

Global Markets

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NEWS

Has Kim secured capital? 3

Crisis? What Catalan crisis? 4

SocGen chief sees united EU 4

Out of the Woods 4

Sri Lanka on track 6

Mixed Cat bond result for Mexico 6

Cuba joins the club 6

BNDES stands firm 8

More to China than loans 8

Remittance windfall hope 8

Junk threat hangs over SA 9

New tools for IFC 9

The blockchain gang 9



FINAL WORD

Imad Najib Fakhoury

Page 39



BELT & ROAD

GM explores in 4 parts

PAGES 14-15



ILAN GOLDFAJN

Exclusive interview

PAGES 16-18



SAUDI

Aramco's IPO

PAGES 20-22

'Chronic abuse' of cheap money leaves frontier markets vulnerable to rate hikes

By Virginia Furness and Olly West

Frontier markets face the risk of major turbulence because of their "chronic abuse of cheap financing", senior emerging market figures warned this week as they called on the IMF to provide greater support to debtor countries in the face of rising vulnerability to default risk.

Benign global markets have spurred a sharp increase in the dollar denominated debt stock of frontier markets, but rising global interest rates will leave many unable to pay back

increasingly expensive dollar debt, according to Anne Van Praagh, managing director and head of credit strategy and research at Moody's Investor Services.

Moody's identified Mongolia, Mozambique, Egypt and Belize as most vulnerable to rising interest rates on account of high leverage and weak institutions.

Bryan Carter, head of emerging markets at BNP Paribas Asset Management, said the build-up of debt raised the question of whether some countries have been right to turn to the

debt markets at all. "There is an over-reliance on foreign financing despite the pleas and warnings of watchdogs," he told *GlobalMarkets*. "Some are becoming chronic abusers of cheap financing. And there is an inefficiency between access to capital, and oversight and transparency. Some should not be allowed to borrow, especially if they have IMF programmes."

Carter said there was a worrying complacency in the market because the debt build-up had not become a short-term liquidity

Continued on page 39

India dusts off own Belt and Road plans but risks 'destructive competition' with China

By Elliot Wilson

India's aim of building a new multinational trade project able to compete directly with China's Belt and Road Initiative (BRI) risks causing tensions between the two regional powers, senior officials and analysts have told *GlobalMarkets*.

However, they said that Project Mausam, the working name for India's proposed trade initiative, should, if handled properly, ben-

efit every nation in South Asia.

Project Mausam was first mooted after the election of Indian premier Narendra Modi in 2014, before being brushed under the carpet. But sources said it was revived during a two-day Indian Ocean Conference held last month in the Sri Lanka capital, bringing together officials from 35 countries including India's external affairs minister Sushma Swaraj.



Jaitley: counteracting China's influence

Indrajit Coomaraswamy, governor of the Central Bank of Sri

Continued on page 3

Exclusive

Refugee bonds in play as Bangladesh succumbs to Rohingya crisis

By Jackie Horne

The World Bank is creating new financial instruments to help countries handle refugee crises, but they are unlikely to be ready in time to help Bangladesh, which formally asked the World Bank for support last night to deal with the tide of Rohingya



Abul Maal Abdul Muhith: aid appeal

Continued on page 3

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India

Continued from page 1

Lanka, tipped India's hopes of re-establishing powerful ties with its ancient trade partners to be a "win-win" for states across the littoral of the Indian Ocean, from southeast Asia to Pakistan and eastern Africa to the Arabian Peninsula.

But he admitted Project Mausam, named after the seasonal monsoons that sailors used to ferry trade across the Indian Ocean, would "cause tension" between China and India. Relations between the two have been frosty since a brief border war in 1962.

But he said having two rising superpowers competing for commercial predominance in the Indian Ocean arena "does not necessarily have to be destructively competitive". "One can foresee a complementary outcome, where both sides co-operate to compete, that benefits everyone in the region."

SLOW TO REACT

India has been slow to react to China's ambitious attempts to redraw the global trade map in its own image. At first, India viewed the BRI as a project limited to China's sphere of influence in its immediate vicinity, stretching through the South China Sea to southeast Asia.

But China's funding of a host of major infrastructure projects across South Asia has forced India's hand. During a visit to Bangladesh last week, finance minister Arun Jaitley made operational a \$4.5bn line of credit with an annual interest rate of 1%, repayable over a 20-year period, to fund new railways, roads and ports — a direct attempt to counteract China's influence on its doorstep.

In Sri Lanka, firms from India, Japan and Singapore are working together to build new facilities at Trincomalee port in the island's east — a handy counterweight to Hambantota, a deep water port on Sri Lanka's southern coast operated by Chinese state firms.

But Coomaraswamy said Indo-Chinese competition in the region benefited Sri Lanka as well as every regional state. "China's blue water navy is here, and the Japanese, Americans and Indians don't want them to have the map to themselves. The emerging geopolitics works to our strategic advantage."

India has shown no interest in joining China's BRI, a situation that is unlikely to change. "I don't see that happening," said Saurabh Mukherjea, chief executive of Mumbai-based Ambit Capital. "There's no pressure to join the [BRI]."

Kim confident of landing extra funding to turn 'billions into trillions'

By Phil Thornton

The president of the World Bank will use this week's annual meetings to try and secure agreement from finance ministers for an increase in the institution's capital amid growing optimism that a deal can be struck at the Spring 2018 meetings.

Jim Yong Kim said the extra funding was key to his plan to leverage trillions of dollars of private capital to pump into development finance.

He told *GlobalMarkets* he would warn member states it would not be possible to "crowd-in" private finance without first securing money from shareholders.

The bank last received a general capital increase in 2010, when it raised \$86bn, including \$5.1bn in up-front capital. "We are moving in a direction and the vast majority of countries now, we think, are onboard and it's just a question of when the capital increase will actually happen," Kim told *GlobalMarkets*.

"We made the case just by showing how much demand there is for us to work with countries and now it's just a question of timing, and so we hope that there will be a discussion during these annual meetings, and that there

will be a deadline as to when the final decision would be made."

A report going to the Development Committee meeting on Saturday, seen by *GlobalMarkets*, says it aims to present proposals to Governors at the 2018 Spring Meetings.

'BILLIONS INTO TRILLIONS'

He said that by using financial tools to de-risk projects in emerging and developing countries such as taking first-loss positions and providing insurance guarantees, the World Bank could turn "billions into trillions" by attracting capital currently looking for investment opportunities.

"We think that we can multiply many times the amount of money available for developing countries by using these tools," he said. "But in using these tools we also have to raise that money on capital markets, and right now, we are at a point where our ability to do so is very constrained."

"We definitely are focused on crowd-in more private capital, but there's no way to do that without us having more capital ourselves. And I think now everybody on the board understands that."

Scott Morris, a senior fellow at the Cen-



Kim: wants discussion at these meetings

ter for Global Development, said Kim was right to seek extra capital. "If they want to go from billions to trillions, do they have the billions to hand and will they have them for the foreseeable future and that's where there's some concern at the moment," he told *GlobalMarkets*.

Hopes of getting agreement from the US, the bank's biggest shareholder, faded after president Donald Trump proposed a cut in funding for multilateral development lenders such as the World Bank by \$650m over three years.

"There has been a discussion about the capital increase... and there's a lot of uncertainty about that right now given no clear signals coming from the Trump administration," Morris said. "I think it is fair to say that without direct US support for capital increases it will be a major challenge for the Bank to move forward on those."

Refugee crisis

Continued from page 1

refugees from neighbouring Myanmar.

Finance minister Abul Maal Abdul Muhith put in the country's request yesterday after arriving in Washington DC for the annual World Bank/IMF meetings.

Martin Rama, the bank's chief economist for South Asia, told *GlobalMarkets* the supranational was adopting a twin-track approach to help the country.

"We are considering whether new instruments can be used and there has been no decision yet," he said. "There has been a lot of thinking on the subject and the group is working on it, but the Bangladesh response will most probably involve existing instruments."

The World Bank created its own

catastrophe bonds in 2014 to transfer risks relating to natural disasters from developing countries to the capital markets. Since then, there have been discussions about refugee bonds, which would help get money quickly to countries in need.

However, Bangladesh has no track record in the international bond markets. It has always shied away in favour of cheaper concessional finance and remains proud of a low debt to GDP ratio below 15% and unblemished repayment history.

In this instance, it is likely to apply for funding under its core International Development Association (IDA) programme and the World Bank's new IDA18 window.

This window was created in 2016 to provide a dedicated source of funding for host countries struggling to meet the needs of both refugees and their own local communities. The \$2bn programme

has a \$400m single country limit.

Rama said Bangladesh faced major challenges coping with the estimated 500,000 Rohingya Muslims who have fled across the border since late August.

"The first thing to note is Bangladesh's generosity in taking all these refugees," he said. "Trying to take into account the wellbeing of the refugees and the local population is creating enormous pressures."

Rama said the World Bank had been preparing for Bangladesh's request for some time and intended to be "very active". Money is likely to be released within a few weeks to a few months and could include expanding access to health, education, water, sanitation and roads.

However, he said the bank had not yet come up with a forecast for the cost of the crisis. Local economist Ashikur Rahman from the Policy Research Institute has put the figure at up to \$1bn per year.

OUT OF THE WOODS

Seen and heard in the corridors of the Annual Meetings

• **Handbags at tea-time** Day one and already a mild fracas in the press centre. A pair of Spanish hacks, irked at having 'their' seats pinched by a trio of perfidious Brits during their siesta, called a World Bank staffers over to intervene in this latest Catalonia-style land-grab. His tart advice: Shut up and grow up!

• **Sport – what is it good for?** Not much, reckons Philippe Le Houérou. During a convivial chat with the IFC chief executive, we noticed a pair of crutches resting by his chair. Had he been hobbled? "Yes" came the response – an unidentified mishap on *le champ de jeu*. *OOTW* wishes him a speedy recovery.

• **Playing the field** During the Cold War, Yugoslavia was the classic player-of-powers, securing aid from the US and the USSR at will. But is Sri Lanka heir to the dissolved Balkan super-state? Over a meeting with its central bank chief Indrajit Coomaraswamy, *OOTW* asked how the island juggled the needs of America, India and China so assiduously. Came the reply: "An important ambassador told me over lunch that our aim as a nation is strategic promiscuity."

• **Tears roll down / White House Glow** Malawi's minister of finance and development planning Goodall Gondwe is clearly no fan of America's confronter-in-chief. At a seminar he lamented that while US president Donald Trump was providing "comic relief for some, it is no laughing matter".

• **Jive Talkin'** Which wag decided to play Stayin' Alive, a 1970s hit by disco kings the Bee Gees, as panelists left the stage after their discussion about the world's struggling frontier markets? Contenders for the most inappropriate walk-on music are now open. *OOTW* starts the ball rolling by nominating Eric Carmen's 1975 super-ballad All By Myself, to accompany UK premier Teresa May wherever she goes.

• **Lost in transition** *OOTW*, spotting a lost-looking gentleman wandering aimlessly around the voluminous World Bank building, decided to take pity, helping the harried chap to find the nearest available exit. Imagine our surprise then, to discover that he not only worked for the bank, but was a longstanding resident of D.C. And people say the World Bank has lost its sense of direction...

What Catalan crisis? Independence risks stability but IMF refuses comment

By Owen Sanderson

The IMF's Tobias Adrian, financial counsellor and director in the monetary and capital markets department, yesterday said that the Spanish banking system was "resilient and strong", and that "the basic fundamentals of the country are favourable for financial stability".

His positive remarks came despite the tense stand-off between the Spanish government and Catalonia over the region's vote on independence, which has already seen banks consider leaving the region and boost their borrowing from the European Central Bank.

Asked for a comment on the emerging situation, Peter Dattels, deputy director in the monetary and capital markets department at the IMF, would only say that his institution "hopes the situation can be resolved smoothly and in a timely manner... that's all we have to offer on the Catalan situation".

Following the vote on independence called by the Spanish region's government on October 1, major banks and companies based in Catalonia have started to

mull moving their headquarters elsewhere in Spain, to avoid disruption if the region becomes independent, since this would push them outside the European Union.

Sabadell confirmed last week it would move its HQ from Barcelona to Alicante, while CaixaBank will move to Valencia, though neither firm has yet started relocating staff and operations. The increased take-up of the ECB's medium term refinancing operation on Wednesday — €21bn rather than the level of €3bn-€7bn which has prevailed since July — is widely seen as driven by Spanish banks shoring up their short term funding, though the central bank does not break down take-up by country or institution.

DEBT REMAINS RESILIENT

Spanish government debt has remained fairly resilient following the vote. Generic 10 year Bono yields rose 18bp, but have since tightened again, and came in fur-



Dattels: no comment on Catalonia

ther following Catalan president Carles Puigdemont's speech on Tuesday evening announcing that the Catalan government would "suspend" the results of the vote for "a few weeks", pending talks with the Spanish government.

"The speech would appear to ratchet down tensions for the time

being and markets are likely to take what stops short of an immediate declaration of independence from Catalonia as a positive," said RBC's European economist Cathal Kennedy in a note to clients.

A source in the Catalan finance ministry told *GlobalMarkets'* sister publication *GlobalCapital* that it was police violence during the vote that worried markets, not the possibility of independence for the region, a view shared by few international investors.

"It was the aggression against ordinary citizens from the Spanish government that rattled the spreads on Spain's Bonos, not the assurance that we would implement the results of the referendum."

SocGen's Oudéa sees a more united Europe despite Brexit threats

By Owen Sanderson

Frédéric Oudéa, chief executive of Société Générale, expects the eurozone to press ahead with integration — fixing some of the weaknesses in the institutional design of the bloc, and helping Europe deal with challenges such as the UK's exit and migration. But a paper from the German finance ministry on Monday is more sceptical.

"What we might see next year is a milestone in the construction of a more united and integrated eurozone, a structural response to the question of how to maintain a common monetary policy in what are still divergent economies, and encourage more convergence and more integration of the eurozone economies," Oudéa told *GlobalMarkets*. He added that it would be a way to show the world that the eurozone was making further progress in efficiency and capacity to stimulate growth.

"There's a political willingness to ensure the eurozone appears an area of stability, security and prosperity."

He explained: "The new package could include capital markets union, but also

new initiatives in infrastructure spending, ways to create a more competitive environment for European companies in energy or telecoms for example, as well as improvements to the governance of the eurozone, such as a European IMF."

Emmanuel Macron, France's president, outlined just such a future in a speech at the Sorbonne University in September, calling for harmonised corporate tax, an expanded EU budget and an EU finance minister, as well as a host of other changes such as a carbon tax, common European border force and integrated EU defence capabilities.

But a paper circulated by the German finance ministry on Monday was more sceptical. The document is much narrower in its focus than Macron's speech, but questions the need for common backstops to the Banking Union, and rules out any form of debt mutualisation.

"Do we need another new and intergovernmental fiscal capacity?" asks the German paper. "Not necessarily. The EU budget is under review anyway and members are expected to contribute more in future times to compensate for the Brexit."



Oudéa: expects greater integration

Société Générale will be hit to some extent by Brexit — it has more than 3,000 staff in the UK, earned €1.7bn there last year, and plans a move to a new Canary Wharf HQ in 2019 — but the UK's exit from the Union may encourage the EU to take a broader look at how to manage banks and capital markets.

"This milestone will take place at a time when the negotiations around Brexit enter a critical phase," said Oudéa. "There will be a need to think strategically about the financial system in Europe over the next 10 years, to figure out the best way to finance the economy and to find a more balanced way between the banks and the capital markets."

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Success is a journey

Mexico vs Cat bonds: 1-1

By Katie Llanos-Small

Mexico's bet on catastrophe bonds has paid off, with a ruling this week that an earthquake in the south of the country has triggered the insurance instrument.

The decision means the sovereign will receive \$150m for rebuilding after the devastating earthquake in Chiapas, a southern province, on September 7.

Mexico's finance minister says the use of catastrophe bonds is part of one of the world's most sophisticated disaster insurance strategies.

"Mexico is one of the countries that has designed a more comprehensive framework in terms of risk management from natural disasters, be they earthquakes or hurricanes," José Antonio Meade told *GlobalMarkets*.

"There is the possibility to get, in an agile and transparent fashion, support from the budget but also a lot of the public infrastructure is insured. There's also excess coverage insurance that we have. And the Cat bond."

However, the catastrophe bond will not provide coverage for rebuilding from an earthquake in the centre of the country

on September 19 that killed more than 300 people, more than half of them in Mexico City, and caused extensive property damage. Among other conditions, the quake must be above 7.9 on the Richter scale to trigger the catastrophe bond. On September 19, the reading was 7.1. The Chiapas earthquake measured 8.1.

BROAD PROTECTION

But Mexico's package of natural disaster coverage offers broad financial protection, says Meade. Regular insurance continues to play a critical role, he says.

"The Mexican insurance market is well developed, it has a high degree of penetration and it's being used more and more within the financial and real estate sector. It's being used not only at the federal level, but that practice has trickled down into the states and municipalities."

Still, he said there could be room for tweaking the model in future.

"We learn every time and every single challenge that we meet is different and from every single challenge we find that there are adjustments or things that we can do better and that we can improve upon."



Meade: insurance plays critical role

Mexico issued the Cat bond in early August. It paid 412bp over six month Libor for the three-year earthquake coverage instrument. Now that it has been triggered, that part of the bond will be redeemed and will pay out by November 13, meaning Mexico will need to issue another instrument for coverage against future earthquakes.

The bond also includes two tranches that offer \$210m of coverage for hurricanes stronger than Category 4. The 2.5-year tranches have coupons of 892bp over Libor for protection from a hurricane on the Atlantic coast and 552bp over for a similar event on the Pacific coast.

Time to get serious: Sri Lanka's Coomaraswamy wants to give targets real teeth

By Jackie Horne and Elliot Wilson

Sri Lanka has the right strategic plans in place to take its economy to the next level, but the challenge is whether they can be executed effectively, the country's central bank governor Indrajit Coomaraswamy told *GlobalMarkets* yesterday.

"That's our challenge and the jury's still out," he said. "But our economy has enough assets to make that leap forward if we can achieve it."

Coomaraswamy said Sri Lanka had historically never got its macro-economic framework right either: a problem he is determined to fix.

The country is one year into a three-year Extended Fund Facility (EFF) from the International Monetary Fund (IMF), having hit a balance of payments crisis as a result of the previous government's heavy reliance on Chinese funding for infrastructure projects that did not generate an economic return.

To keep future officials in check, the central bank wants to institutionalise Sri Lanka's macro-economic framework by adding "some teeth" to the country's Fiscal Management Responsibility Act.

"The act has budget deficit and debt-to-GDP targets, but no one takes them seriously," Coomaraswamy said. "We want it to stipulate specific reasons why a target might be exceeded and a clear plan to bring it back again."

The governor said politicians were not keen on the idea, but the central bank had the prime minister's support and was, therefore, confident parliament would pass it.

The IMF programme calls for a budget deficit of 3.5% by 2020. Coomaraswamy said the 2017 figure was likely to come in around the 5.2% level, having slipped slightly because of droughts and flooding earlier this year.

But he is confident of meeting the 2020 target given appreciable progress the government has made improving tax collection rates from 11% to a projected 14% of GDP this year. He expects this to improve further to 16.5% by 2020 after parliament passes a new income tax bill.

Coomaraswamy also said Sri Lanka had done a good job rebuilding its foreign exchange reserves to \$7.2bn, or 4.5 months of import coverage. And he added that the figure did not yet include money



Coomaraswamy: building reserves

the government will receive from selling a lease for its Hambantota port to China.

He argued that if Sri Lanka can maintain its current macroeconomic path, its financing rates should not be affected by rising US interest rates. The country does not have any international bonds maturing in 2018 and the central bank intends to use the breathing space to improve its debt maturity profile.

"Next year, we won't just finance the budget deficit in the international bond markets, but also engage in a liability management exercise to lengthen our yield curve," he concluded. "We're currently removing our borrowing cap so we can engage in buybacks and refinancing."

Cuba on verge of joining development bank club

By Lucien Chauvin

Cuba is poised to join the development bank club in a move that could see it receive a loan by the end of the year once both parties have overcome strict US legal barriers.

The Central American Bank for Economic Integration (Cabei) admitted Cuba as an extra-regional member in April and said it could conclude the process with a paid-in capital contribution by the end of the year.

"This is a major change, because it is the first time that Cuba is going to be a member of a development bank," Cabei president Nick Rischbieth told *GlobalMarkets*. "While [US President Donald] Trump has rolled back some of the openness, we believe that in the long run Cuba will normalise its relations with the world and will look to have a larger relationship with multilateral institutions."

Letting in Cuba is no easy feat. Cabei has been extremely careful to guarantee that future loans to Cuba would not run afoul of US law. The bank has set up different mechanisms for loaning to Cuba — it would be eligible for \$200m in loans — that segregates loans from the rest of the bank's operations. Loans to Cuba cannot be in US dollars.

"Attending to Cuba is not simple. We have to make sure that anything we do is not related to the United States," he said. The CAF-Development Bank of Latin America had toyed with admitting Cuba a few years back, but membership never materialised.

BROADER STRATEGY

The decision to accept Cuba is part of a broader strategy adopted by Cabei to expand its membership beyond the original five borrowing countries — Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua — to the full region.

It brought in Belize, Dominican Republic and Panama last year. The Dominican Republic, while not physically part of Central America, is part of the Central American Integration System. Cuba is also looking at joining that system.

South Korea had been expected to join this year, but the process was stalled by the political turmoil created by former President Park Geun-hye's impeachment in late 2016.

The bank's role has been expanding rapidly even without the incorporation of South Korea and it has top-notch investment ratings from the three big agencies.

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African countries eye \$200bn diaspora windfall

By Lucien Chauvin

African countries are looking at ways to tap into the huge piles of potential wealth held by their citizens living abroad.

