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Protectionism fears intensify as world gathers in Washington

By Elliot Wilson and Katie Llanos-Small

Bankers, politicians and analysts were united last night over the danger that the rising trend in protectionism led by the increasingly isolationist US administration could have on world trade and economic growth.

As the key meetings between finance ministers from the US and the 188 other members of the IMF begin this evening, they were determined to reaffirm their commitment to a borderless ideal of globalisation, deregulation and free trade ideals.

The chief concern, inevitably,



Trump: shot down TPP. Is Nafta next?

arrives in the lumbering shape of Donald Trump. America's president is easily cast as an anti-free-trade figure, having scrapped one

multilateral trade deal, the Trans-Pacific Partnership, and threatened to remove the US from the

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End of Pax Americana as emerging powers sense global shift

By Virginia Furness, Katie Llanos-Small and Elliot Wilson

Amid a growing perception that Donald Trump will lead the US off the world stage, top officials and analysts at the IMF-World Bank annual meetings in Washington DC told *GlobalMarkets* that they expect a multipolar world will replace the old order as power shifts eastwards —

and towards corporations.

"It's the end of *Pax Americana*," Paul Sheard, chief economist of S&P Global Ratings, told *GlobalMarkets*. "The feeling that the US was the big, benign hegemon that underwrote global security, was the global policeman and the consumer of last resort, for decades. But it makes no sense that the US is the sole global hegemon."

Sergey Storchak, Russia's



Kim: frosty response to Trump

deputy finance minister, agreed that the global influence of the US had waned and that a single

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Hurricane-ravaged Caribbean islands demand polluters pay for rebuild

By Lucien Chauvin

Antigua and Barbuda's prime minister, Gaston Browne, wants wealthy nations responsible for much of the world's pollution to pay for the reconstruction of his islands following a devastating hurricane in



Browne: debt swaps

Continued on page 3



FINAL WORD

Ma Jun

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Pax Americana

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power was unlikely to replace it. "It is not a question of whether someone will substitute the US as a global leader, as leadership is divided in many dimensions, you can be a leader in one field but not another," he said in an interview with *GlobalMarkets*. "I think it will be the multilateral corporations that will compete for global influence."

Storchak pointed to Russia's improving relations with Saudi Arabia as an example of the waning supremacy of the US. "We have grown up with the understanding that Saudi Arabia is a close friend of the US, so the fact that the diplomats from both countries managed to agree on a visit means that the influence of the US, at least towards this country, decreased." Saudi Arabia and Russia signed deals worth \$3bn last week when King Salman bin Abdulaziz Al Saud became its first ruler to visit Moscow.

ELITES MUST BE HUMBLE

The sharp comments come as the Trump administration bulldozes ahead with a strident US-first approach to foreign policy. Yesterday the US State Department announced it was pulling out of Unesco, the United Nation's cultural body, over mounting arrears, what it described as the "need for fundamental reform", and continuing anti-Israel bias.

At the same time, the World Bank's president, Jim Kim, gave a frosty response to the country's demands for a review of the Bank's lending to China before engaging in a discussion about a capital increase for the multilateral. In a thinly-veiled criticism of the US approach Kim said it was "good news" that the US was now a part of the discussion. "A new administration takes time to get organised," he said. "I think now the fact that the US is part of the discussion is really encouraging."

Outgoing German finance minister Wolfgang Schäuble, yesterday won applause at the Institute of International Finance's annual meeting, when he said that multilateralism was a precondition for peace. He warned the audience of "elites" to take their values seriously.

Sheard also warned "global elites" that they needed to pay heed to societal concerns, amid a global tendency toward protectionism. "We, the global elite, have to be a bit humble and say: 'what are the issues here, what is driving things, and what are the solutions?'" he said.

"Just the idea we can leave everything to markets just doesn't cut the mustard any more. We have seen what happens in the last few years in how that plays out in the political system."

Echoes of China as India warned of excessive state debts

By Jackie Horne

India's central government is in danger of following China down a path of failure to constrain a build-up of debt at the state level. Borrowing has spiked sharply following decentralisation measures, according to leading financial figures who urged policymakers to introduce new regulations.

The outstanding debt owed by India's 29 states has doubled over the past five years to \$304bn, or 42% of the government bond market. Individual states have gained far greater control over their finances after the central government increased the portion of tax revenues it transfers to 42%. They have also been issuing far more state bonds, known locally as state development loans (SDLs), to finance widening budget deficits.

But local economists worry India could head in the same direction as China where the central government has failed to control provinces that evaded borrowing limits by raising money off-balance sheet through local government financing vehicles. It helped push China's debt to GDP ratio up to 268% and prompted constant concern about the state of the country's economic health.

Where India is concerned, total debt to GDP officially peaked at 138% in 2013.

But Standard Chartered's head of South Asia economic research, Anubhuti Saha, told *GlobalMarkets* the central government had not aggregated figures, which would show how much borrowing was off-balance sheet.

FISCAL DISCIPLINE NEEDED

The World Bank's South Asia economist, Martin Rama, also flagged concerns about growing off-balance sheet borrowings and contingent liabilities from states' weak public sector enterprises.

"It's a path we've seen in many developing countries," he said. "The crises plaguing South American countries like Brazil and Argentina very much related to decentralisation measures, which made it difficult for the centre to rein in the provinces."

Just like China, Indian bond investors are not differentiating between strong and weak provinces under the assumption they all have an implicit central government guarantee.

Saha said the market was watching to see whether the Reserve Bank of India (RBI) would do more to encourage fiscal discipline at the state level by making it less attractive for bond investors to hold their debt.

In this respect, the RBI is expected to announce changes to the risk



Kumar: no history of defaults

weightings of state debt, which currently attracts the same zero weighting as central government debt.

She said the RBI could also reduce the cushion bond investors enjoy by being allowed to mark their SDL holdings to market at 25bp above government bonds.

However, State Bank of India chairman, Rajnish Kumar, said that while it might be a good idea, he did not think changing the risk weightings would make much difference and would increase borrowing costs for weaker states. He told *GlobalMarkets* the RBI had been "very disciplined" about managing the states' finances. "If you look at our past history, there has been no history of defaults by individual states," he said.

Caribbean

Continued from page 1

September that flattened a large part of his country.

"We need to look at novel instruments, such as climate for debt swaps," Browne told *GlobalMarkets*. "Countries in the Caribbean are negligible polluters so there ought to be a mechanism for us to write off debt to create fiscal space to fund greater resiliency and adaptation to climate change.

"We think that the developed countries are contributing to the frequency and atrociousness of these storms with their carbon emissions. They have some liability and should help us to rebuild," he said.

Browne estimates that about \$250m will be needed to rebuild Barbuda, which was destroyed by Hurricane Irma. The country has received around \$10m in grants and is looking to the World Bank and Caribbean Development Bank for up to \$100m in loans, but new loans could

have a negative impact for the already highly indebted nation.

The country's debt has dropped in the past few years from 102% of its \$1.4bn GDP to 75%, but this will creep up again as it rebuilds.

"We have made enormous gains in the past three years, but those gains will be eroded as we start taking loans," he said.

BRANSON MARSHALLS PLAN

Browne and other Caribbean leaders have endorsed a call by Richard Branson, founder of the Virgin Group, to launch a "Marshall Plan" for the Caribbean that would build resiliency to natural disasters.

"Richard Branson has shined a spotlight that this is the consequence in no small part of rising temperatures creating greater energy in storm systems that could quite possibly be a recurring problem. If the rebuilding does not emphasise resilience we could see this again and that is a pretty harrowing scenario to envision,"

said Roy Torbert, of the Island Energy Program at the Branson-backed Carbon War Room-Rocky Mountain Institute.

