries outside the eurozone Greece has someone with a very deep pocket standing behind it," he says.

"This has been a red herring from the beginning and the idea that IMF should have gone for debt relief early is misplaced. That is very different from other places where their major function is indeed the money and not just the advice."

But this whole debate will move centre stage as the IMF is called in on an increasingly frequent basis for help by what was seen as its traditional clientele before the eurozone countries — emerging and developing economies with a current account and fiscal deficits.

The continued anaemic global economy combined with the slump in commodity prices has undermined the financial stability of countries across the globe.

The IMF has been particularly active in

the Middle East where the collapse in the world price of oil combined with a surge in terrorism and a resultant collapse in tourist revenues has pushed many countries into severe current account deficits.

The largest of these interventions was a \$12bn three year loan to Egypt in August in the wake of the two terrorist-suspected plane crashes whose impact has decimated its tourism industry.

Egypt is estimated to have a gross external financing requirement of around \$25bn (7.5% of GDP) over the coming year alone to finance its current account deficit and to roll over maturing external debt.

Meanwhile on the other side of the Red Sea, Jordan secured a \$723m Extended Fund Facility loan in August. In North Africa Morocco has secured a two year, \$3.47bn liquidity line to provide insurance against external shocks in light of heightened uncertainty worldwide. In June Tunisia secured a \$2.9bn loan. Iraq has received a \$5.3bn loan.

In other emerging market areas such as central and eastern Europe (Albania, Kyrgyz Republic, Moldova and Serbia), sub-Saharan Africa (Central African Republic, Madagascar, Malawi, Nigeria, Rwanda, Sierra Leone), central Asia (Afghanistan) and south Asia (Sri Lanka) as well as Latin America (Colombia, Ecuador) are among the countries to be under the IMF's ambit this year alone to a greater or lesser extent.

#### REVISITING NEOLIBERALISM

The key issue for finance ministers in affected countries, officials at the Fund and outside commentators and watchdogs is whether the IMF has learned from Greece and its experience in other crises.

The Fund has been on a long journey since the 1980s and 1990s when it was accused of making the crises in Latin America and East Asia worse by imposing harsh conditions in exchange for financial assistance.

The package of measures became known as the "Washington consensus", which included free trade, floating exchange rates, free markets and macroeconomic stability particularly in the form of a cut to government spending and subsidies and higher taxes.

While the Washington consensus has been consigned to the dustbin many long term observers are worried that the Fund is still imposing traditional harsh policies.

Schmieding at Berenberg says that the IMF underestimated the severity of the Greek economic shock from the start of the programme. "The way that Greece has developed has hurt to some extent the credibility of all the institutions involved," he says.

"The conclusion that should be drawn from that is any fiscal adjustment should be spaced over time or that the IMF should put much more emphasis on the pro-growth structural reforms that are creating opportunities for new jobs rather than just slash-

ing public expenditure or raising taxes."

Away from the arguments over Greece there are signs that the IMF is having a change of heart. Earlier this year an article in IMF's in-house journal, *Finance & Development*, by Jonathan Ostry, a deputy director at the research department, and IMF colleagues conceded that "some aspects" of neoliberalism had "not delivered".

While Ostry and his colleagues at the Fund say there is "much to cheer" at what neoliberalism had achieved, it has been seen as a significant admission.

He says that the benefits in terms of increased growth seem fairly difficult to establish when looking at a broad group of countries while the costs in terms of increased inequality are "prominent".

"Such costs epitomise the trade-off between the growth and equity effects of some aspects of the neoliberal agenda," they write. "Increased inequality in turn hurts the level and sustainability of growth. Even if growth is the sole or main purpose of the neoliberal agenda, advocates of that agenda still need to pay attention to the distributional effects."

They also find that "austerity policies... generate substantial welfare costs ... [and] hurt demand", thus undermining overall growth.

#### PRO-CYCLICAL MEASURES

The IMF has since rowed back from its calls on crisis-hit countries to remove capital controls in times of crisis and has also acknowledged the growth contribution that labour unions can play in developing countries.

Vieira at BWP says that the neoliberalism article is a sign that the IMF's role has changed. "The historic role of the IMF to support the North American and European dominance of the world economy is shifting so that different things are required of the IMF," he says.

"People are thinking about different approaches but it is not something independent to the IMF as they are reacting to the views of their membership to these events as it percolates up to staff and the board."

He says he hopes that the IMF will react differently to future crises and give countries more "policy space". "Rather than adopt counter-cyclical approaches they can adopt pro-cyclical ones as these austerity measures disproportionately hit the poor and particularly women."

The announcement of the \$723m loan to Jordan talks about "advancing fiscal consolidation to lower public debt" but then also includes measures to boost youth and female employment and "enhance the conditions for more inclusive growth".

Similarly the much larger Egyptian programme includes conditions to bring down budget deficit and debt but also includes strengthening the social safety net to protect

## “what they say

**"The historic role of the IMF to support the North American and European dominance of the world economy is shifting so that different things are required of the IMF"**—Luiz Vieira, Bretton Woods Project



**"What you really need in the long run to do is to work on supply. I'm not convinced that the IMF has taken that lesson on board enough"**—Holger Schmieding, Berenberg

**"The IMF won't treat [emerging markets] as nicely because they don't have the financial infrastructure that the ECB and the European institutions provide. [It]... can only refinance existing debt"**

—Jan Toporowski, SOAS London University





the poor and vulnerable groups. “Social protection is a cornerstone in the programme,” the Fund declared in its August announcement.

Vieira says the issue is whether the rhetoric translates into reality. Research by three universities in the UK and New Zealand indicates that there is still a mismatch.

They analysed more than 55,000 policy reform conditions included in all IMF programmes between 1985 and 2014 and found that the number of conditions that affected issues such as cutting budgets and reducing wages had risen between 2008, when it reached a historic low, and 2014.

“The return of structural adjustment brings these decades-old criticisms of IMF programmes back to the fore,” they concluded. “The scale and pace of reforms to the IMF’s practices do not match the organisation’s rhetoric.”

Schmieding at Berenberg admits he is doubtful whether the IMF will learn what he calls the “big lesson” from Greece. “The emphasis should be less on the fiscal numbers,” he says.

In particular he believes that the focus in a crisis resolution should be on freeing up the supply of the economy rather than on slashing demand, which he acknowledges is traditionally the easiest way if you have an external deficit and cannot borrow any more.

“What you really need in the long run to do is to work on supply. I’m not convinced that the IMF has taken that lesson on board enough. But the more you do on supply the fewer nasty things you have to do to contract demand,” he says.

The issue is unlikely to come up at this week’s annual meetings because few countries that are in the middle of negotiations or about to ask for a programme will want to rock the boat.

However, in a speech over the summer David Lipton, the IMF’s first deputy managing

director, acknowledges that the global financial crisis had left people feeling the effects of income inequality, stagnating wages and a lack of job security; and they sense and fear market volatility.

He says that much of what needed to be done requires action at the individual country level.

He points to a three-pronged approach to boosting growth consisting of fiscal policy, monetary policy and structural reforms aimed at stimulating growth in both the short and long term.

“While this remains the right recipe, it is clear that individual governments see limits to their room for manoeuvre and so far have not made sufficient progress,” he said.

#### MACROECONOMIC IMBALANCE

But it is this issue of the balance between fiscal and monetary policy that will be more of an issue for debate at the meetings. Ahead of the summit of the G20 leaders in Hangzhou, China, in September IMF managing director Christine Lagarde said that monetary policy was “increasingly stretched” — or at close to 0% across the Western world in plain English.

“This means fiscal policy has a larger role to play,” she said. “Where there is fiscal space, record-low interest rates make for an excellent time to boost public investment and upgrade infrastructure.”

The idea that governments should increase spending — and therefore either take on debt or reduce their fiscal surpluses — is very different from the messages from the IMF in the past. However, Schmieding at Berenberg doubts that the IMF meetings will become a rallying point for advocates of another round of Keynesian economic stimulus.

Lagarde’s reference to surplus countries is a thinly veiled plea to Germany and China in particular to unlock their vast budget surpluses and spend money. Schmieding,

whose bank is German, agrees that chancellor Angela Merkel will embark on a fiscal stimulus programme but only because Germany can afford it.

“Domestic political dynamics suggest that it will get one,” he says. “The advice of the IMF is being heeded but it has nothing to do with the IMF: if you have money you will end up spending it, which is exactly what Germany is doing.”

Andrew Kenningham, a senior global economist at consultancy Capital Economics, says there has been a “significant shift” in the rhetoric surrounding fiscal policy over the past few months.

“The case for fiscal stimulus has become more compelling,” he says. “Partly as a result, we now expect advanced economies overall to benefit from a small fiscal boost in the next couple of years.”

Schmieding predicts that there will be individual fiscal stimuli in the US, thanks to pledges of infrastructure from both candidates Hillary Clinton and Donald Trump, in the UK in its post-Brexit autumn statement, in France and Spain and Italy with those countries missing their fiscal targets.

Japan can be added to the list for its decision to postpone its sales tax hike and unveil a large fiscal stimulus in response to weak growth and inflation data.

But Schmieding doubts that the IMF is the cause of this Damascene conversion. “We will have a modest fiscal stimulus in many countries but none of that has to do with international co-ordination or with any advice from the IMF.”

The IMF may be seeking to gently mollify the way that it deals with emerging market countries and to pioneer a shift among rich countries’ macroeconomic policies but as chief economist Maurice Obstfeld said in an unusual public response to the neoliberalism article, the Fund is going through “evolution not revolution”. **GM**

#### Crisis management?

Christine Lagarde with chairman of the Eurogroup Jeroen Dijsselbloem, left, and director of the IMF’s European Department Poul M. Thomsen at a meeting of eurozone finance ministers during Greece’s third bailout meeting, July 2015; Lagarde with German chancellor Angela Merkel in April 2016

# String theory: fiscal boosts back in fashion



By Phil Thornton

As the economy hit the nadir of the global financial crisis at the turn of 2009, an American economist teamed up with a production company to produce a video called: *Fear the Boom and Bust — Keynes vs Hayek*.

But rather than an erudite series of lectures, the message was delivered through the medium of rap. “Keynes” argues his case for governments to borrow to spend in the face of recession: “If the central bank’s interest rate policy tanks/ A liquidity trap, that new money’s stuck in the banks/ Deficits could be the cure, you been looking for/ Let the spending soar, now that you know the score.”

In real life the Keynesians won the first round as the leaders of the Group of 20 (G20) countries found \$1tr at their April 2009 summit to inject into the International Monetary Fund while governments of the United States and China embarked on multi-billion stimulus programmes.

But the scale of the eurozone crisis that began the following year enabled Hayekian monetarists to persuade finance ministers to cut spending in order to reduce budget deficits and let interest rate policy take the strain.

As interest rates were cut to close to zero in the US, the UK and the eurozone, policymakers hoped cheap money would finally encourage business investment. When it did not, countries such as Japan, Sweden and Switzerland imposed negative interest rates in the hope that banks would lend money rather than pay interest to the central bank.

According to Chetan Ahya, global co-head of economics at Morgan Stanley, central banks have been burdened with increasingly complex challenges in managing what

he calls a “unique” global economic cycle thanks to a pronounced deleveraging cycle, falling productivity growth and worsening demographics.

“Central banks have found themselves unable to cut real interest rates via traditional monetary policy tools to an extent that would stimulate the economy,” he says.

And with the IMF yet again cutting its outlook for global growth at this week’s annual meetings, economists are debating whether by cutting interest rates further central banks are — to use Keynes’ phrase — “pushing on a string”.

Larry Summers, professor of economics at Harvard and a former US treasury secretary, coined the phrase “secular stagnation” — a new long term era of negligible economic growth. A Keynesian economist, he advocated a repeat of the co-ordinated policy response seen in 2009 at the September summit of the G20 in Hangzhou, China.

IMF managing director Christine Lagarde echoed the call saying interest rates were “increasingly stretched” and that it was time to loosen fiscal policy again. “Record-low interest rates make for an excellent time to boost public investment and upgrade infrastructure,” she said.

## HIGH QUALITY INVESTMENT

In the end, Hangzhou offered no headline grabbing initiative but opened the door slightly to fiscal policy, saying that monetary policy alone could not deliver balanced growth.

It said members would use fiscal policy “flexibly and [make] tax policy and public expenditure more growth-friendly, including by prioritising high quality investment”.

“With central banks having almost run out of ammunition, there may be more focus on

fiscal policy in the coming years,” says Andrew Kenningham, senior global economist at Capital Economics, who expects a “small” fiscal stimulus over the coming two years.

In the meantime, some economists are getting worried about the impact of ultra-low interest rates on financial markets — and for what will happen when central banks finally start to raise rather than cut borrowing costs.

Ahya at Morgan Stanley says that in the early stages of the current recessionary cycle, central banks that engaged in quantitative easing helped to calm markets and bring about a reduction in interest rates.

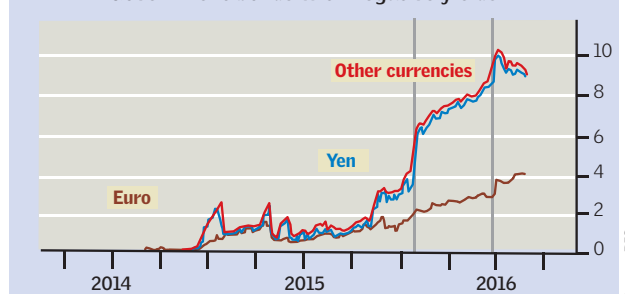
However, as policymakers rolled out ever more complex and unconventional measures he says that “scepticism surrounding the effectiveness of monetary policy” has increased. “Central banks have now emerged as a source of uncertainty,” he says.

The main negative impact of unconventional monetary policy, including the use of negative interest rates, has impacted on the profitability of the banking system. Claudio Borio, head of the monetary and economic department at the Bank of International

**Fear the boom and bust**  
British prime minister Theresa May, US presidential candidates Donald Trump and Hillary Clinton and IMF managing director Christine Lagarde

## Less than zero

Government bonds with negative yields



Continued anaemic levels of economic growth after eight years of rate cuts and unconventional monetary policy have triggered calls for a new round of Keynesian fiscal stimulus. But is there a danger of another debt crisis?

Settlements, says banks have “appeared to struggle”.

The prospect of lower rates for longer has raised serious concerns about banks’ profitability, he says, as ultra-low rates and flat yield curves erode their net interest margins and reduce the cost of carrying non-performing loans, in turn delaying the necessary clean-up of banks’ balance sheets.

At the same time ultra-low rates have fuelled a boom in asset prices across a range of sectors: equities, bonds and property have all seen sharp spikes. It has also encouraged a familiar search for yield leading what Borio calls “the usual signs of exuberance”.

This is beginning to cause headaches for central bankers who have to deal with an asset price surge that is the result of their being handed the lone job of boosting growth.

For the moment, talk of fiscal stimulus is exactly that — confined to academic circles and newspaper columns. But that could change, Ahya says. “As central banks continue to struggle in lifting aggregate demand and achieving their inflation targets, the persistence of this could move the dial on fiscal policy,” he says.

But while policymakers will probably be tempted to turn the dial up on fiscal policy especially ahead or after elections in France, Germany, the UK and the US, they are unlikely — to borrow from the film *Spinal Tap* — to turn the volume up to 11.

Particularly in the eurozone, policymakers should have memories of the near collapse of the eurozone amid fears that Portugal, Ireland, Italy, Portugal and Spain (the Piigs) could all go bankrupt seared on their brains.

These concerns explain why the G20 held back from calling for a full throated fiscal expansion saying that members would “enhance resilience and ensure debt as a share of GDP is on a sustainable path”.

However, there are signs that as the eurozone debt crisis moves into the history books, those memories start to fade. The eurozone’s

commitment to austerity has “waned”, Kenningham at Capital Economics says.

“Budget deficits in the southern economies have narrowed substantially, reducing the urgency for further cuts,” he says. “And the European Commission has, with Germany’s blessing, taken a lenient attitude towards excessive deficits in Italy and Spain.”

### INFLECTION POINT

Heirs to Hayek worry that if the spigots of public spending are opened, central banks may have to raise rates to combat any rise in inflation, a fear that has not been much in evidence for the past few years.

The particular bind that today’s central bankers face is that investors have got used to the endless supply of near-free liquidity, and that even a small hike in interest rates could trigger a market crash that would offset any positive impact from fiscal policy.

Olivier Desbarres, a consultant and former investment bank strategist, says that central banks are nearing an important “inflection point”. “If anything, financial markets will become more sensitive to any downturns in still tepid global growth and inflation and to the negative side effects of loose monetary policy,” he says.

The Dow Jones stock index fell by 2.1% in the first two weeks of September in the wake of a warning by Fed chair Janet Yellen in her Jackson Hole conference speech that the case for an increase in the federal funds rates has strengthened in recent months.

In the end a run of disappointing data and mixed messages from other Fed members ruled out a hike at its monetary policy meeting a week later on September 21 albeit on a split decision.

But markets are also nervous about a fresh bout of Keynesianism in the UK and in the US after President Obama’s \$800bn American Recovery and Reinvestment Act.

### BUILD IT AND THEY MIGHT COME

One area that has been seized on by politicians on both the right and left is infrastructure investment. Both the candidates for leadership of the UK’s Labour Party called for an injection — £200bn by Owen Smith and £500bn by the eventual winner Jeremy Corbyn. Prime minister Theresa May is expected to shift spending towards infrastructure while abandoning a commitment to balance the UK budget by 2020.

In the US Hillary Clinton has proposed a \$275bn five year plan while Donald Trump has gone big — calling for \$800bn-\$1tr of spending on roads, bridges, energy grid and water systems.

Its advocates say financial markets will treat long term debt taken on to fund productive investment in a more benign way than borrowing to fund day-to-day spending.

However, some commentators believe that debt is debt however it is categorised. In the UK the Labour government in the previous decade even devised a fiscal rule that excluded investment spending from how it calculated the budget balance — an analysis that looked embarrassingly irrelevant once the crisis struck.

In the US, the non-partisan Committee for a Responsible Federal Budget (CRFB) estimates Trump’s plans will see federal debt rise to 127% of GDP by 2026 from 74% last year. It estimates the net effect of Clinton’s proposals will raise the federal budget deficit to 87% of GDP by 2026.

“As advocates of expansive fiscal policy are wont to do, [Trump] assumes that the economic growth these steps could generate would boost tax revenues and help limit any increase in the federal budget deficit,” says Stephen Lewis, chief economist at brokerage ADM ISI.

Trump has used his campaign to shift Republican thinking away from smaller government and supply side reforms that have dominated the party since the war.

“Republican thinking had been dominated by pro-market enthusiasts such as Hayek,” he says. “The era of such ideas holding sway in Republican circles may be approaching its twilight.”

In an unlikely meeting of minds, IMF managing director Christine Lagarde has again called for a shift in the fiscal and monetary policy mix. In a speech in late September she said central banks had done the “heavy lifting” in recent years, adding: “Now fiscal policy needs to play a bigger role in countries that have additional spending headroom.”

But the idea of a co-ordinated shift in the policy mix is unlikely to be unveiled at this week’s annual meetings especially in face of resistance from debt-phobic Germany that blocked any idea of a G20 stimulus.

“The IMF is not important enough to dominate domestic political debate in Germany on how much they should spend and whether taxes will be cut,” says Holger Schmieding, chief economist at German bank Berenberg.

As “Hayek” sings it in *Fear the Boom and Bust*, “Your so-called “stimulus” will make things even worse/ It’s just more of the same, more incentives perverted/ And that credit crunch ain’t a liquidity trap/ Just a broke banking system, I’m done, that’s a wrap.” **GM**



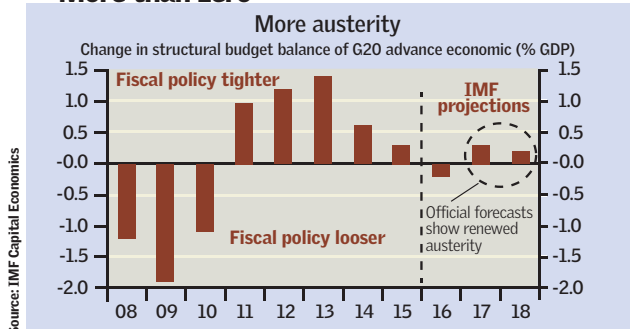
**“With central banks having almost run out of ammunition, there may be more focus on fiscal policy in the coming years”**

—Andrew Kenningham, Capital Economics

**“Central banks have now emerged as a source of uncertainty”**

—Chetan Ahya, Morgan Stanley

### More than zero





# Goldfajn takes up the fight to revive Brazil

Exclusive interview

After two years of a crippling recession and a devastating political crisis that reached its climax with Dilma Rousseff's impeachment in August, the new governor of the Brazilian central bank tells *GlobalMarkets*: "We have regained hope." But how long will it take before the LatAm giant is back on its feet?

By Thierry Ogier

**B**razil's recent history has been a traumatic tale of corruption, demonstrations and impeachment.

Dilma Rousseff is now gone but political passions are still running high as corruption investigations in the Petrobras scandals, known as *lava jato* or carwash, bring new revelations.

Meanwhile, the economy has sunk to new lows and may only start recovering towards the end of the year. The road to recovery may be a long one and it will certainly be fraught with all sorts of difficulties. There is some confidence in the capital markets that the new government will be able to engineer a

revival, but there are still a lot of question marks over the ability of the new administration to get its conservative programme approved in Congress against a background of social unrest.

Policymakers appointed by new president Michel Temer have drawn up a plan to pull the country out of recession after two years of negative growth (Temer became interim president in May and was confirmed on August 31 when Rousseff was impeached).

"Brazil is on the right track. We have entered a road that is going in the right direction. It is a long road but at least we are going in the right direction," a confident Ilan Goldfajn, the new governor of the Central Bank of Brazil, tells *GlobalMarkets* in an exclusive interview.

"Sometimes you may be well advanced in the road but if you are going in the wrong direction, this is no good. Now we have a long road to go but we are in the right direction," he says.

The economic plan includes measures to stabilise public expenditures and curb the level of debt, currently at 68% of GDP. The government has proposed a constitutional amendment that will cap public expenditures to their current level. It needs a two-thirds majority to pass the amendment in each house of Congress. Urgent action is needed according to Henrique Meirelles, Brazil's finance minister, who has argued that public spending has increased 6% annually in real terms between 1997 and 2015. The reform "would be the first structural change that affects public expenditure in Brazil since the 1988 constitution", he says.

Meanwhile, officials are also trying to convince Brazilians that their pension system, which is a heavy burden on the public finances, needs to be fixed as the population is ageing fast. A new privatisation and concession programme has been unveiled in September to attract private investors. A labour reform that would relax hiring and firing regulations is being drawn up, although the

“  
If concrete [adjustment] measures are not taken within three months there may be a backlash”

—Francis Repka, Société Générale



“We have taken concrete steps for inflation to converge towards the central target. The most important step [towards this] is the fiscal reform and the proposed cap on public expenditures”

—Ilan Goldfajn, central bank governor

government has said it will not be sent to Congress before the second half of next year.

#### FISCAL FIRST

Such intentions have boosted market confidence. Goldfajn says spreads on contracts for difference (CDS) have fallen by half over the last six months to mid-September to 250bp-260bp while long term interest rates have come down by 500bp. “These are significant changes in the mood towards Brazil,” says Goldfajn.

However, the central bank’s battle against inflation has proved to be tougher than expected. The benchmark inflation rate has fallen below the 10% mark but is still far above the official inflation target of 4.5%. As a result, the monetary policy committee has not found any room to cut its benchmark Selic rate, which has remained at 14.25% for more than a year.