Total remittances to Africa could be as high as \$200bn, according to Eric Guichard, CEO of the US-based company Homestrings, who said a quarter of that could be tapped for diaspora bonds to fund development. "Diaspora bonds are a great source of potential development capital and will disrupt the development capital space," he told *GlobalMarkets*.

While a few countries, such as India and Israel, have issued diaspora bonds, Nigeria became the first country to launch an SEC-registered diaspora bond earlier this year. However, Guichard said the issue was not as successful as it could have been because it was not marketed properly.

"I don't think the narrative used by the Nigerian government was attractive for Nigerians or the African diaspora in general that could be interested in investing in Nigeria," he said.

Kenya and Ethiopia also worked on diaspora bonds, but they were not SEC-registered and did not generate the expected interest for reasons similar to those in Nigeria.

The limited success of these bonds, however, has not dampened enthusiasm. "This is an option for Africa to harness its own wealth," said Caleb Fundanga, executive director of the Macroeconomic and Financial Management Institute of Eastern and Southern Africa.

Rwanda's central bank governor, John Rwangombwa, said "we want to tap into this potential. We are looking at options to create channels to bring wealth by the diaspora home. I think it is a potential game-changer for Africa."

Malawi's finance and development planning minister Goodall Gondwe agreed. "We have not tapped into these resources, but we need to do it. It would be very helpful," he said.

However, Guichard warned that countries needed to lay the groundwork for bonds or risk disappointing results. He said regulatory constraints, investment readiness of projects and marketing were key issues that had to be addressed.

He said countries needed to improve investment agencies so they had structures to offer bankable projects funded by the diaspora. Marketing needed to be regional and not only to country-specific diaspora, he added. "I think we could be witnessing a paradigm shift as this matures."

BNDES 'warrior' lines up jumbo Eurobond to counter Brazil government's cash grab

By Thierry Ogier

The head of Brazil's development bank BNDES has warned the government it will resist any further demands to transfer money to shore up the national finances.

Chief executive Paulo Rabello de Castro told *GlobalMarkets* he would act as a "warrior" to resist such an abrupt move, which might put the bank's liquidity "under pressure", according to Fitch.

He also said BNDES would increasingly seek to diversify its funding abroad as the fiscal squeeze at home threatened to clip its wings.

The Brazilian treasury injected more than R\$500bn (around \$110bn) into the state-owned development bank during and after the great recession under previous administrations, in an attempt to shore up investment, but with limited success. Now, however, the government of Michel Temer wants its money back in order to meet its own fiscal obligations.

BNDES has already paid back

R\$150bn since last year and has agreed to cough up another R\$17bn next month.

But the government is asking for another R\$130bn next year in order to contain the deterioration of its debt-to-GDP ratio.

Rabello, who took office in mid-year after the resignation of the liberally-minded Maria Silvia Marques, said: "They are right. We may become squeezed," he said. "It would be a real act of treason to Brazilian interests if one attempted to cut the wings of the only institution that is dedicated to development financing in Brazil. This is not happening. If this was to happen, I will be like a warrior ready to fight this."

BRAZIL'S VERY OWN KFW

Rabello says his efforts to diversify funding abroad has already found a positive echo from institutional partners such as China Development Bank, JBIC of Japan, Agence Française de Développement, and



Rabello: BNDES 'may be squeezed'

KfW of Germany. He said he would soon seek credit rating agencies to improve BNDES's ratings (Moody's current baseline credit assessment stands at Ba2) before the planned Eurobond issue.

While he stressed that the bond was his personal intention rather an official project, Rabello has already tested the possibility of tapping the Eurobond market during a recent visit to London, as "the bank will increasingly have to become less dependent from subsidised funding," he said.

"I figure out that by next February, we can issue a bond in the international capital markets in a big way," he said.

Ghana seeks Chinese FDI as World Bank cuts Africa growth forecast

By Olly West

Ghana's finance minister told *GlobalMarkets* that the country needed to look beyond loans in its relationship with China as the World Bank cut its growth forecast for Sub-Saharan Africa on Wednesday.

Finance ministers from the region said that, even in fast-growing economies, more private sector investment was crucial to ensure that the pace of expansion was sustainable.

The World Bank's Africa Pulse analysis predicts that Sub-Saharan Africa will grow at 2.4% in 2017 — up from last year's 1.3% but below the April forecast of 2.6%. This will not be enough to lift per capita income this year, however, the bank warned.

The G20 Compact With Africa initiative, founded in March, is designed to promote private investment in the continent, and Ghana was one of the first seven countries to express interest in the programme.

"If you have an economy with over 70% of debt to GDP ratio, it is not sensible to pile up more loans," Ken Ofori-Atta,

minister of finance in Ghana. "The intent behind the G20 platform of macro stability and fiscal discipline is to begin to attract more private capital. "This what we want to begin to discuss with China."

Companies from the country could be potential investors in a broad range of sectors, said the minister. He mentioned ICT, real estate, agriculture and industry, as well as infrastructure.

"All of these are areas where we can have potential partnerships, which would help to activate our private sector as well as extend the reach of the Chinese private sector," added Ofori-Atta.

"We want to say to China: who are the private sector players that we can engage with and who will look at us as an investment opportunity, rather than a fixed income investment."

The IMF this week projected growth of nearly 9% in Ghana for 2018, but even there the government is aware of the need to do more.

Chinese investment in the form of private capital rather than loans would not affect the government's efforts to cut its interest payments, and would



Ofori-Atta: not sensible to 'pick up loans'

also help the private sector provide the jobs the country needs.

Côte d'Ivoire finance minister Adama Koné echoed the importance of shifting growth to the private sector, telling *GlobalMarkets* that he wanted to make the private sector the "engine for growth" of the economy.

Although there have been some improvements in external conditions, such as rising energy and metal prices and increasing inflows, Punam Chuhan-Pole, World Bank lead economist and author of the Pulse report, said the outlook remains "challenging", with economic growth well below the pre-crisis average.

South Africa risks rapid outflows and junk ratings ahead of December ANC election

By Jackie Horne

Strong inflows into South African bond markets could be on the verge of reversing as investors start to focus on looming political risk and the threat of a sovereign downgrade to full junk status.

Country experts say December's election for a new head of the African National Congress (ANC) represents a pivotal juncture for the country, which could either return to a path of strong growth and governance, or continue being dragged down by endemic corruption, known locally as state capture.

One the one side is Cyril Ramaphosa, the ANC's deputy president and a frequent critic of president Jacob Zuma. On the other is the president's ex-wife and ally, Nkosazana Dlamini-Zuma.

"I'd like to think the ANC rank and file will come to their senses and give it to Ramaphosa," said David Hedley, chief economist for Sub-Saharan Africa at the Institute of International Finance (IIF).

It is a view backed by Viktor Szabo, senior portfolio manager at Aberdeen Asset Management in London. "This really is a watershed moment for South

Africa," he said. "It'll be a pretty binary outcome for asset classes."

So far this year, South Africa's domestic bond market has been a recipient of very strong inflows, totaling SAR68bn (\$5.03bn) in the first nine months of the year. September alone recorded inflows of R18bn.

Investors have been attracted by some of the highest yields in the EM universe (8.68% on 10 year government bonds) and prospective yield compression, as the South African Reserve Bank remains in easing mode to stimulate sluggish growth of just 0.3% in 2016.

INVESTORS ON THE SIDELINES

But Szabo said Aberdeen recently closed out its slightly long position in domestic government bonds and highlighted investor surveys suggesting other fund managers are starting to position themselves on the sidelines to wait the volatility out.

This could pose a challenge for the domestic bond market, as its 45% foreign ownership ratio is also one of the highest among emerging market sovereigns.



Zuma: facing watershed moment

All eyes are now on Moody's, the last of the three international ratings agencies to maintain a sovereign investment grade rating. Its annual review falls due in November.

This review will follow the government's Medium Term Budget Policy Statement on October 25. This will be closely watched to see if the new finance minister, Malusi Gigaba, will move in a more populist direction.

"If Moody's see the government blowing things out on the fiscal side, that'll be a red flag," the IIF's Hedley said.

IFC deepens WB ties, preps new financing tools

By Katie Llanos-Small

The International Finance Corporation is advancing with new tools internally and externally to boost its development effectiveness, as the organisation reshapes and reorganizes under chief executive Philippe Le Houérou.

The lender, which has \$92bn of assets, is expected to launch before year-end the first currency hedge to allow it to lend in frontier currencies. At the same time, it is restructuring to better co-ordinate efforts with the World Bank and putting greater priority on development impact when taking investment decision, Le Houérou told *GlobalMarkets* in an exclusive interview.

The new FX hedge programme will allow the IFC to provide local currency financing in countries lacking a liquid swap market. The International Development Association, which recently received a record round of commitments, will provide the currency cover to the IFC.

"In many of the middle-income countries we don't need this. We can do a local bond, we can hedge ourselves. But where you go to a country where there's

zero local market, how do you do that?" says Le Houérou. "Paradoxically in the poorest country where you don't have the capital market, that's where there is the biggest risk. We're trying to remedy market failures through this."

Le Houérou is also reorganising the corporation's internal structure to allow it to work with the World Bank more systematically than in the past. In particular, he is appointing a suite of region-specific vice presidents, who he hopes will co-ordinate more closely with the public sector side of the group. At the group level, private sector solutions should be put forward first, with blended financing a second option and concessional loans a last resort, he says.

Additionally, the IFC is introducing a scoring system to rate the likely development impact of any project before it is approved, to complement the traditional financial analysis. A four-point grading system — rating projects from "marginal" to "very high" development impact — was brought in recently, and the IFC is working on further evolving



Houérou: growing assistance in the poorest countries

that to a numerical scoring system.

The changes come as Le Houérou, who took over as chief executive 18 months ago after a long career at the World Bank, refocuses the IFC on its original mandate of growing assistance in the poorest countries.

"The whole history since 1956 when we were created was to go more and more into difficult geographies," he says. "That means more and more risky. So how do you attract investment into risky places?...My idea was to start to be more proactive in creating markets. It means working more upstream, where you create your own opportunities."

Thailand to use blockchain technology to boost corporate debt market

By Rashmi Kumar

The leading players in Thailand's bond market are looking at incorporating blockchain technology to increase efficiency and help it develop its undersized corporate debt market, according to the head of the country's Bond Market Association.

Tada Phutthitada said that although the kingdom's bond market had grown sharply since the Asian financial crisis, the corporate bond market accounted for less than 20% of GDP — considerably lower than some of its south-east Asian neighbours. He said the BMA was putting its focus on developing the corporate debt market.

"We are exploring blockchain technology to be used for our registrar service platform project. But it can take two or three years for the technical development and for it to be ready to be implemented," he said. The specifics were still limited at this stage, but the way forward would be to come up with more practical details, he added.

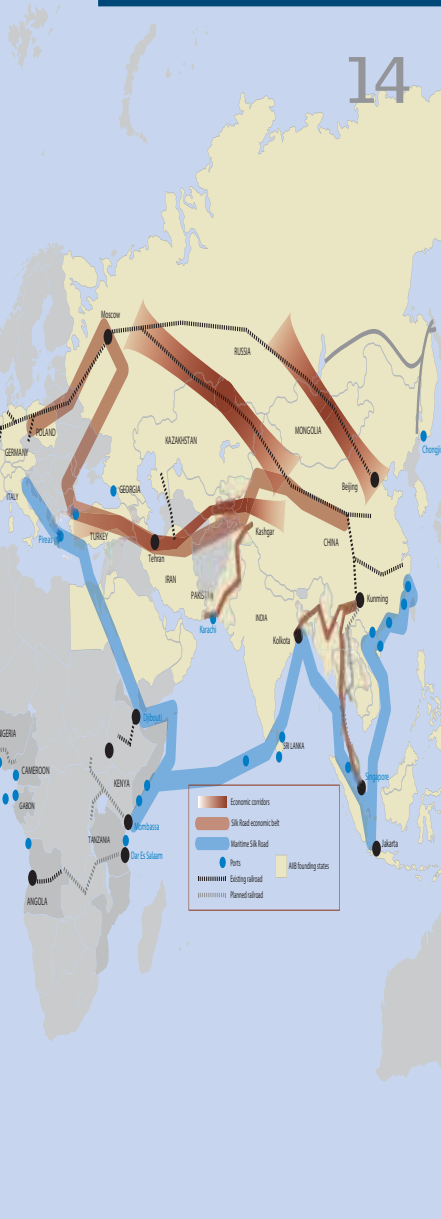
The BMA also wants to make the country's debt market more efficient, with plans to move towards a scripless platform, while also diversifying into socially responsible and catastrophe bonds. "Our goal is to change corporate bond issuance, which is now mostly issued in scrip or certificate form, to scripless or paperless form," Phutthitada said. "This will facilitate more efficient trading, reduce settlement risk and lead to a more efficient bond market."

Thailand is not the only southeast Asian country looking to go digital. Frontier market specialists told *GlobalMarkets* recently that Vietnam's ministry of finance is working on putting together a draft framework for monitoring and recognising bitcoins and cryptocurrency, and move towards eventually using Blockchain technology.

The timeline and details are still unclear, however, with any implementation at least two years away, they said.

Thailand's plans come as the bond market has seen impressive growth in the past two decades, rising from 12% of GDP 20 years ago to almost three-quarters of GDP as of August 2017.

Market conditions now are starkly different. Thailand's public debt management office needs about Bt1tn (\$29.8bn) in government funding in the 2018 financial year — split equally between new borrowings and refinancing maturing debt. About 56% of this is expected to be funded using government bonds



14

12 Special sponsored section EIB REPORT I

Economics & Policy

14 BELT AND ROAD SPECIAL I ROAD FOCUS — SOUTHEAST ASIA SECTION

This article is the first part in a series of four on China's Belt and Road Initiative that we are publishing during the 2017 IMF-World Bank annual meetings in Washington DC. We have devoted two articles to the Belt element and two to the Road element, of which this piece is the first and focuses on the Southeast Asian part of the maritime route

18 BRAZIL ILAN GOLDFAJN INTERVIEW

Brazil's central bank governor Ilan Goldfajn says the end of deleveraging may lead to a stronger recovery but that reforms are crucial to sustaining the country's economic rehabilitation

Regions & Countries

20 THE MIDDLE EAST MOHAMMED ABDULLAH EL-KUWAIZ

One of the most closed and conservative societies in the world, Saudi is gradually opening its doors to both foreign investment and international ideals. In an exclusive interview with *GlobalMarkets*, Mohammed Abdullah El-Kuwaiz, chairman of Saudi's Capital Market Authority, discusses the game-changing implications of emerging market status on the country's equity markets and the planned IPO of prize asset Aramco

24 NORTH AFRICA THE EBRD EXPANDS ITS BORDERS

GlobalMarkets sits down with the EBRD's head of Southern & Eastern Mediterranean, Janet Heckman, and finds out why the bank is operating in a region so far removed from its original cultural and operational parameters

27 Special sponsored section SURINAME COUNTRY REPORT

Agenda

35 WHAT'S HAPPENING IN AND AROUND THE ANNUAL MEETINGS

Opinion

39 FINAL WORD

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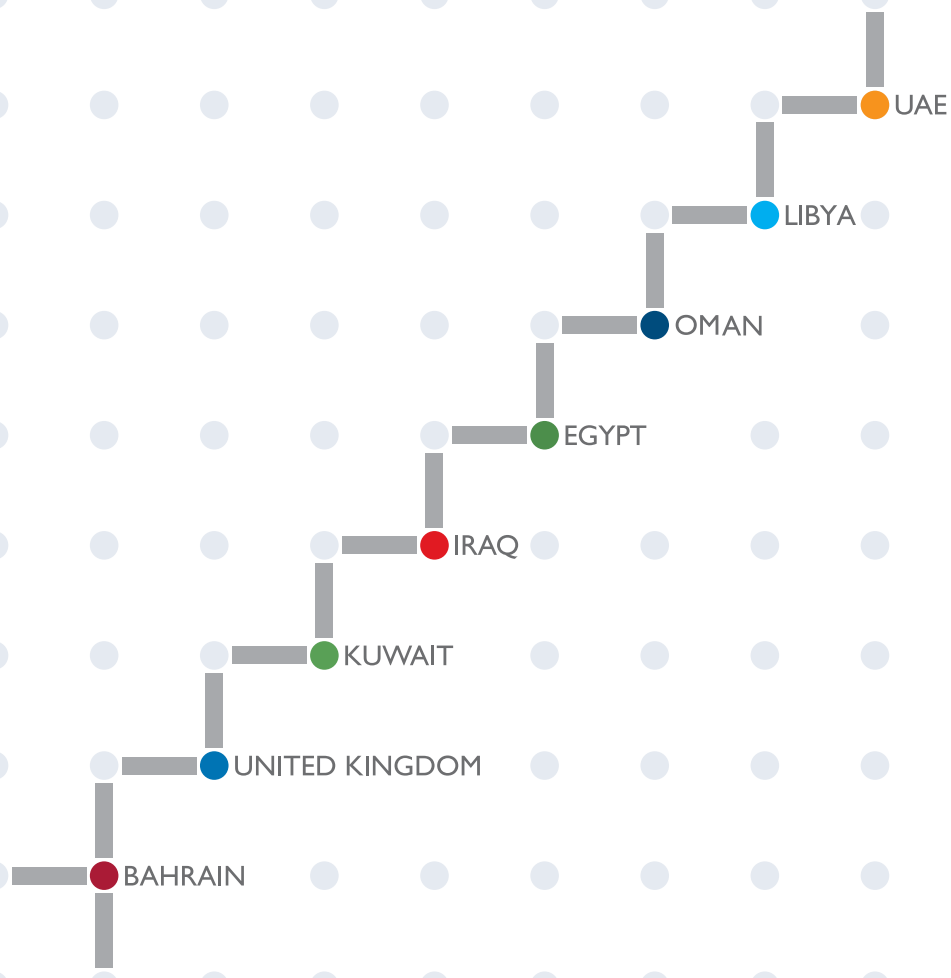
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Supporting European Growth

A core component of the European Investment Plan, the European Fund for Strategic Investments, is beginning to bear fruit

The general consensus among economists today is that the European economic recovery is gathering momentum. But the prospects for Europe did not look nearly so bright in November 2014, when the EC President, Jean-Claude Juncker, announced his ambitious blueprint for stimulating the economy and promoting job creation.

Pivotal to the so-called Juncker Plan was the rapid redeployment of Europe’s abundant but largely idle liquidity into more productive projects that would help to rekindle confidence and economic activity across the continent.

The basic premise of this plan was perfectly aligned with the European Investment Bank’s business model, as its chief economist, Debora Revoltella, explains. “At its core, the EIB’s role is to use bond issuance to attract funds that would otherwise be put to non-productive use, and catalyse them in support of sectors that will have a positive impact on long-term economic growth,” she says.

A core component of the Juncker initiative, more formally known today as the European Investment Plan, was the establishment by the EIB and the European Investment Fund of the European Fund for Strategic Investments (EFSI). This uses a guarantee of €16bn from the EU’s budget, together with €5bn of the EIB’s own capital, to mobilise lending to relatively high risk projects in the private sector. Assuming a potential multiplier of 15, this originally implied a total lending capacity of €315bn by July 2018.

The results of the EFSI initiative have been impressive on at least three levels. The first of these is the decisiveness with which the EFSI plan moved from conception to reality. EFSI’s deputy managing director, Iliyana Tzanova, says there was little more than six months between the preliminary discussions on the establishment of EFSI and the approval of legislation allowing for its official launch in July 2015. “This is a fantastic example of how funding can be mobilised quickly to create a much longer-term economic legacy than one-off grants,” says Tzanova.

Second, to date around 75% of EFSI’s beneficiaries have been new EIB clients. This suggests that by raising the bar in terms of its risk tolerance, the project has already succeeded in unlocking investment flows towards areas of the European economy that would not previously have had access to funding at a manageable cost. About a third of these borrowers are smaller companies, with the EIB forecasting that more than 450,000 SMEs across the EU will benefit from EFSI. These smaller borrowers have been reached in co-operation with banks and national promotional institutions. Then alongside national promotional banks, tailor-made investment platforms can be designed to address market failures and local challenges, some specific to each member state.

Tzanova says that a third of EFSI funding to date has been mobilised through these platforms.



Werner Hoyer, EIB president

Third, the most recent data indicates that the EFSI is already comfortably within reach of achieving its targets. By late September, it had approved €46.5bn of financing, of which €28.9bn had been signed. This equates to total investment related to EFSI approvals of €236.1bn, which is approximately 75% of its €315bn goal. The target of investment triggered has since been increased to €500bn, and its original 2015-18 timeline extended by three years to 2020.

A game-changer

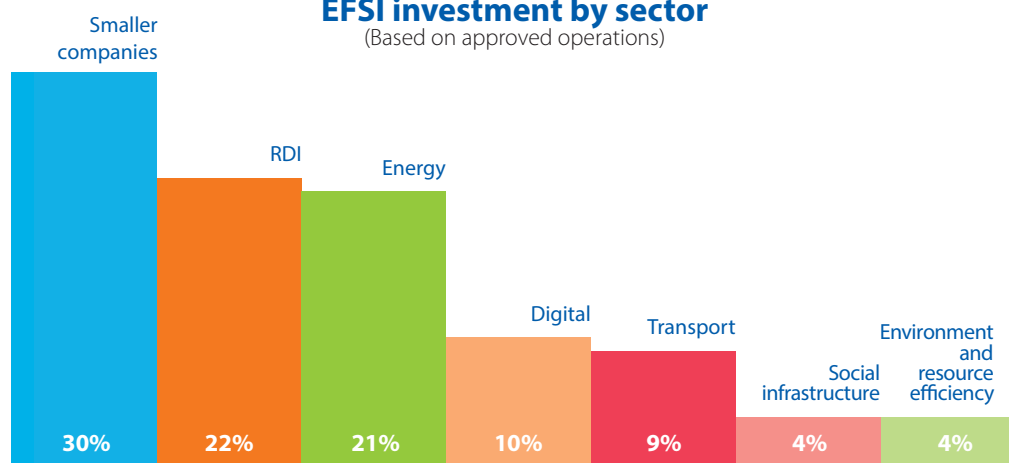
The provision of a guarantee and risk sharing schemes amounts to what Tzanova describes as a game-changer for borrowers. “In the case of a tiny banking market like Bulgaria, lenders will typically ask for 130% collateral and charge punitively high interest rates,” she says. “By providing guarantees to local commercial banks, we can reduce the collateral by half and make the cost of financing affordable.”