A key component is energy, transitioning the Caribbean from fossil fuels to renewable energy, primarily solar and wind power, and redesigning grid systems to get electricity lines underground instead of poles.

Torbert said the cost for nine Eastern Caribbean islands to move from fossil fuels is estimated at up to \$3bn over the coming 20 years. The investment would be offset by at least \$1bn in savings on fuel. Fuel is one of the largest expenditures for regional governments. Antigua and Barbuda spends the equivalent of 12% of GDP on fuel imports.

Barbuda could shape up as a test case. Browne said the reconstruction was not only going to make the island resilient, but also green. "Within the next 12 months we expect Barbuda to become the only totally green island on the planet, powered exclusively by alternative energy," he said.

OUT OF THE WOODS

Seen and heard in the corridors of the Annual Meetings

• / **Meat-and-greet** Never accuse Serbia's head of debt management of being celebrity-illiterate. When *OOTW* met him in DC, he launched into a tale about spotting raw-beef-loving popstress Lady Gaga in a Belgrade restaurant — then rushing over to grab a selfie. The DMO is clearly quite the hanger-on, having once ambushed Daniel Craig — James Bond himself — in a London limousine. Larks!

• / **Do as I say, not as I do** Tobias Adrian found himself on a sticky wicket after warning about rising risks in the financial system — before claiming the threat of secession in Catalonia presented zero threat to Spain's brittle banking system. The audience scented blood. One delegate accused the IMF's financial stability head of being "guilty of the same complacency" by refusing to engage in the debate. Adrian squirmed in his chair, but remained staunchly silent.

• / **To be, or Knot to be** The tall, bespectacled figure of Klaas Knot is hard to miss, but IMF chief Christine Lagarde gave it a go yesterday. Introducing the esteemed Dutchman at a fintech panel, she paused at his side and asked if he was head of the Nederlandsche Bank. "Yes of course", Knot said, eyebrows jiggling in surprise. "Good, sometimes you wonder," Lagarde shot back, to widespread mirth — and confusion.

• / **Hot mic** Delegates attending the IIF conference in the Ronald Reagan building enjoyed listening to banter between panellists as they wandered to the green room after a debate — totally unaware that their microphones remained fully on. Surely it's only a matter of time before something truly juicy is uttered. The Reagan building would be an apt place for it to happen — remember dear old Ronnie in 1984 announcing during a sound check that he had signed legislation outlawing Russia and that bombing would start in five minutes?

• / **You are number one** Speaking of colourful banter — and no, we aren't talking about *Signora Numero Uno*, the debonair Italian super-hack, yet to make an appearance at this year's event. German minister Wolfgang Schäuble earned a standing ovation for a speech urging the audience to commit to multilateralism. It's not clear though whether the happy clappers were engaging with this message, or with him calling them members of a global "elite".

• / **Man with a tan** How wonderful it is to live in a free country. The US has its flaws to be sure — but how many nations would allow a bemused chap to stand outside the president's abode in a vest bearing the legend: "Impeach 45". What did he have against The Donald, *OOTW* wondered. "He's too orange. I don't like his tan," came the colourful reply.

Dealing with the Trump shock: Banxico looking at all options amid crucial Nafta talks

By Katie Llanos-Small

Mexico's central bank is considering all policy tools as it monitors a range of possible shocks looming from the US and globally, after an already rocky year, deputy governor Alejandro Díaz de León said.

"There are several risk factors still at play," the Banco de Mexico deputy governor told *GlobalMarkets*. Díaz de León stressed that "prudence" was critical as the bank watches how the risks evolve.

"Everything is conditional on the type of shock or news that we get," he said. "We should not discard any type of reaction according to different types of shocks."

As Canada, Mexico and the US meet for a fourth round of trade talks this week, Díaz de León said that the results would be pivotal for the economy: "The outcome of that negotiation is very important to Mexico."

Despite new comments this week from the US president regarding abandoning the North American Free Trade Agreement, it is too soon to discuss contingency options, Díaz de León said. "It's very important to let the process run," he said

of the Nafta negotiations. "There is a process underway as we speak, here in Washington... It's been very important for Mexico to be a very open economy both in terms of trade and financial flows."

Tight monetary policy and a flexible exchange rate regime have cushioned the economy from a series of economic shocks this year, he added.

"The floating exchange rate regime has worked very well for Mexico. We have been able to develop a very deep and liquid FX market, including spots, forwards and options and swaps markets. This has been very useful to go through some of these shocks."

The medium term economic implications of scrapping Nafta on Mexico are unclear, analysts at Capital Economics said yesterday. But the effects would be ameliorated to a certain extent by the flexible exchange rate.

Banco de México has lifted Mexican interest rates to 7% this year from 4.25% 12 months ago. The bank's action has garnered praise during a period of



Díaz de León: prudence is critical

severe currency volatility and market nervousness stemming from the implications of changing US trade policy.

"Definitely we have had throughout the year several shocks that have translated into higher inflation," said Díaz de León. "We have tightened monetary policy to the current level of 7%. We believe that level is consistent with a reduction in inflation in the next months and especially towards next year."

Underlying annual inflation has risen from 3.07% in September 2016 to 4.8% last month.

The deputy governor declined to comment on speculation that he will be promoted later this year, when Agustín Carstens leaves to take the top spot at the Bank for International Settlements.

Schäuble backs integration agenda but dodges treaty changes

By Owen Sanderson

Wolfgang Schäuble, the outgoing German finance minister, affirmed his commitment to the ambitious European integration agenda laid out by French president Emmanuel Macron, but said that the project should be done without requiring changes to the treaties which govern the European Union.

Schäuble said that strengthening Europe was "much more difficult than you can imagine from the outside", because the EU was bound by its legal basis.

"We have to find out how we can become more dynamic, to make stronger European institutions," said Schäuble, speaking to a packed audience at the Institute for International Finance yesterday. "But treaty change is not the way to go."

He continued: "The question of how we can get it done in the mandate [of existing EU treaties], that's the next step... we agree with Mr Macron."

The Lisbon Treaty, the most recent part of the EU constitution, took eight years from launch to completion, and was rejected by Ireland in a referendum.

Schäuble, who has been a vocal opponent of risk-sharing between Germany and European countries with weaker public finances, said that additional steps in risk-sharing could "support growing Euro-scepticism" if the steps were not taken in the right order.

The right order means risk reduction first — if European states are to pool resources to backstop banks, the banks need to be safe.

His remarks come the day after the European Commission unveiled a package of measures to complete the 'Banking Union' in the bloc, and share the risk of bank failures. However, the plan on the table steers clear of true mutualisation of any bank losses.

The Commission outlined a European Deposit Insurance Scheme which would offer loans as a backstop to member states' own deposit insurance schemes. Then, once Europe's banks were judged to be cleaned up, it would share any potential losses with national deposit schemes.

A previous Commission paper sug-



Schäuble: reduce risks first

gested the scheme be funded by a credit line from the European Stability Mechanism, the vehicle which has been used to bail out countries in Europe's periphery.

But a paper from the German finance ministry circulated on Tuesday squashed this idea, saying that: "More ambitious scenarios and plans for the ESM and its financial capacities, either regarding the possible role as an additional backstop for the controversial European Deposit Insurance Scheme, or regarding a brand new fiscal capacity as a transfer mechanism for the eurozone would put much too great a strain on the ESM and go against its core purpose of bailing-out countries in severe trouble."