“We have taken concrete steps for inflation to converge towards the central target. The most important step [towards this] is the fiscal reform and the proposed cap on public expenditures,” Goldfajn says. Loosening monetary policy depends on three factors. “The first one is a shock in food inflation in the very short term — we need to find out whether this is indeed a shock or a more persistent inertia or stickiness. The second is more linked to [the existence] of deeper inflation dynamics and underlying factors, and finally we would like to see the fiscal [accounts] on the right track. That will help us in terms of inflation.”

Markets have shown a great deal of sympathy towards the new administration but there is no room for complacency. “Confidence is here. We do see that the economy is at a turning point,” says Marcelo Carvalho, chief Latin America economist at BNP Paribas in São Paulo. On the political front, “the government seems to have enough support in Congress, so there is a good chance

it will get passed in Congress. The essence of the reform will remain in place [even the cap on public expenditures is reduced to 10 years]. It would be a sufficient period of time for debt to stabilise and then decline after a few years,” says Carvalho. Without such reform, he says, debt would rise steadily to 100% of GDP.

But others are not so sure. “We are at a key moment. Is Brazil going to take off again?” asks Francis Repka, head of the Brazilian subsidiary of Société Générale. There has been a lot of goodwill towards the new administration, he says. “But now it’s important to deliver. After two years of absolute stagnation, they need a concrete breakthrough in terms of reforms that will allow for an interest rate cut and pave the way for a kind of virtuous circle.”

However sympathetic investors may feel towards the new government, they will not feel complacent. “Without any adjustment measures there may be a shift in confidence and in the markets. If concrete measures are not taken within three months there may be a backlash. I’m afraid lawmakers don’t seem to be aware how urgent this has become,” he says.

#### ‘WAY OVER-ORTHODOX’

Monica de Bolle, a Brazilian research fellow at the Peterson Institute for International Economics, argues that policymakers should take bold steps to loosen monetary policy. “I think the central bank should lower interest rates regardless of what happens on the fiscal front because the way the Brazilian economy is now, the way the various actors in the Brazilian economy are now, I don’t think there is any risk that an interest rate reduction would spark further inflation,” she says.

“In my view, the central bank is being way over orthodox on this issue. Much more than they should be.” The former IMF economist argues that the Brazilian crisis is so deep, including a steep rise in unemployment (at a rate of over 11%) and in corporate debt as well as a fall in household income, it is already time to loosen monetary policy.

When he was chief economist at Itaú Unibanco, Brazil’s largest private sector bank, Goldfajn also used to forecast interest rate

cuts regardless of the Fed’s monetary policy action. But he has adopted a much more cautious approach since his appointment at the central bank. “We have to be sure that the interest path is done in a secure and sustainable way. In the past, we — the central bank — have had experiments where we wanted to bring interest rates down. And we indeed tried but we ended up having to reverse [the move],” says Goldfajn.

“What we all would like to see is a sustainable decline of interest rates,” he adds. “I believe that credibility comes with responsibility. If you don’t have responsibility you lose credibility. Credibility is here when people believe the central bank will act in a responsible way and this will be the case.” In other words, the decision need not be hasty.

But de Bolle’s criticisms go deeper. “We have a team of economists who are all good but I am not sure they are very good at this type of crisis. In times of crisis you have to be innovative, you have to think of solutions. You have to do things that you should not normally do. This is precisely what the Fed, what the ECB, what the Bank of Japan does.

“Sometimes you just have to put your orthodoxy on mute and do something that you might not have done when things are normal. Things are not normal in Brazil right now. They have to be a lot bolder than they have been and I just don’t see that boldness anywhere. What I see is a lot of cheering. Everybody is cheering everything on as if that in itself would bring things forward. But I just can’t see how that would happen,” she says.

In spite of these positive expectations, the situation looks bleak in many respects. “Households don’t have the ability to consume, the government is really constrained in its ability to spend, the corporate sector is highly indebted and can’t really do anything. So honestly, if you reduce interest rates you are really doing a favour to all of these sectors because you are reducing their debt service obligations,” de Bolle says. “There is a weird juncture where actually a fall in interest rates would be very beneficial for the fiscal side not just because of the government interest bill but because it would have a beneficial effect on the corporate sector.”

But Goldfajn’s central bank looks in no mood to rush things. On the political front, Temer says his mission is to “pacify” Brazil. As a former president of the lower house he is also known for his political and negotiating skills. These are now required to deal with a fragmented and unruly Congress and push forward his very orthodox agenda. Some government officials and bankers have already described the current team of economic policymakers — headed by Goldfajn and Meirelles — as “a dream team”. But the new central bank governor does not get carried away. “I am just part of the team,” he says with a smile. “A team that has both feet on the ground — no dreams.” **EM**

#### Getting a grip

	GDP (%)	Inflation (%)
2010	7.5	5.91
2011	7.5	6.50
2012	1.9	5.84
2013	3.0	5.91
2104	0.1	6.41
2015	-3.8	10.67
2016*	-3.3	7.3
2017*	1.3	4.4

\* From Quarterly Inflation Report, September 2016

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Andrej Babiš  
Elvira Nabiullina

Claver Gatete  
Patrick Njoroge

Julio Velarde  
Alfonso Prat-Gay

Marco Archer  
Brian Wynter



Finance Minister of the Year,  
East Asia Pacific

## CÉSAR PURISIMA, PHILIPPINES

### Presiding over the fastest growth in the area

By the time he stood down as the secretary of finance of the Republic of the Philippines on

the last day of June, César Purisima, an accountant by trade and training, had overseen six solid years of improved finances. When he entered office, the Philippines was widely considered the sick man of Asia, due largely to the deprivations and disastrous economic policies of the Marcos regime.

Manila may be, right now, a hotbed of civil foment of the sort that revolutionary political parties used to excel at and revel in thanks largely to its thrusting, headstrong, eclectic and often plain baffling president, Rodrigo Duterte. But the economy is doing just fine. The International Monetary Fund tips economic output to swell by 6% in 2016 and 6.2% in 2017, the fastest pace of growth of any nation in Southeast Asia bar Vietnam. It cannot be total happenstance that the lugubrious Purisima's tenure at the helm of the finance ministry coincided with a period during which the economy expanded at an annual average rate of 6.2%. Few find reason to argue when, in recent years, he began referring to his homeland as the region's "resilient bright spot".

Purisima often played a canny hand, his policies helping to maintain a healthy current account surplus (projected at 2.6% in 2016 by the IMF and 2.4% in 2017) while trimming the national

debt pile. The nation's debt to GDP ratio, according to data from the Bureau of the Treasury, fell to 45.05% in 2015 from 54.8% in 2009.

Few could accuse him of failing to play to both an international and a domestic audience. Rising government tax revenues helped to channel more money into social services while the broader economy benefited from a strong service sector, rising government spending, strong domestic consumption and a steady inward flow of remittances from the Filipino diaspora. Both Fitch and Standard & Poor's in April affirmed their investment grade credit rating on the country, with Fitch giving the country a positive outlook, suggesting that a new ratings upgrade from BBB- was possible in the next one to two years.

Purisima was also a staunch advocate of the need for a more joined-up country. During his time in charge of the nation's finances, the Philippines met its target of spending at least 5% of GDP on infrastructure projects. He extolled the benefits of public-private partnerships wherever he travelled, working to suck in much needed foreign investment capital. By the time he stepped down, the Philippines was assiduously working its way through a pipeline of 53 PPPs, including the construction or renovation of five new airports. The Duterte administration was quick to recognise the benefits of Purisima's plan — and to promise to raise, not lower, the number of local and national PPPs. —*Elliot Wilson*

Central Bank Governor of the Year,  
East Asia Pacific

## ZHOU XIAOCHUAN, CHINA

### A source of calm for investors

Like oxygen or gravity, you rarely notice the impact that Zhou Xiaochuan has on China — and the world. Hired to run the People's Bank of China in 2002, he has seen changes and overcome challenges that would have daunted and discouraged a less able man.

He has steered the mainland through waters smooth and rough, keeping inflation low and growth reasonably stable while staying off — always for a little longer — the crisis that has long threatened to engulf the world's second largest economy.

The past year hasn't been an easy one either for Zhou or his homeland. Growth rates continue to inch downward even while levels of national, corporate, bank and retail debts soar. Twice in the last 12 months, China's currency, the renminbi (Rmb), has slumped sharply in value, rattling markets and raising concerns that the economy faced a stark and sudden economic decline.

During the late 2000s, Zhou seemed, if not banished from having his voice heard in the public realm, then at least severely sidelined. Yet in recent years, under the aegis of current president Xi Jinping, Zhou has returned, his calm demeanour and range of expressions, which vary from deadpan to beatific to mischievous, a source of calm for fretful global investors.

Zhou it was who, on September 5, 2015 following the sharpest fall in onshore stock prices in nine years, said the worst of the correction was "already mostly over". Luck or extraordinary prescience? Either way, investors listened. After losing more than 40% of its value in the previous three months, the Shanghai Composite index paused for breath before regaining some



of its lost ground. (It should be noted that the central bank chief was also one of the many senior officials to lay the groundwork for the stock market bubble in the first place, by trumpeting the pain and consequence-free benefits of share ownership.)

Zhou it was who noted in March 2016 that corporate lending in China as a share of gross domestic product was a little "on the high side". International policymakers had long warned that corporate debt, currently 160% of GDP, had become a pressing issue having grown at a faster pace since the global financial crisis in China than in any other major economy. No other policymaker or politician in Beijing would have had the gumption — or the gravitas — to make such a direct and revelatory admission about the state of the nation's indebtedness.

Greater challenges almost certainly lie ahead. China's foreign reserves fell by a record \$513bn in 2015 as capital fled the country in the wake of an unexpected, unsignalled Rmb devaluation. As China slowly lifts domestic capital controls in the years ahead, more money is likely to head toward the exit. Never has Zhou's droll wit, pragmatism, placid demeanour and willingness to state that which his colleagues in Beijing dare not been more in need. China is lucky to have him. So are we all. —*Elliot Wilson*

## Best Government Infrastructure Strategy

### INDONESIA

#### Reasons to be cheerful

Much has happened regarding Indonesia's infrastructure since the election of president Joko Widodo two years ago. The roads remain pitted, the rail lines creak and queues still snake around airports but optimism and signs of change are everywhere. A long anticipated land acquisition bill will make it far easier for central and local officials to buy and allocate land for development, helping officials in Jakarta build much needed highways, ports and power plants. Infrastructure is a long road for Indonesia but at least it has made a start.

A tax amnesty law, passed June 28, is designed to claw back an estimated \$76bn in undeclared offshore funds: money the state will channel into infrastructure — and use to cut debt, narrow the fiscal deficit and boost social spending. Plans to build a high speed rail network are already in train: a consortium led by China Railway Corporation and funded by lending from China Development Bank is set to

build a \$5bn line running between Jakarta and the country's third largest city, Bandung.

Finance minister Sri Mulyani Indrawati has also spoken of the need to find new funding methods to finance Indonesia's "huge" infrastructure needs. One obvious way to tap new sources of funding is to push through measures to build out the relatively diminutive Islamic finance sector. —*Elliot Wilson*

## Best Sovereign DMO

### PHILIPPINES

#### A notably impressive deal

When the government of the Philippines announces a non-deal roadshow (as it did in April in London), investors come to listen. When the sovereign issues debt, they buy. The country has built up a formidable reputation among the global investment community in recent years. Rarely are its sovereign prints poorly timed or under- (or over-) sized. Often, they surprise positively.

A case in point was a giant 25 year print completed in February by the Republic of the Philippines, which raised \$2bn with a yield of 3.7%. Not only was that the year's first US dollar dominated Asian sovereign bond, it also earned the lowest dollar coupon on record from the Pacific nation.

The senior unsecured SEC registered bonds had started out at 4% before achieving tighter pricing against the curve, thanks largely to the nation's comparatively strong economic fundamentals. They also came with an accelerated switch tender offer, allowing holders of existing Philippines offshore sovereign notes to cash out or swap them into the new notes.

Former finance minister Cesar Purisima said the sale let the country extend the maturity of its debt portfolio and recycle savings into social security and boost growth. A total of \$1.5bn was accepted through the switch offer with the remainder comprising new money. Total orders topped \$13.5bn. The print was notably impressive, bankers said, given uncertainty regarding presidential elections slated to take place three months after the sale. —*Elliot Wilson*

Finance Minister of the Year, South Asia

## MOHAMMAD ISHAQ DAR, PAKISTAN

### Unalloyed success

Genial — but occasionally piercingly sharp tongued — Ishaq Dar's more than three years at the helm of Pakistan's finance ministry can be considered an unalloyed success. Not because the South Asian economy's finances are in a perfect state — or likely ever will be. Or because it is suddenly clear to the wider world that this highly populated nation is an ideal place for corporates and institutional investors to put their money to work.

Dar's greatest success in a way has been to keep Pakistan off the front pages. During his tenure there has been no full-blown economic or financial crisis or any desperate entreaties to the International Monetary Fund for a bailout. The IMF tips the economy to grow by 4.5% in 2016 and 4.7% in 2017 after expanding by 4.2% in 2015, itself the highest rate of growth since the global financial crisis.

What has gone right? A concerted push to boost tax revenues has certainly helped: data from the Federal Board of Revenue show that the nation's tax take increased 16.9% year-on-year in the last full fiscal year to end-March 2016.

Inflation is set to come in at 3.3% in the full year 2016, the IMF says, with the current account deficit steady at a shade over 1%.

Another healthy metric is the state of the country's foreign exchange reserves, which bottomed out at around \$7bn in mid-2014. They have been on the rise ever since helped by financial aid from the IMF. Pak-

istan's total stock of liquid foreign exchange reserves hit \$23.04bn on August 26, according to data from the State Bank of Pakistan, an all-time high. Through it all, Dar has kept a steady hand on the tiller like the politician he is. His standing in Islamabad was underscored in May 2016 when Nawaz Sharif flew to London to undergo open heart surgery. Dar was chosen to stand in for the premier during his absence. His reputation was further enhanced in June when Pakistan was readmitted to MSCI's Emerging Markets Index having been dropped from it in 2008.

Of course, in Pakistan bad times always seem to be just around the corner. The resource-scarce economy has benefited — as has its giant neighbour and rival India — from low global oil prices. Terror-related attacks remain an ever-present threat, while growth rates, despite inching up in recent years, should, for an emerging market with ample non-energy resources, be far higher. But there is a feeling that Pakistan is now on the right path. Its finances are in better — if not yet great — shape, inflation and the current account deficit are under control, China's vast One Belt One Road project should bring riches from both east and west and the nation now has sufficient financial reserves to survive crises.—*Elliot Wilson*



Best Government Infrastructure Strategy

## PAKISTAN

### Game changing

Pakistan in many ways can thank its lucky stars to be part of the latest iteration of the Great Game. In recent years China, keen to find ways to gain access to the Indian Ocean, has begun paying for the installation of highways, rail lines and power lines linking its northwestern province of Xinjiang with the Pakistani port of Gwadar.

If completed, the China-Pakistan Economic Corridor, set to cost an estimated \$46bn, will offer China a quicker and cheaper way of importing Middle Eastern oil: it currently imports the bulk of its energy through the pirate-infested Strait of Malacca. Pakistan's premier has described the CPEC corridor as a "game changer" — and he's right.

Chinese government funded infrastructure is beginning to spring up around the country. Chinese investors have announced plans to build new power plants worth \$8.5bn, adding 5,620MW of installed capacity to the domestic grid. An integral part of the CPEC jigsaw will see Pakistan construct a 700km pipeline to import liquefied natural gas from China, thus helping to overcome years of energy shortages.

Another major transport upgrade in the years ahead will see the installation of a high-speed rail line linking Karachi and Lahore built by China Railway Corporation. An extension will then link Lahore with a dry port in Peshawar. A six lane, 1,240km highway linking Karachi with Lahore is on track to be completed in 2017 while Pakistan is also planning to build new, or upgrade existing, light rail lines in the country's six largest cities.—*Elliot Wilson*

Best Sovereign DMO

## SRI LANKA

### Good timing

Timing is everything. In July, the Democratic Socialist Republic of Sri Lanka raised \$1.5bn — on total orders of \$5.5bn — via dual-tranche 5.5 year and 10 year bonds, at 5.75% and 6.825% respectively. That chunky print boosted the confidence of international investors in the South Asian sovereign, having been completed just 10 days after the appointment of veteran policymaker Indrajith Coomaraswamy as Sri Lanka's new central bank governor.

Bankers saw it as a canny piece of work by a government desperate to tackle its fiscal problems. It had recently received some heartening news by securing a three year \$1.5bn loan from the International Monetary Fund. The bond sale in turn was launched into a market that had just stabilised after a volatile few weeks in the wake of Britain's vote to leave the European Union. It also came at a time when the US Federal Reserve, following the issue of weak jobs data, was mulling whether or not to delay plans to hike interest rates for the second time this year.

In the last week of August, the government returned to the international loan markets after an absence of eight years. It launched a \$500m syndicated facility — later increased to \$700m due to strong demand — attracting a mix of lenders from the Middle East and South Asia, with banks from India and Pakistan taking \$180m of the total.—*Elliot Wilson*

Central Bank Governor of the Year, South Asia

## RAGHURAM RAJAN, INDIA

### A complex legacy

Raghuram Rajan stepped down as governor of the Reserve Bank of India on September 5. A fiercely bright academic who served as chief economist of the International Monetary Fund between 2003 and 2007, Rajan is returning to his longtime job as a professor at the University of Chicago's business school. India promoted from within, tapping RBI deputy governor Urjit Patel as his replacement.

Rajan leaves behind a complex legacy. He achieved much in three years — more than most central bank chiefs accomplish in far longer tenures. On his watch, inflation was cut to around 5%-6%, the upper end of the government's long term target range but a number that until recently seemed out of reach for the South Asian economy. (Patel the successor, for his part, is also seen as an inflation hawk.) Rajan's time at the central bank also coincided with a golden period for India's resource-poor economy, which has benefited from a now-years-long slump in global oil prices. The IMF tips domestic economic output to expand by 7.5% this year and next, making India the world's fastest growing major economy.

The outgoing RBI chief also became something of a spokesman for the emerging world, castigating developed nations for obsessively maintaining ultra-low, growth-sapping interest rates. Often the most persuasive voice in the room, he raised that issue again days before leaving office at a time when central banks, some now shorn of the option of quantitative easing, are casting around for new ways to foment new sources of economic growth.

He wasn't to everyone's taste. Some came to believe that

he left his post early in part because he fell out with the prime minister, Narendra Modi.

Firm and blunt and imposingly tall, Rajan was certainly a prominent figure both at home and abroad, perhaps as visible and respected among the wider Indian public as the prickly and enigmatic premier. Rajan's governing Bharatiya Janata party often grumbled that he choked off business by keeping interest rates high; one BJP lawmaker infamously accused him of being "mentally not fully Indian" because he held a US green card.

Others had high hopes that Rajan would achieve what no one else had: find a way to clean up the country's army of rotten, loss-making, debt-laden state banks. In the end, lawmakers in Delhi, needing to preserve their political capital, found themselves faced with a choice. Either clean up the banking sector through the injection of state capital or focus their attentions on introducing a federal goods and services tax, which would boost coffers and generate capital for much-needed infrastructure projects. The government, a little reluctantly, chose the latter option. To the now-departed Rajan, it was a box left unticked.—*Elliot Wilson*





Finance Minister of the Year, Middle East & North Africa

## MOHAMED BOUSSAID, MOROCCO

### A remarkable turnaround

The past five years have seen a remarkable turnaround in Morocco's economic fortunes. In 2012 the North African kingdom was struggling with large twin deficits and rising public debt against a backdrop of a slowdown in Europe and regional instability.

Today, while the external environment remains challenging, Morocco's position has improved greatly. From 9.5% in 2012, the current account deficit fell to below 2% last year, allowing for the first reduction in net external debt since the global financial crisis. Over the same period the budget deficit declined from 7% of GDP to just 4.3% last year. A further reduction to 3.7% is expected this year.

Key to this improvement has been an ambitious programme of subsidy reform. Since January 2014 subsidies on all fuel products — except for cooking gas — have been gradually phased out, cutting the burden on public finances by around three-quarters. Unusually, this has been achieved with minimal domestic tension, thanks to effective communication by policymakers and the allocation of half of the budget savings to welfare spending.

As finance and economy minister since October 2013, Mohammed Boussaid can take much of the credit for the successful implementation of the subsidy cuts as well as for other key reforms including the introduction in November 2014 of a widely praised organic budget law. He has also been a driving force behind a long awaited overhaul of Morocco's public sector pension system,

which started to take shape in July with the passing of a bill increasing worker contributions and raising the age of retirement for civil servants.

Further reforms have been promised under the latest International Monetary Fund programme, including a move to a flexible exchange rate and the lifting of capital controls. It is a sign of how far Morocco has come that the support requested from the Fund this time is significantly lower than on previous occasions. In 2012 the IMF granted the country a \$6.2bn credit line. This year the figure was just \$3.5bn.

Morocco still has further to go to realise its full economic potential. Human capital development remains low and youth unemployment high. A sharp slowdown in GDP growth this year due to drought conditions points to a continuing dependence on volatile agricultural revenues, while export industries and tourism are exposed to weak demand from the European Union.

Nevertheless, recent efforts to diversify the economy have scored signal successes, particularly in the manufacturing sector. Morocco is rapidly becoming a hub for the auto and aviation industries thanks to improvements to infrastructure and the business environment. Meanwhile, the country's financial sector is building on healthy fundamentals to expand across both MENA and sub-Saharan Africa, pitching itself as a gateway to Africa and creating a financial centre in Casablanca.

In a region plagued by low growth, bad governance and political instability, Morocco's outperformance testifies to the competence and commitment to reform of leading policymakers such as Boussaid. —*Lucy Fitzgeorge Parker*



Central Bank Governor of the Year, Middle East & North Africa

## SHEIKH ABDULLA BIN SAOUD AL-THANI, QATAR

### Reform and diversification

The global financial crisis of 2007-09 left Qatar relatively unscathed — and was followed by high prices for its crucial hydrocarbon exports — but it served as a warning of the dangers of volatility. The warning did not go unheeded.

Sheikh Abdulla Bin Saoud Al-Thani, who was appointed governor of the Qatar Central Bank (QCB) in May 2006, has led a programme of monetary and financial sector reforms that have stood the country in good stead for the big falls in oil and gas prices over recent years and are supporting its efforts to diversify its economy and private sector.

The central pillar of Qatar's monetary and financial policy has for more than 30 years been a peg to the US dollar, anchored at Qr3.64. But the experience of volatile capital flows and a period of high inflation during the global financial crisis led to plans for more tools to manage banking sector liquidity.

A T-bills auction programme was introduced in May 2011. T-bonds followed in March 2013 with a yield curve developing from three and five years at the start to 10 years by September 2015. These initiatives provided banks with instruments to manage their own liquidity, set benchmarks for private sector debt issuance — thus helping to develop local capital markets — and gave the QCB tools to manage domestic liquidity while ensuring that the private sector had access to funding.

After a spike in inflation to more than 15% following the financial crisis, levels have remained comfortably below 5% since the start of the decade. The low oil price has shown the importance of having tools to manage liquidity, with the government sector providing fewer bank deposits amid a fiscal squeeze. The work done by the QCB is paying dividends now in terms of stability.

The post-financial crisis period has seen global regulators introduce a raft of measures to increase the stability of the banking sector and to lessen the potential impact of banking crises when they do happen. With a large banking sector — total assets were 185% of GDP at the end of 2015, according to Moody's — Qatar has been an enthusiastic participant.