This makes the EFSI’s strategy consistent with the EIB’s broader lending philosophy. Increasingly, this is based on using its balance sheet, credibility and technical knowhow to crowd-in private sector investment by acting as a guarantor or co-investor rather than as a sole financier. Only in very exceptional circumstances does the bank finance more than 30% of an individual project.

This is a model that it is delivering striking results across the EIB Group’s investment activities, and making a tangible and quantifiable contribution to an accelerated economic recovery in the EU. New findings presented by the EIB in September point to the

EFSI investment by sector

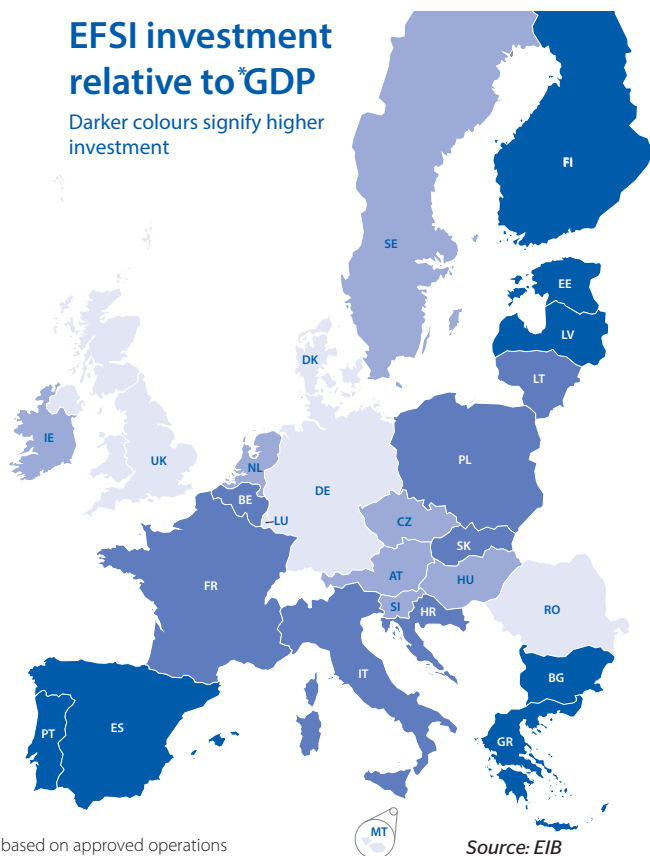
(Based on approved operations)



Source: EIB

EFSI investment relative to GDP

Darker colours signify higher investment



* based on approved operations

Source: EIB

expected creation of an additional 2.25m new jobs and a 2.3% increase in Europe's GDP by 2020 thanks to the investments supported by the loans and equity participations approved in 2015 and 2016. Of this total, loans sanctioned under the Investment Plan for Europe, supporting over €160bn of new investment, are projected to add 690,000 jobs and generate an incremental 0.7% to GDP.

Perhaps more important than this short term boost is the structural impact that today's investments will have on longer-term job creation and sustainable economic growth. This is because investment in productive projects has a dual impact on the economy. In the short term, it creates an investment effect by generating higher demand for goods and services, especially during the construction or development phase of a new project.

In the longer term, however, this investment fuels a more durable structural effect underpinned by the availability of cheaper traded goods due to improved transportation networks, for example, or increased productivity driven by superior technology and research facilities. In the case of investments supported by the EIB Group, this structural impact is estimated at an additional 1.5% of GDP and some 1.27m new jobs by 2036.

Plugging the gaps

The importance of this longer term structural impact can scarcely be under-estimated. This, say Revoltella, is because in spite of its demonstrable success, the EFSI initiative has only addressed some of the most pressing financing needs that Europe faced in the aftermath of an unprecedented crisis. "EFSI

responded to a very immediate challenge by providing a counter-cyclical boost which called for an increase in risk-taking," she says. "Does this mean that the EIB's longer term financing is still required? Yes — because market failures still exist in Europe and investment needs are massive."

Identifying and plugging Europe's investment gaps will remain a critical feature of the EIB's mandate, because as the bank's president, Dr Werner Hoyer, said in a speech in April, investment levels in Europe remain weak relative to other developed regions. "Although it has contributed 28% to real GDP growth in the EU since 2013, [investment] remains below the 2008 level," he said, adding that "when it comes to investment into research, development and innovation, Europe is still lagging behind. Although we intend to increase our spending to 3% of GDP, this will merely mean that we keep up with the US, Japan and emerging players like China and Korea."

Skills and education

Revoltella says that if Europe is to address the issue of its longer term investment gaps, two areas in particular will need to be prioritised. The first is skills and education. "European policies address the need for research and development, but are less proactive in promoting innovation and intangible investment," she says.

The immediate impact that this skills deficit is having on private sector investment is evident in an annual survey undertaken by the EIB, which quizzes some 12,500 companies throughout the EU on their investment plans. In last year's survey, shortage of skills was identified by respondents as the second biggest impediment to investment (behind uncertainty occasioned by political and economic turmoil). In this year's survey, due to be published in November, skills shortages are still regarded by more than two-thirds of respondents as a bar to accelerated investment.

The EIB and the EU are aiming to help plug at least some of this gap by more than doubling their combined support for research and innovation in Europe up to 2020, making over €24bn available through a scheme named InnovFin in the form of loans, guarantees and equity-type funding. InnovFin Advisory, meanwhile, is a joint EIB-EC initiative to assist eligible public and private counterparts to improve the bankability and investment-readiness of large, complex and innovative projects in need of chunky long-term

investments. The InnovFin programmes are both part of Horizon 2020, a seven year (2014-2020) research and innovation scheme making close to €80bn of funding available for taking "great ideas from the lab to the market".

Infrastructure

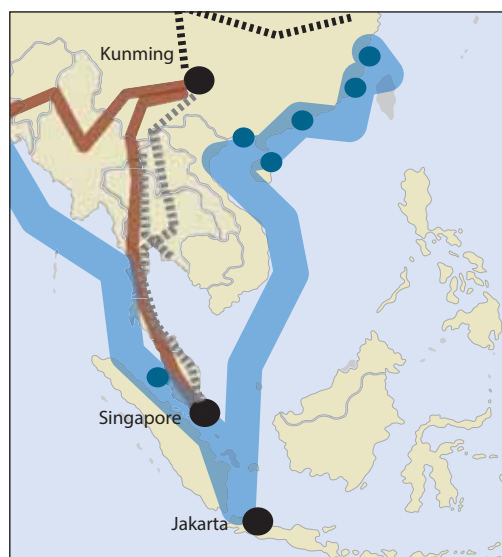
The second investment gap that Europe urgently needs to address, says Revoltella, is its infrastructure deficit, which was allowed to widen in the wake of the European financial crisis. "During the crisis, almost all 28 member states took a political decision to increase current expenditure at the expense of capital spending," she says. "That was the natural response at a time of urgent fiscal consolidation, but it means that for the last decade, investment in critical infrastructure has been minimal."

Today, says Revoltella, it is not just investment in infrastructure that Europe needs. In many regions, it also needs advice on basic planning. "A number of municipals in Europe do not have integrated planning on capital and spending," she says. This means that challenge is as much one of co-ordination as of financing, which in areas such as energy policy and digitalisation is reflective of a broader lack of a joined-up investment policy at a pan-European institutional level.



Iliyana Tsanova, EFSI's deputy managing director

The failure of a number of European institutions to keep pace with economic and social integration across the EU is perhaps a driver of one of the main features of the EIB's global financing policy. Markus Berndt, head of the bank's Strategy and Business Development Division, says that a common theme within the bank's strategy has been the development of a more coherent, integrated approach to development finance. This is as applicable inside the EU as it is in developing economies. "It is amazing how interconnected Europe has become from an economic perspective," he says. "We no longer face Greek challenges, Dutch challenges or Finnish challenges. We now face European challenges, but some institutions have been slow to keep up with these changes."



This article is the first part in a series of four on China's Belt and Road Initiative that we are publishing during the 2017 IMF-World Bank annual meetings in Washington DC. We have devoted two articles to the Belt element and two to the Road element, of which this piece is the first and focuses on the Southeast Asian part of the maritime route



Belt and Road to transform Southeast Asia into China's backyard

By Elliot Wilson

In the grand scheme of the Belt and Road Initiative (BRI), China's ambitious attempt to redraw the global trade map in its favour, the eye is drawn to the 'belt' part of the route, which stretches from Beijing to Europe overland through Central Asia, with a branch line terminating at the Indian Ocean.

This is natural — after all, this route encapsulates and replicates the old Silk Road along which salt, spices and silks were traded until the collapse of the Safavid Empire in the 18th Century. And most of the best known knockout schemes of Belt and Road such as hydroelectric dams, power plans and pan-regional rail lines are taking place in the deserts and mountains of Central and South Asia.

"In many belt-and-road countries, investment in infrastructure is the key to expanding economic opportunities in those countries, and so many of the first wave of [BRI] projects have been in roads, rail, ports and so on," says Gerald Keefe, head of corporate banking, Asia-Pacific at Citi.

But by focusing on the 'belt' and on big-ticket infrastructure we become blind to the bigger picture. And this is where the 'road' part of the initiative comes in.

THE ROAD ACROSS WATER

First, it is useful to identify the basics of the 'road': what it was and is, then explore what is to come. Many struggle with the

concept of a maritime road as we equate them with paved surfaces — though in ancient times trade routes were often called roads whether they passed through oceans or deserts.

In its heyday, the maritime Silk Road was as, if not more, important than the overland route. From the 3rd Century BC, goods were shipped from eastern China through the South China Sea and into the Indian Ocean, winding up in the bazaars of the Middle East (via the Persian Gulf) or the markets of Europe (via the Red Sea).

It makes sense, for the sake of this story, to split the maritime road in two, creating an eastern and a western road divided by the trade chokepoint of the Malacca Strait. The tale of the western part of the road will follow in tomorrow's edition (Friday, October 13).

Here we will focus on the eastern route, at the heart of which is Southeast Asia, a region that has recently regained its momentum and its mojo.

China's interest in Southeast Asia, also known as the Association of Southeast Asian Nations (Asean), is clear: its desire to see its corporates embedded in regional supply chains and its goods sold in local supermarkets utterly logical.

In a way, it is a latecomer here. China's first step after opening up to the world in the 1980s was to rebuild its ties with the great powers. It then needed African commodities to power its economy and to enmesh itself in the robust supply chains

developed by Japanese and Korean conglomerates. Southeast Asia rather fell by the wayside after the 1997 Asian financial crisis, lacking resources, power, growth, wealth or political cohesion.

That has changed. It's possible to see a future in which Southeast Asia is not just one of China's most valuable trading partners but also the most important link in the entire belt-and-road initiative.

BELT AND ROAD FUTURE

To understand why, it's worth looking ahead to what the BRI is likely to become. First, infrastructure. While the great rail links that aim to connect China with Europe are largely cargo-driven operations, most of the big BRI-related transport projects in Southeast Asia involve the construction of high speed commuter rail. China is building a \$5.5bn high speed service connecting its southern provinces with Singapore via Thailand and a \$13bn double track line running from Malaysia's east coast to its west.

China is building new ports, airports and power plants in Indonesia and Malaysia. The biggest sovereign beneficiary by far is Singapore: the Lion City accounted for 31.4% of all belt-and-road-related investment in the three years to the end of 2015, according to the World Bank. Indonesia came third, with Cambodia, Vietnam, Malaysia and Thailand also in the top 10.

These projects are of paramount importance to this region of 636 million people.



"Southeast Asia is where our Chinese clients generally have the highest degree of comfort"

—Gerald Keefe, Citi



Southeast Asia offers oodles of growth and plenty of thrusting young companies but it lacks the finances to build the infrastructure it desperately needs. The Asian Development Bank reckons the region's 25 emerging markets, most of them located in Asean, must spend \$1.7tr a year between 2016 and 2030 on new roads, telecoms towers and transmission lines just to maintain the current rate of growth. Right now they are spending \$881bn a year between them; China's ample financial reserves can help close that gap.

But China's aspirations in the region go much further. Better rail links and bigger ports, notes James Cameron, Asia co-head of infrastructure and real estate at HSBC, "will allow firms in China's hinterland, in landlocked provinces in the south and southwest, to get their goods to market in Southeast Asia far quicker" than is currently the case.

DIGITAL ROAD

Citi's Keefe sees the maritime 'road' becoming, at least in Southeast Asia, a crucial conduit for high end Chinese-made products, from smartphones and televisions to fast-moving consumer goods, to digital goods and services. "China has an emerging set of companies, from telecoms to IT to consumer brands, that will become global champions in their own right and they all want to sell into the Asean market," Keefe says. "There is an entire digital aspect to the belt-and-road story that has been overlooked but which is vital to what the BRI will become. Countries along the maritime route are potential markets for Chinese tech and consumer goods — the 'belt' route is more about natural resources and energy, and the 'road' is about everything else."

Look closely at the region and you can see this digital road forming before your eyes, with the charge led by private and state run firms. In March, Alibaba unveiled a new

digital free trade zone in Kuala Lumpur, which will be jointly run and owned by the Hangzhou ecommerce giant and the Malaysian government.

With almost breathtaking speed, state run telecoms operators have become big players in the lucrative and systemically important world of submarine cabling. Between 2016 and 2019, Chinese firms are projected to participate in 20% of global submarine projects against 7% over the previous four years, according to a study from the University of Washington.

Around half the projects will involve cable (which offers residential, corporate and governmental users cutting edge bandwidth) being laid in the Asean region. Three state firms — China Unicom, China Telecom and China Mobile — are listed as co-owners of the new SeaMeWe-5 cable linking France with Singapore via the Middle East. Huawei, a Shenzhen-based telecoms equipment maker, is building a submarine cable linking the Solomon Islands with the Australian coast close to Sydney.

There are other reasons for China to focus so heavily on Southeast Asia. It may have come late to the region from a state-to-state perspective. But Chinese merchants have been here for millennia, quietly running banks and shipping firms and owning property in the likes of Singapore, Malaysia and Indonesia.

This makes new Chinese money a good fit. "Southeast Asia is where our Chinese clients generally have the highest degree of comfort," says Citi's Keefe. "So while a company may be new to an Asean market, they know in general what to expect and what they are getting into." China-led corporates are also attracted by the region's rebound, with the economies of the Philippines and Vietnam set to grow at north of 7% for years to come and with Indonesia not far behind.

CHINA'S BACKYARD

And there is one final motive at work here. China may still be feeling its way in a region where European and North American firms and governments, not to mention the likes of Japan and to a lesser extent Australia, still hold considerable sway. But few experts doubt that China in the long term sees Southeast Asia as part of its backyard, filled with captive customers happy to operate within its sphere of influence.

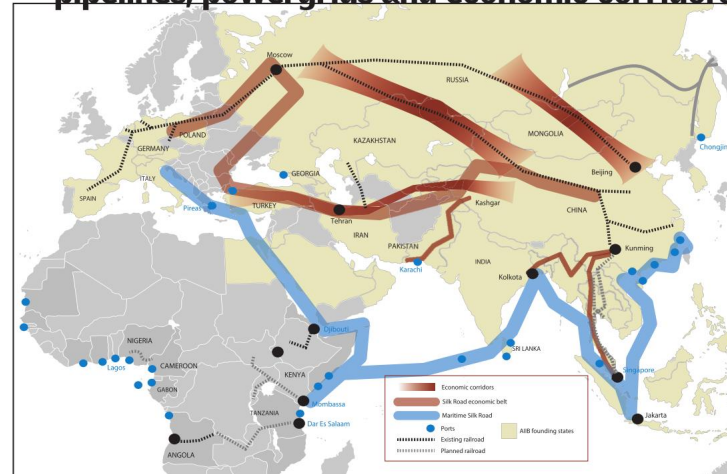
"China wants the same control role in their hemisphere as the US does in the Americas," says a prominent Asia-focused economist. "The South China Sea is as much a part of China in the long term as the Gulf of Mexico is part of the US — that is how Beijing sees it. Yes, China is investing billions because it wants to enable the free flow of Chinese goods through Chinese-made ports and rail lines. But this is also very much about them being in control of the region." **GM**

TOMORROW: *the western section of the road (maritime) route*

Control role

Lianyungang Port in east China now pivotal to the Pacific Ocean road and also, with the new China-Kazakhstan logistics terminal, key to the east to western belt; the crowded Malacca strait; Singapore's huge sorting facility

Belts, roads, pipelines, powergrids and economic corridors



Sources: Mercator Institute for China Studies/Reuters



Exclusive GM interview

Goldfajn's great but gradual restoration

Brazil's central bank governor Ilan Goldfajn says the end of deleveraging may lead to a stronger recovery but that reforms are crucial to sustaining the country's economic rehabilitation

By Thierry Ogier

Brazil's longest recession on record is officially over but the scars it has left behind are all too visible.

Unemployment is still high, at the rate of 13%, while a quarter of the economically active population is officially "underemployed".

In Rio, the expected post-Olympics boom never materialised and over 40% of office space was still vacant in the first half of the year, according to Colliers, a real estate consultancy. In São Paulo, the vacancy rate (24%) was also much higher than the Latin American average (18%).

The symptoms of the crisis may now start to dissipate as Brazil's economic fortunes have started to revive of late. But the question is: how long will they last?

The recovery is finally underway after two consecutive quarters of growth, although it will be a "gradual" one, according to a cautious Ilan Goldfajn, president of the country's central bank. "People are seeing that the economy is finally recovering, that interest rates are coming down," he says. "There is a perception that profits may go up in the future, the stock market goes up. It is a logical consequence of what we are living. However, it is true that for a sustainable recovery and

for a sustainable disinflation we do need to stick to the reforms."

While the central bank governor was speaking to *GlobalMarkets* in mid-September, financial markets were experiencing a sense of near euphoria thanks to the implementation of a sound economic policy amid a supportive environment in global capital markets. The São Paulo stock exchange was breaking records day after day, bond yields were coming down while the CDS premium was falling below 200bp. But Goldfajn admits that this is not enough.

"The recession has passed. What we are having now is a consumption-led recovery coming from real income gains that were achieved through surprise disinflation. This means that people have enjoyed a permanent gain in income. We don't see inflation coming back, not to the level it was before. Which means that this has boosted consumption, it has boosted sales and we have already seen some employment gains," he says.

Goldfajn says the end of deleveraging may lead to a stronger recovery. He now expects a 2% quarter-on-quarter growth at the end of this year against a background of low inflation (around 3%), and 2%-3% GDP growth next year. The central bank has slashed the benchmark Selic points by six

percentage points within a year, while inflation was falling below target (2.7% in August over 12 months), and Goldfajn has indicated that more will be done. "We will probably continue the cycle. We have signalled it is possible to do so if conditions remain the same. Depending on the extension of the cycle, of where we are in the cycle, we will reduce the pace because we are getting closer to the full cycle," Goldfajn says.

Moreover, he believes that conditions have now been met for a rebound of investment. "Given the output gap, when consumption starts recovering it will help investment too. It is an essential second step in the recovery. First you have consumption. Then as the output gap narrows you will see investment increasing," he says.

But investor confidence is also required. This may now depend on the completion of the reform agenda and the ability of the government to address Brazil's fiscal weaknesses.

REFORM OFFENSIVE

Much progress has already been made on the reform front in spite of an explosive political crisis and a seemingly never-ending series of corruption scandals, some of them involving the president of the country,

Freshly minted

Central Bank governor Ilan Goldfajn in August 2017 as he launches a campaign to stimulate the circulation of coins.

“For a sustainable recovery and for a sustainable disinflation we do need to stick to the reforms”

—Ilan Goldfajn, Brazil central bank

“The reform agenda has regained momentum. We are talking about high quality reforms that we have not seen in decades”

—Martin Castellano, IIF

Michel Temer. The budget spending cap, the labour reform, the creation of a new long-term interest rate that will help cut subsidies in BNDES government loans, the change in the rules of the oil and gas sector, education reform... All these are already in the bag and have been praised by investors. “The reform agenda has regained momentum,” says Martin Castellano, deputy chief Latin America analyst at the International Institute of Finance (IIF) in Washington DC. “We are talking about high quality reforms that we have not seen in decades — not only those that need Congress approval but also many other changes in regulations to provide more room for the private sector to operate and increase productivity,” he says.

Yet the big reform is still pending. Indeed, the much-expected pension reform, which could have a long-term positive fiscal impact, has yet to be approved by a 60% majority in Congress. The reform, which introduces a minimum age of retirement (65 for men and 62 for women), is widely unpopular, especially among those civil servants who will lose some of their privileges. But as Brazil is now just a year before its next general elections, its chances of approval are diminishing.

“I will not get into politics but it is always important to have the least uncertainty possible in all type of areas in order to have higher investment,” Goldfajn says. “The boost in revenues, lower interest rates, lower inflation, all these will help future fiscal deficit,” says Goldfajn. “Notwithstanding, we will need social security reform. This is the one that you need... If it does not happen now, it will need to happen next year so it is a matter of time.”

While finance minister Henrique Meirelles has been battling away in Congress to get the reform approved, economists have confirmed the need to overhaul the pension system for the benefit of the country’s public finances. “If nothing is done, the share of social security expenditure will increase from almost 50% of the overall federal budget at present to 80% of overall expenditure in 10 years. It is totally unviable,” says Marcelo Carvalho, chief Latin America economist at BNP Paribas in São Paulo.