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Success is a journey

Brazil rebuffs fears over EM market threat to 'very high' deficit

By Thierry Ogier

Brazil is strong enough to weather any change in market appetite for emerging market risk, Brazilian finance minister Henrique Meirelles said in a defiant response to warnings from the World Bank and investors over its fiscal deficits.

"We have reached a point where Brazil does not depend on the positive mood of the markets anymore," Meirelles told *GlobalMarkets* in an exclusive interview shortly after a meeting with the US Treasury. "Evidently, the amount of investment in emerging markets is something that has an influence on interest rates. But our fundamentals have steadily improved — and the more fundamentals improve, the less influential the emerging markets environment become," he said.

While many observers say Brazil's sizeable fiscal deficit represents the Latin American sovereign's Achilles' heel, Meirelles was adamant that the public spending cap, which was approved last year, would help to rein in public expenditures, even though the approval of the unpopular social security reform has

been delayed.

"Even if the reform is not approved, the ceiling [spending cap] is now part of the constitution. Other measures would have to be taken, such as a freeze on other expenditures, like civil servants wages," Meirelles said.

He added that the debt-to-GDP ratio — currently at 73% of GDP — might start declining after two years. "The ratio between public expenditure and GDP is due to fall from 20% at present to 15% in 10 years," he said.

HIGH DEBT SERVICE

But Carlos Vegh, the World Bank chief economist for Latin America, said that while the cap on real spending would help, the fiscal side was a "concern". "The overall fiscal deficit is very high, the total debt service is very high," he told *GlobalMarkets*. "That is no good, because it is taking a lot of resources that could be used for other purposes. It is going to improve, but not by leaps and bounds."

While Meirelles' reforms are popular among investors, they are less so among



Meirelles: fundamentals have improved

Brazilian voters, who will go to the polls in a year's time to choose their new president. But Meirelles said he was confident the return to economic growth after two years of recession would be enough to prove that the reform agenda had been successful and that it should be pursued.

Last week, the Brazilian Treasury issued a \$3bn 10 year bond at 4.68% (yield) with a spread of 235bp over US Treasuries, the lowest spread since September 2014, when the country was on the verge of recession. Public debt refinancing costs have been falling for 12 consecutive months to reach 10.62% per year, according to Leandro Secunho, the Treasury's debt manager.

Indonesia, China take securitization route to infrastructure finance

By Rashmi Kumar

Asset-backed securities will be key to unlocking the multi-billion dollars of funding needed to finance the Belt and Road Initiative because of the huge opportunities the projects offer to securitize long term revenues, according to leading financial market experts.

"ABS can absolutely be used towards Belt and Road projects," Henrik Raber, global head of capital markets and co-head of the capital structuring and distribution group at Standard Chartered, told *GlobalMarkets*. "Toll roads, airports or landing rights can be securitized. You can also securitize airplane ticket sales. There have been deals where there is securitization of shipping containers.

"When you go into securitization, there is huge opportunity, including new technologies in renewable energy as an example [where] solar projects can be securitized."

However, China, which is the sponsor of the Belt and Road vision, has an underdeveloped financial market and has not yet launched any ABS deal to fund infrastructure projects.

But Raber said conversations were taking place and that it would only be a matter of time before the market kicked off. One Asian country with enormous infrastructure requirements is Indonesia, with the country's government estimating that around \$500bn in infrastructure investment will be needed in the next five years.

INDONESIA IN THE LEAD

Around 18%-20% of the Indonesian state budget has been dedicated towards infrastructure, Robert Pakpahan, director general in the budget financing and risk management team at the country's ministry of finance, told *GlobalMarkets*. The country also uses private sector funding as well as local and international bond issuance to fund infrastructure development.

But some of the country's state-owned companies have taken it a step further. Toll road operator Jasa Marga became the first to sell an ABS deal on the Indonesian exchange in August, to go towards building more toll roads. It was followed by Perusahaan Listrik Negara, which raised Rph4tr last month for infrastructure financing.

Ari Soerono, president director and chief executive of Indonesia Infrastructure



Pakpahan: infrastructure financing

Finance, said ABS was a good investment product for investors that did not have a high risk appetite, like pension funds and insurance funds. "A lot of Indonesian state-owned enterprises (SOEs) are looking at it," he told *GlobalMarkets*.

"The SOEs understand they need to recycle capital as their leverage is coming to an unsustainable level. So selling ABS is not something that is being forced on them. They realise they need to do this."

Raber added that ABS deals fitted well when the bank market was not deep enough to provide the financing for projects. In China, the bank market is very liquid, but securitization still offers a huge opportunity.

Nigeria deputy CBG defends FX system amid local market inflows

By Olly West

The deputy governor of the Central Bank of Nigeria says that he is happy with this year's opening of the country's foreign exchange, even though the IMF highlighted that the system would "weigh on [economic] activity in the medium term".

Nigeria set up an FX window for buying and selling the naira in April, allowing investors to trade the currency. This prompted a devaluation. But it maintains a multiple exchange rate system whereby certain players in the economy can access hard currency at cheaper rates.

"We have done a good job and the rate depends on the market now," Okwu Joseph Nnanna, deputy governor at the central bank, told *GlobalMarkets*. "There should be no more complaints about the flexibility of the market."

Nnanna said that the bank had had flows of more than \$10bn in the window since it opened, and shrugged off criticism of the system.

"What else can an investor look for? It is a totally transparent market," he said.

Although it is a positive first step, the liberalisation of the FX market needed to go further, the IMF said in its latest World Economic Outlook.

"Concerns about policy implementation [and] market segmentation in a foreign exchange market that remains dependent on central bank interventions, despite initial steps to liberalize the market," are weighing on the outlook, said the fund.

FINDING FRIENDS

Nigeria is finding many friends in the asset management community, however, and Nnanna's inference that investors were happy with the window appeared true.

"Is the FX system in Nigeria doing its job properly? It depends who you ask," Yvette Babb, executive director for sub-Saharan Africa research and strategy at JP Morgan, told *GlobalMarkets*.

"The IMF would say that the flaw is the multi-currency nature of the system, and the central bank intervention in retail auctions, where they sell dollars at a lower rate."

Babb says that the system was not "transparent", adding that there was no one clearing rate "which would be the ideal practice".

However, portfolio managers like the system because it has led to a depreciation of the naira, which is now less overvalued than it was.

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WB's Oteah expects IDA bond to be 'phenomenal'

By Olivier Holmey

The International Development Association's imminent entry into the capital markets will bring big opportunities for the institution and substantially expand its capacity to support the world's poorest states, Arunma Oteah, treasurer of the World Bank, has told *GlobalMarkets*.

Speaking for the first time at length about the significance of this development for IDA, the World Bank Treasury and the World Bank as a whole, Oteah, who has been spearheading the plan, talked enthusiastically about the impact the released funds would have in countries where access to capital is most desperately needed. Of the prospect of making IDA a borrower on the international capital markets, Oteah said: "It's just absolutely phenomenal."

IDA, which is part of the World Bank and has been in existence since 1960, has never borrowed on the capital markets, relying instead exclusively on donations from its members. For that reason, its ability to financially support the countries it is designed to assist has been limited up till now.

Oteah thinks the borrowing programme will change all that. As it stands, the plan is to launch a first bond in the coming months and to raise \$8bn in debt over the next three years. IDA will then lend that money on, at market rates, to countries that investors tend to shun because they are considered less likely to repay their debts.