Financial sector regulation was given a shake-up in 2012, bringing the Qatar Financial Markets Authority under the aegis of the QCB as the competent supreme authority, with Al-Thani appointed chairman of the QFMA and a new Strategic Plan for Financial Sector Regulation put in place for 2013-16.

The implementation of Basel III followed as did a focus on macro-prudential regulation and stress testing. Banks face capital adequacy requirements of 12.5% — although actual numbers were above 15% in 2015 — while liquidity coverage ratios, set at 60% on introduction in 2014, are being raised by 10 percentage points a year as is the net stable funding ratio.

With the end of the 2013-16 Strategic Plan in sight, Al-Thani's key priorities now include further enhancements to macro-prudential regulation and the development of financial sector architecture and markets such as setting up a domestic credit. —*Lucy Fitzgeorge Parker*

Best Government Infrastructure Strategy

## KUWAIT

### Major initiatives

Kuwait's commitment to maintaining capital expenditure despite falling oil revenues has drawn widespread plaudits from analysts and investors.

A second five year infrastructure programme inaugurated last year will see more than Kd34bn (\$113bn) spent on more than 500 projects in sectors including energy, transport, utilities and housing.

Crucially, for the first time a significant proportion of the funding is due to come from non-governmental sources following amendments to PPP legislation in 2014. If successful, this should not only ease the strain on public finances but also encourage the further development of Kuwait's burgeoning private sector.

In total, Kd10bn of projects have been earmarked for PPP financing including a 511km national rail network to link Kuwait with other GCC countries. Policymakers have estimated that the PPP programme — which also comprises projects in the power, water, wastewater and housing sectors — could add as much as two percentage points to Kuwait's GDP growth.

Other major initiatives included in the Kuwait Development Plan (KDP) 2015-20 include an extensive metro rail network, the construction of Mubarak Al Kabeer Port on Boubyan Island, the development of a new urban centre — Madinat al-Hareer — at Subiya and the long awaited expansion of Kuwait International Airport. Several of these projects have been held over from the first five year development plan launched in 2009. However, policymakers are confident that the involvement of private sector players will mean faster progress can be made this time around. —*Lucy Fitzgeorge Parker*

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## UNITED ARAB EMIRATES

### Widespread praise

The big story of the year in Middle Eastern bond markets was the much anticipated return of sovereign supply from GCC states looking to plug budget holes caused by falling oil revenues. In volume terms, the standout transaction was Qatar's \$9bn triple-tranche trade in late May. However, it was Abu Dhabi's \$5bn bond a month earlier that attracted the most widespread praise from market participants for re-opening the market for bumper bond issues from the region in impressive style.

The deal, which comprised equal sized five and 10 year tranches, was the first from the emirate since April 2009.

Debt management officials helped to boost demand for the bond by coming to market ahead of competing supply but in the wake of several weeks of strong inflows into emerging markets funds. They were rewarded with total orders of more than \$17bn, which allowed both tranches to be priced at a minimal premium to Abu Dhabi's outstanding debt and that of comparable regional sovereigns. The deal's warm reception helped to smooth the path to issuance for both Qatar and Oman, which made a well received \$2.5bn bond market debut in early June. It also successfully reset the yield curve for borrowers from the United Arab Emirates sparking a wave of issuance from local banks and corporates eager to take advantage of surging demand for paper from the jurisdiction. —*Lucy Fitzgeorge Parker*

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Finance Minister of the Year,  
Central & Eastern Europe

ANDREJ BABIŠ,  
CZECH REPUBLIC

Voice of reason

political damage: he remains one of the country's most popular legislators.

This can to a large extent be explained by his management of the nation's money since taking the helm at the finance ministry in January 2014. Unlike several countries around the region — Poland and Romania come to mind — the Czech Republic boasts a current account surplus. The sovereign is rated A1 by Moody's and AA- by Standard & Poor's. Growth is expected to dip slightly this year, to 2.5% from 4.2%, yet the jobless rate is hovering around the 5% level, on a par with Norway and the United Kingdom.

Economists point to the finance ministry's straightforward approach to dealing with investors. "They are very straightforward and very clear in how they go about communicating with investors and analysts. Good communication is not always something you find in the region," says a leading CEE-area economist. "They have flirted at times with an unconventional financial policy but they always tell you why they are doing it."

Babiš has found other ways to stand out too. His was a voice of reason in the days after Britain's decision in June 2016 to leave the European Union, urging Brussels not to push the UK peremptorily out the door. And investors love the country. The Czech Republic has become the region's biggest draw for capital in recent years, overtaking — again — Hungary and Poland, a fact that is in no small part due to the popular, pragmatic billionaire at the helm of the finance ministry.—*Elliott Wilson*

Central Bank Governor of the Year,  
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ELVIRA NABIULLINA,  
RUSSIA

Holding the line

Without the quiet and steely presence of Elvira Nabiullina at the head of its central bank, Russia could and probably would have been in a far worse condition. When the Tatar-born economist was installed at the head of the Central Bank of Russia in June 2013, many asked the obvious question. Was she there to think for herself and deal with challenges on their merits — or to follow the bidding of president Vladimir Putin?

The answer came in the dark, dying weeks of 2014. Russia, struggling to cope with plummeting oil prices, pinioned by Western sanctions and shut out of the international capital markets, was in crisis, the rouble in freefall. Nabiullina acted calmly, rationally and brutally, sticking to longstanding plans to end the rouble's peg against the US dollar. She raised interest rates sharply to combat soaring inflation.

Russia's economy fell into a deep recession, contracting 3.7% in 2015, its worst annualised performance since the global financial crisis. Retail sales slumped while global investors fled. Inflation rose anyway, hitting 15.5% in 2015.

But Russia — as it so often does — recovered, rocking a little before finding its feet. Nabiullina's tough medicine was swallowed by corporates and lenders — and by a public inured to long, cold winters. Growth is now tipped by the International Monetary Fund to enter positive territory in 2017, with the economy set to expand by 0.8% and inflation set to fall to 6.5%. Nabiullina has publicly stated her intent to cut inflation to 4%.

If 2014 and 2015 was an all-round horror



show, the investment climate this year, for Russia at least, has been surprisingly benevolent. A sharp rebound in the demand for emerging markets assets, partly driven by the US Federal Reserve's dovish stance on interest rate hikes, has helped to push the Micex exchange to an all-time high. As of September 4, according to data from EPFR, global investors had added \$1.3bn year-to-date to funds that invest in Russian stocks and bonds.

Unemployment has remained low throughout the protracted crisis while the resource-rich nation, despite struggling with low oil prices, has continued to run a healthy current account surplus. The rouble, through the first eight months of 2016, had gained 13% against the US dollar, ranking it third among all emerging currencies.

Russia's return to the international bond markets this year, for the first time since Putin's annexation of the Crimean peninsula, was a painful experience. But the central bank chief's decision to cut interest rates in June for the first time in nearly a year, by 50bp to 10.5%, was cannily timed. Elvira Nabiullina's ability to prevent the Russian economy from falling off a cliff — and then clawing it back from the edge — is mightily impressive. Her biggest challenge, injecting growth and credit into the still-ailing economy, is yet to come.—*Elliott Wilson*

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But question marks now hang over both those countries' futures. Each has in recent years enforced regulatory changes that investors have questioned; both now, by popular choice, have voted in right-of-centre governments that struggle to see eye-to-eye with Brussels.

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In a region often distrustful of the nexus of politics and power, Babiš shouldn't really exist. The billionaire made his fortune building a privately run agriculture-to-chemicals powerhouse, Agrofert, with operations across the Czech Republic, Slovakia and Germany. Yet his wealth has done him little

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## KAZAKHSTAN

### Ring round Almaty

Kazakhstan has been promising to improve its creaky old internal infrastructure for years. It took a series of events outside its control to push politicians in Almaty and the capital Astana to take their own pledge seriously.

The first event was the rapid fall-off in global oil prices, which came as a shock to the resource-rich central Asian nation. A reformist legislator, Karim Massimov, brought back to serve a second term as prime minister, was vested with the task of selling underperforming state assets, accelerating its long dormant public-private partnership programme and directing tax revenues into infrastructure projects to boost growth.

The second event involved — as it so often does these days — the rise of China. China's plans under president Xi Jinping to rebuild the overland Silk Road route connecting the People's Republic with Europe, via Russia and central Asia, was a major boon to Kazakh officials.

In May Jin Liqun, chairman of China's new globally oriented multilateral, the Asian Infrastructure Investment Bank, told *GlobalCapital* (*GlobalMarkets'* sister publication) that it planned to help fund a new, 66km long ring road encircling Almaty. Expected to cost \$680m, it will also be funded by the World Bank and the European Bank for Reconstruction and Development. A host of other PPP projects are also in the pipeline, including a light rail project in Almaty and a maintenance contract for the planned China-Russia highway set to link Moscow with Beijing.—*Elliott Wilson*

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## BULGARIA

### First and foremost

Bulgaria's decision to print a chunky sovereign bond in March without recourse to a pre-deal roadshow pointed to the country's increasing financial sophistication and all-round sense of national confidence.

It also highlighted the rising regional and global investor

demand for financial assets issued by a central and eastern European country with solid finances — a 3% annualised growth rate in 2015, low unemployment, low inflation, a 2% current account deficit — and a rare and happy knack of communicating well with investors and keeping them updated in between deals.

The big sovereign sale of the year was the first intraday euro-denominated trade ever completed by the country. Bulgaria priced the dual tranche sale in March, shrewdly timing it to settle into place in the wake of the European Central Bank's decision to increase the scope and scale of its stimulus package.

The sale comprised a €1.144bn (\$1.275bn) seven year with a yield of 1.875% and an €850m 12 year print with a yield of 3%. The deal was led by BNP Paribas, Citi, JP Morgan Chase and UniCredit. It was a print that also wrapped up the sovereign's funding needs for the year with more than eight months to go. Bulgaria had shown the same ability to grab the moment 12 months previously when it wrapped up, in a tightening credit market, the largest ever euro deal by an emerging world borrower, raising €3.1bn.—*Elliott Wilson*



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## CÔTE D'IVOIRE

Success story

Over the past five years, Cote d'Ivoire has emerged as one of sub-Saharan Africa's most notable success stories. Since the installation of Alassane Ouattara as president in 2011 the country has bounced back from civil war and recession to post some of the continent's best growth rates. Policymakers' commitment to infrastructure development has been a key component of this recovery. Already a series of major road developments has slashed transit times both within and between the largest cities while an upgrade to the national grid has prevented power outages. The government's latest five year strategy, initiated in January, is even more ambitious. The 2016-2020 Plan National de Développement (PND) covers projects valued at nearly \$50bn across sectors including transportation, energy, water and telecoms. Flagship initiatives include new container terminals at Cote d'Ivoire's main ports, Abidjan and San Pedro, as well as a 1,000km railway link to the Malian capital, Bamako. Part of the funding for these developments will come from multilateral banks, which have rushed to support Cote d'Ivoire's recovery — however, policymakers are also targeting significant input from the private sector. The PND includes plans for 94 public-private partnerships, which are expected to attract considerable interest from foreign investors keen to gain exposure to an economy where growth rates are forecast to top 7% until at least the end of the decade. —Lucy Fitzgeorge Parker

Best Sovereign DMO

## SOUTH AFRICA

Plaudits from bankers and investors

When South Africa returned to the Eurobond market in early April after an 18 month absence, debt management officials faced a challenging environment. Broader investor appetite for emerging market assets remained muted while confidence in South Africa had been dented by a series of negative ratings actions and two rapid changes of finance minister. Against this backdrop the ability of the National Treasury to raise \$1.25bn of 10 year funding looks all the more impressive. Inevitably, investors demanded a generous new issue concession but the final pricing of 335bp over US Treasuries was still well inside initial levels. The success of the deal — the first from the sovereign since its landmark sukuk debut in September 2014 and the first global benchmark since July of that year — spoke to the professionalism and efficiency of funding officials. The DMO has consistently earned plaudits from bankers and investors alike for its dedication to investor work and commitment to maintaining communication with market participants, even in times of stress. The breadth and depth of South Africa's domestic bond market also testifies to the competence of the National Treasury's funding department. The government securities market is not only well diversified and tailored to the needs of investors, both domestic and international, but also provides a strong backdrop for a vibrant and sophisticated corporate bond market. —Lucy Fitzgeorge Parker

Finance Minister of the Year, Sub-Saharan Africa  
CLAVER GATETE, RWANDA

Buoyant growth forecasts

Rwanda's economy has faced strong headwinds over the past 18 months. The mining industry, a key contributor of hard currency revenues, suffered twin shocks last year in the form of falling commodity prices and declining production. This in turn sparked a slump in foreign exchange reserves as well as a spike in the current account deficit to 16.5%.

For a small country with limited export opportunities this could have proved a severe setback. The impact on the wider economy, however, has been largely mitigated by prompt action by policymakers. In June, Rwanda secured a \$204m standby credit facility from the International Monetary Fund in return for commitments to tighten fiscal and monetary policy. These include a phased reduction in the budget deficit to 3.3% of GDP for the fiscal year ending in June 2018, primarily via cuts to capital expenditure, as well as an array of initiatives to boost domestic revenues.

Rwanda's minister of finance and economic planning has been a key mover in this process. An economist by training, Claver Gatete began his political career in the office of president Paul Kagame in 2001. After an initial stint at the finance ministry, he served terms as Rwanda's ambassador to the UK, Ireland and Iceland before joining the central bank in 2009 as deputy governor. He was promoted to governor two years later and then tapped to head up the finance and economic planning ministry in February 2013.

In this role, Gatete has demonstrated an impressive commitment to prudent and proactive fiscal management as well as a talent for crafting agreements with international

institutions. In addition to the IMF deal, notable achievements this year have included securing \$162m of funding from the African Development Bank and the Japan International Cooperation Agency for two major highway upgrades as well as smaller loans for water and sanitation projects. Gatete also announced plans in May to develop a rail link to Tanzania and the Indian Ocean, seen as a crucial step in addressing Rwanda's weak export base.

Confidence in his ability to deliver on these commitments is reflected in buoyant growth forecasts for Rwanda. After a small dip to 6.3% this year, the IMF predicts GDP expansion to increase next year and remain on an upward trajectory for the rest of the decade, reaching 7.5% by 2020. That will make Rwanda one of the fastest growing economies in both sub-Saharan Africa and the broader emerging markets universe.

Moody's notes that the positive outlook for Rwanda is anchored by a high competitiveness rating and an open business environment. "Rwanda is among the strongest performers with respect to institutional strength in sub-Saharan Africa as measured by worldwide governance indicators, with a positive track record of policy implementation and reforms," analysts said in a recent ratings report. —Lucy Fitzgeorge Parker



Central Bank Governor of the Year, Sub-Saharan Africa

PATRICK NJOROGE, KENYA

A strong start

In his first year in post, Kenya's dynamic new central bank governor has won plaudits from across the market for curbing inflation, launching an overdue clean-up of the banking sector and pursuing a new policy of openness and transparency.

When Patrick Njoroge took office in June 2015, inflation was rising and the Kenyan shilling was under pressure. He promptly announced a surprise 150bp interest rate increase, which helped to stabilise markets. Calls for further hikes in the autumn were resisted, however, despite continuing inflationary pressures — a policy that was justified when inflation dropped off rapidly after a peak in December. By May, the headline rate had fallen by three percentage points to 5% allowing the Central Bank of Kenya (CBK) to cut interest rates again to boost growth.

Njoroge also made his mark as a regulator early on by taking firm action on two failing banks. In August 2015, the CBK shut down failed lender Dubai Kenya Bank while two months later larger rival Imperial Bank was taken under state management over concerns around malpractice and lending irregularities. A third lender, Chase Bank, was put into receivership in April following a scandal over loan misreporting and a deposit run.

The moves have proved controversial among bank shareholders and customers in Kenya but have been hailed by analysts as a welcome step towards cleaning up the country's freewheeling financial sector. Njoroge has also earned praise for his vocal support for innovation and consolidation within the industry, which is widely seen as overbanked. Kenya currently has 42 banks, a

number that Njoroge has indicated could be cut by as much as two thirds.

The new governor is well equipped to diagnose financial and economic distress having spent most of his career as a trouble-shooter for the International Monetary Fund. From an academic family, Njoroge served in Kenya's finance ministry for two years in the early 1990s before joining the Fund, where he rose from a rank-and-file economist to become senior adviser to deputy managing director Mitsuhiro Furusawa.

While he has been criticised by some for having limited ties to Kenya, others see Njoroge's lack of political affiliation as a strength. His modest lifestyle and rejection of the trappings of office — he famously opted to share a house with fellow members of the Opus Dei group rather than move into the governor's residence and gives a large part of his salary to charity — have also impressed locals as has his focus on improving communication and transparency.

Njoroge has not won all his battles so far — notably, the CBK was unable to prevent Kenyan president Uhuru Kenyatta from introducing a stringent cap on loan and deposit rates in August. Nevertheless, he has made a strong start to his term as governor and set a welcome precedent of decisive action on both monetary policy and regulation. —Lucy Fitzgeorge Parker





## Central Bank Governor of the Year, Latin America ALFONSO PRAT-GAY, ARGENTINA

### Assertive and decisive in bringing Argentina back from the brink

A common thread running through economists' observations of how president Mauricio Macri's economic team has done is that they've made the return of Argentina to the forefront of the financial world look easier than it is.

"Argentina was in need of some serious economic leadership when Mauricio Macri won the elections," says Jan Dehn, head of research at EM investment house Ashmore. "Some of the achievements may appear obvious now, but one should never assume that governments are going to do the obvious thing."

After inheriting a ticking time bomb, in which the central bank was printing money to finance the fiscal deficit as international reserves ran low, Prat-Gay acted decisively. Dehn says the new minister "carried out more reforms in six months than the previous government did in 16 years".

Prat-Gay, a former JP Morgan banker who was central bank governor in the early 2000s, realised that access to financing was urgent, and so dispatched finance secretary Luis Caputo to New York to negotiate with holdouts.

"As the process of resolving the holdout dispute and returning to bond markets ended up being very smooth, it perhaps looked easier than it was," says

Alvaro Vivanco, head of Latin America fixed income and macro strategy at BBVA in New York.

"It was a very hard job and they did very well to complete it without hiccups."

The currency was allowed to float after being kept artificially strong for years by the previous government. Prat-Gay also immediately suspended the publication of inflation data, which the previous government had been manipulating, until credible data could be published.

"Argentina is beginning to live up to international standards for data indices, meaning you can trust the macroeconomic numbers," says Dehn at Ashmore.

Undoubtedly, litmus tests remain. Second quarter GDP numbers were disappointing, and inflation hit a remarkable level in May as prices increased 4.2% in just one month from April to May. Prat-Gay has opted for a gradualist approach to fixing the fiscal deficit, and much of the hard work is therefore still to come.

But inflation statistics have become more encouraging in the second half of the year, GDP growth is broadly expected to pick up sharply in 2017, and investors continue to believe that Argentina's gradualist approach to fiscal adjustment will pay dividends.

"The government still has a still a lot to prove, but they have done very well managing expectations," says Vivanco. "You can see in the way Argentina's bonds have performed that investors continue to have conviction in the story."—*Olly West*



## Finance Minister of the Year, Latin America JULIO VELARDE, PERU

### The personification of stability with a stand-out inflation record

One economic analyst jokes that, in a country with Peru's history of political instability, Julio Velarde deserves an award just for surviving three different presidents.

Alan García, Ollanta Humala and now Pedro Pablo Kuczynski, who was elected president earlier

this year, have all put their faith in Velarde to steer Peru's monetary ship.

"Politically, Peru has a history of instability, but on the monetary side there is a very high level of confidence," says Alvaro Vivanco, head of Latin America fixed income and macro strategy at BBVA. "Investors know that Peru's central bank will not give them any surprises; they're excellent at following the rule book and doing their homework."

"Velarde exemplifies the concept of central bank stability." As one rating agency official points out, "in the world of central banking, not being controversial is a good thing".

And there is "no danger of a surprise while Velarde is at the helm", believes Franco Uccelli, who covers Peru for JP Morgan's emerging market research team.

In the past year, emerging markets FX volatility has seen inflation shoot way above target even in countries with very well respected monetary authorities such as Colombia, where it hit a 15 year high of 8.2% in May compared to a target rate of 3% plus or minus a point.

Although inflation in Peru has spent most of the past 12 months above the target of 2% plus or minus a point, peaking at 4.6% in January, analysts credit BCRP with doing a very good job of controlling it. Inflation has fallen steadily since January and crept back within the target range in August as it fell to 2.94%.

Uccelli said he believes year-end inflation will be "comfortably within" the target range.

"Peru's inflation record has been remarkably stable recently and that makes it stand out from much of Latin America," he says.

The JPM economist adds that Peru's target is "strict, especially for an EM economy".

"The fact Peru has such a low target tells you a lot about the country's unwavering commitment to keep price pressures contained," he says.

Moreover, faith in monetary policy means Peru has not had to raise rates since a 25bp hike to 4.25% in February. This is helping Peru become one of the fastest growing economies in Latin America this year, with JP Morgan predicting growth of 4% in 2016 and 4.5% in 2017.

All this happens amid the "constraints of high levels of dollarization", which one rating agency official says makes BCRP's task even tougher.

But efforts to de-dollarize the economy are paying off, says Uccelli, marking this down as a plus point for Velarde's credentials.

Having reached 47% earlier in 2016, the dollarization of private sector deposits in Peru had dropped to 43% by July. Although the percentage climbed to 43.8% in August, Uccelli said in a research note that this was a "minor setback".—*Olly West*

## Best Government Infrastructure Strategy

### COLOMBIA

#### In the fast lane

Colombia has finally got serious with building roads, and the 4G infrastructure programme has focused interest from investors and allowed for better co-ordination of financing.

The National Infrastructure Agency's (ANI) 4G programme took significant, innovative strides in terms of financing in 2016, as it gets creative in raising the roughly \$17bn needed.

With so much required, FDN (Financiera de Desarrollo Nacional), the infrastructure development bank in charge of sourcing this financing, has a huge task.

Recognising this, Colombia's president Juan Manuel Santos and finance minister Mauricio Cárdenas stuck to their guns with a politically unpopular decision to finally privatise power company Isagen in January. Proceeds of the sale were partly used to inject FDN with \$900m of capital and allow it to double its ticket size on loans for each project from \$70m to \$140m.

FDN also facilitates funding from other sources. To attract more money from institutional investors, it has helped set up specialist debt funds to lend to projects, typically partnering local and international players.

Multilateral CAF and EM investment giant Ashmore have teamed up for one fund, while regional investment bank Credicorp Capital and insurance company Sura announced a second fund earlier in the year.

Finally, there is structural innovation in the form of the first two project bonds for roads in Colombia. Both Pacifico Tres and Concesión Costera sold local bond market peso bonds and cross-border dollar bonds this year. —*Olly West*

## Best Sovereign DMO

### ARGENTINA

#### Most impressive EM deal of all time

A \$69bn order book, the largest EM bond issue in history, a 10 year note that has traded up more than 10 points since re-offer. The numbers speak for themselves, but Argentina's stunning return to capital markets in April to raise \$16.5bn was about more than breaking records.

"What made the Argentina transaction really interesting was its unique nature," says Matt Dukes, director in LatAm DCM at Deutsche Bank. "It was not just a capital-raising exercise for Argentina but a way for the country to settle its dispute with the holdouts."

"Gaining the ability to bring in foreign capital will have a direct impact on the growth of the economy and therefore Argentine citizens' lives."

Although Mauricio Macri had pledged to negotiate with the holdouts, few expected the finance team to achieve such a swift solution. Just four months after Macri took office, Argentina was back in the market.

The financing team led by former trader Luis Caputo, ably assisted by former DCM banker Santiago Bausili, has complementary skills, say bankers. Caputo is known for his great market sense and Bausili is an expert deal structurer. But even they will have been tested.