Meanwhile, the fiscal situation has continued to deteriorate and the government had to revise its primary deficit downwards for this year and 2018 to around 2.5% of GDP. “The fiscal adjustment has been slow and of poor quality,” says Alberto Ramos, head of Latin America economics at Goldman Sachs in New York. “The fiscal performance has actually got worse. If this is not addressed, many of the gains we have seen so far, including in financial markets, could be compromised. And this would leave a very complex legacy for the next administration.”

The outcome of the 2018 presidential election is also a big question mark as the traditional political establishment has been decimated by the *Lava Jato* anti-corruption investigation. In the short term, however, current Brazilian economic policymakers inspire enough confidence. “There may now be a decoupling — not between politics and the economy — but between politics and economic policy,” says Carvalho. “As long as economic policy remains in place investors feel more comfortable in spite of all the political noise. We currently have an economic team that is respected and is

backed by politicians, including by the president, to continue to do what has to be done in spite of day-to-day uncertainties.”

Brazil’s recovery has also been supported by a positive external backdrop. While global tailwinds have been relatively strong the risk of market complacency may have increased too. “We should be a bit more mindful of these fiscal issues, but in this external environment that is very favourable with abundant global liquidity, the market focus is not necessarily on the fiscal dynamics,” says Ramos.

The gross debt-to-GDP ratio already amounted to 73% in June, up from 51% at the end of 2013. This should be a cause for concern. “It is important not to get carried away and think all will be great forever and forget to do the homework,” says Carvalho. “It is exactly when the sun is shining that you need to go up and repair the roof. Rain will come, sooner or later, and we need to be prepared.”

If Brazil takes too long before grasping the fiscal nettle, Ramos argues that the gross debt ratio may reach 90%, which would be “too high for a country like Brazil. Ninety percent is a very unstable equilibrium. It is not that things will unravel in the very short term but if you do not address the issues you will be incubating vulnerabilities that will make you weaker down the road.”

Goldfajn agrees that now is a good time to reduce Brazil’s potential weaknesses. “We should not be vulnerable,” he says. “We need to stick to the reforms, we need to try to pass the pension reform while the international environment is stable. It pays to do it while the external environment is benign.” **GM**

Election outlook

Countdown to the 2018 presidential vote

“Our goal is to get jobs for all in Brazil again. In order to do that, I need to rely on your prayers,” says the would-be presidential candidate in a 90-second video to court evangelical Christians.

The October message, a “month of prayers for the economy” according to the YouTube broadcast, does not come from any religious party but from Henrique Meirelles, the finance minister who has been considering throwing his hat into the presidential ring.

Brazil is just one year ahead of the general election but the contest is

still up in the air. Meirelles would be an ideal reformist candidate in the eyes of local and international investors, who could cash in the political dividends of the economic recovery. “The market dreams about this every night,” says Claudio Couto, a political scientist from the Getulio Vargas Foundation, a business school in Rio de Janeiro.

The dream candidate may benefit from the economic recovery but “the economy would have to improve a great deal for him to become popular among the electorate,” adds Couto.

Notwithstanding the masterpiece of his reform programme, the constitutional reform to overhaul the pensions system, is extremely unpopular.

The main unknown factor ahead of the elections will be whether former president Luiz

Inácio Lula da Silva, who has been sentenced to prison for corruption, will be able to run or not. He is still leading the opinion polls but if the Appeal Court confirms his sentence



Henrique Meirelles: considering

he will become ineligible. Other potential candidates include the extreme right contender Jair Bolsonaro and the market friendly João Doria and Geraldo Alckmin.—T.O.



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Driving through reforms: Saudi gets behind the wheel

One of the most closed and conservative societies in the world, Saudi is gradually opening its doors to both foreign investment and international ideals. In an exclusive interview with *GlobalMarkets*, Mohammed Abdullah El-Kuwaiz, chairman of Saudi's Capital Market Authority, discusses the game-changing implications of emerging market status on the country's equity markets and the planned IPO of prize asset Aramco



Exclusive GM interview

By Virginia Furness

At the end of September, King Salman of Saudi Arabia granted women the right to drive. To the outside world it no doubt seems absurd that there was a ban on women driving in the first place. Nevertheless, the move was rightly celebrated, not just as a victory for equality but also because it was seen as evidence that Saudi's ruling family was still serious about pushing through its much anticipated and ambitious reform agenda, called Vision 2030, drawn up by the king's son Crown Prince Mohammad Bin Salman Al Saud.

There were fears that Saudi's very public spat with Qatar and its involvement in the conflict in Yemen — which has drawn worldwide criticism for its brutality — would divert public resources away from the government's plans to rebalance its economy. However, this is something that Mohammed Abdullah El-Kuwaiz, head of Saudi Arabia's Capital Markets Authority, is keen to dispel.

"We're not going to use recent geopolitical challenges as an excuse not to reform the country," he tells *GlobalMarkets*. "It is not a crutch or an excuse. Both the public and private sector will not be deterred from the reform agenda and our capital markets reforms will give more confidence to investors."

Reports in early September that Saudi was redrafting parts of its National Transformation

Plan, a key part of Vision 2030, were met with initial concern that the kingdom was backing out of the reforms. But analysts say that the changes make the programme more realistic and are therefore positive.

"The NTP's commitment to diversification is really there," says Hootan Yazhari, head of frontier markets research at Bank of America Merrill Lynch in Dubai. "There is a huge amount of backing for the programme with an impetus for change that is seeing government ministries become more sophisticated and familiar with accountability."

ON THE GLOBAL MAP

Two big catalysts for Saudi Arabia will be the initial public offering of its state owned energy company, Aramco, and its stock market Tadawul's inclusion in the major global equity indices.

The kingdom was added to MSCI's watch list for inclusion in its Emerging Markets Index in June this year. While countries tend to remain under consideration for two to three years, with an additional year for the transition to full emerging market status, El-Kuwaiz is confident that the process will be accelerated for the largest Gulf nation.

"Given the pace of change in Saudi and the delivery of reforms, we are hopeful that the period will be compressed," he says.

A decision is expected in June 2018.

Investors were hopeful for an announce-

ment at the end of September from FTSE Russell, the index company owned by the London Stock Exchange, on whether it would include Saudi, along with Kuwait, on its list of emerging markets. However, while Kuwait made the grade, Saudi was denied inclusion though FTSE Russell has brought forward its next formal assessment of readiness to March 2018, in recognition of the pace of change in Saudi Arabia. Inclusion should result in a combined total of \$4.5bn passive inflows, according to Arqaam Capital.

El-Kuwaiz says that while EM status would be a "welcome addition" and a "great vote of confidence in the pace and speed of reforms" it is not a goal in its own right.

But investors in the country have no doubt about the huge benefits index inclusion will bring to Saudi.

"They've been making some very good progress with MSCI and once Aramco is listed Saudi could make up a very material part of the index," says Mohieddine Kronfol, chief investment officer, global sukuk and MENA fixed income at Franklin Templeton in Dubai. "It will be a real liquidity catalyst, a significant milestone, and it will get institutional investors to focus on this region. It will also bring in passive money."

Kronfol notes that the GCC makes up roughly 2% of the MSCI emerging market index. Including Saudi Arabia, this could rise to 5% and depending on the size of the Aramco listing it could be up to 7%, he says.

“We're happy with the recent reforms and are confident that we have the infrastructure to accommodate the IPO”

—Mohammed Abdullah El-Kuwaiz, Capital Market Authority

“The NTP's commitment to diversification is really there”

—Hootan Yazhari, Bank of America Merrill Lynch

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An island no longer
Saudi Aramco's Manifa
facility, Saudi Arabia



"We can't be an island any longer"

—Mohammed Abdullah El-Kuwaiz, Capital Market Authority

International inflows will of course leave Saudi more vulnerable to international volatility. But it is a process that is crucial, according to El-Kuwaiz, and one which will be carefully managed.

"We will need to manage fund flows but it is an opportunity," he says. "Saudi has been an island of prosperity and our economy has grown multiple times. This model of development has served the country well but we have remained an island in capital markets terms and in cultural terms. There is a growing recognition that in order for Saudi to move to the next stage of its development we can't be an island any longer."

MAJOR LISTING AHEAD

The Aramco IPO is slated for 2018 or early 2019 and the Crown Prince is said to be targeting a \$2tr valuation and to sell up to but not limited to 5%. This could mean an IPO of

between \$50bn and \$100bn, the largest ever.

China, Japan, London and New York are all vying to be the site of Aramco's secondary listing though London and New York are the most realistic, according to Yazhari.

"China is said to be considering a sizeable share in Aramco and reports suggest they would seek a Hong Kong listing in return," he adds. "Other reports suggest the Royal family are leaning towards a US listing whilst Aramco management are more in favour of a UK listing."

GREAT POTENTIAL

What is certain is that Saudi's Tadawul will house the primary listing, according to El-Kuwaiz. He says that while no official filing has been made, the CMA has been preparing the ground by testing the legal infrastructure. "We're happy with the recent reforms and are confident that we have the infrastructure to accommodate the IPO," he says.

He adds that while the decision is yet to be made for multiple listings, the CMA is ready to work with parallel markets.

Regardless of logistics, Aramco's listing is expected to be a game changer. "It represents the opening up of Saudi's capital markets, which will further integrate them into the global financial system," says Kronfol. "It could be transformative for Saudi and for the rest of the region."

Bank of America's Yazhari agrees that the listing will drive investment diversification.

The government plans to transfer its holdings of Aramco into its newly established Public Investment Fund (PIF). This will allow Saudi to recycle its petrodollars into the global markets in the same way that Norges Asset Management began to

diversify away from oil, he says.

"When the company is listed, a number of things could start to happen," says Yazhari. "Firstly it provides a route to lever up and access the debt markets. The shares could be securitized against further loans but most importantly it affords the ability to recycle capital out of Aramco and deploy it in other industries."

Saudi's PIF will be the largest sovereign wealth fund in the world.

GROWING GIANT

Such potential has not gone unnoticed in the international investment community.

With a total market capitalisation of over \$500bn, Saudi's stock market, which was formed in 2007, is the largest in the Middle East. It is not one investors can afford to overlook even in its comparative infancy. Global financial institutions have ramped up their interest in the country over the last

12 months with El-Kuwaiz saying that applications for both the Qualified Foreign Investor (QFI) programme and banking licences have surged.

Investor applications have risen from 15 in 2015 to over 100 as of August, and of those 100, 20% have signed up in the last month alone, according to El-Kuwaiz. Citibank was the most recent global bank to receive a full banking licence in April 2017.

The CMA is now working on the third iteration of its QFI programme, which was first introduced in 2015, to further ease restrictions for foreign investors. It is also preparing ground to allow foreign entities to list on the Saudi exchange.

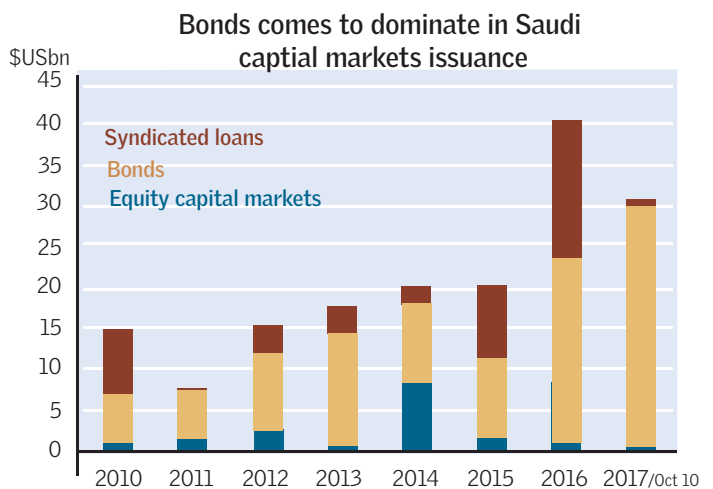
Investors are also noting changes in the pricing and liquidity of Saudi's local bond markets, which have improved markedly in the last six months, according to Franklin Templeton's Kronfol. "Up until the last six months, the market was very inefficient with, in our view, no price discovery, no value, no liquidity and very few local investors," he says. "But recent deals have been managed much better with pricing that is consistent with international issues."

Kronfol sees a large opportunity for the capital markets in Saudi and his firm has been in talks with the CMA throughout to improve the QFI process and application.

"As long as the government keeps issuing debt, banks will be under pressure to raise funding themselves, which increases the opportunities for corporate issuance," he says. "There is no shortage of companies with scale and size that could issue benchmark bonds."

Foreign investor participation in the Saudi Stock Market, or Tadawul, remains low at less than 2% but this is all about to change. **GM**

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PEACE OF MIND



PEACE OF MIND



Out of its comfort zone: EBRD's home from home in MENA

GlobalMarkets sits down with the EBRD's head of Southern & Eastern Mediterranean, Janet Heckman, and finds out why the bank is operating in a region so far removed from its original cultural and operational parameters

By Elliot Wilson

Few could have predicted the events that stemmed from the callous treatment of a young Tunisian stallholder in December 2010. When Mohamed Bouazizi had his wares confiscated by an inspector, he set himself alight. Bouazizi's death a few weeks later led to an outpouring of anger. Within a year, Egypt's president Hosni Mubarak was in exile and Libyan leader Muammar Gaddafi was dead.

Desperate to stop the fabric of the region from unraveling, the West turned to the European Bank for Reconstruction & Development for help. The London-based multilateral, set up in 1991 to help the nation states of Central and Eastern Europe (CEE) transition into free and democratic markets, had regained its momentum and its mojo in the wake of the global financial crisis.

The decision was a shot in the dark: the development bank oversaw operations that spanned 13 time zones, and which included virtually every nation in the former Soviet Union. Its biggest theatre of operation by far was the Russian Federation, a market in which it had, as of October 2017, completed

788 projects, investing just shy of €25bn (\$29.4bn). But it had zero experience operating either in the Middle East or in North Africa, regions well served by the likes of the African Development Bank and the Islamic Development Bank — not to mention the twin Bretton Woods institutions.

Yet on another level the decision to allow the EBRD to expand its borders south of the Mediterranean made good sense. North African states after all suffered from the same blight that hobbled CEE countries as they adapted to life after Soviet rule. In both places state-run institutions kept private sector activity to a minimum and discouraged entrepreneurs and innovation.

"There are a lot of similarities between our original countries of operation" and the EBRD's newest outposts and offices, says Janet Heckman, head of the bank's Southern & Eastern Mediterranean (SEMED) region. "Other multilaterals aid government-support programmes or work in tandem with the public sector. Our focus, just as it is in emerging Europe, is to foster private sector growth."

Reservations felt by many regarding the EBRD's ability to operate in a region so far removed from its original cultural and

operational parameters must now surely be dispelled. It has thrown itself at the job, channeling in capital, opening new branches and relocating into the region many of its most senior staff.

On September 27, it opened a second office in Morocco, adding Tangier, a city on the country's northern coast, to its existing base in Casablanca. Its second outpost in Egypt opened for business on October 2 in the Mediterranean seaport of Alexandria. "We are the only multilateral that has offices outside the region's capitals," says Heckman, who was head of the bank's Kazakhstan operations before her transfer last year to Cairo. She draws a direct line between the demands of her former and current job. "Kazakhstan is a vast country so it was all about local presence, about reaching out to companies wherever they were and adding value. The same is true here."

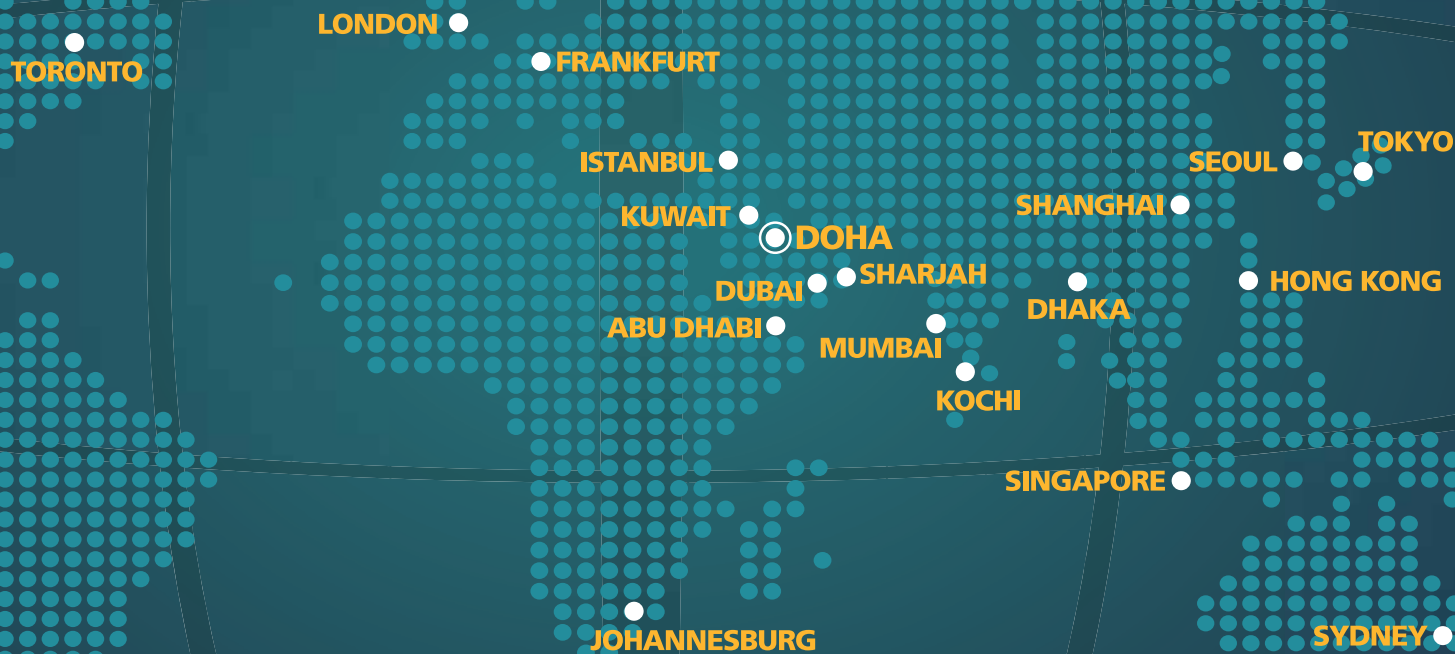
MOROCCO PLUGS IN

The multilateral has been at pains to adapt to the fluctuating needs of each new market. Morocco, a relatively rich and stable state that evaded the anarchy of the Arab Spring, has been a member of and a contributor to

Beyond the CEE

The EBRD financed Al Rajef Wind Farm, an 82 MW greenfield wind farm in South Jordan close to the Rift Valley flyway

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“Our focus, just as it is in emerging Europe, is to foster private sector growth”

—Janet Heckman, EBRD

the EBRD since its inception. It is, when compared to the wider region, relatively accommodating to private capital and enterprise, placed 68th in the World Bank's 2017 Doing Business survey, against 77th for Tunisia and 122nd for Egypt.

But to propel its economy to the next level it needed help in targeted industries. Morocco's high, sunny plateaus, fast flowing rivers and long coastline are perfect for capturing and distributing clean energy. To that end, the EBRD is funding, building and operating a 120MW wind farm near Tangier and financing the rehabilitation of 11 hydropower plants. “Morocco has a very significant opportunity to be a major player in renewables,” Heckman notes.

Little here is done by chance. The new branch in Tangier will serve the needs of a host of smaller, innovative enterprises that have sprung up in the north of the country. “It's a highly entrepreneurial area dominated by private sector firms that feed into the global auto and aerospace sectors,” she says. “Morocco has become a hub for high end, value-chain manufacturing and we will financially support these firms.”

Morocco's ability to suck in investment dollars and euros and plug itself into global supply chains has not gone unnoticed. Until recently, intra-regional trade in North Africa was a byproduct rather than a driver of economic activity. Now, as economies open up and deregulate, governments are casting around for help, advice and examples of success and many find themselves glancing in its direction. At the end of 2016, there were 13 free trade zones in Morocco, including in Tangier, Casablanca and Oujda, on the Algerian border. “Every nation looks around the region and asks the same questions: what an FTZ is, what benefits they provide and how to build them,” says Heckman.

ALL SYSTEMS GO

Then there's the region's big sovereign beast, Egypt, an economy that has everything, from a vast agricultural sector to limitless natural resources (notably in the case of hydropower) and a driven and hard-working populace. Since the ousting of Mubarak — and indeed well before then — it underperformed economically, unable to tap into its manifest potential.

But that is changing. Another long-standing EBRD partner that became a recipient member in October 2015, Egypt aims to use a \$12bn IMF fund facility to turn a 3.5% primary fiscal deficit into a 2% surplus while cutting its high rate of national debt. The Egyptian government has been busy in recent years, transitioning to a floating exchange rate regime and eliminating a host of subsidies that hobbled the energy sector.

That has put a rocket under investment. Foreign direct investment jumped 17% year-on-year in 2016 to \$8.1bn, making up 14% of all inbound Africa FDI, according to data from Unctad. And donor aid is flowing in: Egypt was in 2016 the largest sovereign recipient of funding from the Green Climate Fund, part of the UN's Framework Convention on Climate Change. For its part, the EBRD will invest €1bn (\$1.17bn) in domestic projects in 2017, raising the amount invested in Egypt since 2012 to €3.4bn. That would make it the multilateral's second largest country of operation, behind Turkey and ahead of Kazakhstan.

“Egypt has become a big country for us, no question,” says Heckman. She points to the “major economic reforms” the government has driven through, and lauds an “increasingly investment-friendly business climate”. Egypt's hopes of building a more environmentally friendly economy also chime with the development bank's green credentials. “By mid-October, we'll have signed €315m worth of solar projects,” she says. “We are working on a series of major infrastructure projects with the national railways operator and we have a number of things cooking in agribusiness and energy. It's all systems go in Egypt.”