This redirection of funds should enable a better accompaniment of countries through the various stages of their development, Oteah argued. "There is a continuum between a poor country [that falls in IDA's remit] and then one that borrows from the IBRD and then no longer borrows and becomes a donor. And so we should make sure that there are products along the continuum that allow countries to graduate from one level to the other."

The treasury has been working in recent months to ready IDA for its debut, making sure it obtained ratings — it is now rated Aaa/AAA by Moody's and S&P — and the kinds of exemptions afforded to other parts of the World Bank which have long been active in the capital markets, such as the IBRD.

Pakistan's worsening numbers raise questions over role of China and IMF

By Elliot Wilson

Chinese investment in Pakistan is proving both a blessing and a curse, with the South Asian economy facing another period of deep financial stress unless it ramps up exports and tackles a yawning trade deficit, experts warn.

Pakistan's trade deficit widened to \$12.1bn in the year to the end of June 2017, from \$4.9bn the previous year, according to the Bureau of Statistics, with the current account deficit tipped to hit 5.8% of GDP in June 2018, against a previous target of 3.8%.

Pakistan's near-term issue is its rapidly dwindling FX reserves — they fell to \$13.86bn in September, down 25% on last year's figure, and the lowest rate recorded since 2013, the year Pakistan secured a \$6.6bn bailout from the IMF.

China's policy lenders have

come to its aid twice over the past 12 months, stumping up \$1.2bn in loans to stave off a currency crisis. But this creates a quandary. Who do the nation's politicians turn to now in the event of a new liquidity crisis: China, or the IMF?

Harald Finger, the chief advisor to the IMF's Middle East and Central Asia department, who oversaw the bailout, refused to be drawn on the issue, drily noting that Pakistan had "not requested another loan programme".

But others wonder if the Fund would even be allowed to engage with the Pakistani government. "Given how much China is investing in Pakistan, I don't think [they] will let Pakistan go to the IMF for assistance," said Thomas Hugger, CEO of Hong Kong-based frontier-market investor Asia Frontier Capital. "If the IMF comes in, they'll

want to have reforms, and they might clamp down on things. So I think Pakistan might go directly to China for money rather than IMF." The issue is whether China will stump up fresh capital to bail out its struggling southern neighbour again.

Finger said the country's macroeconomic picture was "a source of concern that needed to be taken seriously. Policy action should be taken swiftly, including a resumption in fiscal consolidation, a move to more exchange rate flexibility, and structural reforms aimed at strengthening growth prospects by attracting more private-sector investment."

PLEASURE AND PAIN

China is the source of most of the country's pleasure, as well as its pain. The China-Pakistan Economic Corridor, part of the far wider China-led Belt and



Finger: economy a 'concern'

Road Initiative, involves up to \$60bn being spent on infrastructure by policy lenders and state enterprises. That is boosting growth and alleviating energy bottlenecks that long held back the economy. The IMF tips the economy to grow by 5.6% in the current financial year to end of June 2017.

But debts owed to China's policy banks and other external obligations related to the economic corridor and other energy sector projects "will start to come due in a few years' time."

Emerging markets 'exposed' to corporate debt strains

By Phil Thornton

Mounting evidence of strains in the corporate debt market should be seen as warning signals of the potential vulnerabilities in the emerging market financial system, a senior economist at the World Bank has warned.

Shanta Devarajan, its senior director of development economics, said he was concerned by the volume of non-performing loans on the books of emerging market banks and an increased likelihood of debt defaults by companies.

However he echoed this week's upbeat world economic outlook from the International Monetary Fund, saying that all regions of the global economy were headed for stronger growth for the first time in a decade.

Turning to his worries about the longer term, Devarajan told *GlobalMarkets* in an interview: "The number of non-performing loans in the banking system has grown but provisioning for non-performing loans has shrunk so they are more exposed than before."

"Then there is a measure of vulnerability called distance to default that has gotten

shorter for developing countries although it's about the same for developed countries." The distance to default is a measure of the degree to which assets value have to fall before reaching the default point.

He said that other measures of non-financial corporate liability were also concerning. "We know that these companies have been taking on pretty high debt," he said. Devarajan said that comparisons between 2009 and 2016 showed that more countries were more vulnerable today than eight years ago.

"These are all signs but of course the countervailing sign is that equity markets are booming."

However, he played down concerns the danger of an imminent crash in global bond markets. While he said there were signs of "increased fragility" in the global financial system, he added: "It's no way as serious as what we experienced in 2007."

PRODUCTIVITY GROWTH

Devarajan said he was also concerned by the slowdown in rates of productivity growth, which had started to slow in developing countries. "What is even more trou-



Devarajan: productivity growth slowing in developing countries

bling is that productivity growth in developing countries is typically borrowing innovation coming out of developed countries so if innovation is slowing we could have a serious slowdown in productivity growth have," he said. "When you take these factors together it is hard for me to jump up and down with unbounded enthusiasm."

He urged emerging market finance ministers to focus on measures to stimulate productivity growth including investment in human capital via education and in infrastructure, and cutting energy subsidies that add to congestion and pollution.

His remarks echoed the message from the IMF that ministers should see a short-term economic revival as a "window of opportunity" for fiscal reforms.

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2016 and 2017

IMF backs regulation review in wake of Treasury plans

By Owen Sanderson

Parts of the post-crisis financial regulatory regime could be “streamlined and simplified”, the IMF has said in the wake of a report from the US Treasury that suggested easing bank rules to boost market liquidity and encourage capital markets activity.

The IMF’s financial stability staff said the regime could be revised provided banks still had high levels of capital and liquidity. “Capital, liquidity and resolution make the core banking system much more resilient and stable, but there might be some unintended consequences of those regulations,” said Tobias Adrian, financial counsellor and director of the IMF’s monetary and capital markets department.

“Regulators are starting to evaluate the impacts of the regulatory reforms on credit supply and liquidity and other things, and there might be some scope for streamlining or simplifying some aspects of the reforms, without rolling back the overall high levels of capital and liquidity that we feel is very important for financial stability.”

The US Treasury report entitled A

Financial System that Creates Opportunities proposed a series of moves to ease the burden of regulation on US firms and capital markets, largely by removing certain provisions of the Dodd-Frank Act. It built on proposals in July that suggested tweaking the leverage ratio to make it easier for banks to participate in trading Treasuries and in the repo market.

WILL EU FOLLOW?

Europe could follow the US lead as moves to review the Capital Requirements Regulation, announced in December last year, could cut the burden of regulation for smaller firms, while parts of the Capital Markets Union proposals could cut capital costs for infrastructure investment and securitization.

Some of Europe’s most senior bankers doubt it will follow all the way.

“It’s still a little premature to see if Europe would follow the US thoughts on deregulation,” said Frédéric Oudéa, chief executive of Société Générale. “There’s a big difference between reducing the burden of certain process, compared to



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Adrian: unintended consequences

fundamentally changing the philosophy of regulations. If there’s a major change, Europe would have to reflect on what that means for the objective of maintaining the stability of the financial system.”

In particular, while the US Treasury proposes to exempt US government debt from the leverage ratio for US banks, the Basel Committee is still working on a way to revise the treatment of sovereign debt, which will likely increase risk-based capital held against government bonds.

Germany backs a move away from zero risk weights for sovereign debt, writing in a paper circulated on Tuesday that “further significant risk reduction is necessary, including the regulatory treatment of sovereign bonds”.

Saudi ready for ‘failure’ as it looks to boost M&A

By Virginia Furness

Financial regulators in Saudi Arabia are looking to ease rules for mergers and acquisitions in order to inject an additional boost to the economy as the country embarks on a \$300bn privatisation programme that will put itself firmly on the map for investors, the chairman of the Capital Market Authority (CMA) has told *GlobalMarkets*.