"To carry out such a transaction with everything that was going on in the background — being in technical default and the legal risks involved during pricing and settlement — is even more impressive," says Dukes. "This was arguably the most impressive EM bond issue of all time."

Dukes said that the fact Argentina used a standard format of doing a roadshow, bookbuilding and pricing was particularly important after spending so long out of the market.

Argentina's sovereign bond was also an unqualified success in opening up capital markets for other borrowers, with more than \$10bn of sub-sovereign and corporate issuance since the April deal. —*Olly West*

Best Government Infrastructure Strategy

## JAMAICA

The largest solar power project in the Caribbean

Although Caribbean countries may be enjoying the benefits of a drop in crude for now, dependence on oil has long been a problem for the region. But observers say that Jamaica has taken definitive steps in the past year to diversify its energy sources.

One economist highlights the approval given by the Office of Utilities Regulation in March that allowed JPS (Jamaican Public Service Company) to upgrade its Old Harbour power plant from oil to liquefied natural gas (LNG).

"The openness of the power regulator allowed JPS to upgrade its plant, which is absolutely vital," says one Caribbean economist.

This followed the conversion of the 120MW Bogue power plant from oil to LNG, which in August led to gas arriving in Jamaica for the first time.

Away from LNG, and with Jamaica targeting 20% renewable energy by 2020, construction is now well under way on the largest solar power project in the Caribbean — the photo-voltaic facility being built in Clarendon. It is also Jamaica's first utility-scale solar project.

Analysts also point to the fact that Jamaica's privatisation initiatives started by the previous PNP government have continued under Jamaica's Labour Party, elected to government earlier this year.

"This should ensure Jamaica's infrastructure becomes more sustainable not just environmentally but also economically," says the economist. — *Olly West*

Best Sovereign DMO

## DOMINICAN REPUBLIC

Jumping into the market

It may be hard to remember after a summer of huge fund inflows, but at the start of 2016 EM bond markets were in full crisis mode. Issuance in Latin America and the Caribbean had been restricted to a handful of investment-grade sovereigns and quasi-sovereigns.

Previously, Dominican Republic, which just 11 years ago carried out a distressed debt exchange, would have been left on the sidelines with the rest of the high yield universe. But it negotiated conditions perfectly to jump into the market on a Friday (an usual day) with a \$1bn 10 year deal, the first Lat Am high yield issue of the year, that showed an impressive nimbleness and pragmatism, said DCM and syndicate bankers at the time.

"Dominican Republic is one of the very few sovereigns in Central America and the Caribbean that has developed the ability to be opportunistic and go to market without a roadshow," says Lisandro Miguens, head of Latin America DCM at JP Morgan. "January's deal was a great example of the issuer's prowess."

Dominican Republic re-opened the 2026s at 109.335 in very different conditions in June, achieving a flat new issue premium.

"The republic has realised the importance of having a very professional public credit team," says Miguens. "The country has had a great group of officials working in this area across various administrations."

The issuer also earns credit for the development of its curve, its predictability and clarity, and its communication with investors even when a new issue is not imminent.

"Furthermore, it is an issuer that prices its bonds well, without trying to squeeze that last basis point," says Miguens. — *Olly West*

Finance Minister of the Year, Caribbean

## MARCO ARCHER, CAYMAN ISLANDS

Hitting the bull's-eye with an exemplary show of fiscal discipline

As the Cayman economy struggled in the aftermath of the financial crisis, the UK decided to intervene in its struggling overseas territory, demanding the islands increased revenues and cut back expenses.

The "Framework for Fiscal Responsibility", agreed in 2011 and signed into law in late 2012, required Cayman to gain UK government approval for its annual budget before it could be debated back home.

When Marco Archer became finance minister in mid-2013, he had three years to comply with the framework, which included meeting targets for cash reserves, net debt and debt service.

The progress Cayman has made under Archer meant it easily complied by the deadline of June 30 this year. As a result, the islands were granted so-called "budgetary freedom", meaning they no longer have to send the budget to the UK for approval.

RBC's Caribbean economist, Marla Dukharan, says this achievement makes Archer the "most impressive finance minister in the Caribbean".

The cash reserve ratio is well above the 90 days coverage target, the island is heading towards zero borrowing, and growth has increased from 2% to 2.4% at the start of this year while expenditure and debt are down.

"It is a particularly significant achievement in the Caribbean, as looking across the region gives me a sense that for most countries — except those on an IMF programme — fiscal discipline is not a priority," says Dukharan.

So-called budgetary freedom provides Cayman

Islands with administrative freedom, says finance minister Marco Archer, as it increases the speed and decisiveness with which the government can act. But the significance of achieving budgetary freedom is not just practical.

"There is a tremendous amount of national pride tied up in being able to manage our financial affairs effectively," the minister tells GlobalMarkets.

"Budgetary freedom is the confirmation to the world that our fiscal management is sound."

Of course, this message also brings tangible benefits. Archer says it adds to already growing investor confidence, which can create growth, investment and opportunities for the islanders.

But as much of the Caribbean suffocates under high debt burdens, what was Cayman's secret?

"We understood that the best way to reduce debt was to grow the economy," says Archer. "Taxing your way out of debt is not necessarily the best option; rather with economic growth comes increased revenues and an ability to pay down your debt."

There was also a no new borrowing policy, consistent paying of debt maturities, a renegotiation of existing debt that led to \$6m in interest savings, tax incentives to stimulate investment, and a decrease in import duties to increase consumption. — *Olly West*



Central Bank Governor of the Year, Caribbean

## BRIAN WYNTER, JAMAICA

Quietly-spoken inflation killer

Economists describe Jamaica's successful IMF programme as an example for much of the highly indebted Caribbean. So when the Labour Party won the general election in February this year on an anti-austerity ticket, there were understandable gasps of worry in the market.

But those who take a close interest in Jamaica were not so concerned: at the core of the IMF programme's success was EPOC (Economic Programme Oversight Committee), which central bank governor Brian Wynter co-chairs.

Wynter is a softly-spoken voice of calm who — although he does not like to take much credit for it — is considered one of the principal figures in ensuring the consensus that has seen Jamaica pass the 13th review of an IMF programme for the first time ever.

"Wynter has survived a change of government and made unpopular but necessary decisions that are resulting in an important new story being written for Jamaica," says Melissa Marchand, Caribbean strategy advisor at Global News Matters.

In terms of inflation, his recent record is exceptional — dipping from nearly 10% just two years ago to 1.8% in August, while managing a currency devaluation from JMD\$85 per US dollar at the start of 2012 to JMD\$127 to the dollar in September.

Although lower oil prices have helped inflation, analysts say that monetary policy credibility is just as important a factor.

It is inflation that Brian Wynter feels most proud of. The governor is keen to pass on the credit to a trans-

formation of the government's fiscal policy as he acknowledges the helping hand of oil prices. But he has known how to take advantage.

"This has allowed us to lower interest rates at the same time we've been seeking to settle inflation expectations," he says. "Inflation is the part of the job I'm happiest about," he says.

Wynter says that the bank has been "redesigning the tool box of the monetary transmission mechanism", including adjusting the new provision framework, holding a weekly repo auction, and introducing an interest rate corridor.

Bank of Jamaica's challenge has been to bring down inflation amid the exchange rate depreciation, but the worst could be over.

"At the beginning of the IMF programme, the currency was overvalued and there was high demand for FX," he says. "But we have reversed that and feel that the exchange rate is more or less correctly aligned."

"The fundamentals don't suggest a further exchange rate adjustment."

The biggest issue facing Wynter now is dollarization, he believes. Dollar-denominated deposits have risen from just over 30% to 45%, which he describes as "a threat to monetary policy".

"De-dollarization should occur as the perception of stability catches up with the macroeconomic stability that we have achieved," he says. — *Olly West*





# Solving a problem like Europe's banks

Regulation by itself will not solve the problems of Europe's banks — skillful management, rapid modernisation and growing economies will have to do that. But regulation is something policymakers can control and can control today. It's number one on the list of solutions to Europe's banking problems

**By Owen Sanderson**

**E**uropean banks are in serious trouble. Stuck in an environment with low growth and lower interest rates, they are struggling to build capital while their US-based competitors have so much they are handing it back to investors. Throw in underperforming investment banks and long neglected legacy loans and the continent's financial sector looks troubled indeed.

But that doesn't mean nothing can be done. Belated efforts to harmonise the treatment of banks across Europe, a single supervisor and perhaps a deposit government guarantee scheme represent the efforts of the official sector.

From the private sector, a growing financial technology industry is an opportunity as much as a threat — if banks can move decisively away from their burdensome branch networks, their costs could plummet even as their underwriting and services improve.

Monetary policy is going nowhere fast, which can help and hinder bank returns. The first round of extraordinary liquidity support in the shape of the TLTROs (long term refinancing operations) acted straightforwardly on the cost of bank liabilities — cheaper funding from the central bank meant improving margins.

But the second round of ECB easing, based on asset purchases and breaking through the “zero lower bound” to a negative deposit rate, looks set to be more damaging.

The ECB buys bonds from banks, the mark-to-market of their liquidity books improve, but without economic growth and household deleveraging, there's nowhere to put the cash. Banks with big deposit bases also struggle since most institutions are unwilling to charge customers to deposit money so deposit liabilities have to pay 0%.

Some banks have overhauled fee structures for current accounts, aiming to recoup some of the difference, but in the new world of European interest rates term wholesale funding from the central bank comes in cheaper than overnight funding from retail. There's no real reason left to be a retail deposit bank.

On the asset side, banks like other investors can look to extend maturities (but the yield curve is flat), find riskier investments (but capital charges will hurt them) or lever up (but they're not allowed to).

It's not a problem that banks can think their way out of. Some institutions have turned to new management in times of trouble — the return of Jean-Pierre Mustier to UniCredit is a fine example — but there's no way around it: the business of banking relies

on borrowing short and lending long. A flat yield curve means they make less money.

“Compared to the start of the financial crisis in 2008, banks are in a different situation now to in the middle of the crisis and banks have much more capital,” says Koos Timmermans, vice-chairman of ING's management board. “But banks do have to deal with an economy where credit demand is rather low and the ECB extending balance sheet means low interest rates, low credit spreads and low earnings of banks.”

## DISUNITED EUROPE

Though every financial institution in the eurozone is struggling with the same exceptionally low rates, the different national market structures — and the heavily divided European banking market — means reactions to the difficult monetary climate are very different.

For example, German private sector banks, such as Deutsche Bank and Commerzbank, cannot squeeze more profit out of their retail divisions easily because so much of the market is served by not-for-profit institutions such as the savings banks.

In France, meanwhile, structurally high loan-to-deposit ratios have flipped from a weakness of the system to a strength. While wholesale funding was scarce and expensive during the crisis, it made French banks vulnerable to investor runs (the dollar squeeze in 2011 was precipitated by worries about whether Société Générale could access the market). But now deposits are flooded at zero, wholesale funding is abundant and there's a shortage of investment opportunities, a high loan to deposit ratio looks like a strength.

**LOWER FOR LONGER**

If interest rates go back up it won't matter too much. For banks with non-core assets or large books of mark-to-market bonds, the low rates deliver a temporary boost.

"The low yield environment works on both sides of the balance sheet but unevenly," says Michael Reuther, chief executive of Commerzbank's corporates and markets division. "It helps to achieve higher prices for the disposals of non-core assets but it has a larger negative effect on the net interest margin you can achieve and on maturity transformation of deposits. The non-core disposals are a one-time effect while the effect on the deposit margin is an annuity."

But prolonged low interest rates beyond two or three years will cause serious problems for all of Europe's banks.

"Eventually, however, low interest rates will take their toll on banks," said Danielle Nouty, chair of the supervisory board of the European Single Supervisory Mechanism, speaking in Bratislava in September. "High yielding fixed rate loans will either mature or be repaid and be replaced by lower-yielding assets, which will decrease net interest income. At the same time, the gradual decline in interest expenses borne by banks will come to a halt as they will be reluctant to charge negative rates on deposits."

"You could say, even if interest rates are extremely negative, what does it matter so long as the money you take is at a lower rate than you lend out?" says Timmermans. "But if your liabilities are stuck at zero you get a mismatch, and if it's prolonged it will have a real influence on profits."

**DIGITAL ESCAPE**

When revenues are under pressure, most industries look to cut costs and the banks are no exception. Europe's big banks, with extensive wholesale and investment banking operations, have already been slashing staff in their expensive trading divisions but cost control is crucial in retail as well.

At its simplest, that means cutting staff and closing branches. In certain countries such as Italy, the oversupply in bank branches is chronically bad, with 59 branches per 100,000 adults at the last count (the UK has 25; tech-savvy Estonia just 12).

But you can't cut your way to success and the great hope of the industry is that digitisation will save the banking industry by drastically cutting the costs of engaging with customers. Banks will become risk managers and capital providers behind the scenes of a one-stop, click-to-buy financial services boutique.

"One way to address the weakness in profitability is the further industrialisation and digitalisation of all processes," says Reuther at Commerzbank. "Before the crisis, when revenues kept growing, banks saw no need to re-engineer their operations but that time is over."

"Digitisation has led to clients doing some of our work for us," says Timmermans. "Ten years ago, we'd spend time filling in cheque details and copying information. Now clients will do it all via mobile phone."

For different firms, though, this means different things. Johannes Reuhka, general secretary of the Austrian Raiffeisen banks association, representing more than 500 smaller institutions, argues that customers will continue to want to make their largest financial commitments in person.

"If the client tells us in the future that he wants to digitise everything then perhaps banks can do that," says Reuhka. "But personally I think it won't be that extreme, I think there will be a strong desire remaining to talk to someone personally, especially about the larger decisions. For many people a €300k mortgage is the largest financial decision they will ever take and before they take it they will want to talk and to inform themselves."

Digitisation doesn't just mean buying banking products online. Banks have huge volumes of data on their customers, which often goes untapped. But machine learning techniques hold out the possibility of better credit scoring and better anticipation of a customer's needs. Just because retail customers aren't personally known to their branch managers any more, that doesn't mean banks can't offer a personalised service.

In wholesale divisions, too, digital banking should mean more than a web interface with a dealer's axes on. It means banks licensing automated trading capabilities to clients, syncing up back office and settlement and having a real time view of risk appetite and revenue potential.

Reuther adds: "It's not just about having a fancy app for your customers, it's about fully digitalising front to back in the next three to five years at the most and therefore achieving much lower costs for sales and distribution."

**MERGING TOO SLOWLY**

Though it promises a transformation of the industry's cost base in Europe and elsewhere, digital banking can only go so far. Europe is still overbanked, many institutions are not competitive and capacity needs to come out of the industry.

One way to make this happen is through mergers. Europe's advisory bankers have been hoping for a FIG M&A boom since the hasty and unwise tie-ups of the 2007-09 era but progress has been achingly slow. Some of Spain's undersized Cajas were forced together in regulator inspired shotgun marriages and some of Germany's larger Landesbanks gobbled up their smaller peers. Italy is still lagging behind, though a law forcing corporate governance changes on its co-operative sector, passed in April, might change that.

"I don't think merging can be the only

solution for the whole banking sector," says Reuhka. "It's absolutely not the right vision to establish only a few big banks, absolutely not the vision. Lots of small and medium banks give you a diversification of risk."

There's certainly been little cross-border consolidation to create new megabanks. Banks with major subsidiaries in other European countries have drawn their horns in. Barclays sold its Spanish and Portuguese credit card businesses and its Italian mortgage lender. Crédit Agricole extracted itself from its hapless Greek subsidiary Emporiki for the price of a single euro and ING closed its UK mortgage operation. Right across Europe, institutions have renewed their focus on their core markets.

**SUFFOCATED BY REGULATION**

But the main obstacle to consolidation has been regulation. Reuther says: "I expect consolidation in the mid-tier of the banking sector at a certain stage. After the AQR [Asset Quality Review] and the EBA [European Banking Authority] stress test in 2014 was actually a good opportunity because you could not have asked for a better due diligence but the uncertainty caused by rising regulatory demands stopped it. Once FRTB [fundamental review of trading book], Basel IV and the other regulatory initiatives are finalised and the dust has settled, I would expect to see consolidation on the agenda again."

To calculate whether a merger makes sense, it helps to know the end state of regulatory capital requirements.

**HAND THE MONEY BACK**

The other option to take capacity out of the industry is returning capital to shareholders.

"Should it always be consolidation that takes away excess productive capacity?" says Timmermans. "Returning money to shareholders is another way of taking capacity out of the industry. Clearly you need to meet your regulatory minimum levels, but beyond that you can see shareholders wanting 100% or more returned to them."

For some European firms that's a distant dream. Speculation is still rife that Deutsche Bank will need its fourth post-crisis rights issue in the year to come, while some analysts expect UniCredit to go to shareholders for up to €10bn. The state-sponsored recap of the weaker Italian banks has only just got going.

But stronger firms further down the restructuring road are already thinking about how to pay out some of their restructuring proceeds. HSBC's sale of its Brazilian unit prompted a \$2.5bn share buyback programme, for example. If the European banking market is indeed too small to support all of the banks at an acceptable return on equity, better to hand the money back and admit that investors, not banks, can figure out how best to deploy it.



**"It's absolutely not the right vision to establish only a few big banks, absolutely not the vision. Lots of small and medium banks give you a diversification of risk"**

—Johannes Reuhka, Raiffeisen



**"If I could make one change to the regulatory framework, I would stop increasing the requirements for the different layers of capital and stop them changing over time"**

—Michael Reuther, Commerzbank

**STOP THE TRAIN**

Again though, regulation is likely to slow the process down. Senior bankers see the next round of Basel requirements, which are being calibrated this year and early next, as just the latest part of an unceasing treadmill of increased capital.

"If I could make one change to the regulatory framework, I would stop increasing the requirements for the different layers of capital and stop them changing over time," says Reuther. "Regulators might demand a capital ratio of 15% or 20% but what we really need is the endgame, the final state."

Even when the bald figures of capital targets aren't increased through additional

buffers or guidance, lots of the changes to supervision techniques, to "Pillar 2" (institution-specific) requirements and changes to asset calculation have all driven banks to hold more capital.

"Capital ratios in Europe have roughly doubled in nominal terms, but on a like-for-like basis European banks are carrying approximately up to 10 times as much capital as before the crisis," says Reuther. "It's a much better safety net but how can the industry know when the times of increasing capital requirements are over?"

**A BASEL BOOST?**

The new Basel rules have attracted particular

ire, despite public statements from Basel Committee members that they won't boost total capital requirements any further.

"There's still a discrepancy between the figures in the Basel IV consultation, which show significant increases in capital, and the statements of regulators, which say there will not be an increase," says Timmermans. "If we apply the currently proposed Basel rules, they're clearly better for American banks than European or Asian. European banks have a different balance of business — more mortgages on balance sheet, for example."

The "capital floors" in Basel IV, which limit how much banks can cut risk weights using their own models, are the most serious part of the consultation for big banks like ING but even at the smaller end of the spectrum, regulation is proving a challenge since the Basel Committee is also revising the "standardised" approach to calculating risk.

"What all banks in Europe need is a regulatory respite," says Reuhka. "We have implemented Basel III in 2014 with implementation timelines up to 2019. That's no problem for banks but there's an insecurity about whether these rules are final. Basel is already working on new requirements, which in turn will have to be implemented over time."

**ESCAPING THE TRAP**

Fortunately, help might be at hand. Banks crossing their fingers and hoping for higher growth and higher interest rates will likely be disappointed but there are already strong moves to slow down regulatory change or even scrap some initiatives.

During the Basel Committee's September meetings, several leaks to the press suggested a softer line across several asset classes — banks would be able to use a basic version of their own models to calculate corporate risk weights rather than scrapping them altogether while mortgages would receive better treatment than proposed last year.

There's also a reduced appetite from European regulators to follow whatever is agreed at the Basel level slavishly. CRD IV essentially lifted Basel III unaltered but policymakers are becoming increasingly sensitive to bank lobbying about the "distorted playing field" and increasingly aware that the US is unlikely to implement the new Basel norms at all.

US banks argue their environment has its own flaws — the fines and legal settlements paid by, for example, Bank of America are over \$80bn, a large multiple of the fines imposed on even the hardest hit European firm.

But that may not matter. The European Commission is reviewing all its regulation for proportionality and for anything which can be scrapped, while the Capital Markets Union agenda will serve partly as a cover for the relaxation of rules on securitization, infrastructure, liquidity and small business lending. **GM**

## Mustier on markets

**US rejects foreign banks**

Jean-Pierre Mustier, chief executive of UniCredit, told *GlobalCapital* (*GlobalMarkets'* sister publication) that US regulators don't really want foreign banks to have big operations in their domestic market, and he pointed to the unequal treatment of European banks in the US compared with US banks in Europe.

Mustier was speaking before news of Deutsche Bank's potential \$14bn settlement over RMBS broke — but the challenges the German bank faces are emblematic of broader difficulties European firms face in the US.

"In terms of the US, regulators have made a concerted move to segregate capital and liquidity for European banks operating in the US," says Mustier. "However, European regulators haven't imposed anything similar on US banks in Europe. To look at it from a more strategic point of view, bank boards should draw the conclusion that US regulators don't really want foreign banks in the US in a major way. A minimal presence to support clients on the way in and the way out but not much more."

Deutsche Bank, since it bought Bankers Trust in 1998, has had a huge presence in the US but it has recently struggled with local regulation. Despite having a capital ratio for its US entity of more than 35% in stressed conditions, it still failed the Federal Reserve's Comprehensive Capital Assessment (CCAR) for qualitative reasons.

UniCredit, where Mustier was head of CIB before leaving for Tikehau Asset Management then returning as group CEO, has a much smaller presence, with only a New York branch rather than a separately capitalised subsidiary and only a couple of floors in a building it shares with Wells Fargo. The business

focuses on selling UniCredit's euro-based debt capabilities and payments and transaction banking prowess, especially in eastern Europe.

Mustier explains that the broader international regulatory framework is also tilted in favour of the US. "The proposed TLAC [total loss absorbing capacity] rules favour, to a very large extent, US firms with a holding company and would lead to a competitive disadvantage for European banks if applied in their current form," says Mustier.

The US, UK and Switzerland took the lead on drafting TLAC rules with entities such as the European Central Bank left out of discussions. US banks were

**"Bank boards should draw the conclusion that US regulators don't really want foreign banks in the US in a major way"**

already issuing capital instruments from their holding companies but several European countries have had to pass laws specifically to allow them to match up to the TLAC rules.

However, these are not always consistent. "Europe now has a single regulator pushing for more homogenous regulation," says Mustier. "It's making progress but it's not there yet. MREL [minimum requirement for own funds and eligible liabilities] proposals for example and how they apply to bonds and deposits work differently in France and Germany and in other countries."

The divisions run much deeper than TLAC though — each western European country's retail banking market is dominated by domestic players, making it a huge challenge for any firm to achieve pan-European scale. UniCredit might



have the best shot, with a major presence in Italy, Germany, Austria and nearly all of eastern Europe, but it only opened a branch in Madrid earlier this year.

"European banks do not have a problem but they are in a weaker position relative [to US banks]," says Mustier. "The GDP of the US and Europe are not that different but US firms benefit from a very large single market, where the fees are higher and banking is structurally more profitable. The European market is much more competitive and fragmented. Average fees and commission in the US are much higher and the industry is structured differently."

Mustier took over as chief executive in July and is deep into a strategic review of UniCredit's businesses, expected to be published later this year. He declined to share his thoughts on how UniCredit could deal with the competitive situation but offered some comments on how the broader industry might change.