In one way, the cry for funding and seasoned advice could not have come at a more propitious time. Russia remains the EBRD's biggest country of operation — it has an outstanding lending portfolio there worth €3.7bn. But the government's annexation of Crimea and its attempts to divide Ukraine, led to it being frozen out by the development bank: the last EBRD loan disbursed in Russia was in 2014. Last week, the bank said it would shut five of its seven Russian offices by the end of March 2018,

leaving open only its outposts in Moscow and St Petersburg.

Is there a link between this abrupt halt in Russian funding opportunities, and the EBRD's equally rapid scale-up in North Africa and the Middle East? A spokesman insisted there was “no link between not investing in new projects in Russia and the success of our funding” in the SEMED region. But the EBRD is, at its heart, a bank. If it is not lending, it is not operating, and Russia's loss in this instance benefits the multilateral's newest members.

MIDDLE EAST EXCURSIONS

And then there's the Middle East — or more specifically, the eastern fringes of that region. Jordan is the key player here: the EBRD has funded 35 projects since opening its Amman office in 2011. Investment started slowly but properly took off in 2016, with total funding by the multilateral hitting €403m against €163m in 2015. There is a clear focus on clean energy: the bank is funding solar farms that will generate up to 1,000MW hours of power, boosting the share of the energy mix comprised of renewables to 20% by 2020.

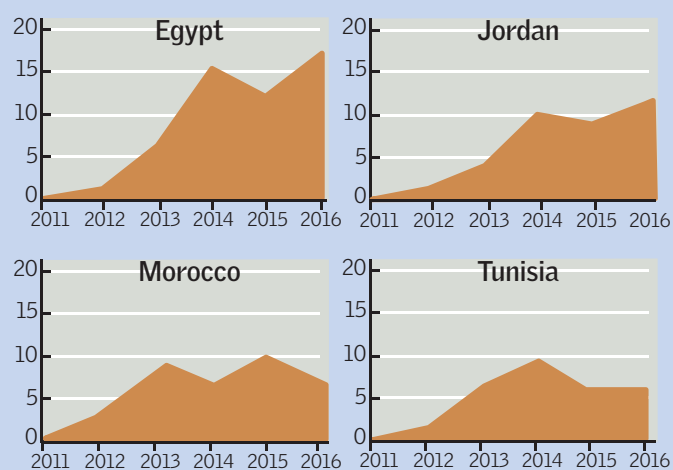
On September 6, Lebanon formally became the bank's 38th country of operation, with the EBRD keen to promote clean energy and financial innovation and to persuade local banks to lend more to private sector firms. With troubled Syria unlikely to join the EBRD in the short to medium term, the list of recipient member states is rounded out by the West Bank and Gaza, two territories burdened by a host of problems great and small.

Even here though, the multilateral is doing what it can. Heckman says she's been to the West Bank six times since the start of August, talking with public officials and private firms about energy efficiency, encouraging private enterprise and providing financial assistance to the banking sector. When it comes to the Gaza Strip, the EBRD “hasn't identified any projects yet in the Gaza Strip,” Heckman says, “but when the right one comes along, we can make a difference.”

It's all a far cry from 2011, when a world still reeling from the global financial crisis stared at their TV screens, at the events unfolding in Tunisia and Egypt, and wondered, with a mixture of hope, despair and fear, what to do. The answer, it turned out, was to call on the services of a London-based development bank that spent its days transforming old CEE states and to ask it to shift its gaze south to a region where it had zero history, credibility or institutional strength. It was a shot in the dark. But no one can say it didn't work. **GM**

New builds

Annual number of EBRD projects in MENA



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SURINAME

2017



Reforms for stability

Finance minister Gillmore Hoefdraad had a front row seat as Suriname's open economy was battered on three fronts — lower gold and oil prices, and the end of bauxite mining — leading to a recession in 2016. However, as Hoefdraad points out, the recovery is well underway and explains how, through several measures that the government is taking, it is becoming better prepared for external shocks.

GlobalMarkets: How is Suriname's economic recovery progressing?

Gillmore Hoefdraad, Minister of Finance, Suriname:

The stabilisation effort was extensive and swift, but necessary. The government reduced expenditure by 10% of GDP in 2016 and increased taxes, with palpable results. Economic growth is returning, inflation will reach single digits by end-2017, the deficit is continuously shrinking, the exchange rate has stabilised and we now have a current account surplus.

Mining and oil sectors, which are growing rapidly post-crisis, remain a visible strength. But Suriname's true strength lies in the government's ability to act courageously to address macroeconomic imbalances and restore confidence.

GlobalMarkets: With the end of the IMF programme (see macroeconomic overview), how will Suriname fulfil its financing needs?

Hoefdraad: The country maintains a constant dialogue with multilateral institutions that will provide the bulk of financing for projects in the country. Moderate access to domestic financing through the issuance of Treasury bills will complete the financing needs. There is no financing shortfall for 2017-18.

GlobalMarkets: After debuting in international markets in 2016, would you consider another bond issuance?

Hoefdraad: There is no need to issue another bond. The bond was not for budgetary support, but entirely to refinance existing debt, including debt of the state-owned oil company.

GlobalMarkets: What are your fiscal targets and how will you achieve them?

Hoefdraad: The fiscal adjustment is not complete. We aim to reduce the fiscal deficit to around 5% in 2017 and 3% in 2018. The return of economic growth is supporting fiscal adjustment thanks to a buoyant tax system, but the main support to achieve the fiscal targets is continued expenditure restraint and the introduction of a revenue-positive VAT in 2018.

GlobalMarkets: At what stage is the implementation of VAT?

Hoefdraad: A draft law and regulations have been prepared and the underlying computer system has been contracted out. VAT should be in place in 2018, replacing the sales tax and a few other minor indirect taxes. VAT brings multiple benefits as it tends to be a buoyant tax. Furthermore, VAT will help us to rely more on indirect taxes, which will stabilise fiscal revenue further and reduce the impact of future commodity price shocks. Finally, VAT systems tend to be more easily audited and are useful instruments to integrate the tax system and better target measures to improve tax fairness or combat tax evasion.

GlobalMarkets: What other measures are you taking to ensure the economy becomes more resistant to external shocks?

Hoefdraad: Besides the shift toward consumption-based taxes as opposed to income-based taxes and the creation of a sovereign wealth fund, the government is putting in place several administrative reforms to increase the administration's agility and ability to quickly adjust revenue or expenditure. One prominent reform is the automation of the budget and expenditure control systems into an integrated financial management and information system (IFMIS) using software from Canadian company FreeBalance.

GlobalMarkets: What is your strategy to ensure the gold industry not only prospers but also benefits the Surinamese people?

Hoefdraad: Suriname has a 100 year history of cordial and constructive dialogue with international investors. The same applies with the gold industry, which is investing heavily in Suriname and will be present in the country for many decades to come. Direct benefits — such as employment and technical know-how — are accruing, and the government will receive substantive fiscal revenue from gold companies via royalties, income taxes and dividends. Additionally, the government has set up a sovereign wealth fund first and foremost to stabilise fiscal revenue, moderating future commodity-related revenue fluctuations and saving



Minister of Finance Gillmore Hoefdraad

windfalls to benefit future generations and create a diversified income portfolio.

GlobalMarkets: Economists consider the sovereign wealth fund of particular importance; how advanced is its implementation?

Hoefdraad: It will begin operations on January 1, 2019 as instructed by the law. The team is being put together to plan and prepare the operations, including preparing the fund's investment and communications strategies.

GlobalMarkets: There is excitement about potential further windfalls in the oil sector. How important could the exploration agreements with the likes of Exxon, Hess and Statoil be?

Hoefdraad: Offshore oil exploration could be a game-changer for Suriname, although we do not include any projections in our balance of payments or fiscal revenue forecasts. It carries the potential of substantive revenue, but we will only begin considering the financial implications if we see a viable exploitation plan. Our role at present is to rely on state-owned oil company Staastolie to manage the process responsibly. The sovereign wealth fund would also absorb any windfall earnings from the offshore oil sector.

GlobalMarkets: Finally, what message would you send to foreign companies considering investing in Suriname?

Hoefdraad: Suriname has a long history of treating foreign investors fairly. The country and its legal system protect foreign property and investments, and its friendly, very diverse, well-integrated population is well-educated and eager to receive foreigners. Suriname is open for business.



Rich in potential

Suriname is South America's smallest nation, with an area of just 163,820km² and a population of just over 567,000. It is also its youngest: independence from the Netherlands was gained in November 1975.

Size can be deceiving. Suriname is an upper middle-income country with GDP-per-capita lower than only Chile, Uruguay, Brazil and Argentina in South America in 2016.

Unemployment has been lower than many Caribbean peers such as Barbados, Guyana and Jamaica for most of the past decade, although 2016's economic crisis pushed the figure up to 11.9% — still better than Jamaica, but higher than Barbados for the first time since 2008.

Natural resources

Moreover, the country boasts an enviable range and scale of natural resources that have made it an attractive destination for foreign direct investment.

Long before its independence, Suriname became one of the world's leading producers of bauxite — the ore that is the source of most aluminium.

US company Alcoa began operations in the country in 1916, while it was still a Dutch colony, and ceased operations there only in November 2015 as aluminium prices slumped. As recently as 2007, aluminium accounted for about half the country's exports.

Alcoa said in January 2017 that it would permanently close its mines in Suriname, but by then gold had long overtaken aluminium as the most important export — thanks largely to the Rosebel Gold Mine.

As part of the mineral-rich Guiana Shield — the craton of the South American Plate that also lies below French Guinea, Guyana and most of Venezuela — Suriname has further mining potential.

October 1, 2016 was a landmark as US gold producer Newmont began production at the Merian gold mine, which has 5.1m ounces of reserves. Another gold mine could be on the way as Iamgold has begun exploration at the Saramacca site.

In July 2017, Suriname signed production-sharing contracts with Exxon Mobil and Hess for one offshore oil block and with Statoil for

another. These blocks are in the Guyana Basin, where — in Guyanese territory — Exxon has already found oil.

Joint ventures

These investments by foreign firms in the extractive sector show the confidence that international companies have in Suriname's operating environment. Key to these joint ventures is government-owned Staatsolie Maatschappij Suriname, the national oil company founded in 1980 as a limited liability company.

Staatsolie has a 25% equity stake in the Merian mine, for instance, and will take up to a 10% stake in the oil blocks during the development and production phases.

Adjusting to the triple shock

These growth drivers therefore mean Suriname has an exceedingly open economy — one which is very dependent on commodity exports and vulnerable to international price shocks. Beginning in 2014, Suriname suffered a triple shock that any country would have struggled to deal with: both oil and gold prices plummeted, while bauxite mining neared its end.

In 2016, the economic shock hit a nadir as GDP shrank by 10.4%. But the government took decisive action, embarking on an austerity programme to cut expenditure. Indeed, despite the economy shrinking alarmingly, the fiscal deficit slightly narrowed — from 10.7% in 2015 to 8% last year.

The free float of the currency, the Surinamese dollar, was a tricky but necessary measure. It helped to ease imbalances in the external accounts, with the current account deficit narrowing from 16.2% in 2015 to 4.3% in 2016.

Inevitably in such an open economy, the floating of the currency accelerated inflation, which began to rise in November 2015 and peaked at 79.2% in October the following year. But it has decreased sharply ever since,

and fell to 16.2% in August.

External accounts are likely to show continued improvement in 2017, thanks Merian becoming operational, which should lead to higher gold exports.

Responsible priorities

Suriname is now partly focused on broadening its revenue base; a new value-added tax remains a priority and should lift revenue as the economy recovers. The government is also taking steps to ensure it is in a position to make the most of a potential medium-term increase in exports, thanks to more gold mines or oil production.

In May, parliament approved the country's first sovereign wealth fund, known as the Savings and Stabilisation Fund, aimed at harbouring windfalls from the extractive industries.

DCM debut: Suriname beats expectations

International bond investors gave their backing to Suriname's economic recovery efforts when the sovereign raised \$550m of October 2026 notes at a yield of 9.25% in October 2016.

From GlobalCapital's coverage of the bond:

"Suriname's claims to be turning around its public finances found traction with bond investors after the sovereign's debut international bond was priced tighter than many market participants expected.

"According to some investors, Suriname is trying to take steps in the right direction. 'The policy making team is strong and has embarked on a reasonable fiscal reform,' said one EM sovereign bond portfolio manager."

Credit ratings

Moody's: B1 (stable)

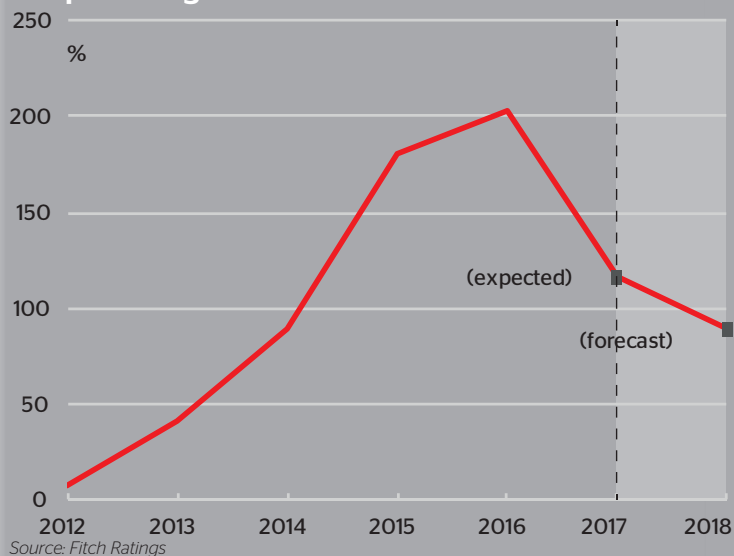
Standard & Poor's: B (negative outlook)

Fitch: B- (negative outlook)



Government finance requirement

Gross external financing requirement as a percentage of international reserves



Source: Fitch Ratings

Suriname's debut international bond issue, a \$550m 10 year, was well received by the markets in October 2016 and has performed well in secondary markets; it had traded up to about 108.5 by mid-September. The country also has access to official financing from the IADB, China and India. Although international reserves are increasing only gradually, Fitch expects the sovereign's financing requirement as a percentage of reserves to decrease in 2018.

GDP

Growth rate set to recover from commodity shock

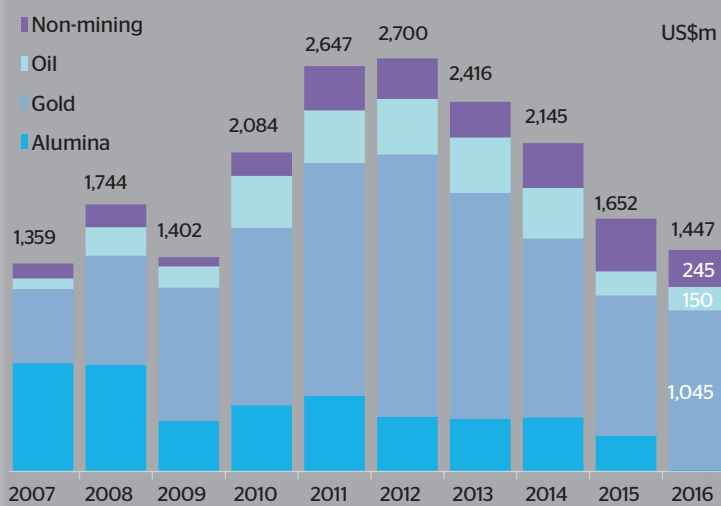


Source: Central Bank of Suriname, Fitch Ratings

Until the shock that hit commodities producers in 2014, Suriname was one of the best-performing economies in the Caribbean, with average growth of 4.3% between 2004 and 2014. The huge drop in income produced by lower gold and oil prices made 2016 a difficult year, but the economy is gradually recovering after authorities took actions including floating the exchange rate and cutting expenditure. FDI into oil exploration and development and gold mines may bring further upside.

Composition of exports

Metals dominate exports... for now

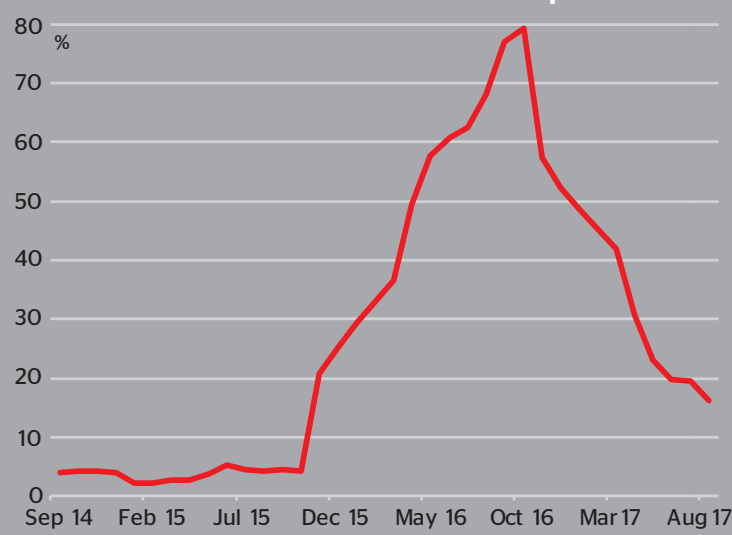


Source: Central Bank of Suriname, and mining companies

Suriname's export sector is evolving, with the previous dominance of alumina at an end and gold taking over. Although the drop in commodity prices has hurt overall volumes, positive changes await. Newmont's Merian Gold project came online in October 2016, and lamgold is reporting positive findings at its Saramacca project. Moreover, Exxon and Statoil are exploring offshore blocks off the coast in the hope that oil could become a major export for Suriname.

Annual inflation

Suriname over the worst of the inflation spike



Source: General Bureau of Statistics, Suriname

Inflation accelerated in 2016 as the inevitable result of the difficult but necessary measure taken to float the Surinamese dollar. However, external accounts have shown a marked improvement in 2017, and the currency has been stable throughout the year. Inflation has duly fallen sharply, and month-to-month price rises from July to August were just 0.6%.

Suriname making strides to fix macro weaknesses

After suffering from the end of the commodity boom more than most, Suriname's recovery is impressing many investors. Although questions linger around the fiscal consolidation plan, the government's reform agenda looks to be putting the economy on the right track.

Amid a deep recession, with inflation having just peaked at 79% and a ballooning debt to GDP ratio, Suriname surprised many observers when it approached the market looking for its inaugural cross-border bond in October 2016.

Yet those buyers who had faith in the government's plans have been rewarded handsomely: Suriname's \$550m of 9.25% 2026s had rallied to a dollar price of 108.5 by September.

In the words of one bond investor: "Suriname saw the abyss, but didn't fall."

In 2015 and 2016 Suriname underwent an adjustment the likes of which few countries see. The so-called triple commodity shock — a collapse in oil prices and gold prices combined with the end of the bauxite mining that had underpinned the economy for a century — shrunk the economy by 2.7% in 2015 and then a further 10.4% the year after.

The fiscal deficit widened sharply to 9.6% of GDP, and was still 8.1% in 2016. The external current account, which until 2012 had spent several years in surplus, posted a deficit of 16.2% in 2015. It also recovered to a deficit of 4.3% in 2016.

Suriname had done little to protect itself during the boom years. The IADB's latest quarterly bulletin says that the commodity price shock revealed several longstanding weaknesses: the lack of fiscal buffers, ineffective expenditure policy, and weaknesses in tax policy among others.

Managing the adjustment

But for a country in such a squeeze to access the bond market it must be doing something right, and the government's affirmative response to the shock has earned praise.

"The authorities launched an adjustment plan in late 2015, initially supported by the



An employee of SPCS (Staatsolie thermal plant) at work with the refinery as background

IMF, which included cuts to government expenditure and flotation of the exchange rate," says Jeetendra Khadan, economics consultant at the Inter-American Development Bank in Washington, DC. "Since then we have seen something of a turnaround in key macroeconomic fundamentals: the fiscal deficit has fallen, the current account has moved into surplus, inflation has decelerated and reserves have marginally increased."

Indeed, 2016's eye-watering inflation was the inevitable, if painful, result of the authorities making the right move. Floating the Surinamese dollar led the currency to lose more than half its value versus the US dollar from November 2015 to September 2016.

"Letting go of the currency was the right thing to do — although the government did it a little later than would have been ideal, and foreign currency reserves were drained," says Nathalie Marshik, managing director, head of sovereign research at Oppenheimer & Co in New York.

Better late than never: the currency float laid the foundations of the adjustment, and the country has swallowed the spike in inflation. By August, inflation had dropped to 16.2%, its lowest level since October 2015.

Suriname's adjustment received another helping hand as, just a few weeks before the bond issue, the Merian gold mine — a joint venture between state-owned oil company Staatsolie and international mining giant Newmont — began operations.

"As soon as the Merian gold project came online the current account came into surplus, relieving some external pressures," says Marshik.

At the same time, the current account balance was lifted by a sharp decrease in imports as the country stopped building gold and oil refineries, Marshik adds.

Still vulnerable

Suriname is not out of the woods yet. Despite the current account surplus, Suriname's FX



reserves are not recovering quickly — partly because the central bank is choosing to leave US dollars in the system to create an interbank market for FX, says Marshik.

"This is creating some appreciation pressures on the Surinamese dollar," she says. "This may help inflation, but it means the country is not accumulating FX buffers."

"If there were another external shock (a drop in gold prices for instance), the country would be very vulnerable."

Kelli Bissett-Tom, associate director in Latin American sovereigns at Fitch Ratings, says that net FX sales to support exchange rate stability "have constrained international reserve accumulation to less than the net inflows generated by the current account surpluses".