Work is going on behind the scenes to encourage the listing of foreign companies on the Tadawul stock exchange, as well as redrafting M&A regulation, that will bring other sources of foreign investment.

The flotation of a 5% stake in state-owned oil company Aramco that is valued at \$1tr-\$2tr could raise up to \$100bn which, together with other assets totalling \$200bn, will bring a windfall to the Gulf nation as the country continues to diversify its economy under Vision 2030, its ambitious reform programme.

Mohammed A El-Kuwaiz acknowledged that opening up what had been one of the most closed and conservative societies in the world would leave the country

more exposed to the whims of international investors, but said it was necessary.

“This level of growth comes with risks — risks of firms failing — but we have a degree of tolerance for failure and efficient mechanisms to deal with it,” he said. “Saudi Arabia can no longer be an island.”

El-Kuwaiz identified the redrafting of M&A regulation a top priority of the CMA over the next 12 months. “The previous M&A regulations had been viewed by many as a hindrance to activity and therefore consolidation among publically traded firms,” he said. “Our hope is that the new regulations make it vastly easier for transactions to be completed.”

M&A GROWTH FORECAST

The most notable change is that acquisitions no longer require the unanimous agreement of shareholders which was previously a huge barrier to any activity, he added.

El-Kuwaiz said knowledge of the new regulation had spurred a resurgence in the amount of discussions and preparation among Saudi-based companies looking to engage in M&A activity.



El-Kuwaiz: ‘Saudi no longer an island’

While he would not point to specific sectors, he said transactions would be between both local and international companies.

Saudi Arabia has the potential to demonstrate the ninth highest growth level for M&A and IPO activity until 2020, according to a report by the US-Saudi Arabian Business Council (USS-ABC). It noted that Saudi Arabia was projected to see a 53% increase in M&A activity growth over the next five years.

M&A transaction volumes slowed down from an average of 12 per quarter in 2014, to seven per quarter in 2015 and 2016, due to economic challenges ensuing from the fall in oil prices from highs of \$112 per barrel to below \$40 in January 2016.

Investors will look through crisis to ‘great’ Myanmar opportunities

By Rashmi Kumar

International investors are likely to look beyond the mounting global anger towards Myanmar over the treatment of the Rohingya refugees and focus on “great” fortunes to be found in the country over the next several decades.

“It’s sad to say, but the impact won’t be big,” Thomas Hugger, chief executive officer and fund manager at Asia Frontier Capital, told *GlobalMarkets*. “Even countries like Indonesia have conflicts, say in Papua, but people still invest there. So I think the impact will be minor, because so much investment is needed [in Myanmar] and the opportunities are great.

“Plus, if you do direct investment, then you need to take a long-term view. What’s happening is very sad, but hopefully it is a short term crisis. If you’re investing in Myanmar (and other frontier markets), it should be for the next 40 to 50 years.”

Hugger said he saw opportunities in infrastructure, mining, natural resources, agriculture, education as well as tourism, with the telecom industry the only one he considered saturated in Myanmar.

Restoring stability in some parts of Myanmar is a top priority for the government as it looks to maintain the country’s reputation, said Aung Naing Oo, director general and secretary in the Myanmar Investment Commission. “That is probably the challenge not only for the government but it is also a challenge for the country as a whole,” he told *GlobalMarkets*.

FOREIGN INVESTMENT

Nevertheless, Naing Oo said he was optimistic about Myanmar’s future, thanks to the government’s push to bring about reforms to create a more open business environment. Two regulations are key — the Myanmar Investment Law, which has already taken effect, and the Myanmar Companies Act that is now being debated in parliament.

Both are expected to give a fillip to foreign investment into the country, with the latter to allow international investors to buy stock on the Yangon Stock Exchange for the first time.

Naing Oo added that he saw great investment potential in infrastructure, as weakness in its development in Myanmar created opportunities for investors. Thanks to China’s Belt and Road Initiative, Myanmar’s locational advantages will be lucrative in the future, he said.

WHEN GROWTH IS BUILT ON SAFETY

Bank Audi awarded Safest Bank in Lebanon for two consecutive years by Global Finance Magazine.



Bank Audi

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Three devastating hurricanes this summer have not changed President Trump's mind about leaving the Paris Agreement. But the response from US business and municipalities has been remarkable. Many reject Trump's decision and are determined to carry on regardless, resisting climate change

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FROM THE PUBLISHERS OF
GlobalCapital

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© Euromoney Institutional
Investor PLC
*GlobalMarkets/Emerging
Markets* is a publication of:

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Printing by:
Stephenson Printing Inc.
5731 General Washington Dr.
Alexandria, VA 22312
Tel: 703 642 9000
stephensonprinting.com



Against the backdrop of a challenging macroeconomic and operating environment, Halkbank has continued to post impressive results, consistently outperforming its peers. In the first quarter of 2017, profits were up by 79% over the same period the previous year, while shareholders' equity, assets and loans all rose. What were the main drivers of this strong performance?

With its strong infrastructure and stable management, the Turkish economy has not been thrown off course by any events to date. Even in periods where the global agenda was overloaded, Turkey's powerful profile as a regional actor has been a role model for developing countries. The extensive experience of the team running the economy and our ability to be prepared for all possible crises has played an important role in this.

The same conditions are true for Halkbank, which has always succeeded in cultivating the strongest teams in the Turkish banking system. With over 950 branches throughout the country, over 17 thousand personnel and through the use of innovative alternative distribution channels, internet banking in particular, the bank has continued its activities apace, and began 2017 with positive data. The timely implementation of measures to boost real sector financing played a key role in the steady improvement in the bank's financial performance.

The bank is one of the greatest supporters of companies that manufacture, export and provide employment, and its absolute priority is to be one of the strongest business partners of small and medium sized enterprises (SMEs). All of the banking products that we have developed are in high demand from our customers, primarily banking services for tradespeople and SMEs. The trust that our customers put in us and the interest that they show in our banking services is directly reflected in our financial results.

At the end of all these processes, the Bank's equity as of June had risen 11.7% on the end of last year, while its net profit was 2 billion 228 million TL, a successful performance compared to the second quarter period of last year. Total loans, including cash and non-cash credit, experienced 12.2% growth in the second quarter of 2017, reaching 231 billion 276 million TL. As a result of all these developments, our balance sheet as of the end of the second quarter displayed a 14.4% growth compared with end-of-year 2016, reaching 264 billion 808 million TL.

Following stronger than expected growth in the first quarter of 2017, when robust domestic demand and rising exports underpinned GDP growth of 5%, what are your expectations for the Turkish economy for the rest of 2017?

There are not many countries that could overcome the attacks experienced by Turkey in 2016 in the economic and social arenas and still achieve a growth rate of around 2.9%. When we take into account not just the

night of 15 July, but the ongoing international pressure during the follow-up period, in particular the biased assessments of the rating institutions, it was a major success to achieve this increase.

It is only natural that the administrative measures taken and the reforms instituted during this process have made 2017 a bounce year. With the public referendum process that concluded in April, Turkey has gained an air of stability. Borsa Istanbul has repeatedly provided news to delight investors. The recent rise in the BIST 100 Index to over 105 points has magnified this positive atmosphere. The reduction of unemployment in April to levels of 10.5% from a high of 13% in January shows just how successful the implementation of employment incentives has been.