"Cutting costs is not a target in itself for banks," he says. "It might be part of an overall strategic change but the end game for the financial services sector is transforming the whole way business is done right through the process. Digitisation might mean banks will need fewer physical branches but digital is an enabler, not a standalone strategy. The end-goal for the sector should be the transformation of how it does business and serves customers in the future." —O.S

Many talk about Capital Market Transactions  
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# Where's the catch? Fishy goings-on in Mozambique

When Mozambique struck gas in 2010, it was supposed to herald a bright, lucrative future for the poor African state. It hasn't turned out that way. Rising debt, sluggish growth and a corrosive financial crisis have culminated in the IMF freezing payments to the struggling state. Its banking industry is one of the few brighter spots



By Elliot Wilson

Until six years ago, Mozambique was largely overlooked by corporates and investors apart from the agribusiness firms that come every six months to harvest cotton, sesame and tobacco.

But then gas was found in the Indian Ocean: up to 180tr cubic feet of liquid natural gas. Global energy groups, led by Texas-based Anadarko and Italy's Eni, rushed in, keen to transform Mozambique into the Qatar of Africa.

Since then, anything that can go wrong has. The worst drought in nearly four decades is devastating the agricultural heartland, ratcheting up inflation. Gas prices have

followed oil down since mid-2014, delaying or shelving crucial foreign exchange-earning projects. Economic growth has fallen in lock-step, from an average of 7.1% in the five years to end-2015, according to World Bank data, to a projected 3.8% in 2016.

But the biggest challenges Mozambique faces are of its own making. In March this year, an \$850m loan disbursed in 2013 to Ematum, a state-backed fishing outfit, was restructured as government debt.

On the surface, the loan, arranged by the London offices of Credit Suisse and Russia's VTB Bank, was a good idea. A substantial share of the world's stocks of mature yellowfin and southern bluefin tuna swim up the Mozambican coast in spring — where

they are hoovered up by Japanese, Korean and European vessels, which cold-store the valuable commodity, ship it back home and pocket the profit.

The aim was to transform Mozambique into a tuna power by grabbing around 5% of the overall global tuna industry, valued in 2015 by the Pew Charitable Trusts, a Philadelphia-based charitable institution, at \$42.2bn. That would swell Mozambique's economy by 11%.

Yet only a fraction of the loan's proceeds were spent on fishing boats — 24 in total, all of which, authorities realised after taking receipt of the fleet, were ill-equipped to process and store bluefin tuna, which grow to up to two metres in length. Instead, as much as \$500m of the loan was spent on security

## Bonded

Security guards patrol past the Ematum fishing fleet docked in Maputo

equipment, including patrol boats commissioned to protect the fleet against pirates.

Then in April, the government was forced to own up to the existence of a further \$1.4bn in undisclosed borrowing by the interior ministry and two firms, ProIndicus and Mozambique Asset Management (MAM), which are partly or fully owned by the nation's intelligence services. Of that, \$622m was spent on military equipment, with \$535m channelled into the construction of a shipyard used to service the military and commercial fishing fleets. Those loan facilities were also arranged by Credit Suisse and VTB.

#### DEBTS AND DELIQUENCY

That's when the IMF got involved. For years, this poor, backward, strife-torn, yet provisionally democratic market has been a darling of the donor community. Fourteen institutions, including the World Bank and the US and UK governments, finance a quarter of the budget.

Yet now they felt compelled to speak out. In May, IMF managing director Christine Lagarde said Maputo's lack of clarity over its debts and financial delinquency suggested the state was "clearly concealing corruption". Within days, the IMF suspended \$165m of an emergency loan facility agreed in October 2015. The World Bank has temporarily halted \$276m in financial support with 12 other institutions suspending \$155m in payments.

Since the IMF's intervention, conditions have, if anything, worsened. Lamine Diop, head of treasury at Ecobank, says: "We could see some of the problems coming last year but nothing like this. The hidden debts surprised us. The IMF freezing its programme surprised us. Really, it has all come as a big shock."

Investors, increasingly wary of Mozambique's deteriorating financial and economic climate, have simply stayed away. "Some have frozen or suspended their investments; others have changed their minds entirely," says Diop. "Investors have trust issues with the government of Mozambique."

Some observers see a financial storm brewing; others say it has already arrived. "There's a real financial crisis brewing in Maputo," says a London-based restructuring expert hired in mid-2016 to map out a viable strategy for the stumbling government. "Mozambique needs the IMF back and active though they are unlikely to return until they see real forward progress."

A Maputo-based Western diplomat puts it more harshly: "They aren't facing a financial crisis; they are already in it. And it is an entirely predictable and avoidable crisis."

#### RISK OF DISTRESS

The challenges the country faces are simple to explain but rather harder to solve. Take the stock of national debt, which, according to the IMF, stood at 86% of GDP at the end

of May 2016, up from just 37.5% in 2011. "Public debt is now likely to have reached a high risk of distress," the IMF says. In total, the country owes foreign investors \$9.85bn.

Downgrading the country's long term foreign and local currency issuer default ratings in May to CC from CCC, Fitch Ratings warned that with the debt-to-GDP ratio set to pass 100% by end-2016, "a default of some kind appears probable".

André Almeida Santos, principal country economist, Mozambique, at the African Development Bank, believes the key political and regulatory players face one of three stark options here, none particularly palatable.

"The current national debt is unsustainable," he says. "If it remains at this level, a financial crisis is unavoidable. So the government can default, which they won't as it means delaying the IMF's return. They could pay, which they can't as they don't have enough money. Or they can restructure their debt, which assumes that the creditors will treat them benignly. And it isn't at all clear at this point what kind of deal they'd get."

A fourth option would be to get lucky. In July, ExxonMobil and Qatar Petroleum were reported to be teaming up to buy a stake in gas fields currently owned by Italy's Eni. A sale would net the government a tax windfall in the hundreds of millions of dollars and help keep the wolf from the door — by paying down debt and meeting essential budgetary commitments — for a little longer.

The government is also tentatively exploring the privatisation of a host of dominant commercial state institutions including utility Electricidade de Moçambique, LAM Mozambique Airlines, mobile carrier Moçambique Celular (mCel) and fixed-line operator Telecomunicações de Moçambique. But even a partial sale would be politically sensitive, hard to complete in the near term and costly given years of under-investment.

Crises rarely happen in splendid isolation — in Mozambique, they come in swarms, with new emergencies exacerbated by endemic flaws. One of the most friable aspects of its financial economy is its sheer lack of foreign capital, an issue that has bedevilled the nation since it gained its independence from Portugal in 1975.

"It's a very big problem," says Ecobank's Diop. "We have a huge lack of foreign currency. We just don't have the capacity to generate the foreign currency we need." A host of factors explain the economy's brittleness. Delays to energy projects have stunted what the state hoped would by now be a rich seam of foreign capital. Mozambique also boasts huge stores of coking coal — the world's largest untapped reserves according to some estimates, mostly found in Tete province, a wild, forested region bordering Zambia, Malawi and Zimbabwe.

Yet getting resources from mine to market is difficult, with producers forced to

choose between a rickety, single track train line stretching to the second tier port at Beira or to risk human attacks on loaded trucks, which are consistently blamed by the ruling party, Frelimo, on the militant opposition movement, Renamo.

Meanwhile inflation rose 12.4% year-on-year in the first three months of 2016, according to IMF data, against an average rise of 3.1% across the previous seven quarters. According to government data, 80% of everything the nation consumes is imported, from the sugar cane used to bottle Coca-Cola to the hydropower produced in the Cahora Bassa Dam.

These systemic weaknesses are in turn undermining the value of the metical. In the year to August 24, Mozambique's currency lost 50% of its value against the dollar, falling to 73.9 from 47.9. Some commentators are tipping it to pass the 100 mark by the time the year is over.

#### BANKS SHOW RESILIENCE

A lingering concern is how the banking system reacts to the nation's wider economic travails. On August 5, Standard Bank's local division introduced limits on foreign currency withdrawals, cutting them to \$500 or €500 or R1,000 (\$74.2) a month, according to data and news provider Zitamar. In turn, Millennium bim (CORR), which along with Banco Comercial e de Investimentos Moçambique (BCI) controls 60% of the banking sector, cut monthly foreign currency withdrawals to \$1,000 and Banco Único to \$2,500, both from \$5,000.

Yet so far, banking remains one of the country's few genuinely successful industries.

"It has performed really well," says Vasco Gueifão, managing director of Eaglestone Mozambique, an investment adviser and private equity investor with offices in Maputo, Johannesburg and London. "Overall, the banks are well capitalised and asset quality ratios are stable and at comfortable levels. A more challenging environment could force lenders to boost provisions but we don't see banks posting losses and requiring capital injections."

In March, Portugal's Banco de Investimento Global opened a local subsidiary, taking the number of commercial lenders to 19.

Yet, notes BCI chief executive Paulo Sousa, most of the competition for corporate and retail customers is focused in the bigger cities along the eastern seaboard. "Go inland, and banking penetration levels fall sharply," he says. "Just 24% of the populace has a bank account. Seventy administrative districts [out of a national total of 128] do not have a single bank branch. So the potential is huge."

BCI, he says, has done its bit. "When I arrived in Maputo in 2013, we had just 563,000 customers; now that number is heading toward 1.5m." The trick, as in so many parts of emerging Africa, is to offer mobile banking services via basic handsets. "A customer



*"We could see some of the problems coming last year but nothing like this"*

—Lamine Diop, Ecobank



### Still struggling

A fisherman cleans his boat beneath Maputo's skyline

might be based in a far-flung part of the country, with no electricity, no roads, no running water, but he has a mobile phone and he can do everything through it."

Atlas Mara, the African banking group run by former Barclays CEO Bob Diamond, is also pushing hard into Mozambique. In late August, it appointed Eduardo Mondlane Jr, son of the founding president of the Frelimo party, to run the Mozambique operations of BancABC, the Botswana-based lender Atlas Mara bought in 2014.

Meanwhile, at Banco Único, chief executive António Correia says the privately owned lender that opened its doors in 2010 aims to cover as much of the nation's developed regions as possible. It is now present in eight cities and seven provinces and recently opened its first branch in Tete province. Deposit growth at the lender, which won an award from *Euromoney*, *GlobalMarkets*' sister publication, for best bank in Mozambique in 2016, jumped 38% year-on-year in 2015, with loan growth rising 23%, net profit up 500% and tier one capital rising to 16% at end-2015, from 9.9% a year earlier.

For Mozambique itself, the challenges that lie ahead are numerous, painful and daunting. The government desperately

misses its annual fix of donor cash. But getting it back will not be easy. In May, the so-called Group of 14 international donors warned the government in a joint statement that it was guilty of "serious breach of trust, poor governance and lack of fiscal transparency". It asked authorities to list all the country's existing and planned debts, to detail what the loans to the trio of state firms were intended for and to reveal the shareholding structure of MAM and ProIndicus. A month later, the IMF called for an "international and independent audit" of Ematum, ProIndicus and MAM, the three state firms at the centre of the borrowing scandal.

The government's response was a mess. At first, assistant attorney-general Mucobora appeared to consent to the request, agreeing to welcome an international probe of both the loans raised by the trio of state firms and of the nation's finances as a whole. But that offer was quickly nixed by President Nyusi — and for good reason.

Nyusi instead ordered an internal inquiry, carried out jointly by parliament and assistant attorney-general Mucobora. Donors were quick to express their disappointment at the decision. Nor has the government done much to quell the IMF's fears about the

state of the wider economy.

In June, IMF officials begged the government to take an axe to the federal budget in the hope of trimming the yawning deficit and keeping a check on the nation's ballooning debt. Yet the very next month, parliament approved an amended budget of M243bn (\$3.6bn), which included just M3bn in cost savings. The amended budget also tipped the deficit to reach 11.3% in the year to end-March 2017, against a previous estimate of 10.2%.

### BARGAINING POSITION

Mozambique's future remains uncertain and for so many reasons. The fallout from the debt scandal continues to spread. The UK's Financial Conduct Authority is investigating whether Credit Suisse and VTB misled investors when the Ematum loan was raised and then restructured. Some of the world's largest investors, including Alliance-Bernstein, Aberdeen Asset Management and ING hold Mozambique's Ematum bond. Credit Suisse is also the subject of a separate investigation by Swiss regulator Finma. And MAM is under pressure having missed a May 23 deadline to complete a \$178m payment to VTB on a \$535m loan.

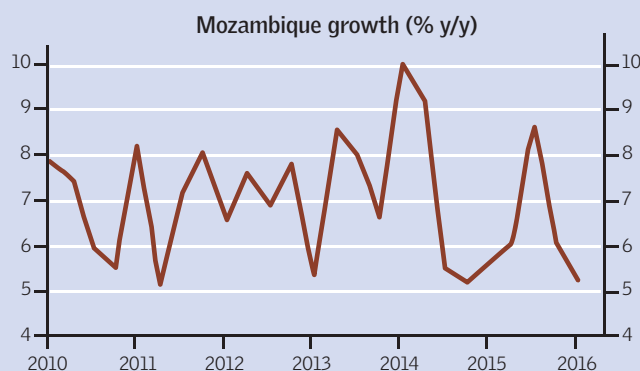
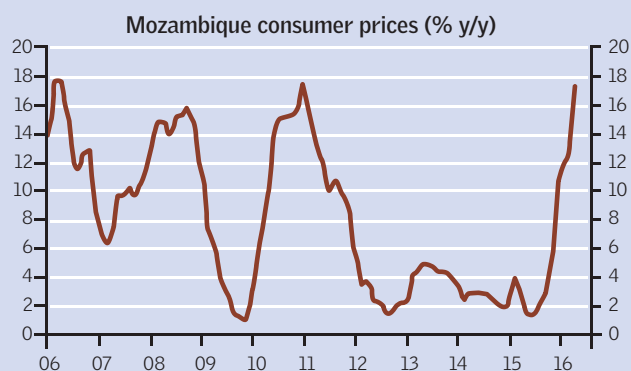
Even investors keen on Mozambique struggle to get their capital or find ways to put it to work. At a dinner in Maputo, a Portuguese property investor wearily describes how it took "four months to track down the right person in the planning ministry" and another three to secure a meeting with him. That lament, common across the country, is blamed on the widely shared fear of responsibility.

"It's a very young country," says a foreign banker working in Maputo. "That's reflected in the lack of political maturity. How can they possibly deal on an equitable basis with the world's biggest energy firms? When it comes to a bargaining contest between the government and the head of ExxonMobil, who is going to emerge with the better deal? It's a no-contest." **GM**

*This article was first published in the September issue of Euromoney*

## Crisis brewing: growth down as inflation soars

Source: Thomson Datastream, Bank of Mozambique, CapEcon 6/16



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# Arab Bank: MENA's Primary Gateway

**W**ith a network spread across more than 600 branches in five continents, Arab Bank has come a long way since its foundation in 1930. Since then, the bank's story has been one of continuous growth and innovation.

Excluding the effect of currency devaluations, in 2015 loans and advances grew by 3% to \$23.8bn, while customer deposits also rose by 3% to \$35.2bn. This robust performance supported an increase in revenue from \$1.88bn to \$1.91bn, and a rise in net operating income from \$1.08bn to \$1.1bn. With total equity of \$8bn, a capital adequacy ratio of 14.2%, and a loan to deposit ratio of 67.6%, Arab Bank also has a very solid balance sheet and liquidity profile.

Revenue expansion and cost control are reflected in a healthy cost-income ratio of 42.3%. The bank's asset quality, meanwhile, continues to be resilient, with the ratio of non-performing loans (NPLs) to gross loans having fallen to 4.8% at the end of 2015 from 5.2% a year earlier. The NPL coverage ratio rose in 2015 from 106% to 109%.

"The strong underlying performance of the bank reflects the success it has enjoyed in growing its business across a range of markets while managing risks very effectively," says Neme Sabbagh, Arab Bank's CEO. "The bank has succeeded in growing its operating profit by taking advantage of the broad diversification of its business in Jordan and across the region."

## Continued International Growth

The depth and breadth of Arab Bank's international network makes it the primary gateway to and from the MENA region, according to Sabbagh. "The bank's extensive global network makes it uniquely positioned to help international companies tap in to the Middle East markets," he says. "At the same time, it is ideally-placed to help local companies with international growth ambitions expand their business within the region and globally."

Sabbagh explains that Arab Bank's international strategy is based on strengthening the bank's network to capitalise on growth opportunities in certain markets in the GCC and North Africa that

have witnessed steady economic growth in recent years in spite of challenging conditions. "The bank will continue to focus on its core clients, lending selectively to borrowers in the commercial sector as well as to major infrastructural projects across the region," he says.

More specifically, Sabbagh says that Arab Bank will focus on opportunities in consumer banking in core markets as well as Jordan and North Africa, while it will also continue to expand its network by opening branches in main markets such as Jordan, Egypt and Tunisia.

Sabbagh is also optimistic about the prospects for Arab Bank's key affiliates in the GCC. "While the overall circumstances in the region remain challenging, our strategic presence in Saudi Arabia and Oman will continue to contribute substantially to the group's profitability," he says.



## Supporting SMEs

Arab Bank continues to play a decisive role in supporting small and medium-sized enterprises (SME), which are a key source of job creation. Sabbagh explains that Arab Bank's SME lending initiative has made use of funding from the Arab Fund, the EBRD and OPIC. Arab Bank is also a major shareholder in the Jordan Loan Guarantee Corporation (JLGC), which has recently tripled its capital to expand its support for SMEs. Arab Bank has also participated in the formation of a newly-created JLGC fund to support start-ups.

Another initiative taken by Arab Bank underscoring its commitment to the SME sector is the establishment of a specialized department



*"The bank continues to assess local SME needs in order to design solutions and services that best meet their evolving requirements"*

**Neme Sabbagh,  
Arab Bank's CEO**

providing services and programmes tailored to meet this vibrant and integral component of the Jordanian economy. The bank has also set up dedicated service centres in its main branches across Jordan to reach a greater number of SMEs.

"Given the dynamic nature of the SME business, the bank continues to assess local SME needs on an ongoing basis in order to design solutions and services that best meet their evolving requirements," says Sabbagh.

## Investing in Technology

Arab Bank's expansion in recent years has been underpinned by continuous investment in technology which Sabbagh describes as a critical enabler for the seamless delivery of banking products and services. "In the past five years, we have observed the fast adoption of self-service digital technologies by our clients, starting with internet and mobile banking for consumers and corporates, and recently extending to mobile commerce, loyalty management, biometric authentication and interactive kiosks," he explains. "It is important that we create sufficient awareness to our clients to give them confidence about new digital solutions. The factor of trust and security is very important."

Sabbagh also believes that investment in enhanced data management, modelling and predictive analytics will enable banks to build more science into their day-to-day activity. This will help banks to recommend the best product to clients, accelerate the credit decision process, minimise client attrition and reduce regulatory and operational risk.

## Company data

■ Total assets (2015):	\$49bn
■ Net profit (2015):	\$442mn
■ Core Tier I ratio (End 2015):	14.20%
■ Loan to deposit ratio (2015):	67.6%

# Qatar National Bank: Firing on all Cylinders

**M**easured by total assets, loans, deposits and profits, Qatar National Bank (QNB) is the largest both in Qatar and the Middle East. It is also one of the fastest-growing. In the five years to the end of June 2016, total assets expanded at a compound annual growth rate (CAGR) of 21% to reach \$190bn, with loans and advances rising over the same period to \$136.4bn (a CAGR of 27%) and operating income increasing to \$3.17bn (a CAGR of 20%).

Robust growth in assets, loans and deposits has been sustained over the last year, with QNB's CEO, Ali Ahmed Al-Kuwari, attributing this continued expansion to several drivers. "First, the strength of our capital has allowed us to grow our balance sheet in a controlled way and



take opportunities within, across and beyond our network," he says.

A second notable driver of recent growth at QNB, says Al-Kuwari, has been the bank's strong Aa3/A+/AA- credit rating and stable long-term outlook, which has been affirmed recently by the leading ratings agencies, which enables them to access capital markets for funding future growth plans.

Third, QNB has been able to maintain and protect its dominant market position within Qatar, where the bank's asset and deposit base, as well as its loan portfolio, are all more than four times the size of its closest competitor.

Finally, says Al-Kuwari, the contribution made by QNB's increasingly well-diversified international operations to the group's overall profitability remains robust, rising from 28% of total net profits in 2014 to 31% in 2015.

## Maintaining QNB's Dominance Regionally and Domestically

QNB expects to continue firing on all these four cylinders over the coming years. "In 2016 and 2017 we aim to continue to strengthen our offering as a universal bank across all segments, aspiring to be the preferred financial partner of choice for corporations, institutions, businesses and individuals," says Al-Kuwari. "This will help us maintain and accelerate our regional dominance

and future growth."

Within the domestic market, Al-Kuwari is confident that QNB can withstand the impact of lower oil growth and a withdrawal of government deposits. This will be partially offset by strong private sector deposits underpinned by population growth and the continued diversification of the Qatari economy into the non-hydrocarbon sector. "QNB is expected to play a vital role as a financial intermediary in the economic diversification programme," says Al-Kuwari. As well as funding for projects in services, construction, transport and real estate, QNB will take a leading role in funding and structuring customised solutions for project participants in the public and private sectors.

QNB is also fully committed to supporting the Qatar National Vision (2030) initiative, key pillars of which are the promotion of the private sector and the nurturing of small and medium sized enterprises (SMEs). Al-Kuwari explains that QNB's mandate is to encourage entrepreneurship and the establishment of SMEs in sectors such as manufacturing, trading, tourism, healthcare and education by offering a one-stop value proposition throughout all life-cycle stages.

QNB also remains committed to its comprehensive retail banking operation, which has recently started to provide targeted solutions for expatriate workers, including remittances and investment solutions. More broadly, QNB's leadership position in universal banking is reflected in the range of high return on equity (ROE) businesses such as transaction banking, asset management, brokerage, custody and investment banking services.

Internationally, meanwhile, QNB will continue to extend its footprint throughout the Middle East and Africa through organic and inorganic growth in selected markets. The most recent example of this has been QNB's announced acquisition of Finansbank, the fifth largest private bank in Turkey, where QNB will initially look to strengthen its current market position and capture market share for profitable growth, mirroring its growth strategy across the Middle East and Africa. "This



*"We aim to continue to strengthen our offering as a universal bank across all segments"*

**Ali Ahmed Al-Kuwari, Group CEO, QNB**

region has been identified as one of the world's fastest-growing markets, fuelled by an ongoing improvement in business conditions, favourable demographics and increasing globalization," says Al-Kuwari. "QNB will aim to increase its footprint across the region through both organic and inorganic growth in selected markets."

## Rigorous Risk Management

Profitability and credit quality at QNB will remain buttressed by rigorous risk management, which has been reflected in a continued decline in the bank's ratio of non-performing loans (NPLs), which reached 1.4% at the end of March 2016, down from 1.5% in March 2015. "Despite our international expansion and strong growth, QNB has always been able to maintain a prudent approach to risk management," says Al-Kuwari.

QNB's future growth will also be underpinned by the strength of its balance sheet, the high regard in which it is held by the international investor community, and the increasingly well-diversified structure of its funding base. "Within the last year, QNB has identified several new avenues of liquidity from a geographic, currency, tenor and product perspective," says Al-Kuwari.

QNB is, however, under no immediate pressure to raise funding or to increase its capital. As Al-Kuwari says, the bank's capital adequacy ratio (CAR) calculated as per Qatar Central Bank (QCB) and Basel III requirements stood at 14.2% as of the end of June 2016, well above the minimums stipulated by the QCB and Basel Committee.