"From a ratings perspective, external liquidity looks weak," says Bissett-Tom.

No need for IMF?

Another move that some see as a vulnerability is the end of the IMF stand-by arrangement earlier this year. Moody's says that the cancellation of the programme "increases the risk of fiscal slippage", while Marshik describes it as a "setback".

For his part, finance minister Gillmore Hoefdraad says that it was "clear that the [IMF] financing would be a short-term nature", given that the current account — which had been undermining the balance of payments stability — entered a surplus in the fourth quarter of 2016.

Hoefdraad adds that "exchange rate stability and a lower fiscal deficit also lessened the need to secure foreign financing to restore confidence in the currency or finance budgetary operations".

Despite Moody's assessment, few doubt the government's willingness to reduce the fiscal deficit. As Marshik says, the ministry was hitting the IMF's fiscal targets, just not in the way agreed with the IMF.

If the IMF likes to see a combination of revenue and expenditure measures, such as raising taxes and cutting subsidies, the Surinamese government "slashed expenditures heavily, which exacerbated the recession", says Marshik.

"The Ministry of Finance is committed to keeping its finances tight, but there are political realities to meet," says Marshik. "As such the removal of electricity subsidies will have to be pared down and very much staggered over time."

Not being able to push through the removal of electricity subsidies, as the IMF would have liked, "puts greater pressure on the luck of the

natural resources sector," says Bissett-Tom.

For his part, Khadan at the IADB agrees that the government maintains its intention to implement a reform agenda even without the IMF. But would like to see more specifics.

"The elements of its stabilisation or recovery plan and timeline could be made more explicit," says Khadan. "Such information is important to provide confidence to different actors involved in the economy."

Hoefdraad is aiming to cut the fiscal deficit to 5% in 2017, saying that "continued expenditure restraint" would be the main support for this. However, Bissett-Tom says that Fitch is expecting a central government deficit of 6% or more, using its GDP and inflation forecasts.

Though it may be difficult to swallow, there is surely room for further spending cuts. Almost a third of government spending goes on wages and salaries, while another third of expenditure is subsidies and transfers.

"Such an expenditure profile can potentially stymie the effectiveness of fiscal policy and would require the attention of policymakers over the medium term," says Khadan.

Structural changes

If analysts are positive but uncertain regarding the speed of fiscal consolidation, they are upbeat regarding the government's reform agenda.

Tax is top of the list here, with Marshik describing the replacement of a sales tax with a value-added tax as a particularly important step. VAT would provide important uplift to revenue, says Bissett-Tom.

"We are not expecting VAT to be hugely revenue positive, but even if it's revenue neutral it would help to broaden the tax base as the economy recovers," says the Fitch analyst. "This would help to close the fiscal gap."

Hoefdraad, who does believe VAT will be revenue positive, says that the tax should be implemented in 2018.

Yet tax reform is not only about new taxes. According to Khadan, tax compliance when it comes to direct taxes is low — at around 40% of potential revenue — due to administrative deficiencies and resource constraints. Therefore, the IADB approved a loan in June to help strengthen fiscal institutions and address weaknesses in tax administration.

"This should enable the government to collect more non mineral-related revenues in the future," says Khadan.

Another measure that has earned universal praise is the establishment, in 2017, of Suriname's first ever sovereign wealth fund, known as the Savings and Stability Fund (SSF).



Staatsolie employees in wetlands

"It is very important that authorities transfer windfall mining revenue starting in 2018 as they have indicated, as the SSF can help to smooth adjustments in the event of future unexpected commodity shocks," says Khadan.

Of course, if these reforms are to have a real impact, Suriname's economy must return to growth. Here, estimates vary, though Fitch has put its forecast for 2017 at 0% plus or minus a percentage point, and at just 1% for 2018.

However, excitement in the natural resource sector mean there are several potential reasons to believe there is upside in those growth forecasts. Iamgold has confirmed better than expected gold discoveries at its Saramacca deposit, while state-owned Staatsolie is working with 10 international oil companies looking for off-shore oil. Given the exciting oil discoveries made in the waters of neighbouring Guyana earlier this year, hopes are high.

"Foreign direct investment into oil exploration and development and Iamgold's mine are potential upside risks to growth forecasts," says Bissett-Tom.

If these projects materialise, the benefits of the reforms could become very visible.

"If Suriname does implement the reforms that this recession has triggered [...] it will be in a positive position to make the most of these discoveries in a sustainable way," says Khadan. "To some extent, at least, the government appears to be learning from this experience."

If they have indeed learned, and if the oil discoveries meet the expectations of the companies exploring there, then those who bought Suriname's 10 year paper at 9.25% a year ago will have made one of the buys of the last few years.



Extracting growth: oil and gold generate excitement

The opening of Suriname's second large gold mine has played a crucial role in the country's economic recovery, and offshore oil discoveries in neighbouring Guyana have raised hopes for similar finds in Suriname. With the government apparently conscious of the need to be wise with the windfall, natural resources have the potential to transform the country.

The head of Suriname's state-owned oil company is excited.

"We are on the eve of a massive oil find," says Rudolf Elias, CEO of Staatsolie. "Suriname has just 500,000 people; this will change the landscape of the economy completely."

Elias lists with enthusiasm the 10 international oil companies that are partners of Staatsolie through production-sharing contracts. ExxonMobil, Statoil and Hess in July became the latest to join a list that, with one or two absentees, reads like a Who's Who of global oil giants.

"The best in the industry are with us," says Elias.

Offshore game changer?

It is easy to understand his enthusiasm. The US Geological Survey estimates that the Suriname-Guyana basin has 13.6bn barrels of oil, which make it the second most prospective unexplored oil basin in the world.

This means little until discoveries are made and proven to be commercially viable. However ExxonMobil's discoveries at the Liza well in 2015 and 2016, which confirmed a world-class find of over 1bn barrels, have served to "de-risk" the entire area, say experts.

Oil market observers agree that prospects are exceedingly good for Suriname, while emphasising that nothing is certain until discoveries are made.

"Suriname is right to be excited," says Alejandro Demichelis, director of oil and gas at Hannam Partners. "However there is a big 'but', and it's that people have been excited before only to be disappointed."

In April, Apache made what Demichelis calls a "high profile failure", failing to find commercial

quantities of oil at its Kolibrie well.

"That cooled things off a little bit on the Suriname side because it pushed operators to do some soul searching," he says. "Why is it not working on one side of the border?"

Julie Wilson, research director of global exploration at Wood Mackenzie, echoes the sentiment.

"We don't know yet whether the Liza complex in Guyana is a one-off or whether it can be replicated," says Wilson.

Suriname's finance ministry is not including any offshore oil projections in its balance of payments or fiscal revenue forecasts. But despite analysts trying not to get ahead of themselves, evidence suggests that Suriname could be on the verge of potentially transformative discoveries.

"In exploration there is always risk," says Wilson. "But then again there could be hidden fields of billions of barrels."

"Given what Exxon has achieved next door in Guyana with its string of discoveries that have exceeded expectations, there could be similar sized fields and discoveries in Suriname."

Following Liza, Exxon also made a discovery estimated at 500m of barrels at the nearby Payara well.

"What we've discovered from Liza is that the basin has an extremely good reservoir quality that will deliver high EUR (expected ultimate recovery)," adds Wilson.

Demichelis, despite his words of restraint, admits that the Guyana discoveries — which he calls "some of the largest we've seen worldwide in the past decade" — are extremely encouraging.

"It is very difficult in my mind to have something as big as the ExxonMobil discoveries and then have nothing else happen," he says.



Rudolf Elias, CEO of Staatsolie

The deals with Exxon and Statoil were seen as particularly important to get the market interested in Suriname again, and London-based Tullow is gearing up to start drilling its Araku prospect in October. This raises the possibility that a first offshore discovery could be imminent.

"What we have seen in that area over the past couple of years has put Guyana and Suriname on the world oil map," says Demichelis. "If you're a major oil company and you're not there, you may miss a very good chance."

IPO in preparation

In any case, Staatsolie is busy ensuring that, if oil is struck, it will need no time to get ready.

"Our message as Staatsolie is: Suriname should not think about if we will find oil, but should know that we will," says a bullish Elias. "This is why I say that Staatsolie must already be preparing itself for that day."

Staatsolie can take participations of up to 20% in offshore blocks if oil is found, so one of the first things it will need is money. To finance



Newmont Mining processing facilities at Merian

its participation in such big finds, the company is preparing for an initial public offering of up to 20% of its shares. A cross-border bond offering would also be likely.

"We want to be ready to push the button to attract international financing," says Elias.

The CEO says a shift in mind-set was also required, from being a production-driven company to a more value-driven one.

"We want our mind-set to be more like international oil companies so we can be equal partners in a joint venture," he says

In some ways, the offshore phenomenon is taking Staatsolie back to its roots, when in 1980 it was founded as an agent of the state to deal with international oil companies.

Back then, low oil prices meant low international interest, so the company therefore had to take the oil out of the ground itself. Suriname's onshore crude — low in sulphur and metals — was ideal for fuel oil for the alumina industry that drove the country's economy.

Thus was born Suriname's oil sector, which generated exports of just \$150m in 2016 —10% of the country's total. But these apparently modest beginnings could prove important.

"It is not difficult to deal with Staatsolie as it is a functioning oil company," says Wilson at Wood Mackenzie. "Companies are not having to work with a ministry full of officials that don't know anything about industry."

Furthermore, according to Demichelis, having a working oil industry in Suriname means that new discoveries can be developed more quickly than somewhere like Guyana.

"You have everything in place," he says. "Oil services are there, and there's a national company that knows how to do things and a government with experience."

A golden example

But it is gold mining, not oil, that is more advanced in Suriname, dominates the country's exports and brings employment to the local population.

Furthermore, though in a different industry, US-based Newmont Mining's investment in Suriname is a useful example of how joint ventures can work with Staatsolie, which owns 25% of Newmont Suriname.

Albert Ramdin, senior director for external relations at Newmont Suriname, says that Newmont's investment — which led to its Merian mine coming on line in October 2016 — has been "very successful".

"We are on target to meet our year-end production target of 500,000 ounces; our target for the first full five years of production is around 400,000-500,00 ounces per annum," says Ramdin. "We have now begun the second phase of investment — building the crushers that will allow us to process the rocks once we get into deeper ground, and expanding the energy capacity to run those crushers."

Newmont's investment in Suriname has been nearly \$1bn, and the company employs 1,250 people in the country, of which fewer than 10% are expats.

The company thinks it can be in the country for at least 13-14 years based on today's reserves alone, but Ramdin says it would like to have a longer presence in the country and has increased its exploration area.

Ramdin's view on the country's operating environment gives credence to Elias' claim that Suriname has a history of "treating multinationals with respect, and honouring contracts".

"As foreign investors, we have excellent relations with the government and everybody

is playing by the rules of the mineral agreement that we signed in 2013," says Newmont's Ramdin. "We have a very open, transparent and constructive relationship with the government and our partner Staatsolie, including regular meetings with all government stakeholders."

Newmont's investment is, after all, quite a boon for the government. The project provides the government with income in three ways, according to Ramdin. Each month it takes a 6% royalty payment for gold produced, Staatsolie takes dividends as a 25% partner, and there is indirect income through the "multiplier effect of taxes paid by employees and contractors".

Indeed, while offshore oil discoveries could provide the government with cash, they tend not to create local employment. In this respect, the gold industry will have a much more significant impact.

Bearing in mind the importance of any mine's relationship with the locals, Newmont has a co-operation agreement with the local Pamaka community.

"In the agreement it is very clearly stated that we will for instance give preferential employment to the local communities," says Ramdin. Newmont's engagement with local communities also extends to a community development fund that receives \$1 per ounce of gold sold.

"These efforts reaffirm our belief that a social licence to operate is not just a piece of paper but about being committed and respectful of the communities that live in the area," says Ramdin.

Newmont is now carrying out a social and economic impact assessment at its new discovery in Sabajo.

Savouring the boom

Suriname's gold prospects do not start and end with Newmont. Canadian Iamgold, which has been producing gold at the Rosebel mine since 2004, has been drilling at the nearby Saramacca site and in September confirmed a "significant gold discovery" that "exceeded initial estimates".

And irrespective of how the offshore oil explorations turn out, the prospects for the gold industry alone have driven it to approve Suriname's first sovereign wealth fund.

Appropriate management of that could be the key to ensuring that the excitement in natural resources has a lasting effect on Suriname, especially if offshore oil discoveries come off. This probably explains Elias's rather emotional excitement.

"I'm positive that if we have a good balanced sovereign wealth fund where we can put all the additional money that we may make, it will be able to benefit generations," he says. "It could be the fund for my children's children's children."



Reforms for stability

Finance minister Gillmore Hoefdraad had a front row seat as Suriname's open economy was battered on three fronts — lower gold and oil prices, and the end of bauxite mining — leading to a recession in 2016. However, as Hoefdraad points out, the recovery is well underway and explains how, through several measures that the government is taking, it is becoming better prepared for external shocks.

GlobalMarkets: How is Suriname's economic recovery progressing?

Gillmore Hoefdraad, Minister of Finance,

Suriname: The stabilisation effort was extensive and swift, but necessary. The government reduced expenditure by 10% of GDP in 2016 and increased taxes, with palpable results. Economic growth is returning, inflation will reach single digits by end-2017, the deficit is continuously shrinking, the exchange rate has stabilised and we now have a current account surplus.

Mining and oil sectors, which are growing rapidly post-crisis, remain a visible strength. But Suriname's true strength lies in the government's ability to act courageously to address macroeconomic imbalances and restore confidence.

GlobalMarkets: With the end of the IMF programme (see macroeconomic overview), how will Suriname fulfil its financing needs?

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Hoefdraad: A draft law and regulations have been prepared and the underlying computer system has been contracted out. VAT should be in place in 2018, replacing the sales tax and a few other minor indirect taxes. VAT brings multiple benefits as it tends to be a buoyant tax. Furthermore, VAT will help us to rely more on indirect taxes, which will stabilise fiscal revenue further and reduce the impact of future commodity price shocks. Finally, VAT systems tend to be more easily audited and are useful instruments to integrate the tax system and better target measures to improve tax fairness or combat tax evasion.

GlobalMarkets: What other measures are you taking to ensure the economy becomes more resistant to external shocks?

Hoefdraad: Besides the shift toward consumption-based taxes as opposed to income-based taxes and the creation of a sovereign wealth fund, the government is putting in place several administrative reforms to increase the administration's agility and ability to quickly adjust revenue or expenditure. One prominent reform is the automation of the budget and expenditure control systems into an integrated financial management and information system (IFMIS) using software from Canadian company FreeBalance.

GlobalMarkets: What is your strategy to ensure the gold industry not only prospers but also benefits the Surinamese people?

Hoefdraad: Suriname has a 100 year history of cordial and constructive dialogue with international investors. The same applies with the gold industry, which is investing heavily in Suriname and will be present in the country for many decades to come. Direct benefits — such as employment and technical know-how — are accruing, and the government will receive substantive fiscal revenue from gold companies via royalties, income taxes and dividends. Additionally, the government has set up a sovereign wealth fund first and foremost to stabilise fiscal revenue, moderating future commodity-related revenue fluctuations and saving



Minister of Finance Gillmore Hoefdraad

windfalls to benefit future generations and create a diversified income portfolio.

GlobalMarkets: Economists consider the sovereign wealth fund of particular importance; how advanced is its implementation?

Hoefdraad: It will begin operations on January 1, 2019 as instructed by the law. The team is being put together to plan and prepare the operations, including preparing the fund's investment and communications strategies.

GlobalMarkets: There is excitement about potential further windfalls in the oil sector. How important could the exploration agreements with the likes of Exxon, Hess and Statoil be?

Hoefdraad: Offshore oil exploration could be a game-changer for Suriname, although we do not include any projections in our balance of payments or fiscal revenue forecasts. It carries the potential of substantive revenue, but we will only begin considering the financial implications if we see a viable exploitation plan. Our role at present is to rely on state-owned oil company Staastolie to manage the process responsibly. The sovereign wealth fund would also absorb any windfall earnings from the offshore oil sector.

GlobalMarkets: Finally, what message would you send to foreign companies considering investing in Suriname?

Hoefdraad: Suriname has a long history of treating foreign investors fairly. The country and its legal system protect foreign property and investments, and its friendly, very diverse, well-integrated population is well-educated and eager to receive foreigners. Suriname is open for business.



Rich in potential

Suriname is South America's smallest nation, with an area of just 163,820km² and a population of just over 567,000. It is also its youngest: independence from the Netherlands was gained in November 1975.

Size can be deceiving. Suriname is an upper middle-income country with GDP-per-capita lower than only Chile, Uruguay, Brazil and Argentina in South America in 2016.

Unemployment has been lower than many Caribbean peers such as Barbados, Guyana and Jamaica for most of the past decade, although 2016's economic crisis pushed the figure up to 11.9% — still better than Jamaica, but higher than Barbados for the first time since 2008.

Natural resources

Moreover, the country boasts an enviable range and scale of natural resources that have made it an attractive destination for foreign direct investment.

Long before its independence, Suriname became one of the world's leading producers of bauxite — the ore that is the source of most aluminium.

US company Alcoa began operations in the country in 1916, while it was still a Dutch colony, and ceased operations there only in November 2015 as aluminium prices slumped. As recently as 2007, aluminium accounted for about half the country's exports.

Alcoa said in January 2017 that it would permanently close its mines in Suriname, but by then gold had long overtaken aluminium as the most important export — thanks largely to the Rosebel Gold Mine.

As part of the mineral-rich Guiana Shield — the craton of the South American Plate that also lies below French Guinea, Guyana and most of Venezuela — Suriname has further mining potential.

October 1, 2016 was a landmark as US gold producer Newmont began production at the Merian gold mine, which has 5.1m ounces of reserves. Another gold mine could be on the way as Iamgold has begun exploration at the Saramacca site.

In July 2017, Suriname signed production-sharing contracts with Exxon Mobil and Hess for one offshore oil block and with Statoil for

another. These blocks are in the Guyana Basin, where — in Guyanese territory — Exxon has already found oil.

Joint ventures

These investments by foreign firms in the extractive sector show the confidence that international companies have in Suriname's operating environment. Key to these joint ventures is government-owned Staatsolie Maatschappij Suriname, the national oil company founded in 1980 as a limited liability company.

Staatsolie has a 25% equity stake in the Merian mine, for instance, and will take up to a 10% stake in the oil blocks during the development and production phases.

Adjusting to the triple shock

These growth drivers therefore mean Suriname has an exceedingly open economy — one which is very dependent on commodity exports and vulnerable to international price shocks. Beginning in 2014, Suriname suffered a triple shock that any country would have struggled to deal with: both oil and gold prices plummeted, while bauxite mining neared its end.

In 2016, the economic shock hit a nadir as GDP shrank by 10.4%. But the government took decisive action, embarking on an austerity programme to cut expenditure. Indeed, despite the economy shrinking alarmingly, the fiscal deficit slightly narrowed — from 10.7% in 2015 to 8% last year.

The free float of the currency, the Surinamese dollar, was a tricky but necessary measure. It helped to ease imbalances in the external accounts, with the current account deficit narrowing from 16.2% in 2015 to 4.3% in 2016.

Inevitably in such an open economy, the floating of the currency accelerated inflation, which began to rise in November 2015 and peaked at 79.2% in October the following year. But it has decreased sharply ever since,

and fell to 16.2% in August.

External accounts are likely to show continued improvement in 2017, thanks Merian becoming operational, which should lead to higher gold exports.

Responsible priorities

Suriname is now partly focused on broadening its revenue base; a new value-added tax remains a priority and should lift revenue as the economy recovers. The government is also taking steps to ensure it is in a position to make the most of a potential medium-term increase in exports, thanks to more gold mines or oil production.

In May, parliament approved the country's first sovereign wealth fund, known as the Savings and Stabilisation Fund, aimed at harbouring windfalls from the extractive industries.

DCM debut: Suriname beats expectations

International bond investors gave their backing to Suriname's economic recovery efforts when the sovereign raised \$550m of October 2026 notes at a yield of 9.25% in October 2016.

From GlobalCapital's coverage of the bond:

"Suriname's claims to be turning around its public finances found traction with bond investors after the sovereign's debut international bond was priced tighter than many market participants expected.

"According to some investors, Suriname is trying to take steps in the right direction. 'The policy making team is strong and has embarked on a reasonable fiscal reform,' said one EM sovereign bond portfolio manager."