The finalised industrial production index for the economy, which achieved higher-than-expected growth of 5% at the end of the first quarter, indicates that production has not slowed down and the wheels continue to turn. According to calendar-adjusted data, industrial production was up 6.7% in April year-on-year, the fastest increase in the past 20 months. Increased production levels in manufacturing industries gave us a positive start to the second half of the year, while export figures, which are undergoing a strong revival, also continued to climb. Having displayed a rising trend for around 8 months, exports will continue to drive economic growth and the positive acceleration being experienced in the private sector, in particular by SMEs, will continue exponentially.

What impact is the weaker Turkish lira having on the banking sector and on the asset quality of the leading banks' loan portfolios?

The Central Bank of the Republic of Turkey is pursuing a very effective monetary policy on this issue. The retreat of exchange rates - which had risen around 20% at the beginning of the year - to current levels indicates the correctness of these policies. There is more than one element in this process. For a start, the change in the monetary expansion policies of the Federal Reserve System (FED) directly affects the Turkish economy, as it does every country in the world. Additionally, the effect of ongoing uncertainties in the global economy, in particular in the European Union, a market that is of strategic importance for us, is increasing.

On the other hand, Turkey is a land of opportunity. Regulations that increase international investor confidence ensure increased portfolio inflows and all types of public incentives, especially the Credit Guarantee Fund, promote domestic activity. As the Central Bank of the Republic of Turkey stated in its inflation report for April, the increase in interest rates on both consumer and commercial loans was relatively limited compared to the rise in the Central Bank's averaging funding costs. During this process, Turkish banks managed their own portfolios in a balanced manner, ensuring controlled growth.

What role will Halkbank play in supporting continued economic growth by, for example, providing credit to SMEs and consumers? Having financed showcase infrastructure projects such as the new Istanbul Air-



Osman Arslan, CEO, Halkbank

port and the Osman Gazi and the Yavuz Sultan Selim bridges, what role is Halkbank playing in supporting Turkey's ambitious 2023 goals?

Supporting every actor that adds value to the economy and backing tradespeople and SMEs is Halkbank's founding principle. Every moment of our 79-year history has been spent supporting our country, our institutions and our people. As we have done heretofore, we will continue to play a leading role to this end. In the past 10 years, we have provided 67.5 billion TL in Treasury-backed non-interest loans to over 1.5 million tradespeople and craftspeople. We will increase this support for merchants and craftspeople every year by continuously diversifying our methods.

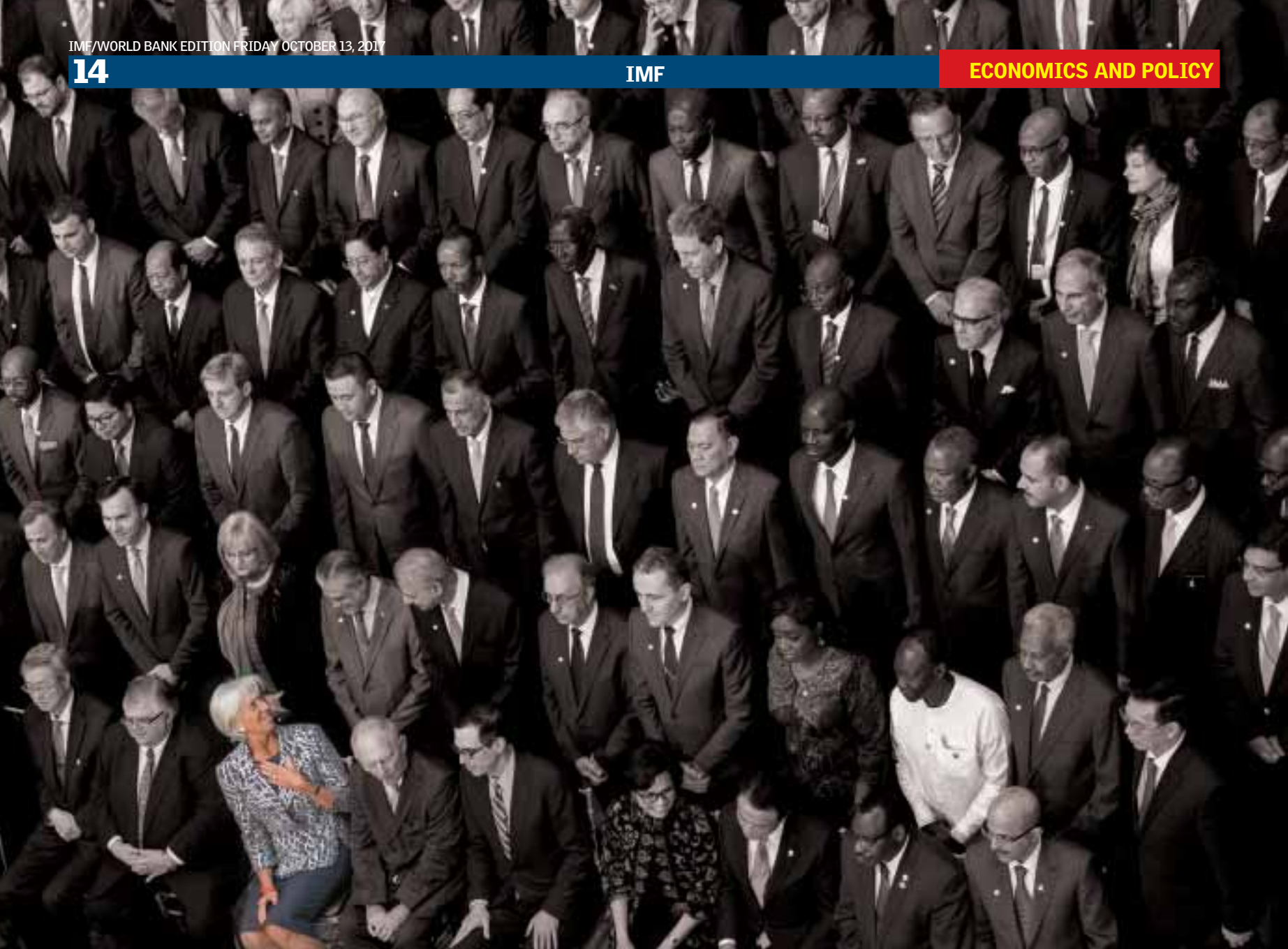
At this point, supporting the mega projects that are the new face of Turkey's development and contributing to showcase projects will continue to be among our priorities. To date we have provided 6.7 billion dollars in funding for mega projects that will carry our country towards the future, including financing the Istanbul 3rd Airport, Osman Gazi and Yavuz Sultan Selim bridges, energy investments and public private partnerships. We will work shoulder to shoulder in order to make our republic one of the 10 largest economies of the world in its centenary year.

Are you comfortable with the bank's capital and liquidity position? Have there been any notable changes to Halkbank's funding strategy over the last 12 months?

The Turkish banking sector is currently undergoing a period of growth with regard to asset size, loans granted and securities, and Halkbank's financial structure is strong and balanced. The productivity of our investments, resources and customers, will continue to be indispensable elements with regard to profitability. In the near future, we will continue to increase our return on equity by continuing to minimise our operational expenses while maintaining the same working principles, managing our financial resources efficiently and working to diversify our non-deposit resources.