## Company data

■ Total assets (June 2016):	QAR692bn
■ Net profit (1H 2016 v 1H 2015):	QAR6.2bn, up 12%
■ Shareholders' equity (End 1H 2016 v 2015):	QAR73bn vs QAR58bn
■ Cost to Income ratio (End 1H 2016 v 2015):	30.4% vs 21.00%
■ Core Tier I ratio (End 1H 2016):	14.2%

# National Bank of Kuwait:

## Consolidating its Leadership at Home and Abroad

Over the last 18 months, National Bank of Kuwait (NBK) has strengthened its position as the premier bank in Kuwait, where it accounted for over 30% of total assets in the banking system as of December 2015.

In 2015, year-on-year asset and loan growth at NBK were comfortably ahead of the bank's peers. Total assets rose by 8.3% to \$78.2bn, while loans increased by 13.8% to almost \$45bn. The bank also posted strong growth in deposits, which rose by 7.1% to just under \$40bn. Profitability, meanwhile, was underpinned by strong net interest income as well as robust fees and commissions. Net operating income rose by 10.2% to reach \$2.415bn in 2015, reflecting the success of the group's focus on its core banking business.

Asset quality also continued to improve in 2015, with the bank's non-performing loan (NPL) ratio reaching 1.34%, down from 1.5% in 2014. "We have managed to maintain superior asset quality through various economic cycles," says NBK's Group CEO, Issam Al-Sager.

Ratings agencies endorse this view. In March, Moody's reaffirmed its Aa3 long-term credit rating on NBK, which in part reflects what the agency describes as the bank's "exceptionally high loan loss coverage by provisions."

"NBK remains amongst the best-rated banks globally," says Al-Sager. "Our ratings have not changed in recent years despite mounting pressures on bank rating across the world."

Al-Sager adds that the bank's recent robust performance is an impressive testimony to the improvement in the operating environment in Kuwait. "2015 confirmed

our earlier view that Kuwait is moving into a new era of economic development," he says. "Activity is picking up as the government continues to deliver on awarding and implementing mega projects."

This buoyant investment activity, says Al-Sager, is symptomatic of the resilience of the Kuwaiti economy in spite of low oil prices. "Kuwait has ample liquidity and substantial buffers, putting the economy in a better position to face lower oil prices relative to other regional economies," he says. "We remain confident about Kuwait's economic outlook because the solidity of the country's finances will allow it to pursue its expansionary policies."

### A Strong International Presence

Beyond its market-leading presence in the domestic market, since its foundation in 1952 NBK has been committed to the development of its overseas franchise. Today, the bank has a presence in 15 countries, nine of which are in the MENA region, and international operations accounted for about 27% of NBK's bottom line in 2015.

"NBK enjoys a wide regional presence which strongly complements its Kuwaiti operations," says Al-Sager. "The performance of our international operations remains strong despite the challenges that have come with lower oil prices and uncertainty in the global economic outlook."

Al-Sager is upbeat about the outlook for NBK's international activities. He explains that the bank's strategy is to focus on consolidating its strong position in markets where it already has a presence, such as the GCC, where he says that NBK is well-positioned to leverage its position to generate future growth.



*"NBK enjoys a wide regional presence which strongly complements its Kuwaiti operations"*

**NBK's Group CEO, Issam Al-Sager**

Elsewhere in the MENA region, meanwhile, Al-Sager says that he is especially optimistic about NBK's prospects in Egypt, where the bank has more than 40 branches. "Improving business sentiment and political stability mean that Egypt continues to offer an exceptional growth opportunity, which is why NBK is targeting the strengthening of the bank's position in the market," he says.

Beyond the Middle East, Al-Sager reports that NBK's operations in Geneva, London, New York, Paris and Singapore all continue to enjoy strong inflows of capital and deposits, while in China the bank is in the advanced stages of upgrading its representative office to a fully-fledged branch.

### Continued Growth at Boubyan Bank

NBK's strategy of diversifying its activities in the domestic market has been exemplified in its decision to increase its stake in the Sharia-compliant entity, Boubyan Bank, to 58.4%. "This supports NBK's strategy of establishing a stronger presence in Kuwait's growing Islamic banking market and further diversifying its income stream, product offering and client base," says Al-Sager.

In 2015, Boubyan Bank continued to grow, lifting its deposit market share from 5.1% to 6.7%, and Al-Sager says that the bank is targeting a further increase by building on its credentials in private as well as corporate banking. Over the longer term, he adds, Boubyan Bank's uncompromising objective is to establish itself as one of the top five Islamic banks in the world.

### A Strong Capital Base

NBK's strong capital base was supported in 2015 by two highly successful debt issues of \$700m of additional tier one (AT1) capital securities and KD125m of tier 2 subordinated bonds, both of which were two times oversubscribed. "These capital increases underpin NBK's position as the largest and most systematically important financial institution in Kuwait," says Al-Sager.

At the end of December 2015, NBK's capital adequacy ratio reached 16.8%, comfortably in line with CBK and Basel III requirements.

### Company data

Total assets (June 2016):	KD24,067mn
Net profit (2015 v 2014):	KD282.2mn vs KD261.8mn
Return on assets (End 1H 2016 v 2015):	1.26% vs 1.22%
Return on equity (End 1H 2016 v 2015):	10.8% vs 10.5%
Cost to Income ratio (End 1H 2016 v 2015):	339% vs 32.2%
Tier I ratio (End 1H 2016):	149%



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# CIB:

## Egypt's Leading Private Sector Bank



CIB, which is Egypt's largest and most successful private sector bank, has an impressively resilient track record. This was in evidence once again in 2015, generating consolidated full-year revenues of EGP 10.2 billion and net income of EGP 4.73 billion, up 32% and 26% from 2014, respectively.

CIB's Chairman and Managing Director, Hisham Ezz Al-Arab, attributes this continued strength to a business model based on "consistent operational efficiency, visionary approach and customer-driven core banking strategy, along with dynamic balance sheet management." The result, he says, is that CIB has consistently delivered solid performance over the last several years in terms of margins and returns on equity.

"We have done this while meeting increasingly higher standards in liquidity and capital," Al-Arab adds. "Our fortress balance sheet is stronger than ever, as evidenced by our 2015 results and our performance in 2016." This strength is also reflected in the quality of CIB's assets. Currently, standalone non-performing loans represent 4.89% of the gross loan portfolio, and are covered 169% by the bank's EGP 5.6 billion loan loss provision balance. Loan loss provision expenses were EGP 216 million in the second quarter of 2016.

### A firm Believer in Egypt's Growth Story

The strength of its balance sheet means CIB is well-positioned to capture the wealth of opportunities in the Egyptian economy, which Moody's believes is poised to grow by 4% in 2017. Al-Arab is also upbeat about the prospects for the economy. "Given all the government's reforms, twinned with its commitment to infrastructure investment and its focus on financial inclusion, I can confidently state that the outlook for Egypt's economy in the next few years is and will remain positive," he says. "As a firm believer in Egypt's underlying growth story, CIB is committed to delivering superior performance and enhancing the Bank's financial condition and prospects, and continuing to drive real development in the economy, while producing value for our customers, employees and shareholders."

Al-Arab points to a series of key initiatives that

will underpin economic growth, revitalize the private sector and attract rising flows of inward investment to Egypt. Foremost among these is the government's commitment to mega developments such as the Suez Canal Industrial Zone, the Zohr gas field project and the 1.5 million feddan desert reclamation project. Another important government-led initiative is the introduction of value added tax (VAT), which Al-Arab says will promote broader financial inclusion by bringing Egypt's massive informal economy into the formal economy.



### Supporting Egypt's SMEs

For CIB, one of the most important, recent measures has been the release by the Central Bank of Egypt (CBE) of new instructions to the banking sector in support of lending to small and medium-sized enterprises (SMEs), which are the backbone of the economy.

"The CBE's SME initiative should have a positive impact on the corporate lending growth," says Al-Arab. "The new requirement to build up unsecured SMEs' lending portfolios to be at least 20% of banks' total loan portfolios by 2020, up from current levels of around 5%, will pave the way for a further boost for financial inclusion, alongside the general recovery in corporate lending." Specifically, the CBE is targeting an injection of EGP 200bn in SME lending over the next four years.

Nevertheless, for these new regulations to have the desired impact on banks, in addition to the unification of the SMEs definition in Banks' policies, credit assessment criteria, capital requirements and lending rationale applied to SME lending portfolio and activities, further



*"CIB is committed to driving real development in the economy and producing value for our customers, employees and shareholders"*

**Hisham Ezz Al-Arab, Chairman and Managing Director**

clarifications and regulations need to be put in place to ensure the smooth inclusion of these small and medium entities into the formal economy. "The situation is different at CIB, in the sense that we recognized the economic significance of the SME sector and its underlying potential early on, which is why we operate a dedicated department named Business Banking to serve this dynamic sector," he says. "Over the last couple of years, the team has been developing services and products specially tailored for the sector. This reaffirms the fact CIB is always ahead of its peers within the Egyptian banking sector and is geared towards expanding its operations in the retail market and lending to SMEs, and reaping the fruits of growth opportunities both sectors still have to offer."

Continued expansion and innovation in retail and SME banking is supported by CIB's investment in technology, which Al-Arab says remains at the top of the Bank's priority list. "We will continue working on the Bank's digital transformation journey, focusing on digital innovation and adoption," he says.

### Capital – the Name of the Game

At the end of the first half of 2016, CIB had a robust capital adequacy ratio of 14.04%, well above CBE requirements and Basel guidelines. "In a market where Capital is the name of the game, CIB has established a strong capital base that, not only allowed the Bank to excel and outperform despite slow economic growth, market volatility and heightened macro-economic challenges, but also distinguishes CIB with an advantageous market position despite having many players in the banking sector space."

"CIB has also managed to exceed the minimum required net stable funding ratio (NSFR), as per Basel III regulations, by building up a solid base of foreign-currency deposits throughout the past years, in order to meet international standards," adds Al-Arab.

### Company data

■ Total assets (June 2016):	EGP 195,379mn
■ Net profit (1H 2016 v 1H 2015):	EGP 2,756mn vs EGP 2,256mn
■ Return on assets (End 1H 2016 v 1H 2015):	2.94% vs 2.94%
■ Return on equity (End 1H 2016 v 1H 2015):	32.66% vs 30.47%
■ Cost to Income ratio (End 1H 2016 v 1H 2015):	23.76% vs 19.42%
■ Core Tier I ratio (End 1H 2016):	129.5%

# Samba:

## Maintaining its Leadership Position in Saudi Arabia

Samba traces its roots back to 1955, when Citibank set up its first Saudi Arabian banking operation in Jeddah. Renamed Saudi American Bank in 1980, this became Samba Financial Group in 2003 when full local management control was established, soon after which Citi sold its last remaining 20% to local shareholders.

Today, Samba is widely recognised as one of the most innovative and successful banks in the GCC. In 2015, it continued to build on its impressive track record against the backdrop of a challenging macro-economic conditions, posting an increase in assets of 8.2%, with deposits and loans rising by 4% and 4.8% respectively and net income expanding by 4.1%. “Our strategy of prioritising customer service excellence, best-in-class risk management, earnings sustainability, robust liquidity and strong capitalization has helped us to deliver strong financial results in 2015,” says Samba’s Chairman, Eisa Bin Mohammed Al-Eisa.

“The overarching strategic plan places the customer at the centre of all our activities and encompasses every facet of banking business, promoting the growth of risk assets within acceptable risk parameters, maintaining liquidity and capital buffers well in excess of regulatory requirements and adopting a prudent risk management framework thereby ensuring a superior profitability matrix”, he adds.

The strength of Samba’s business model and risk management has been recognised by ratings agencies. “Samba has been successful in maintaining its leadership position with the affirmation of its credit rating from the major international rating agencies,” says Al-Eisa. “These ratings are testament to the bank’s financial position, outstanding levels of liquidity, sustainable profitability, high quality assets and capital adequacy.”

### Vision 2030

Analysts believe that the prospects for growth in the Saudi Arabian financial services industry are more compelling today than they have been for many years. The government’s Vision 2030 blueprint for boosting non-oil revenues, promoting increased private sector participation

and capital market liberalization will all combine to create a wealth of opportunities for banks and investors. As Moody’s comments in a recent update on the Saudi economy, “the development of the non-oil economy in Saudi Arabia will also be credit positive for banks because it will boost credit growth, which has historically been closely correlated to non-oil GDP growth. Similarly, a number of planned reforms through 2020 target material improvements in productivity and competitiveness, which will likely improve the operating environment for banks.”

Al-Eisa is equally upbeat about the implications of Vision 2030 and the National Transformation Programme (NTP 2020) for growth, diversification



and capital inflows, all of which will be positive for Samba. “We strongly believe that the NTP 2020 is an appropriate framework to guide the country away from its long-standing dependence on oil and move the fiscal position on to a sustainable footing,” he says. “The Saudi banking sector, which is based on strong fundamentals, is well-positioned to reap the benefits of NTP 2020 which will increase banks’ access to new customers, strengthen their financial base, and create new opportunities for market expansion and risk diversification.”

### A Commitment to Investment in Technology

Pivotal to Samba’s strategy for continued growth is its commitment to investment in technology. “Samba’s vision of being the market leader and in terms of customer service has pushed our Operations and Technology department to embrace the latest



*“We believe our financials clearly stand out relative to other Saudi and regional banks”*

**Eisa Bin Mohammed Al-Eisa, Chairman, Samba**

and best-in-class cutting edge technological solutions for business process improvements and enhanced customer experience, both in retail and corporate business segments,” says Al-Eisa.

Al-Eisa says that in 2015 alone, more than 70 technology projects were delivered. He adds that the bank is currently in the advanced stages of migrating to an industry-leading multi-dimensional core banking platform designed to allow Samba to structure products more efficiently and gain a competitive edge in the global market. Additionally, the bank has launched an ambitious plan to implement the COBIT framework for IT governance and has started work on a new Tier 3+ data centre.

### International Activities

Beyond the domestic market, Samba has become increasingly active overseas in recent years, acquiring a majority 68.4% stake in Crescent Commercial Bank in Pakistan in 2007, opening a branch in Dubai in 2008 and becoming the first Saudi bank to establish corporate and investment banking operations in Qatar in 2010.

All the bank’s international operations are performing well. Samba Pakistan, for example, posted a growth in profits of more than 90% last year, making a healthy contribution to the group’s overall profits. “Samba continues to build and strengthen its leading role in the banking sector both locally and regionally,” says Al-Eisa. “The group will continue to pursue investment opportunities which can achieve a high level of profitability and returns to shareholders.”

### A robust Capital and Liquidity Profile

Samba’s capital and liquidity profile suggests that the bank is well-positioned to build on its impressive growth track record. Today, the bank’s capital adequacy and core tier 1 ratios stand at 20.1% and 19.5% respectively, while its loan to deposit ratio of close to 76% is among the lowest in the Kingdom’s banking sector. “We believe our financials clearly stand out relative to other Saudi and regional banks,” says Al-Eisa.

### Company data

■ Total assets (June 2016):	SAR 234bn
■ Net profit (2015):	SAR 5.2bn
■ Core Tier I ratio (End 1H 2016):	20%

# Bank Audi:

## Lebanon's Regional Universal Bank

The largest bank in Lebanon and the 21st largest in the MENA region by assets, Bank Audi's recent story has been one of continuous growth and expansion. In 2015, it built on its impressive track record by posting a 15% increase in consolidated net profits, underpinning a rise from \$350m to over \$400m. Assets reached \$42.27bn by the end of the year, while loans rose to almost \$18bn, with deposits remaining stable at \$35.6bn.

Samir Hanna, Bank Audi's Group CEO, attributes this robust performance to productivity gains and improved efficiencies in Lebanon, and to double-digit growth in banking activity in bank's operations in Turkey and Egypt. "In those countries, Bank Audi outperformed its domestic peers in 2015 in terms of assets, loans and deposit growth, adding a few basis points to its market share," he says. "Those results are even more significant given that they were achieved at a time when the MENA region is facing significant challenges."

Hanna says he remains confident about the outlook for Bank Audi in spite of the geopolitical headwinds blowing across the region. "The 2016 outlook is promising, with net profits having grown by 11.7% in the first half of the year," he says.

Hanna notes that Bank Audi's international operations accounted for more than 51% of this growth. This suggests that the bank is well on track to achieving its objective of becoming a leading regional universal bank, playing a key role in financial intermediation and trade finance in all 13 countries in which it now has a presence.

"The slowdown in global economic growth and lingering regional uncertainties have obviously constrained the expansion of regional trade," says Hanna. "However, we still believe that the region has strong potential on the back of more than \$100bn of regional foreign trade last year."

### Promising Prospects in Egypt and Turkey

This augurs well for Bank Audi's operations in Egypt and Turkey, which have been notable drivers of growth in recent years. As Hanna says, Bank Audi is now the seventh largest private bank in Egypt with assets of \$4.6bn, giving it one of the most visible franchises in the local market. "We think that economic prospects in Egypt remain favourable on the back of strong international support and structural reforms," says Hanna. He adds that Bank Audi's new development plan in Egypt is based on the expansion of the bank's local network and the extension of its range of products and services to cover new business

segments. This should translate into a doubling of Bank Audi's assets and earnings in Egypt over the next four years, according to Hanna.

In Turkey, meanwhile, impressive organic growth at Bank Audi's local subsidiary – Odea Bank – has seen its assets reach \$11bn after just three years of operations, making the bank the 9th largest among Turkey's 33 conventional private banks. Hanna sees no reason why recent events in Turkey should slow this growth, given the country's demographics and growth trajectory. "We believe that the financial and macro implications of recent developments in Turkey are mostly manageable in an economy relying on vibrant domestic demand and which has shown encouraging resilience in recent years," says Hanna.

Hanna adds that following its recent TL1bn capital increase, which was partially subscribed by the IFC and EBRD alongside several regional



*"Bank Audi is well on track to become a leading regional bank"*

**Samir Hanna,**  
Bank Audi's Group CEO



specific bank coverage ratios in the market for retail and SME financing clearly indicate that the market is far from saturated," he says. "Additionally, the fact that the Lebanese economy is nowadays operating only at 75% of its full capacity is allowing for organic growth opportunities in commercial and corporate banking."

With the support of international partners such as the IFC, Bank Audi is committed to helping this gap to narrow by upgrading its SME financing proposition.

investors, Bank Odea is now preparing for its next growth phase. Hanna says that the proceeds of the capital increase will be used to support increased lending to SMEs and investment in Odea Bank's digital banking channel.

### Scope for Expansion in the Domestic Market

Hanna says that the relatively small size of the Lebanese economy may have created the impression that growth opportunities in Bank Audi's home market are limited. "However,

### A Regular Borrower in the International Market

Bank Audi accesses regularly international capital markets for long-term debt and equity issues. Investors have consistently demonstrated their confidence in Bank Audi's strategy and prospects, giving a warm reception to the issues the bank has made in recent years, most notably the recent US\$300mn common capital increase closed in September 2014. Hanna says the bank will continue to access markets as and when the need and opportunity arises.

### Company data

■ Total assets (June 2016):	\$41,938mn
■ Net profit( 2015 v 2014):	\$403mn v \$350mn
■ Return on assets (End 1H 2016 v 2015):	1.09% vs 0.96%
■ Return on equity (End 1H 2016 v 2015):	14.90% vs 13.63%
■ Cost to Income ratio (End 1H 2016 v 2015):	53.28% vs 54.43%
■ Core Tier I ratio (End 1H 2016):	8.9%

# Investor Relations within Your Reach

Because Bank Audi believes that communication and transparency are key to sound growth, it has now placed at your disposal an efficient tool that will contribute to make your investments a success.

With the Bank Audi Investor Relations app, investors, analysts, stakeholders and the wider community have easy access to key data on the Bank including facts and ratios, annual reports, quarterly releases, shares and dividends, Corporate Governance and Compliance, milestones and awards, and other related IR information.

Bank Audi being present in 13 markets in the MENA, Europe and Turkey, its IR mobile app is your perfect gateway to the various facets of the institution.

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## Bank Audi



[bankaudigroup.com](http://bankaudigroup.com)

# Ahli United Bank: Delivering Stakeholder Value Across the Board

**A**hli United Bank (AUB) is the product of a merger in May 2000 between United Bank of Kuwait (UBK) and Al-Ahli Commercial Bank. Today, it is one of the most successful banks in the Middle East, posting record income in 2015 of \$537.2m, up 11.3% over 2014. Net income continued to expand in the first half of 2016, rising by a further 8.2% in spite of the uncertain operating environment.

AUB's CEO, Adel El-Labban, puts the strength of the bank's recent results primarily down to sustained core operating earnings across its major lines of business and markets. "The key drivers of AUB's record performance were robust growth in interest income of 6.7%, underpinned by a healthy loan book which grew at 4.8% and an increase in the net interest margin (NII)," says El-Labban. "The NII growth was a product of moderated growth in lending volumes twinned with prudent



deployment of liquidity in non-trading, high quality investments within a conservative and well-diversified risk framework."

NII margins, says El-Labban, were also supported by focused liability cost management and by a 4.1% rise in fees and commissions driven by increased corporate and retail lending.

El-Labban adds that profitability at AUB has also been buttressed by the bank's "Intelligent Spend" culture, which helped restrict the cost to income ratio for the year to just 28.3%.

## Maintaining high Asset Quality and Delivering Shareholder Value

Continued growth at AUB has not been at the expense of asset quality, in spite of weaker economic growth and depressed commodity prices, with the non-performing loan (NPL) ratio falling from 2% at the start of 2015 to 1.8% at year end. The bank's highly conservative NPL coverage ratio, meanwhile, continued to rise, from 159% to 182% at the end of 2015.

El-Labban is confident that AUB can withstand these same headwinds going forward. "AUB

remains cautiously confident of its resilience and ability to maintain its strong performance, underpinned by its diversified business model, strong operating fundamentals and prudent, proactive management of risks and costs," says El-Labban. "At the same time, AUB will continue to pursue its well-defined strategy of increasing cross-border flows."

## Expansion in Dubai

Beyond enhancing shareholder value through investment in technology, AUB also continues to identify promising areas of growth, both overseas and at home. In March 2016, for example, AUB launched its banking operations in the Dubai International Financial Centre (DIFC), through its wholly-owned subsidiary, Ahli United Bank Ltd (AUBL), which became the first bank in the GCC to receive a Category 1 License from the Dubai Financial Services Authority (DFSA).

As El-Labban explains, this was an important landmark for AUB. This is because it allows the bank to offer corporate and private banking services as well as wealth management, trade finance, treasury and cross-border financial products and services to clients based in the UAE and across the wider Middle East region. All these products are available both on a conventional and Sharia-compliant basis through AUBL.

"Our new subsidiary provides a platform allowing us to manage and grow our UAE business and to cater to the cross-border corporate and private banking needs of our clients," says El-Labban.

## Growing by Acquisition

As part of its commitment to continued growth and diversification, AUB proactively monitors opportunities to expand its banking franchise through new acquisitions. A recent example of inorganic growth was AUB's acquisition in March 2016 of a 40% stake in MEFIC Capital, a leading independent in-



*"AUB remains confident of its ability to maintain its strong performance, underpinned by its diversified business model"*

**Adel El-Labban, CEO & MD**

vestment company operating under the regulations of the Saudi Arabian Capital Market Authority.