Credit ratings

Moody's: B1 (stable)

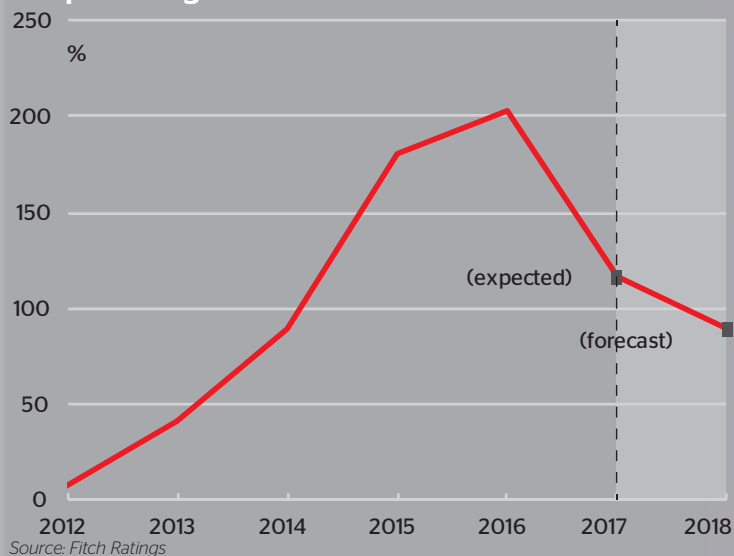
Standard & Poor's: B (negative outlook)

Fitch: B- (negative outlook)



Government finance requirement

Gross external financing requirement as a percentage of international reserves

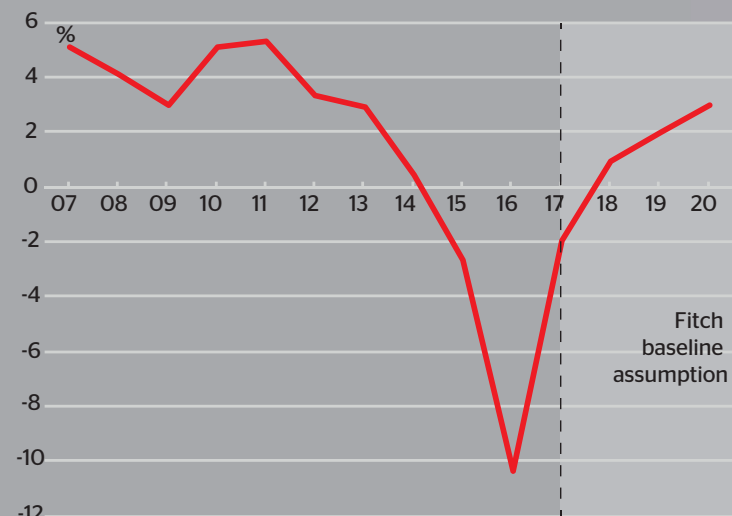


Source: Fitch Ratings

Suriname's debut international bond issue, a \$550m 10 year, was well received by the markets in October 2016 and has performed well in secondary markets; it had traded up to about 108.5 by mid-September. The country also has access to official financing from the IADB, China and India. Although international reserves are increasing only gradually, Fitch expects the sovereign's financing requirement as a percentage of reserves to decrease in 2018.

GDP

Growth rate set to recover from commodity shock

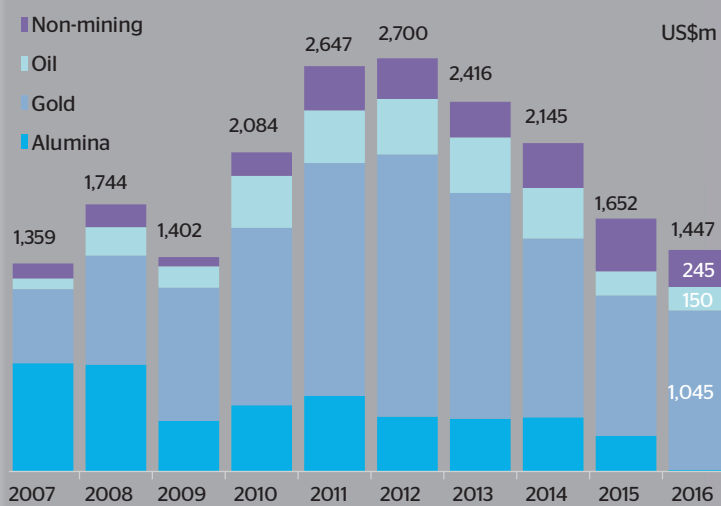


Source: Central Bank of Suriname, Fitch Ratings

Until the shock that hit commodities producers in 2014, Suriname was one of the best-performing economies in the Caribbean, with average growth of 4.3% between 2004 and 2014. The huge drop in income produced by lower gold and oil prices made 2016 a difficult year, but the economy is gradually recovering after authorities took actions including floating the exchange rate and cutting expenditure. FDI into oil exploration and development and gold mines may bring further upside.

Composition of exports

Metals dominate exports... for now

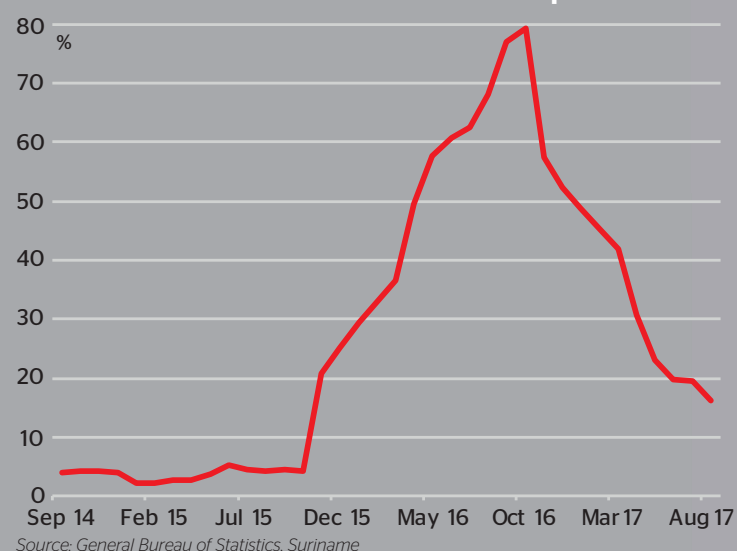


Source: Central Bank of Suriname, and mining companies

Suriname's export sector is evolving, with the previous dominance of alumina at an end and gold taking over. Although the drop in commodity prices has hurt overall volumes, positive changes await. Newmont's Merian Gold project came online in October 2016, and lamgold is reporting positive findings at its Saramacca project. Moreover, Exxon and Statoil are exploring offshore blocks off the coast in the hope that oil could become a major export for Suriname.

Annual inflation

Suriname over the worst of the inflation spike



Source: General Bureau of Statistics, Suriname

Inflation accelerated in 2016 as the inevitable result of the difficult but necessary measure taken to float the Surinamese dollar. However, external accounts have shown a marked improvement in 2017, and the currency has been stable throughout the year. Inflation has duly fallen sharply, and month-to-month price rises from July to August were just 0.6%.

Suriname making strides to fix macro weaknesses

After suffering from the end of the commodity boom more than most, Suriname's recovery is impressing many investors. Although questions linger around the fiscal consolidation plan, the government's reform agenda looks to be putting the economy on the right track.

Amid a deep recession, with inflation having just peaked at 79% and a ballooning debt to GDP ratio, Suriname surprised many observers when it approached the market looking for its inaugural cross-border bond in October 2016.

Yet those buyers who had faith in the government's plans have been rewarded handsomely: Suriname's \$550m of 9.25% 2026s had rallied to a dollar price of 108.5 by September.

In the words of one bond investor: "Suriname saw the abyss, but didn't fall."

In 2015 and 2016 Suriname underwent an adjustment the likes of which few countries see. The so-called triple commodity shock — a collapse in oil prices and gold prices combined with the end of the bauxite mining that had underpinned the economy for a century — shrunk the economy by 2.7% in 2015 and then a further 10.4% the year after.

The fiscal deficit widened sharply to 9.6% of GDP, and was still 8.1% in 2016. The external current account, which until 2012 had spent several years in surplus, posted a deficit of 16.2% in 2015. It also recovered to a deficit of 4.3% in 2016.

Suriname had done little to protect itself during the boom years. The IADB's latest quarterly bulletin says that the commodity price shock revealed several longstanding weaknesses: the lack of fiscal buffers, ineffective expenditure policy, and weaknesses in tax policy among others.

Managing the adjustment

But for a country in such a squeeze to access the bond market it must be doing something right, and the government's affirmative response to the shock has earned praise.

"The authorities launched an adjustment plan in late 2015, initially supported by the



An employee of SPCS (Staatsolie thermal plant) at work with the refinery as background

IMF, which included cuts to government expenditure and flotation of the exchange rate," says Jeetendra Khadan, economics consultant at the Inter-American Development Bank in Washington, DC. "Since then we have seen something of a turnaround in key macroeconomic fundamentals: the fiscal deficit has fallen, the current account has moved into surplus, inflation has decelerated and reserves have marginally increased."

Indeed, 2016's eye-watering inflation was the inevitable, if painful, result of the authorities making the right move. Floating the Surinamese dollar led the currency to lose more than half its value versus the US dollar from November 2015 to September 2016.

"Letting go of the currency was the right thing to do — although the government did it a little later than would have been ideal, and foreign currency reserves were drained," says Nathalie Marshik, managing director, head of sovereign research at Oppenheimer & Co in New York.

Better late than never: the currency float laid the foundations of the adjustment, and the country has swallowed the spike in inflation. By August, inflation had dropped to 16.2%, its lowest level since October 2015.

Suriname's adjustment received another helping hand as, just a few weeks before the bond issue, the Merian gold mine — a joint venture between state-owned oil company Staatsolie and international mining giant Newmont — began operations.

"As soon as the Merian gold project came online the current account came into surplus, relieving some external pressures," says Marshik.

At the same time, the current account balance was lifted by a sharp decrease in imports as the country stopped building gold and oil refineries, Marshik adds.

Still vulnerable

Suriname is not out of the woods yet. Despite the current account surplus, Suriname's FX



reserves are not recovering quickly — partly because the central bank is choosing to leave US dollars in the system to create an interbank market for FX, says Marshik.

"This is creating some appreciation pressures on the Surinamese dollar," she says. "This may help inflation, but it means the country is not accumulating FX buffers.

"If there were another external shock (a drop in gold prices for instance), the country would be very vulnerable."

Kelli Bissett-Tom, associate director in Latin American sovereigns at Fitch Ratings, says that net FX sales to support exchange rate stability "have constrained international reserve accumulation to less than the net inflows generated by the current account surpluses".

"From a ratings perspective, external liquidity looks weak," says Bissett-Tom.

No need for IMF?

Another move that some see as a vulnerability is the end of the IMF stand-by arrangement earlier this year. Moody's says that the cancellation of the programme "increases the risk of fiscal slippage", while Marshik describes it as a "setback".

For his part, finance minister Gillmore Hoefdraad says that it was "clear that the [IMF] financing would be a short-term nature", given that the current account — which had been undermining the balance of payments stability — entered a surplus in the fourth quarter of 2016.

Hoefdraad adds that "exchange rate stability and a lower fiscal deficit also lessened the need to secure foreign financing to restore confidence in the currency or finance budgetary operations".

Despite Moody's assessment, few doubt the government's willingness to reduce the fiscal deficit. As Marshik says, the ministry was hitting the IMF's fiscal targets, just not in the way agreed with the IMF.

If the IMF likes to see a combination of revenue and expenditure measures, such as raising taxes and cutting subsidies, the Surinamese government "slashed expenditures heavily, which exacerbated the recession", says Marshik.

"The Ministry of Finance is committed to keeping its finances tight, but there are political realities to meet," says Marshik. "As such the removal of electricity subsidies will have to be pared down and very much staggered over time."

Not being able to push through the removal of electricity subsidies, as the IMF would have liked, "puts greater pressure on the luck of the

natural resources sector," says Bissett-Tom.

For his part, Khadan at the IADB agrees that the government maintains its intention to implement a reform agenda even without the IMF. But would like to see more specifics.

"The elements of its stabilisation or recovery plan and timeline could be made more explicit," says Khadan. "Such information is important to provide confidence to different actors involved in the economy."

Hoefdraad is aiming to cut the fiscal deficit to 5% in 2017, saying that "continued expenditure restraint" would be the main support for this. However, Bissett-Tom says that Fitch is expecting a central government deficit of 6% or more, using its GDP and inflation forecasts.

Though it may be difficult to swallow, there is surely room for further spending cuts. Almost a third of government spending goes on wages and salaries, while another third of expenditure is subsidies and transfers.

"Such an expenditure profile can potentially stymie the effectiveness of fiscal policy and would require the attention of policymakers over the medium term," says Khadan.

Structural changes

If analysts are positive but uncertain regarding the speed of fiscal consolidation, they are upbeat regarding the government's reform agenda.

Tax is top of the list here, with Marshik describing the replacement of a sales tax with a value-added tax as a particularly important step. VAT would provide important uplift to revenue, says Bissett-Tom.

"We are not expecting VAT to be hugely revenue positive, but even if it's revenue neutral it would help to broaden the tax base as the economy recovers," says the Fitch analyst. "This would help to close the fiscal gap."

Hoefdraad, who does believe VAT will be revenue positive, says that the tax should be implemented in 2018.

Yet tax reform is not only about new taxes. According to Khadan, tax compliance when it comes to direct taxes is low — at around 40% of potential revenue — due to administrative deficiencies and resource constraints. Therefore, the IADB approved a loan in June to help strengthen fiscal institutions and address weaknesses in tax administration.

"This should enable the government to collect more non mineral-related revenues in the future," says Khadan.

Another measure that has earned universal praise is the establishment, in 2017, of Suriname's first ever sovereign wealth fund, known as the Savings and Stability Fund (SSF).



Staatsolie employees in wetlands

"It is very important that authorities transfer windfall mining revenue starting in 2018 as they have indicated, as the SSF can help to smooth adjustments in the event of future unexpected commodity shocks," says Khadan.

Of course, if these reforms are to have a real impact, Suriname's economy must return to growth. Here, estimates vary, though Fitch has put its forecast for 2017 at 0% plus or minus a percentage point, and at just 1% for 2018.

However, excitement in the natural resource sector mean there are several potential reasons to believe there is upside in those growth forecasts. Iamgold has confirmed better than expected gold discoveries at its Saramacca deposit, while state-owned Staatsolie is working with 10 international oil companies looking for off-shore oil. Given the exciting oil discoveries made in the waters of neighbouring Guyana earlier this year, hopes are high.

"Foreign direct investment into oil exploration and development and Iamgold's mine are potential upside risks to growth forecasts," says Bissett-Tom.

If these projects materialise, the benefits of the reforms could become very visible.

"If Suriname does implement the reforms that this recession has triggered [...] it will be in a positive position to make the most of these discoveries in a sustainable way," says Khadan. "To some extent, at least, the government appears to be learning from this experience."

If they have indeed learned, and if the oil discoveries meet the expectations of the companies exploring there, then those who bought Suriname's 10 year paper at 9.25% a year ago will have made one of the buys of the last few years.



Extracting growth: oil and gold generate excitement

The opening of Suriname's second large gold mine has played a crucial role in the country's economic recovery, and offshore oil discoveries in neighbouring Guyana have raised hopes for similar finds in Suriname. With the government apparently conscious of the need to be wise with the windfall, natural resources have the potential to transform the country.

The head of Suriname's state-owned oil company is excited.

"We are on the eve of a massive oil find," says Rudolf Elias, CEO of Staatsolie. "Suriname has just 500,000 people; this will change the landscape of the economy completely."

Elias lists with enthusiasm the 10 international oil companies that are partners of Staatsolie through production-sharing contracts. ExxonMobil, Statoil and Hess in July became the latest to join a list that, with one or two absentees, reads like a Who's Who of global oil giants.

"The best in the industry are with us," says Elias.

Offshore game changer?

It is easy to understand his enthusiasm. The US Geological Survey estimates that the Suriname-Guyana basin has 13.6bn barrels of oil, which make it the second most prospective unexplored oil basin in the world.

This means little until discoveries are made and proven to be commercially viable. However ExxonMobil's discoveries at the Liza well in 2015 and 2016, which confirmed a world-class find of over 1bn barrels, have served to "de-risk" the entire area, say experts.

Oil market observers agree that prospects are exceedingly good for Suriname, while emphasising that nothing is certain until discoveries are made.

"Suriname is right to be excited," says Alejandro Demichelis, director of oil and gas at Hannam Partners. "However there is a big 'but', and it's that people have been excited before only to be disappointed."

In April, Apache made what Demichelis calls a "high profile failure", failing to find commercial

quantities of oil at its Kolibríe well.

"That cooled things off a little bit on the Suriname side because it pushed operators to do some soul searching," he says. "Why is it not working on one side of the border?"

Julie Wilson, research director of global exploration at Wood Mackenzie, echoes the sentiment.

"We don't know yet whether the Liza complex in Guyana is a one-off or whether it can be replicated," says Wilson.

Suriname's finance ministry is not including any offshore oil projections in its balance of payments or fiscal revenue forecasts. But despite analysts trying not to get ahead of themselves, evidence suggests that Suriname could be on the verge of potentially transformative discoveries.

"In exploration there is always risk," says Wilson. "But then again there could be hidden fields of billions of barrels."

"Given what Exxon has achieved next door in Guyana with its string of discoveries that have exceeded expectations, there could be similar sized fields and discoveries in Suriname."

Following Liza, Exxon also made a discovery estimated at 500m of barrels at the nearby Payara well.

"What we've discovered from Liza is that the basin has an extremely good reservoir quality that will deliver high EUR (expected ultimate recovery)," adds Wilson.

Demichelis, despite his words of restraint, admits that the Guyana discoveries — which he calls "some of the largest we've seen worldwide in the past decade" — are extremely encouraging.

"It is very difficult in my mind to have something as big as the ExxonMobil discoveries and then have nothing else happen," he says.



Rudolf Elias, CEO of Staatsolie

The deals with Exxon and Statoil were seen as particularly important to get the market interested in Suriname again, and London-based Tullow is gearing up to start drilling its Araku prospect in October. This raises the possibility that a first offshore discovery could be imminent.

"What we have seen in that area over the past couple of years has put Guyana and Suriname on the world oil map," says Demichelis. "If you're a major oil company and you're not there, you may miss a very good chance."

IPO in preparation

In any case, Staatsolie is busy ensuring that, if oil is struck, it will need no time to get ready.

"Our message as Staatsolie is: Suriname should not think about if we will find oil, but should know that we will," says a bullish Elias. "This is why I say that Staatsolie must already be preparing itself for that day."

Staatsolie can take participations of up to 20% in offshore blocks if oil is found, so one of the first things it will need is money. To finance



Newmont Mining processing facilities at Merian

its participation in such big finds, the company is preparing for an initial public offering of up to 20% of its shares. A cross-border bond offering would also be likely.

"We want to be ready to push the button to attract international financing," says Elias.

The CEO says a shift in mind-set was also required, from being a production-driven company to a more value-driven one.

"We want our mind-set to be more like international oil companies so we can be equal partners in a joint venture," he says

In some ways, the offshore phenomenon is taking Staatsolie back to its roots, when in 1980 it was founded as an agent of the state to deal with international oil companies.

Back then, low oil prices meant low international interest, so the company therefore had to take the oil out of the ground itself. Suriname's onshore crude — low in sulphur and metals — was ideal for fuel oil for the alumina industry that drove the country's economy.

Thus was born Suriname's oil sector, which generated exports of just \$150m in 2016 —10% of the country's total. But these apparently modest beginnings could prove important.

"It is not difficult to deal with Staatsolie as it is a functioning oil company," says Wilson at Wood Mackenzie. "Companies are not having to work with a ministry full of officials that don't know anything about industry."

Furthermore, according to Demichelis, having a working oil industry in Suriname means that new discoveries can be developed more quickly than somewhere like Guyana.

"You have everything in place," he says. "Oil services are there, and there's a national company that knows how to do things and a government with experience."

A golden example

But it is gold mining, not oil, that is more advanced in Suriname, dominates the country's exports and brings employment to the local population.

Furthermore, though in a different industry, US-based Newmont Mining's investment in Suriname is a useful example of how joint ventures can work with Staatsolie, which owns 25% of Newmont Suriname.

Albert Ramdin, senior director for external relations at Newmont Suriname, says that Newmont's investment — which led to its Merian mine coming on line in October 2016 — has been "very successful".

"We are on target to meet our year-end production target of 500,000 ounces; our target for the first full five years of production is around 400,000-500,00 ounces per annum," says Ramdin. "We have now begun the second phase of investment — building the crushers that will allow us to process the rocks once we get into deeper ground, and expanding the energy capacity to run those crushers."

Newmont's investment in Suriname has been nearly \$1bn, and the company employs 1,250 people in the country, of which fewer than 10% are expats.

The company thinks it can be in the country for at least 13-14 years based on today's reserves alone, but Ramdin says it would like to have a longer presence in the country and has increased its exploration area.

Ramdin's view on the country's operating environment gives credence to Elias' claim that Suriname has a history of "treating multinationals with respect, and honouring contracts".

"As foreign investors, we have excellent relations with the government and everybody

is playing by the rules of the mineral agreement that we signed in 2013," says Newmont's Ramdin. "We have a very open, transparent and constructive relationship with the government and our partner Staatsolie, including regular meetings with all government stakeholders."

Newmont's investment is, after all, quite a boon for the government. The project provides the government with income in three ways, according to Ramdin. Each month it takes a 6% royalty payment for gold produced, Staatsolie takes dividends as a 25% partner, and there is indirect income through the "multiplier effect of taxes paid by employees and contractors".

Indeed, while offshore oil discoveries could provide the government with cash, they tend not to create local employment. In this respect, the gold industry will have a much more significant impact.

Bearing in mind the importance of any mine's relationship with the locals, Newmont has a co-operation agreement with the local Pamaka community.

"In the agreement it is very clearly stated that we will for instance give preferential employment to the local communities," says Ramdin. Newmont's engagement with local communities also extends to a community development fund that receives \$1 per ounce of gold sold.

"These efforts reaffirm our belief that a social licence to operate is not just a piece of paper but about being committed and respectful of the communities that live in the area," says Ramdin.

Newmont is now carrying out a social and economic impact assessment at its new discovery in Sabajo.

Savouring the boom

Suriname's gold prospects do not start and end with Newmont. Canadian Iamgold, which has been producing gold at the Rosebel mine since 2004, has been drilling at the nearby Saramacca site and in September confirmed a "significant gold discovery" that "exceeded initial estimates".

And irrespective of how the offshore oil explorations turn out, the prospects for the gold industry alone have driven it to approve Suriname's first sovereign wealth fund.

Appropriate management of that could be the key to ensuring that the excitement in natural resources has a lasting effect on Suriname, especially if offshore oil discoveries come off. This probably explains Elias's rather emotional excitement.

"I'm positive that if we have a good balanced sovereign wealth fund where we can put all the additional money that we may make, it will be able to benefit generations," he says. "It could be the fund for my children's children's children."