Company data

■ Total assets (updated to June 2017)	TL264.8bn
■ Net profit (2016 v 2015)	TL2.5bn v TL2.3bn
■ Return on assets (End 1H 2017)	1.81%
■ Cost to Income ratio (End 1H 2017)	12.83%
■ Core Tier I ratio (End 1H 2017)	12.85%



Trump casts long shadow over IMF's multilateral ambitions

The Western financial crises saw the IMF ride to the rescue. Now the storms have passed, poorer economies want the fund's attention but may lack political unity to engineer long term change

By Phil Thornton

Just over seven decades ago, America's wartime president Franklin D Roosevelt gave a barnstorming speech to the US Congress to win its support for the creation of what would become the International Monetary Fund and the World Bank. "These proposals for an international

fund and international bank are concrete evidence that the economic objectives of the United States agree with those of the United Nations. They illustrate our unity of purpose and interest in the economic field," he said, speaking after the Bretton Woods conference that rubber-stamped their creation.

"What we need and what they need

correspond — expanded production, employment, exchange and consumption — in other words, more goods produced, more jobs, more trade and a higher standard of living for us all."

Fast forward 72 years and sustainable growth, higher productivity, a better standard of living for all rather than for the few — and such a multilateral outlook — look

in short supply. The idea of a global consensus on the recipe for driving further wealth, health and happiness is also lacking.

This week's IMF meetings mark the 10th anniversary of the onset of global financial crisis, and it is far from clear that the world economy is enjoying Roosevelt's cocktail of growth and employment.

Growth is rising from the recent anaemic levels but according to the IMF the world economy will average growth of 3.6% a year over the next five years, below the 5.2% in the decade before the financial crisis hit.

Unlike previous recessions that were followed by a period of strong growth as employers, financiers and workers shared in the benefits of a clear upswing in the business cycle, this recovery has instead brought its own problems and risks.

Chief among these is a weak productivity trend that continues to be a severe drag on strong and inclusive growth — largely because of ageing populations, the slowdown in trade and weak private investment since the 2008 financial crisis.

The IMF has estimated that if productivity growth had followed its pre-2008 crisis trend, overall GDP in advanced economies would be about 5% higher today. That would be the equivalent of adding a country with an output larger than Germany to the global economy.

Economic inequality is also a growing headache across the world. The cut in interest rates to close to zero and the trillions of dollars pumped into the monetary system via quantitative easing have tended to benefit households that were already better off thanks to higher house prices and gains on stock markets. A 2012 report by the Bank of England showed that 40% of the gains went to the richest 5% of UK households.

MARSHALL PLAN II?

The combination of these individual problems has led to calls for a modern version of the Marshall Plan, launched exactly 70 years ago under which the United States provided financial support to help rebuild Western Europe after the Second World War.

The annual meetings of the IMF this week are — in theory — the obvious forum to resolve these issues. Finance ministers and central bankers or their deputies from almost 190 countries will be gathered under one roof.

However, it is highly unlikely that anything concrete will emerge when the final communiqués are published this weekend. According to Harold James, a professor of

history and international affairs at Princeton University and an historian of the IMF, the fund has found it hard to recreate the role it had when it was founded.

Then the IMF was at the centre of a system that sought to maintain international financial stability by linking exchange rates to the US dollar with the fund acting as an arbiter of any changes.

“But today exchange rates are largely set by market forces,” he says. “The IMF has morphed into a combination of crisis manager, global economic monitor and policy consultant.”

The explosive growth in private capital has contributed to economic growth, seen a rebalancing of the geographical focus of economic activity and helped lift billions of people out of extreme poverty. But the growth of this capital, which is by nature unstable and volatile, has dwarfed the resources of the IMF that have steadily grown smaller as a percentage of world income, trade and financial flows [see chart].

Ted Truman, a non-resident fellow at the Peterson Institute of International Economics (PIIE), says the IMF will return to its traditional role of fostering global economic and financial stability, growth and monetary co-operation. “The world is affected by economic and political forces but probably for the first time since the early 1970s with Opec's oil price increases, it is politics rather than economics that is driving the global outlook — how we manage trade, how the Europeans manage Brexit and then the Middle East situation.”

DEFICITS AND SURPLUSES

One worrying issue that is clearly in the economic sphere is the size of the current account surpluses and deficits held by some of the largest economies.

In its external sector report in the summer the IMF said that about a third of total surpluses and deficits globally were deemed to be “excessive... or undesirable”. It highlighted surpluses in Germany, Korea, the Netherlands, Singapore and Sweden and deficits in the US and the UK.

“The concentration of deficits in a few countries could raise the likelihood of protectionist measures, and the continued reliance on demand from debtor countries risks derailing the global recovery while raising the risk of a disruptive adjustment down the road as the gap between creditor

and debtor positions grows,” says Luis Cubeddu, division chief of the research department of the IMF.

This has led to calls on Germany by US president Donald Trump among others to reduce its current account surplus by raising domestic wages and increasing its infrastructure investment and on the eurozone to set up a technical committee to take fiscal policy away from politicians. Ironically back in the 1940s the US, which then had a huge surplus, prevented the IMF intervening against surplus countries.

Chris Pissarides, Nobel laureate economist and professor at the London School of Economics, says the failure by the surplus countries to rein in their excessive savings is weighing on global demand.

“German fiscal policy is not at all what some countries still need,” he says, speaking in an interview on the sidelines of the Nobel laureate meetings in Lindau, Germany. “Why is there no demand? Because of German fiscal policies. There is austerity, there is low infrastructure spending and therefore companies are hesitating [on] investment.

“Where is expansion going to come from? It's going to come from the surplus countries spending more. Germany has a bigger surplus even than China: they should spend it in the European economy.”

Eric Maskin, fellow laureate and Harvard University professor, calls for a technocratic council to be given the power to set eurozone government fiscal targets in the same way monetary policy has been delegated to the European Central Bank.

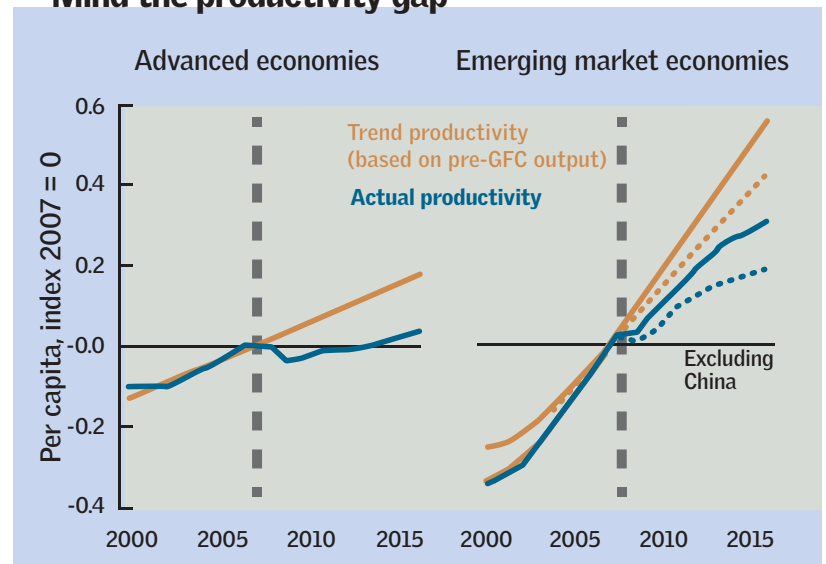
While the IMF meetings where the finance ministers of the G7 and G20 gather



“Germany has a bigger surplus even than China: they should spend it in the European economy”

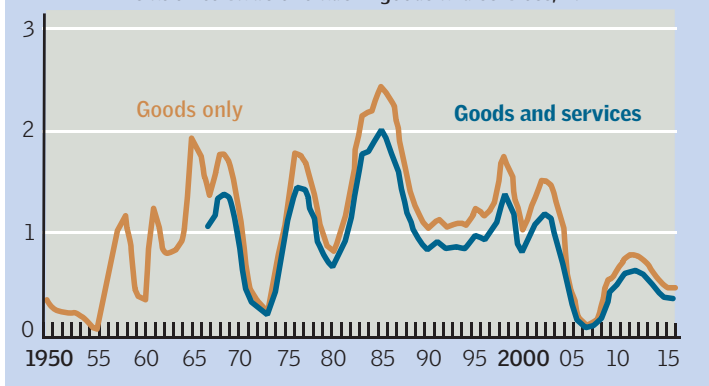
—Chris Pissarides,
London School of
Economics

Mind the productivity gap



Steadily growing smaller

IMF resources: use of IMF credit and loans in relation to value of trade in goods and services, %



would be the ideal location to negotiate an accord, Maskin says it is stymied from forcing the surplus countries to alter their policies by a lack of political leadership.