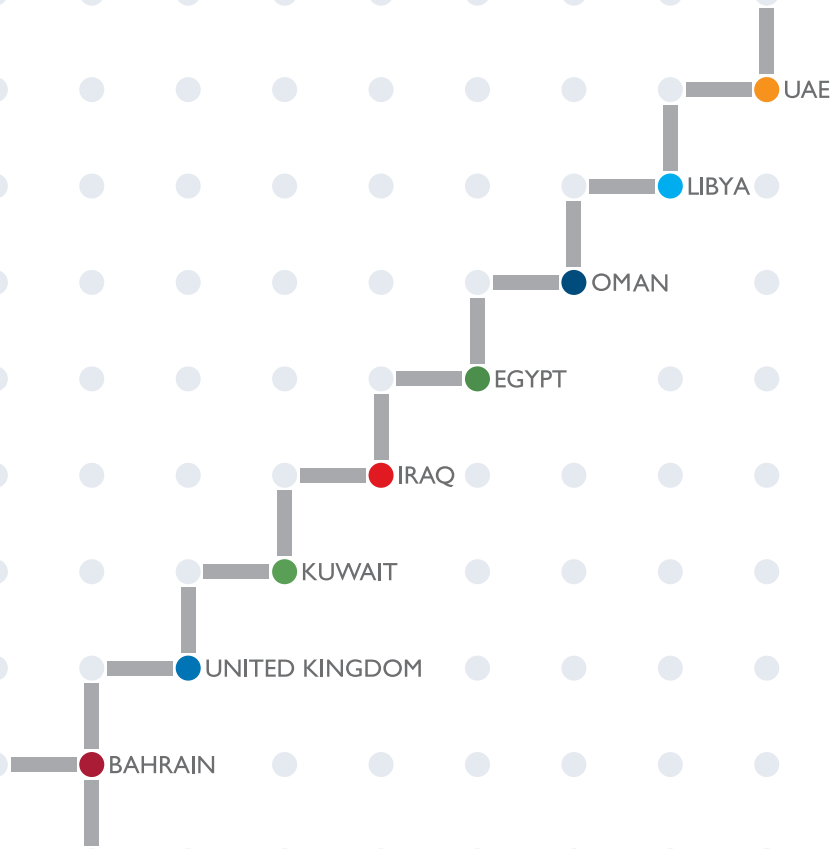
Previously, El-Labban explains, the bank's stake in MEFIC was held through AUB's Kuwaiti subsidiary, KMEFIC. Moving this strategic holding to a direct ownership structure, he says, is a signal of AUB's intensified focus on opportunities in the important Saudi market. "It is our intention to co-operate very closely with MEFIC in developing KSA-centric as well as cross-border private and investment banking opportunities," says El-Labban.

## A Popular Issuer in the International Market

AUB's continued success has been recognised by the international investment community, which gave a warm response to a \$400m issue of additional tier 1 (AT1) perpetual Basel III-compliant securities in April 2015. Strong demand from high-quality international and regional investors exceeded \$650m, allowing this transaction to be increased from its initial launch size of \$300m. "This was the first issuance of Basel III-compliant AT1 securities from a bank in Bahrain and represented an important step forward in the evolution and diversification of the Group's capital structure to ensure solid support for AUB's organic and inorganic business plans," says El-Labban.

## Company data

■ Total assets (Q1 2016):	\$34,588mn
■ Net profit (2015 v 2014):	\$537.2mn vs \$482.5mn
■ Return on assets (End Q1 2016 v 2015):	2.0% vs 1.7%
■ Return on equity (End Q1 2016 v 2015):	17.6% vs 16.0%
■ Cost to Income ratio (End Q1 2016 v 2015):	28.1% vs 28.3%
■ Core Tier I ratio (End Q1 2016):	11.7%



## CONNECTING FOR GROWTH

Through our strategy of organic growth and acquisitions, we continue to strengthen our position in the region. Take advantage of our reach and grow with us.



# Bank of Palestine:

## Helping to Build a Modern Palestinian Society

**B**ank of Palestine (BOP), which is comfortably the largest financial institution in the West Bank, continued to post healthy growth in 2015. Net profits rose by 7.3%, buttressed by deposit growth of almost 9% and an increase in the loan portfolio of more than 20%.

BOP's Chairman and General Manager, Hashim Shawa, says the prudence and dedication of the bank's board of directors has played an important role in securing another year of strong growth. But he adds that above all, it is the resilience of the Palestinian population that has been the engine of continued expansion at BOP, which is the dominant bank in the country with market shares of around 23% in deposits and 24% in loans. "This innate adaptability and resilience to adversity has helped insulate Palestine from global economic ailments and tremors," says Shawa.



### Supporting Small Businesses and Women

Shawa adds that BOP itself, which has 61 branches located throughout the country, has made a point of moving closer to its customers and paying special attention to the needs of small and micro businesses. It has also invested resources in providing banking services for women and in promoting financial literacy.

Aside from helping to build a loyal customer base, this attention to the specific needs of borrowers has generated high asset quality at BOP, which posted a non-performing loan (NPL) ratio of just 1.7% at the end of 2015. Shawa says that he has been pleasantly surprised by this low ratio, which he believes is an indication of the strong the repayment culture among the bank's customers, especially among SMEs and women.

Against this backdrop, a pivotal component of BOP's strategy is to increase the share of SMEs and women borrowers in its loan portfolio, while reducing government lending, in order to safeguard asset quality and enhance diversification.

Shawa says that SME lending accounts for 19% of BOP's loan portfolio today, but adds that as smaller companies contribute 85% of business activity in Palestine there is plenty of scope for growth. "To cater to this sector and to ensure that NPLs remain low, we recognise that we need to invest in financial and non-financial awareness as well as in advisory services," he adds. "In response to demand from the SME sector, in 2015 BOP launched a campaign dedicating \$200m to MSMEs aimed at increasing the credit available to this segment of the economy."

In order to further extend opportunities across the population, meanwhile, BOP also launched a special programme in 2015 named "Felestineya", which is designed to strengthen economic and social empowerment for women. Shawa says that this programme, which aims to reach 1000 women, has already increased the share of female employees at the bank to 32%, and provided financial awareness sessions for 900 women last year. The programme has also made loans available to female borrowers without collateral.

With youth unemployment at 50%, however, and with early stage finance for entrepreneurs scarce, there are other sections of society in urgent need of support from the local banking system. BOP has responded to this gap in the market by establishing



*"Resilience to adversity has helped insulate Palestine from global economic ailments and tremors"*

**Hashim Shawa, Chairman and General Manager**

the \$10m Ibtikar Fund, the objective of which is to invest selectively in Palestinian early stage innovative ventures, primarily in the ICT sector.

BOP also supports the growth and development of a modern Palestinian society through investment in electronic banking services for local enterprises. In partnership with its PalPay® subsidiary, for example, the bank has launched Palestine's first mobile application for bill payments and fund transfers. "We have a very dynamic IT department, and we see PalPay as part of our expansion in FinTech," says Shawa.

### Expansion at Home and Abroad

In order to support continued growth in the domestic market, BOP has recently announced two strategic acquisitions. The first will see the operations of the local Palestine Commercial Bank (PCB) merged with BOP in a share swap which will increase BOP's paid-up capital by \$10m. The second was the acquisition of an additional 31% stake in Arab Islamic Bank (AIB), which gives BOP a majority 52% holding in a key player in the Palestinian market for Sharia-compliant financial services. "The market coverage of Islamic banking is still only at 11%, while the potential is estimated at 25%, so the growth prospects are very promising," says Shawa.

Internationally, meanwhile, BOP is committed to serving more than 7 million Palestinians living in the diaspora. In 2015, the bank opened a representative office in the Dubai International Financial Centre (DIFC), and it will soon be opening a second outlet in Santiago de Chile to serve the country's 500,000 Chileans of Palestinian origin.

### Robust Liquidity and Capital

With a loan to deposit ratio of just under 62%, a liquid assets ratio of 37% and a capital adequacy ratio of 14.56%, BOP is confident that its liquidity and capital profile will support the bank's future growth plans

### Company data

Total assets (June 2016):	\$3.8bn
Net profit (1H 2016 v 2015):	\$24.4mn vs \$22.7mn
Return on assets (End 1H 2016 v 2015):	1.25% vs 1.55%
Return on equity (End 1H 2016 v 2015):	12.47% vs 14.12%
Cost to Income ratio (End 1H 2016 v 2015):	61.7% vs 60.11%
Core Tier I ratio (End 1H 2016 v 2015):	12.43% vs 15.5%

# Kuwait Finance House: Focusing on its Core Strengths

**K**uwait Finance House (KFH) was originally established as the world's first dedicated Islamic bank in 1977. Today, it remains among the leading Sharia-compliant banks in the world as well as one of the most successful financial services companies in the Middle East.

In the first half of 2016, net profits rose by 13.6% to KD70.9m, while net operating revenues expanded by 14.4% to KD166m. In the same period, assets increased by 3.2% to KD17.03bn, loans rose by 4.4% to KD8.45bn, and total deposits grew by 2.6% to KD14.2bn.

"Growth has been driven by KFH's focus on its core banking business, as well as by financing mega projects," says Mazin Al-Nahedh, CEO. As an example, he points to KFH's role as a lead arranger on the first KD1.2bn (\$3.98bn) 10 year tranche of the financing of the showcase Clean Fuel Project for the Kuwait National Petroleum Company (KNPC), signed in April. Part of Kuwait's ambitious KD30bn economic development plan, the Clean Fuels Project will upgrade and expand two of the country's largest refineries, with a focus on producing higher-value products such as diesel and kerosene for export.

Al-Nahedh says that KFH's robust performance in the first half of this year bodes well for continued expansion, driven by growth in its core banking activities. "The profits realized in the first half of the year reflect the bank's resilience and its capacity to adapt to market volatility," he says.

This resilience, adds Al-Nahedh, has been recognised by external analysts. For example, Capital Intelligence Ratings has recently affirmed KFH's rating with a stable outlook, which is anchored by the bank's dominance in Islamic banking and its large market share in financing and deposits.

## Benefiting from Diversification

Al-Nahedh's confidence is also underpinned by what he describes as KFH's "almost negligible" exposure to the oil sector, which will shelter the bank's financing portfolios from the impact of low commodity prices. More broadly, he says that the government has set aside a number of reserve facilities to counter lower oil prices, such

as the General Reserve Fund, the Kuwait Future Generations Fund and others.

Equally significant as a safeguard against any negative impact of low oil prices is Kuwait's commitment to promoting economic diversification and infrastructure investment of more than \$100 billion, which has been enshrined in the government's new five year plan.

KFH's strategy is constructed around optimising its results for its staff, delivering high quality services for its customers and maximising returns for its stakeholders through sustainable growth in earnings and disengagement from non-strategic investments. It was the bank's renewed focus



on its core strengths, for example, that recently led the Board of Directors to approve the sale of KFH Group's interest in its Aref Investment Group (AIG) subsidiary.

In the domestic retail market, KFH is recognised for having one of the largest and most loyal customer bases in the region, where the bank is



*"Profits in the first half of the year reflect the bank's resilience and its capacity to adapt to market volatility"*

**Mazin Al-Nahedh, CEO**

also highly regarded as the leader in providing the widest portfolio of financial services for corporate and retail customers alike. To maintain this cutting edge, KFH is committed to investing in the technology required to deliver first-class banking services to its customers. "KFH is keen on offering the best e-services on every platform that make use of the latest technological innovations in the banking field," says Al-Nahedh. "This is a good complement to the largest ATM network among the local banks."

## Expanding the International Footprint

KFH is also committed to building a sustainable international footprint. Since 1989, it has had a successful operation in Turkey, where it is now the leader in the local participation (Islamic) banking sector with market shares of 35% in assets, 37.5% in credits and 37.9% in deposits. Given that participation banks still account for just 6% of total assets in the Turkish banking system - a share which the government would like to see rise to 15% by 2025 - Al-Nahedh is confident that KFH's operation in Turkey will continue to grow and thrive.

In Europe, meanwhile, KFH's goal is to use its successful German franchise, KT Bank AG, as a platform for penetrating the Eurozone market and extending KFH's credentials in the issuance of sukuk and the distribution of Sharia-compliant investment funds. KFH will also use its German operation to develop new instruments that can help the growth in trade between Germany and the other countries in which KFH operates.

## Capital and Liquidity

KFH's capital adequacy ratio (CAR) of 17.21% is comfortably above the Kuwaiti regulatory authority's minimum requirement of 13%. As Al-Nahedh points out, KFH also maintains a high level of general provisions which are in line with the central bank's instructions to Kuwaiti banks to book substantial precautionary provisions against non-performing loans (NPLs).

## Company data

Total assets (June 2016):	KD17.03bn
Net profit (2015 v 2014):	KD145.8mn vs KD126.5mn.
Core Tier I ratio (End 1H 2016):	172.1%

# Bankmed: Continued Healthy Growth

**T**racing its roots back to 1944, Bankmed is one of Lebanon's longest-established and most successful banks. During the last five years, its net profit increased by a cumulative average rate of 6%, while total assets grew by 7% over the same period.

"The bank's healthy progress is attributable to its diversified business model as well as its continued expansion in local and regional markets," says Bankmed's Executive General Manager, Mohamed Ali Beyhum. In 2015, Bankmed continued to build on the success of recent years, posting an increase in net assets from \$15.4bn to \$15.6bn, and a rise in net income from \$133m to \$139m. Total loans reached \$5.1bn at the end of 2015, while customer deposits stood at \$12.1bn.

Following another strong set of results for the first half of 2016, during which net income rose to \$77.1m, compared with \$75.4m in the same period in 2015, Beyhum is confident that Bankmed will post another robust performance this year, for several reasons.

## The Resilience of Lebanon's Economy and Banking Industry

The first is the resilience of the Lebanese economy, which grew at an annual average rate of 2% between 2011 and 2015. As Beyhum explains, the Lebanese banking sector is a major pillar of the country's economy. "With assets exceeding 360% of GDP and with strong asset quality and robust funding capacity, the banking sector plays an anchor role in the economy," he says.

Beyhum adds that a combination of a high deposit base, a healthy private sector loan book and a supportive central bank means that the Lebanese banking industry is well-positioned to withstand the headwinds of macro-economic uncertainty. "Given its size, high liquidity, solid capital adequacy and rigorous regulatory framework, the banking sector has the capacity to continue to weather shocks," he says.

The second reason for Beyhum's confidence in

Bankmed's prospects for 2016 and beyond is the strength of the bank's domestic franchise, spanning corporate and retail banking and investment management, with all business activities supported by investment in technology. "While it still holds one of the largest corporate portfolios in the Lebanese market, covering top tier clients across a range of industries, Bankmed has also been witnessing significant growth in retail banking," says Beyhum, adding that the bank is continuously monitoring opportunities to add to its network of 62 branches.

## Supporting SMEs

Support for small and medium sized enterprises (SMEs) is also a key component of Bankmed's operating model in the domestic market. Beyhum says that the bank's SME portfolio has grown by an average of about 20% per annum over the last five years, and the unit's headcount has been enlarged accordingly to support this growth. Green lending has also surged, recording cumulative growth of 90% over the last five years.

Bankmed has launched a series of initiatives with local and international partners to strengthen the bank's support for SMEs, including a long-term financing programme developed in co-operation with the SANAD Fund for MSME, which was originally set up by KfW of Germany in 2011.

In microfinance, meanwhile, Bankmed's subsidiary, Emkan Finance, has been instrumental in addressing the needs of small-scale entrepreneurs, providing 60,000 loans worth more than \$145m over the last five years. Today, says Beyhum, Emkan has about 14,000 active clients among the low-income segment of the population, which under-

scores Bankmed's broader commitment to corporate social responsibility (CSR).



*"The bank's healthy progress is attributable to its diversified business model as well as its continued expansion in local and regional markets"*

**Executive General Manager,  
Mohamed Ali Beyhum**

## Selectively Building an International Presence

Bankmed has been selectively extending its international presence over the last decade. For example, it was one of the first MENA entrants into the Turkish market, acquiring a local commercial bank, Turkland (T-Bank) in 2007. T-Bank, which has a network of 35 branches located throughout Turkey, provides a comprehensive range of treasury, cash management and trade finance services. In 2013, Bankmed diversified its Turkish franchise with the acquisition of the local insurance company, Demir Sigorta, which mirrors the bank's expansion of its presence in the Lebanese insurance sector. Beyhum says that in spite of recent political turbulence, he remains confident about the prospects for T-Bank, which he says continues to perform well, delivering on Bankmed's conservative growth strategy in Turkey.

Beyhum is also optimistic about the long-term prospects for its operations in Iraq, where Bankmed has three branches in Baghdad, Basra and Erbil.

In the GCC, meanwhile, Bankmed's wholly-owned subsidiary, SaudiMed Investment Company, gives the bank an important foothold in the Saudi Arabian market, where liberalisation of the capital market is opening up new opportunities in investment banking. Since February 2015, Bankmed and its fully owned subsidiary, MedSecurities Investment, have also had a presence in the Dubai International Financial Centre (DIFC), which is the principal hub for financial and trade activities in the region. "Bankmed DIFC posted positive results in its first year, posting significant balance sheet growth," says Beyhum.

With a capital adequacy ratio (CAR) of 15% and a liquidity ratio of almost 30% - both of which are comfortably above the regulatory minimum - Bankmed is well-positioned to achieve further growth over the coming years.



## Company data

Total assets (June 2016):	\$159bn
Net profit (End 1H 2016 v 2015):	\$77.1mn vs \$139.1mn
Return on assets (End 1H 2016 v 2015):	0.98% vs 0.90%
Return on equity (End 1H 2016 v 2015):	10.13% vs 9.21%
Cost to Income ratio (End 1H 2016 v 2015):	58.34% vs 48.27%
Core Tier I ratio (End 1H 2016):	13.54%

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# Doha Bank:

## Robust Performance at Home and Abroad

Incorporated in 1979, Doha Bank is Qatar's third largest conventional bank by assets, with a market share of about 7.4%. Domestically, it is the second largest retail bank, with 30 local branches, 19 e-branches, one active mobile unit and over 120 ATMs as of the end of June, 2016.

Internationally, meanwhile, Doha Bank has one of the largest networks among Qatari banks, with branches in the UAE, Kuwait and India, and representative offices spread across Europe, the Middle East, Africa and Asia Pacific. Doha Bank's international assets, which grew at a compound annual growth rate of 21% between 2011 and June 2016, now account for about 20% of the bank's total assets.

Doha Bank is adequately capitalised with a total capital adequacy ratio (CAR) of 16.08% as at 30 June 2016. Its ongoing programme for EMTN, CP and ECP issuance means the bank is well-positioned to enhance its liquidity profile going forward.

### Continued Growth

Doha Bank has posted robust growth over the last five years. Between 2011 and 2015, total assets rose from QAR52.7bn to QAR83.3bn, while net loans and advances increased over the same period from QAR31bn to QAR55.6bn, with customer deposits expanding from QAR31.7bn to QAR52.8bn. Total revenue, meanwhile, climbed from QAR2.9bn in 2011 to QAR3.7bn in 2015, with net profit rising over the period from QAR1.24bn to QAR1.37bn.

Continued rapid growth has been accompanied by the preservation of strong asset quality. As of June 2016, Doha Bank's NPL ratio reduced to 2.89%, while the loan loss coverage ratio had reached 117%.

In the first half of 2016, net profits reached QAR708m despite continued weakness in commodity prices and economic uncertainty across the region, while total assets grew by 5.6%, net loans and advances increased by 4.5% and deposits rose by 1.3% year on year. "The growth in net loans and advances was predominantly due to focused lend-

ing to the services, trading and real estate sectors, while the rise in deposits was driven largely by growth in corporate deposits," says Doha Bank's CEO, Dr. R. Seetharaman.

"On a prudential basis, loan growth is expected to be single digit in 2016 and would continue to accelerate thereafter, while the bank expects to maintain its NPL ratio" he adds.



### The Diversification Dividend

Much of the expected growth in the Qatari banking industry over the next five to 10 years will be driven by the continued diversification of the economy away from its historical dependence on hydrocarbons. This is a process that has gathered notable momentum over the last 15 years, with the share of oil and gas having already fallen from 60.4% of GDP in 2000 to 36.3% in 2015.



*"Non-hydrocarbon diversification is going to be one of the key drivers of Qatar economy"*

**Dr. R. Seetharaman, CEO**

"Doha Bank believes that non-hydrocarbon diversification is going to be one of the key drivers of the economy, with the construction sector playing an important role in this process," says Dr. R. Seetharaman. "Recent statistics show that the Qatari economy grew by 3.7% in 2015, with construction sector the leading contributor to this expansion, growing at 17.8%."

In 2016, Dr. R. Seetharaman adds, construction is forecast to grow at 9.9%, once again acting as the main motor of Qatar's projected economic growth of 3.9%. "Through its expertise in project finance, Doha Bank will play an active role in supporting the growth of the construction sector," says Dr. R. Seetharaman. He says that major infrastructure projects worth more than QAR50.6bn have been identified in Qatar's 2016 budget. These range from transportation developments such as railways, the new Doha port and several large roads, to the expansion of electricity, water and sewage networks.

Dr. R. Seetharaman believes that infrastructure investment in the region would be supported by the promotion of a market for projects bonds, which Doha Bank would play an active role in nurturing. "Doha Bank would also leverage its existing relationships to bring together long term investors for these bonds," he says.

Dr. R. Seetharaman further added that "The diversification of the Qatar economy is not feasible without the SME sector, which is also the backbone of the economy," he says. "This is why Doha Bank is committed to providing financing solutions through 'Tatweer' and 'Al Dhameen' products, which have been designed specifically for SMEs."

### International Expansion

In line with its international expansion strategy, Doha Bank is also looking to capitalize on the synergistic trade opportunities that exist between Qatar, the GCC and India. Building on this strategy, the bank has recently opened a representative office in Bangladesh and inaugurated its relocated branch in Kochi, India.