What's happening Thursday, October 12

8.30am - 12.15pm

Seminar: Towards 2030: trends, opportunities, challenges and policies for inclusive growth

Opening remarks: **Tao Zhang**, Deputy Managing Director, IMF

Session I: The world in 2030: risks and opportunities for inclusive growth for developing countries

Keynote speech: **Dani Rodrik**, Ford Foundation Professor of International Political Economy, Harvard University

Moderator: **Jonathan Ostry**, Deputy Director, Research Dept, IMF

Speakers: **James Manyika**, Chairman, McKinsey Global Institute; **Carolina Sanchez**, Senior Director, Poverty and Equity Global Practice, World Bank; **Mthuli Ncube**, Professor of Public Policy, University of Oxford; **Gayle Smith**, President and CEO, ONE Campaign

Session II: The road ahead and policy priorities for inclusive growth

Keynote speech: **Ricardo Hausmann**, Professor of the Practice of Economic Development, Harvard University

Moderator: **Abebe Aemro Selassie**, Director, African Dept, IMF

Speakers: **Mauricio Cardenas**, Minister of Finance and Public Credit, Colombia; **Denny Kalyalya**, Governor, Bank of Zambia; **Sahar Nasr**, Minister of Investment and International Cooperation, Arab Republic of Egypt; **Vera Songwe**, Executive Secretary, UN Economic Commission for Africa; **Melanne Verveer**, Executive Director, Georgetown Institute for Women, Peace and Security, Georgetown University
Location: IMF HQ1 - Meetings Halls A&B

9.00am - 9.30am

Postcard series: **Teaching inclusive growth**
Speaker: **Dmitriy Rozhkov**, Senior Economist, IMF Institute for Capacity Development

Location: IMF Gallery, HQ1-R-700 (Red Level)

9.00am - 5.30pm

Civil Society Policy Forum

Location: World Bank Group I Building, Rooms 12, 210, 220 and 250

9:30am - 10:00 am

Coffee Corner Chat: **Closing the Gender Gap in the Workplace: Why should we care and how do we do it?**

Speakers: **Johan Tideman**, Lead Client Adviser, EDGE (Economic Dividends for Gender Equality); **Nadia Younes**, Diversity and Inclusion Advisor, IMF

Location: IMF Innovation lab, HQ1 2-701

9.30am - 10.30am

Seminar: Empowering women at work: tackling childcare

Moderator: **Gillian Tett**, US Managing Editor, *Financial Times*

Panelists: **Nena Stoiljkovic**, VP, Blended Finance and Partnerships, IFC; **Santosh Kumar Gangwar**, Minister of State for Labour and Employment, India; **Purna Sen**, Director of Policy, UN Women; **Farhan Ifram**, CEO, MAS; **Kreeda Al Safi**, Jordan
Location: WBG MC Building, MC2-800

9.30am - 10.45am

B-20 Panel: Catching the Investors' Eye — A Business Sector View of Compact with Africa Initiatives

Moderator: **Anne Lauenroth**, Senior Manager, External Economic Policy, BDI - Federation of German Industries

Speakers: **Jörg Stephan**, G20 Presidency representative, Deputy Director General, German Finance Ministry; **Charles Adu Boahen**, Deputy Minister of Finance, Ghana; **Hans Peter Lankes**, Vice President of Economics and Private Sector Development, IFC; **André Bouffieux**, Lead Country CEO, Maghreb and Sub-Saharan Africa, SIEMENS; **Shalini Unnikrishnan**, Partner and Managing Director, Boston Consulting Group, Chicago Office
Location: IMF HQ1, Cedar Hall (1-660)

9.30am - 11.00am

Seminar: Addressing the innovation paradox: How can developing countries move closer to the technological frontier?

Speakers: **Ahmed El Alfi**, Founder Sawari Ventures; **Caroline Freund**, Senior Fellow, Peterson Institute; **Danny Leipziger**, Professor Interbational Affairs, Georgetown University; **William Maloney**, Chief Economist, Equitable Growth, Finance, and Institutions, World Bank Group; **Christopher MacLennan**, Assistant Deputy Minister for Global Issues and Development, Global Affairs, Canada
Location: IFC Building, IFC Auditorium

10.15am - 10.45am

Postcard series: **Catalysing women's financial inclusion — the role of data**

Speakers: **Inez Murray**, CEO, Global Alliance for Women; **Tessy Vasquez Baos**, Economist, IMF Statistics Dept

Location: IMF Gallery, HQ1-R-700 (Red Level)

10.30am - 11.45am

Seminar: Global excess imbalances: risk and policy responses

Moderator: **Martin Wolf**, Chief Economics Commentator, *Financial Times*

Speakers: **David Lipton**, First Deputy Managing Director, IMF; **Barry Eichengreen**, Professor, University of California, Berkeley; **Eswar Prasad**, Professor, Cornell University; **Claudia Buch**, Vice-President, Deutsche Bundesbank
Location: IMF HQ1 - Atrium

11.00am - 12.30pm

Seminar: Digital economy for development

Speakers: **Joe Gebbia**, Co-founder, Airbnb; **Jim Yong Kim**, President, World Bank Group; **Philippe Le Houerou**, CEO, IFC
Panelists: **Nandan Nilekani**, Co-founder and Chairman, InfoSys; **Eric Jing**, CEO Ant Financial; **Greg Wyler**, Founder and Executive Chairman, OneWeb; **Mats Granryd**, Director-General, GSMA; **Sue Siegel**, CEO, GE Ventures
Location: WBG MC Building, Preston Auditorium

Seminar Pick



2.00pm - 3.00pm

Seminar: The Belt & Road Initiative: building bonds across Asia, Europe and beyond

Speakers: **Jim Yong Kim**, President, World Bank Group; **Yerbolat Dossayev**, Deputy Prime Minister, Kazakhstan; **Sri Mulyani Indrawati**, Minister of Finance, Indonesia; **Jin Liqun**, President, Asian Infrastructure Investment Bank; **Shi Yaobin**, Vice Minister of Finance, China
Location: World Bank Group MC Building, Preston Auditorium

11:45am - 12:30pm

Analytical Corner: The Economic Impact of Tropical Cyclones in Small States

Moderator: **Jacqueline Deslauriers**, Communications Department, IMF
Presenter: **Sebastian Acevedo**, Economist, Western Hemisphere Department, IMF
Location: IMF HQ1, Cedar Hall (1-660)

12.30pm - 1.30pm

CNN debate on the global economy

Moderator: **Richard Quest**, CNN
Speakers: **Christine Lagarde**, Managing Director, IMF; **William Morneau**, Minister of Finance, Canada; **Sri Mulyani Indrawati**, Minister of Finance, Indonesia; **Gita Gopinath**, Professor of Economics, Harvard University; **Bruno Le Maire**, Minister of Economics and Finance, France
Location: IMF HQ1, Atrium

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12.30pm - 1.30pm

Technology and civic engagement: new approaches

Moderator: **Femi Oke**, International Journalist

Panelists: **Muhammad Sani Abdullahi**, Commissioner, Budget and Planning, Kaduna State Government, Nigeria; **Natalie Bridgeman Fields**, Executive Director, Accountability Counsel; **Phil Chow**, Co-founder and CEO, Humanitas.ai; **Enrica Duncan**, Chief of Staff, Nossas, Brazil; **Kristalina Georgieva**, CEO, World Bank; **David Sasaki**, Program Officer, Global Development and Population, William and Flora Hewlett Foundation
Location: WBG MC Building, Jim Wolfensohn Atrium

12.30pm - 1.30pm

Seminar: **The future of manufacturing**

Speakers: **Raj Batra**, President, Digital Factory USA, Siemens; **Mary Hallward-Driemeier**, Author, *Trouble in the Making? The Future of Manufacturing Led Development*; **Li Yong**, Director General, United Nations Industrial Development Organization (UNIDO); **Raj Rao**, Ford Smart Mobility LLC
Location: WBG MC Building, MC 13-301

1:45pm - 2:30pm

Analytical Corner: **The Labor Market Integration of Migrants in Europe: New Evidence from Micro Data**

Moderator: **Marushia Gislen**, Secretary's Department,
Presenters: **Giang Ho**, Economist, Research Department, IMF; **Rima Turk**, Economist, European Department, IMF
Location: IMF HQ1, Cedar Hall (1-660) IMF

2.00pm - 3.15pm

Seminar: **Fintech - challenges to regulation and central banking**

Moderator: **Christine Lagarde**, Managing Director, IMF
Speakers: **Lesetja Kganyago**, Governor, the Reserve Bank of South Africa; **Klaus Henderikus Wilem Knot**, President, Dutch Central Bank; **Ravi Menon**, Managing Director, the Monetary Authority of Singapore; **Blythe Masters**, CEO, Digital Asset; **Nicolas Shea**, Chilean Entrepreneur
Location: IMF HQ1 - Meetings Halls A&B

2:30pm - 3:15 pm

Analytical Corner: **A Universal Basic Income: What, Why & When?**

Moderator: **Simonetta Nardin**, Communications Department, IMF

Presenter: **Delphine Prady**, Economist, Fiscal Affairs Department, IMF

Location: IMF HQ1, Cedar Hall (1-660)

2.30pm - 3.30pm

Seminar: **Sustainable mobility**

Moderator: **Helene Speight**, Ambassador, Prince's Trust
Panelists: **Kristalina Georgieva**, CEO, World Bank; **Michelle Yeoh**, UN Ambassador and Actress; **Jean Todt**, President, Federation Internationale de l'Automobile; **Raj Rao**, CEO, Ford Smart Mobility LLC; **Sahar Nasr**, Minister of Investment and International Cooperation, Egypt
Location: WBG MC Building, Jim Wolfensohn Atrium

3.00pm - 4.30pm

Seminar: **Harnessing the power of the private sector in support of sustainable development**

Panelists: **Bambang Brodjonegoro**, Minister of National Development Planning, Indonesia; **Anne-Marie Chidzero**, Board Member, Africa Enterprise Challenge Fund, Making Finance Work for Africa, and Women's World Banking; **Tony Elumelu**, Chairman, Heirs Holdings, Tony Elumelu Foundation, and United Bank for Africa; **Matthew McGuire**, Managing Director, The Abraaj Group; **Hans**

Peter Lankes, Vice-President, Economics and Private Sector Development, IFC; **Susan Lund**, Partner, McKinsey Global Institute
Luis Fernando MEJÍA, Director-General, National Planning Department, Colombia
Location: IFC Building, IFC Auditorium

3:00 pm - 3:30 pm

Coffee Corner Chat: **Budgeting for Gender Equality: From Policy to Reality**

Speakers: **Lisa Kolovich**, IMF and editor, Fiscal Policies; and Gender Equality (forthcoming) **Zohra Khan**, UN Women, and author of *Financing for Gender Equality: Realizing Women's Rights Through Gender-Responsive Budgeting*; **Albert Musisi**, Commissioner Macroeconomic Policy, Government of Uganda
Location: IMF Innovation lab, HQ1 2-701

3:30pm - 4:15pm

New Economy Talk: **Why the Liberal Arts Matter in an**

Algorithmic World

Moderator: **Ana Rold**, Publisher and CEO of Diplomatic Courier
Speaker: **Scott Hartley**, Author, Venture Capitalist
Location: IMF HQ1-1-660



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4.00pm - 5.30pm

Seminar: Localising the implementation of the sustainable development goals

Panel 1: **Mahmoud Mohieldin**, Senior Vice President, World Bank Group; **Mauricio Cardenas**, Minister of Finance, Colombia; **Maria Alejandra Gonzalez Perez**, EAFIT University in Medellin, Colombia; **Javier Esteban Agudelo Vallejo**, Representative of youth Communa 13, Medellin, Colombia; **Olga Patricia Castaño Diaz**, Vice President for Strategy Interconexión Eléctrica S.A. E.S.P ISA, Colombia; **Maria Emma Mejia Velez**, Permanent Representative of

Colombia to the UN; **Jorge Familiar Calderon**, Vice President, Latin America and the Caribbean Region, World Bank
Panel 2: Mahmoud Mohieldin, Senior Vice President, World Bank Group; **Imad Fakhoury**, Minister of Planning and International Cooperation, Jordan; **Bambang Brodjonegoro**, Minister of National Development Planning (Bappenas), Indonesia; **Ulla Tørnæs**, Minister for Development Cooperation, Denmark; **Martyn Parker** Chairman, Global Partnerships, Swiss Re; **Achim Steiner**, Administrator, United Nations Development Programme
 Location: WBG MC Building, Preston Auditorium

4:30pm - 5:15pm

New Economy Talk: Augmented Intelligence: Human

Machine = Amazing Work
 Speaker: **Louis Richardson**, Chief Storyteller, IBM Watson Customer Engagement
 Location: IMF HQ1-1-660

5:00pm - 6:00 pm

Seminar: 30 Years Of MIGA: Innovating to Mobilize Private Capital

Moderator: **Christopher Bishop**, Managing Editor, Forbes Africa
 Panelists: **Bill Winters**, CEO, Standard Chartered; **Kristalina Georgieva**, CEO, World Bank; **Keiko**

Honda, CEO, MIGA; **Philippe Le Houérou**, CEO, IFC
 Location: WBG MC Building, Preston Auditorium

5:15 pm - 5:45pm

Postcard Series: Launching of the Monetary and Capital Markets Technical Assistance Strategy Update

Speakers: **Naomi Griffin**, Deputy Division Chief, IMF Monetary and Capital Markets department; **Maria A. Oliva**, Deputy Division Chief, IMF Monetary and Capital Markets department; **Asad Qureshi**, Senior Financial Sector Expert, IMF Monetary and Capital Markets department

ExtraCurricular

Institute of International Finance (IIF) 2017 Annual Membership Meeting

Location: Ronald Reagan Building and International Trade Center, Washington, DC

Emerging Markets

Location: Atrium Ballroom A

9.00am - 9.45am

Fed Tightening and EM

Robin Brooks, Alejandro Diaz de Leon, Kristin J. Forbes, Kay Mizra, Ksenia Yudaeva

9.45am - 10.30am

Protectionism and EM: Winners and Losers

Lorenzo Giorgianni, David Loevinger, Alberto Ramos, Ratna Sahay, Yasuyuki Sawada

10.30am - 11.00am Keynote Address

Jerome H. Powell, Governor, Board of Governors of the Federal Reserve System

11.00am - 11.45am

Fed Policy and Sustainability of Dollar Pegs

Aasim Husain, Garbis Iradian, Gregory Jobome, Elina Ribakova, Brad Setser

11.45am - 12.05pm

In Conversation: MENA Outlook

Arif Amiri, Robin Brooks

12.05pm - 12.40pm

Remarks and in Conversation

Wolfgang Schauble, Axel Weber

12.40pm - 1.25pm Networking Lunch

1.30pm - 2.15pm

EM CEOs

Hakan Ates, Bejoy Das Gupta, Zbigniew Jagiello, Murilo Portugal Filho, David Rasquinha,

2.15pm - 3.00pm

Growth Prospects in EM

Mohsen Fahmi, Ayako Fujita, Arend Kapteyn, Christian Kopf, Changyong Rhee

3.00pm - 3.45pm

Rising Debt: Headwinds for EM Growth, Concerns for Investors

Sonja Gibbs, Heather Hagerty, James McCormack, Juan Carlos Mora Uribe, Josephine Shea

3.45pm - 4.30pm

In Conversation: Henrique de Campos Meirelles, Tim Adams

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Cashing Out: the End of Paper Currency

Location: Atrium Ballroom A

1:30 pm - 1:40 pm

Opening remarks: Piyush Gupta

1.40pm - 2.05pm

Introduction and Keynote Remarks: the Public Finance and Monetary Policy Case for a Less-Cash Society

Kenneth Rogoff, Thomas D. Cabot

2.05pm - 2.45pm

How and Why are Countries Moving Away from Cash?

Conan French, Anders Nicander, Javier Santamaria, Cecilia Skingsley

2.45pm - 3.15pm

Technology Meeting New Customer Expectations

Conan French, Franz Paasche, Hank Uberoi

3.15pm - 4.00pm

Outlook for a Cash-Lite Ecosystem and Policy Implications

Conan French, Grainne McNamara, Ellen Richey, Carolyn Wilkins

3.45pm - 4.00pm

Closing Remarks Johan Torgeby

Frontier markets

Continued from page 1

crunch. “Nobody sees the risk but we have seen this before, when a catalyst increases in costs of financing because of rate hikes or a shock to growth like a hurricane or a terrorist attack suddenly stops capital. This is how most EM capital crises begin.”

A quarter of frontier markets issued new debt on commercial terms as of August this year, but elevated debt service costs and liquidity risks as rates rise is leaving many nations vulnerable.

“Global liquidity conditions have reduced reliance on concessional debt, but in the medium term as liquidity becomes tighter, and interest rates rise it raises problems in the near term,” said Van Praagh. “Countries with higher leverage, upcoming refi risk and constrained ability on easing monetary policy are vulnerable.”

IMF URGED TO CHANGE COURSE

The last 12 months have seen Mozambique, Republic of Congo and Belize default on Eurobond obligations. Guillaume Chabert, co-chair of the Paris Club, said an additional 12–13 countries were at risk of debt distress across the 36 countries that have reached completion under the Heavily Indebted Poor Countries Initiative.

While nations have several ways to reduce debt — fiscal reform, growth, inflation or restructuring — both BNPP’s Carter and Chabert believe that it is the responsibility of IFIs to provide greater technical assistance to governments in managing both concessional and commercial debt.

“This is a shared responsibility among primarily the borrower and creditors,” Chabert told *Global Markets*. “The IMF can provide transparency on the debt ceiling which it fixes for each country and then it is up to the creditors to use all the tools that are available not to over-endebt the country.”

Carter said the IMF must change its attitude to market access and that the IMF was the “only organisation” which had the right level of access to track use of funds and demand regular due diligence. “No one else has that level of access,” he said.

“The IMF sees the market as the ultimate graduation, if they can rehabilitate a country, and bring it back to the market, the IMF thinks its job is complete. They don’t see the market as a problem, they see it as a solution.”

Progress is being made however, with the OECD, World Bank, UN and IMF working together on the same platform to provide technical assistance which will help to remove the problem of competing institutions offering different advice, Chabert said.

In addition, certain IMF programmes specifically prohibit external borrowing, according to Graham Stock, head of EM sovereign research at BlueBay.

“Mongolia [one of the country’s Moody’s highlights as most at risk] certainly exhibits these vulnerabilities but the risks are mitigated by the government’s commitment to an IMF programme that prohibits net new external market financing and entails significant multi/bilateral assistance on concessional terms,” he said.

THE final word

Jordan: resilience in the face of crises

By Imad Najib Fakhoury

Jordan has earned a reputation for resilience in times of crisis. Our stability and international recognition are not a coincidence, but rather the fruits of moderation, respect and openness. Our decades-long maintenance of a robust and stable economy stems from serious commitment to reform and to an environment in which businesses are free to innovate, thrive, and grow. The Kingdom’s unique political stability and history of sound regulatory and macroeconomic policies, coupled with far-reaching efforts to improve the business climate, have helped Jordan to position itself as an attractive destination in the heart of the Levant and the wider MENA region.

Jordan continues to provide a comprehensive range of incentives and facilitations to potential investors, including preferential access to most global markets. Our Investment Commission acts as a one stop shop to assist investors in all their needs.

Despite turbulence in the region, Jordan remains a fast-growing regional commercial and business hub. This is thanks to its highly skilled, competitive, and globally-aware workforce, which is supported by modern infrastructure and technology. Our business parks, industrial estates, free zones and special economic areas provide enhanced transportation and logistics and have powered Jordan’s transformation into a hub for businesses, trade, tourism, and culture. Sitting at the intersection of three continents on what is referred to as the “New Silk Road”, Jordan has free trade access to nearly a billion consumers in Europe, North America and the Arab world.

Jordan is also engaged in a multifaceted partnership with the international community, serving as a regional logistics hub and representing a potential gateway for reconstruction and rebuilding efforts for the region. As part of this partnership, Jordan has a new trade arrangement with the EU providing a 10-year preferential trade status with the EU, through simplified rules of origin, allowing nearly all manufacturers to increase their exports to European markets — everything from apparel and electrical appliances to chemicals, cosmetics and furniture.



Over the past decade, and thanks to the adoption of a new generation of economic policies and laws to enhance investment and competitiveness, Jordan was able to position itself as a regional leader in renewable energy, finance, pharmaceuticals, medical tourism and education. The Kingdom for years has been the regional capital for ICT, startups and creative industries.

Jordan has also been leading a successful model for implementing PPP projects in the region including power, water and wastewater, renewable energy and transportation. Jordan today is a leader in wind and solar energy projects, hosting \$2bn worth of projects that are transforming the Kingdom’s energy challenges into economic opportunities. These projects have helped Jordan reinforce its national infrastructure and provide critical public goods and services. In the next decade, a further \$20bn worth of infrastructure projects in water, solid waste, energy, electricity, transportation, ICT, and urban development are all set to be delivered through PPPs — a key financing vehicle emphasised in the country’s 10-year socio-economic blueprint, *Jordan 2025*.

The story of Jordan is one of turning challenges into opportunities. Even as unprecedented challenges to economic stability have appeared, they have not diverted us from the road of continued development and reform. Our approach to reform has always been and will continue to be inclusive, sustainable and home-grown. The Kingdom continues to be a perfect place to grow and develop a business, use as a manufacturing base and outsourcing centre, establish a distribution and assembly gateway or consulting hub, or create a base for infrastructure and reconstruction projects. We are open for business and we invite you to benefit from Jordan’s offering.

Imad Najib Fakhoury, Minister of Planning and International Cooperation of Jordan and Chairman of the Board of Governors of the European Bank for Reconstruction and Development.

The Kingdom of Jordan will be the venue of the EBRD’s 2018 Annual Meeting of Board of Governors and Business Forum, to be held in the Dead Sea area on May 8-10 2018.

“
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