### Company data

Total assets (June 2016):	QAR 87.36bn
Net profit (2015 v 2014):	QAR 1.37bn vs. QAR 1.36bn.
Return on assets (End 1H 2016 v End 2015):	1.66% vs 1.73%
Return on shareholders' equity (End 1H 2016 v End 2015):	15.7% vs. 16.1%
Cost to income ratio (End 1H 2016 v End 2015):	36.9% vs. 36.7%
Core Tier I ratio (End 1H 2016):	10.60%
Total CAR (End 1H 2016):	16.08%



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# What's happening Saturday, October 8

## Seminar Pick

**2.00pm - 3.15pm**

Seminar: **Emerging markets' response to recent exchange rate pressures**

Moderator: **Maurice Obstfeld**, Economic Counsellor, Director of Research, IMF; **Lesetja Kganyago**, Governor of Reserve Bank of South Africa; **Veerathai Santiprabhob**, Governor of Bank of Thailand; **José Uribe**, Governor, The Central Bank of Colombia; **Karen Dynan**, Assistant Secretary for Economic Policy and Chief Economist, U.S. Department of the Treasury

Location: George Washington University, Jack Morton Auditorium



## Don't Miss

**6.00pm**

**GlobalMarkets Awards**

Reception and Ceremony 2016

Finance Minister and Central Bank

Governor of the year, Best sovereign DMO and

Best government infrastructure strategy

Recipients: Followed by drinks

**Winners:**

**César Purisima**, Former Finance Minister, Philippines; **Zhou Xiaochuan**, Central Bank Governor, China; **Mohammad Ishaq Dar**, Finance Minister, Pakistan

**Raghuram Rajan**, Former Central Bank Governor, India; **Mohamed Boussaid**,

Finance Minister, Morocco; **Abdulla Bin Saoud Al-Thani**, Central Bank Governor,

Qatar; **Andrej Babiš**, Finance Minister, Czech Republic; **Elvira Nabiullina**, Central

Bank Governor, Russia; **Claver Gatete**, Finance Minister, Rwanda; **Patrick Njoroge**,

Central Bank Governor, Kenya; **Julio Velarde**, Finance Minister, Peru; **Alfonso Prat-**

**Gay**, Central Bank Governor, Argentina; **Marco Archer**, Finance Minister, Cayman

Islands; **Brian Wynter**, Central Bank Governor, Jamaica

Location: Willard Room Willard InterContinental Hotel

1401 Pennsylvania Avenue NW



## Main Event

**5.00pm - 6.00pm**

Per Jacobsson Lecture

Are we safer? The case for updating Bagehot

Speaker: **Timothy Geithner**, President, Warburg Pincus, and former Secretary of the US Treasury and President of the New York Federal Reserve

Location: IMF HQ1 Atrium



**10.00am - 11.00am**

Seminar: **Preventing violent conflict through development**

Moderator: **Kim Ghattas**, International Affairs

Correspondent, BBC

Speakers: **Jim Yong Kim**, President, World Bank Group; **Børge Brende**, Minister of Foreign Affairs, Norway; **Amina Mohamed**, Minister, Foreign Affairs and International Trade, Kenya; **Ellen Johnson Sirleaf**, President, Liberia

Location: World Bank Group MC Building, Jim Wolfensohn Atrium

**11.00am - 12.30pm**

Seminar: **State of the Africa region**

Moderator: **Julie Gichuru**, TV Host, Africa Leadership Dialogues

Speakers: **Makhtar Diop**, Vice-President for Africa, World Bank; **Albert Zeufack**, Chief Economist, Africa Region, World Bank

Location: World Bank Group J Building, J B1-080

**12.00pm - 1.30pm**

Seminar: **Ensuring an enabling environment for digital development**

Moderator: **Nancy Scola**, Senior Technology Reporter, *Politico*

Speakers: **David Burrows**, Managing Director, International Organisations, Worldwide Public Sector, Microsoft Corp; **Pierre Guislain**, Senior Director, Transport & ICT Global Practice, World Bank Group; **Mats Granryd**, Director-General, GSMA; **Gunther Oettinger**, Commissioner for Digital Economy and Society, EU; **Satu Santala**, Director-General, Dept for Development Policy, Ministry for Foreign Affairs, Finland

Location: World Bank Group MC Building, MC2-800

**3.30pm - 4.45pm**

Seminar: **The future of growth in the United States - what goes up must come down?**

Moderator: **Sam Fleming**, US Economics

Editor, *Financial Times*

Speakers: **Martin Baily**, Senior Fellow, Brookings Institution; **Karen Dynan**, Assistant Secretary for Economic Policy and Chief Economist, US Dept of the Treasury; **John Haltiwanger**, Professor, University of Maryland; **Mark Zandi**, Chief Economist, Moody's Analytics

Location: George Washington University, Jack Morton Auditorium

## Down Time

**6.30pm - 8.30pm**

Reception

Host: **Banks in Bahrain**

Minister of Finance and Governor of the Central Bank of Bahrain

Location: The Colonnade Room, Fairmont, Washington D.C.



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# ExtraCurricular

## Institute of International Finance (IIF) 2016 Annual Membership Meeting

Location: Ronald Reagan Building and International Trade Center, Washington, DC

Lead Sponsor: PwC; Anchoring Sponsors: Abu Dhabi Global Market; BNP Paribas; QNB; S&P Global; Supporting Sponsors: DBS, IBM, Moody's Investors Service; Contributing Sponsors: FitchRatings, Shearman & Sterling, Swift

### Location: Amphitheater

Host: Ben White

8.30am – 9.20am

**Washington Policy Outlook 2017:** Heidi Crebo-Rediker, Rohit Kumar, Candida Wolff, Faryar Shirzad

9.30am – 10.20am

**Debt Supercycle:** Elena Duggar, Carmen Reinhart, Hung Tran (moderator), Jing Ulrich, Luiz Pereira da Silva

10.30am – 11.20am

**GSIBS On Main Street:** Jason Mulliner

11.30pm – 12.20pm

**Negative Interest Rates: Implications for Asset Allocation:** Blaise Antin, Sonja Gibbs, Lisa Emsbo-Mattingly, Russ Koesterich, Marcel Kasumovich

12.30 – 1.50pm

**Lunch: Emerging Markets Revisited**

(Atrium Hall): Tim Adams (moderator), Bill Winters, Mohamed El-Erian, Larry Summers

2.00pm – 2.55pm

**Monetary Policy:** Lorenzo Bini Smaghi, Alan

Blinder, Jacob Frenkel, Paul Tucker, David Wessel (moderator)

### Location: Atrium Ballroom A

Host: Ulrik Bie

8.30am – 9.20am

**Commodities:** Catherine Flax, Christof Ruhl, Joe Wickwire

9.30am – 10.20am

**India: Seizing the Moment:** Taimur Baig, Bejoy Das Gupta (moderator), Soumya Ghosh, David Rasquinha

10.30am – 11.20am

**Middle East: Facing New Realities:** Aasim Husain, Said Al-Shaikh, Steve Barnett, Hisham Ezz Al-Arab (moderator), Mazen Soueid

11.30am – 12.20pm

**South East Asia: Testing Times:** Datuk Abdul Farid Alias, Valentin Araneta, Bejoy Das Gupta (moderator), Chantavarn Sucharitakul, Perry Warjiyo

12.30pm – 1.50pm

**Lunch: Emerging Markets Revisited**

(Atrium Hall): Tim Adams (moderator), Bill Winters, Mohamed El-Erian, Larry Summers

### Location: Atrium Ballroom B

Host: Charles Collyns

8.30am – 9.20am

**Global Economic Deep Dive:** Charles Collyns (moderator), Arend Kapteyn, Paul Mortimer-Lee, Paul Sheard, Ayhan Kose

9.30am – 10.20am

**Emerging Europe:** Zbigniew Jagiello, Andreas Treichl (moderator), Ksenia Yudaeva, Gyula Pleschinger, Liviu Voinea

10.30am – 11.20am

**Sub-Saharan Africa: Going for Growth** Anne-Marie Gulde-Wolf, Sim Tshabalala, Mthuli NCube (moderator), Banji Fehintola

11.30pm – 12.20pm

**Latin America:** Carlos Melconian, Guillermo Ortiz, Murilo Portugal Filho, Walter Bayly

12.30pm – 1.50pm

**Lunch: Emerging Markets Revisited**

(Atrium Hall): Tim Adams (moderator), Bill Winters, Mohamed El-Erian, Larry Summers

Host: Ambassador Kristen Silverberg,

2.00pm – 2.55pm

**Globalization & Trade:** Karan Bhatia, Shawn Donnan (moderator), Susan Lund, Wilbur Ross, Adam Posen,

3.00pm – 3.45pm

**Reg Tech:** Stefan Groschupf, Stuart Lacey, Diana Paredes, Wendy Jephson

3.45pm – 4.30pm

**AI/ Machine Learning:** Vivek Bajaj, Paul Cobban

4.30pm – 5.15pm

**Data Policy:** David Cass, Nick Collier (moderator), Stewart James

### Location: Hemisphere

Host: Wolfgang Engel

8.30am – 9.20am

**Future of AML and De-Risking**

Jay Collins, Sean Joyce, Alexander Karrer, Stuart Levey, Cressida Hogg, David Nason

9.30am – 10.20am

**Infrastructure:** Sonja Gibbs (moderator), Jason Lu, David Nason, Joachim von Amsberg, Pim van Ballekom

10.30am – 11.20am

**Islamic Finance:** Abdelilah Belatik, Mohamed Damak, Wolfgang Engel (moderator), Dato' Rafique Merican, Mahmoud Mohieldin

11.30am – 12.20pm

**Sovereign Debt:** Christopher Drennen, Sean Hagan, Yannis Manuelides, Hung Tran (moderator), Anita Yadav

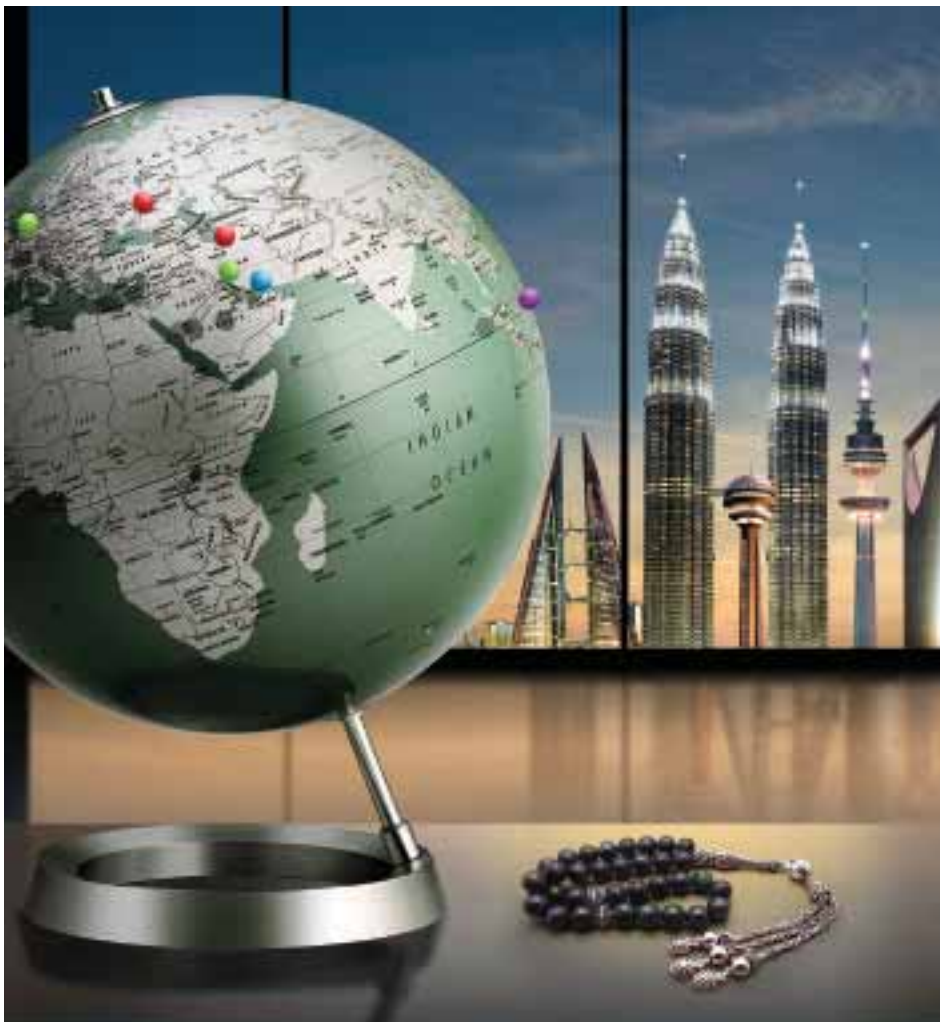
12.30pm – 1.50pm

**Lunch: Emerging Markets Revisited**

(Atrium Hall): Tim Adams (moderator), Bill Winters, Mohamed El-Erian

6.30pm – 7.30pm

**QNB Closing Networking Reception**  
(Amphitheater Foyer)



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## Brazil urges EM reforms while reaping inflation reward

By Thierry Ogier

Emerging economies must use the next few months to embark on reforms, Brazil's central bank governor said yesterday as he was able to reap the first rewards in his fight against inflation at home.

"Emerging markets have a window of opportunity in the current era of low interest rates," said Ilan Goldfajn. "We need to use this time to adjust and reform. This is the exact time to do it and achieve a virtuous circle of growth and low inflation."

Brazil's benchmark inflation rate posted a 0.08% increase in September, the lowest rate in 18 years. In spite of this clear deceleration, 12-month inflation still amounts to 8.5%, well above the official target of 4.5%.

"This is a positive surprise, but we also had negative surprises in the past, so we need to keep our heads cool. We have to find out whether this is a temporary blip or a trend," he said.

Goldfajn acknowledged that Brazilian policymakers faced an even tougher task than their emerging market peers. "There is an additional question in Brazil which is the need for economic recovery," he said.

"We are going out of a recession, trying to regain confidence, recover jobs, this is going beyond the international environment. We need to deserve that confidence and adjust accordingly."

The preliminary approval of a public spending cap in the lower house of Congress earlier this week and the fall in inflation may be early signs of the end of the deep crisis.

"There have been various signs that the Brazilian economy is returning to normal," said Henrique Meirelles, Brazil's central bank governor. "What was not normal is to have high inflation during a recession and rising unemployment," he said.

Some investors have already hailed "a big change". "Investors see Brazil evolving and getting out the crisis. I saw much more willingness to go deeper in analysing business opportunities there," Helio Magalhaes, Citigroup country officer for Brazil told *GlobalMarkets*.

"Some assets are still relatively cheap in Brazil, even with the valuation, they are still cheap. So you will probably see many more transactions, M&A, acquisitions in 2017"

Credit rating agencies have been more cautious so far, given the magnitude of the fiscal and political challenges that Brazil is facing.

"There has been a lot of signalling from a strong team, but we want to see execution," Lisa Schineller, managing director of sovereign ratings at Standard & Poor's told *GM*. "We have not seen much on the execution side. The spending cap has started advancing in Congress at committee level, but that is really the first step of the structural reform [process]."

# leading view

## Less regulation is not answer to bank stocks volatility

By Andreas Dombret

Over the course of the last 365 days, European bank stocks have been under massive pressure. While the overall European stock market, as represented by the Euro Stoxx 50 index, has more or less held steady, the Euro Stoxx Banks bank index has dropped by over 30%. This marked spread has fuelled rumours about the banking sector and even led to comparisons with 2008.

But in fact, the situation is markedly different: EU banks have strengthened their capital positions, which now stand at 15% on average, exceeding the aggregate tier one capital ratio prior to the crisis in early 2008 by six percentage points. The improved resilience of the EU banking sector is also reflected in the common equity to total assets ratio. Before the financial crisis, European banks held around 3.6% of unweighted common equity; today, the average is 5.5%. Also, the supervisory architecture in Europe has gained capacity through the far-reaching banking union.

So how can we explain market sentiment instead? The recent developments are less indicative of solvency issues and more a reflection of a decline in earnings prospects and a raft of structural challenges. And, furthermore, a closer look reveals that, to a significant extent, bank share decline can be explained by issues specific to certain banks.

Of the many factors influencing bank stock movements, uncertainty appears to be merely a minor element in the grand scheme of things. Volatility indicators have only recently decreased from their peak in July, which is certainly understandable given the outcome of the UK referendum in June. The vote to leave the EU was immediately followed by large price changes on financial markets, but did not trigger turmoil in the European financial system. Quite the contrary: the system proved its resilience to such shocks. In some cases, the consequences have been even less severe than expected by experts. The global outlook for growth, the situation in the emerging markets, and the interest rate turnaround in the US likewise seem to be manageable sources of uncertainty. Nevertheless, investors exhibit a lower risk appetite in uncertain times and therefore tend to steer their money towards banks with a lower risk profile.

Earnings prospects are probably a more robust explanation. For European banks, earnings per share forecasts have been in decline since the beginning of this year. Multiple structural factors have to be taken into account. Most prominently, the very low interest rate environment has been putting pressure on margins. Furthermore, nearly eight years after the financial crisis broke out in 2008, many banks in Europe continue to be plagued by large holdings of non-performing loans on their books.



To some degree, it seems as if global financial markets have given up European bank stocks — at least for the time being. But this sentiment will change again with a further strengthening of the European economy. Confidence in the European banking sector will grow again, and prospects of viable business models will return, partially also pursued by consolidation. Times will come when simply shorting European bank stocks will no longer be a promising strategy for earning fast money — but through solid investing.

### LOOPHOLES MENDED

While stronger regulation does indeed affect the profit and loss account of banks, tagging regulation as an impediment to earnings prospects is misleading and even hazardous. Although, in a global perspective, regulation is costly, it must be weighed against the benefits of a stable banking system. With respect to stock price movements, causes and effects have to be distinguished carefully. The financial crisis demonstrated that high stock prices may plummet if banks lack the ability to cover their risks.

Thus, regulation is actually a precondition for reliably assessing earnings. So it should be about time for those who repeatedly attack ongoing financial reform efforts as "over-regulation" and those who question banks' fundamental stamina to approach one another on the subject of financial soundness indicators and to achieve some common sense. The legacy of regulatory and supervisory amendments is not meant to reach only regulatory offices in banks, but equally markets and investors. Regulation after the financial crisis was an arduous task for everyone involved. But it resulted in not only greater capital requirements but also higher quality capital instruments. Also, loopholes were mended. This is by and large what made regulation more complex than ever before.

From that perspective, especially considering the enhanced capital and liquidity buffers in the European banking system, the market movement seems over the top. Also supervisory reforms in Europe — a project of unmatched magnitude in financial supervision — aim at a more reliable and effective stability framework. They not only target confidence but also transparency regarding the financial sector in Europe. Stakeholders therefore should not spend too much of their time searching for as yet unknown threats as long as there are known challenges that need to be addressed.

“  
Confidence in the European banking sector will grow again, and prospects of viable business models will return, partially also pursued by consolidation.”

Andreas Dombret is a member of the Executive Board of the Deutsche Bundesbank with responsibility for banking and financial supervision, risk controlling and the Bundesbank's representative offices abroad.

# Hammond

Continued from page 1

sets rules for members' fiscal deficits, and the UK, which is nursing significant public debts and deficits, have pushed back a co-ordinated approach to a fiscal "reset".

British Chancellor Philip Hammond has abandoned a target to produce a balanced budget by 2020 and told *GlobalMarkets* yesterday he would decide at a financial statement scheduled for November 23 whether to unveil fiscal stimulus policies.

But he added: "We have not done anything yet but are talking about putting in place a new framework in November that will give us some limited space — and it has to be limited because we have a high debt to GDP ratio — for carefully targeted fiscal interventions.

"The room that different countries for any kind of fiscal expansion differs very significantly

"the costs of fiscal stimulus are likely to become steeper, if ever interest rates rise and government debt has to be rolled over."

—Stephen Lewis, ADM ISL

cantly and we are not like the countries with scope for huge fiscal expansion. At the discussions we have had at the IMF meetings it was clear that different countries had different abilities to respond to that suggestion by the IMF — and the IMF acknowledges that."

## 'AWASH WITH LIQUIDITY'

Pierre Moscovici, European Commissioner for Economic and Financial Affairs, also played down talk of a co-ordinated fiscal push. "Today the EU's contribution to growth in terms of public finances is appropriate," he told *GlobalMarkets*.

Some bankers and investors were worried extra government spending would not be well directed. Paul Tregidgo, vice-chairman of debt capital markets at Credit Suisse, said the world was "awash in liquidity".

"My worry is not that there is too much borrowing — it's that we're not using these borrowing conditions to make the most of a historic opportunity to attack the key issues: infrastructure, education, environment. Maybe it is time to be bold."

Stephen Lewis, chief economist at financial brokerage ADM ISL, said the costs of fiscal stimulus currently looked low but added: "It may appear that governments have the chance to enjoy a free lunch. This will encourage finance ministers to overlook, for the time being, theoretical arguments that fiscal policy has no long-run impact on GDP.

"But the costs of fiscal stimulus are likely to become steeper, if ever interest rates rise and government debt has to be rolled over. The heightened sensitivity of government spending to changes in interest rates... might add to economic instability."

But Mark Mobius, head of emerging markets at Franklin Templeton Investments, backed Lagarde's call, saying central banks were in a "really tight spot". "They've been asked to create economic growth and they're not qualified to do this," he said. "The focus needs to be on fiscal rather than monetary policy."

# THE final word

## Financing infrastructure for sustainable development

By Jin Liqun

In an increasingly globalised, integrated and connected world economy, strategies must by default be formed through co-ordinated action. Building upon the success of the G20 Summit held in Hangzhou, China in September 2016, all of our stakeholders, including the multilateral financial and development institutions (MDBs) must reaffirm our strong commitment to a prosperous future for citizens of all nations, as outlined in the 2030 Agenda for Sustainable Development.

To achieve that goal is a daunting task. Concerted efforts are crucial. MDBs have to explore new approaches and work as a team. It is now universally acknowledged that investment in infrastructure is a stepping stone towards the realisation of SDGs.

However, MDBs cannot get the job done by going it alone. They must engage all of the players, the private sector in particular, in mobilising resources for investment in infrastructure and other productive sectors. We have a shared responsibility to promote economic development for all. In joining hands to achieve the SDGs, we aim to contribute to an enabling environment for all actors to bring their potentials into full play. To this end, co-ordination in policy design based on a long-term vision is to be strengthened. Effective implementation of policies will drive the greatest change. In order to make a meaningful difference, MDBs must be innovative, and have to pick up new skills and get out of their comfort zone.

As a multilateral institution owned by 57 shareholders, with around 20 countries waiting to join, AIIB will uphold the highest of standards in its management and operations. AIIB is off to a good start. But there is a lingering concern over China's dominance in this bank, as if it were a Chinese-run bank. No, it is not! This is the resounding answer: China is the AIIB's largest shareholder, but the Bank is run by the management under the guidance of a non-resident board representing 57 shareholders. The Bank's professionals, universally recruited, are of high calibre, with proven track records of competence and ethics. And our institution's cardinal principle is lean, clean and green. The Bank is striving to build an image of a new-type MDB with the 21st governance.

When European countries such as the United Kingdom, Germany, France and Italy decided to join the AIIB as founding members, they showed confidence in the design of the Bank, including its governance structure. When Canada, another G7 country, expressed its interest in the membership, it was a vote of confidence in the Bank's management, as testified by its successful take-off and fast ascendance into orbit.

## ENVIRONMENTAL GUARDIAN

AIIB will strive to be the best guardian of the planet's environment and ecosystem. It will take care of the people who may be otherwise adversely affected by investment projects. The bulldozers will pave the path for a better life for our people, not to destroy their homes and dreams. We will reconcile the pent-up demand for energy and other natural resources against the health



of the living earth. That is a daunting challenge, but we will be able to scale the heights in overcoming all kind of difficulties in to the course of developing green infrastructure, helping countries address environmental challenges and meet their Paris Commitments.

AIIB is moving fast. Eight months into operation, our Board of Directors have already approved financing of \$829m for six projects, putting us well on track to achieve our target of financing of \$1.2bn worth of projects in 2016.

Our efforts will surely play a constructive role in the achievement of the SDGs. Among the first projects we are financing is a national slum upgrade project

in Indonesia, which will have a direct impact on poverty alleviation. Meanwhile, we are financing energy projects in Bangladesh, Pakistan and Myanmar, helping to bring cost-effective and green power to people in need. Furthermore, we have delivered the first private sector project in Myanmar, desperately in need to development assistance.

With infrastructure investment, it is our obligation to work hand in hand with all responsible parties. We must work with governments to ensure a stable policy environment that can reduce risk. We must avoid excessive conditionality on governments, which can often be counter-productive to the desired goal. We must work with the private sector to give assurances that risks are manageable. And, of course, we must work together to leverage our own resources and knowledge.

Infrastructure needs across the world are significant, and can only be addressed through joint efforts. Transformative projects, which will form the bedrock of the economies of many nations and establish a foundation for greater regional integration, will only be possible when undertaken through our collaborative efforts, given the large capital requirement and many times complex policy environments.

AIIB sticks in no uncertain term to the mandate of promoting connectivity through infrastructure development. The tasks ahead are plenty, and daunting. AIIB will do its utmost to serve our borrowing members in a responsive, cost-effective, collaborative and efficient manner. We are looking forward to being a positive contribution in the fulfillment of its mission.

The international community has an unfinished agenda. Global recovery is painfully slow. Financial stability and job creation remain a formidable challenge to the countries in distress. EU's economic playbook may not be good enough to address Brexit and all the problems that come with it. Frustration at globalisation is all too palpable, given unequal benefits to the participants. To a great extent, the problems stem from lack of integration, both global and regional, not over-integration. Hamlet may be a bit presumptuous, believing that he "was born to set it right" when "the time is out of joint." It is "we", not "I" that can collectively head off chaos and put the global economy back on the right course

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