“In the past you would get a very enlightened politician who would come out and give a big speech such as [John Maynard] Keynes at Bretton Woods, [European Commission president] Jacques Delors and [German and French leaders] Helmut Schmidt and Giscard d’Estaing. These people would give a big speech in a big forum but right now I can’t think of anyone.”

TRUMP TEPID

While IMF managing director Christine Lagarde has a lot of political and financial capital, the reality is it probably needs political leadership from a G7 country. The obvious candidate would be the president of the United States as the largest economy and biggest single shareholder in the IMF. But so far public statements by Donald Trump have indicated a tepid enthusiasm for multilateralism at best — and contempt at worst.

“It is true that some of his statements and some of the people around him are not much in favour of multilateralism,” says Truman at the PIIE. “On the other hand, with respect to the fund and the [World] Bank there has not been an obvious turning away from the institutions, and the longer the administration is in office the more likely it is to find that the fund is a useful instrument of US foreign policy.”

He says that the White House will nevertheless have to take some important decisions regarding the US funding for the IMF that will affect the way that the fund is governed.

A review of IMF quotas — the money that a member puts in that is linked to their voting power — is due to be completed by 2019. If this leads to a reform of the way the IMF is governed so that it gives more, say,

to fast-growing emerging economies, this will mean that total quotas must be increased substantially.

The Trump administration will have to decide whether to block or agree to any significant increase in quotas. If it does agree then it has to choose whether to increase the US quota and pay in more money to maintain its capacity to block or veto major decisions in the IMF.

The US currently holds a 17% stake that allows it to block major IMF decisions that require an 85% majority. If it does not add to its quota then over time it will allow its quota to lapse.

What the administration decides on IMF quotas will have implications on whether the US participates in the IMF’s New Arrangements to Borrow (NAB) — payments from 38 members to supplement the fund’s resources — that comes up for its five-yearly renewal in 2022.

Continued participation after that date will require congressional authorisation. “That will be a really big deal,” Truman says. “The problem in terms of the calendar is that the groundwork requires a positive vote in Congress to guarantee [US] contributions beyond 2022 and that process starts as the next election is taking place.”

Given that the presidential election takes place in 2022, the NAB will be one of the new president’s first decisions whether or not the groundwork planning and negotiation have been done, Truman says. “That’s what I worry about.”

In the meantime, he says the development community is in “wait and see” mode to see what changes, if any, Trump will seek to impose on the IMF. “My guess is that the longer we go without an explicit [split] the more likely it is that they will find the fund a useful instrument of US policy.”

SHIFT TO EMDCS?

But as the famous Kenyan proverb says, when elephants fight it is the grass that suffers. In the case of the IMF, the huge resources, skills and time that were focused on the northern hemisphere crises have diverted attention away from the needs of emerging and developing countries.

James Boughton, a former historian of the IMF and now a non-resident fellow at the Centre for International Governance Innovation, uses an analogy of the

destructive impact of Hurricane Irma that swept through the Caribbean and the southern USA.

“Florida has suffered as much as \$60bn of damage and millions of people have had to evacuate,” he says. “Those numbers are far larger than the numbers coming out of the Caribbean.”

“But the devastating effect on small Caribbean islands is much greater because they are helpless, they don’t have the infrastructure and the ability to get food and medical supplies quickly the way that people do in Florida.

“Even if the damage is a lot less it will be harder to repair because of the lack of resources. The same thing happens on a larger scale when you get the huge problems we get right now such as climate change.”

However, he points out that there is a natural alliance over how the IMF is run between poorer countries and the fund itself, which does not want to be seen to be dominated by rich countries. The question is whether those poorer economies can seize the opportunity that will emerge if the US steps back from its leadership role.

Truman is pessimistic about whether emerging and developing markets would work together to drive through more radical changes to the fund’s governance, such as ending the convention that its managing director is always a European.

“Are we going to see an emerging market dominated agenda? No, because they can’t agree either. You saw that in the procedures for choosing an MD,” he says, pointing out that emerging markets had not been able to agree on a candidate to challenge Lagarde in 2015. “I suspect they are less coherent than the US and less coherent than Europe. And the US and Europe have a blocking majority on anything major.”

Seventy years ago, Roosevelt warned the world was standing at a point in history that was “full of promise and of danger”, saying it would either move toward unity and widely shared prosperity or move apart into necessarily competing economic blocs.

The IMF will certainly use this week’s meetings to flag up its worries over an equally bifurcated outlook now. The issue will be whether it can work with its membership to steer a course towards a more unified, multilateral world. **GM**



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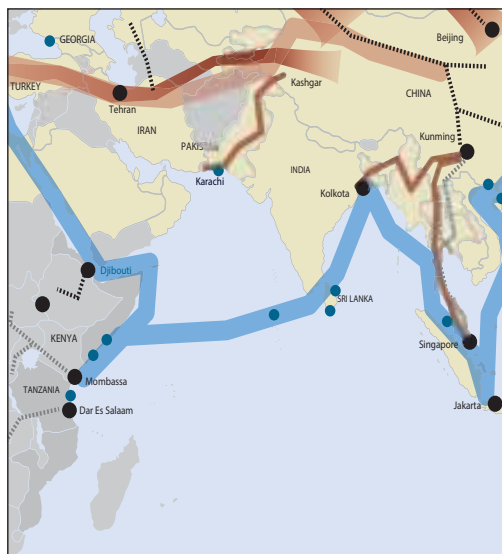


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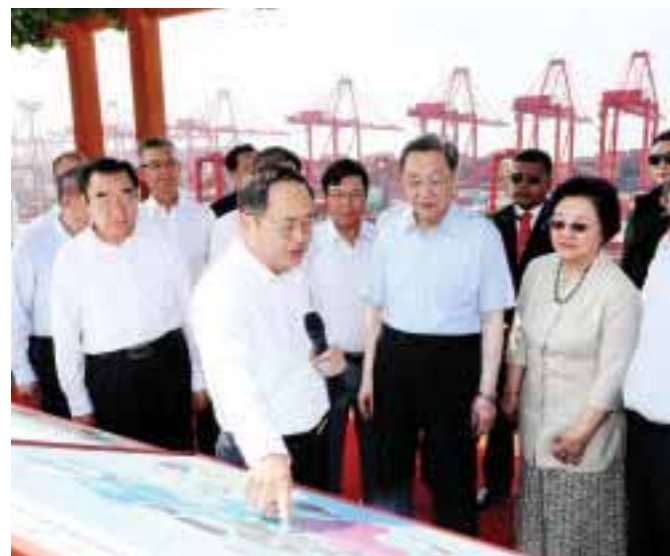
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This article is the second part in a series of four on China's Belt and Road Initiative that we are publishing during the 2017 IMF-World Bank annual meetings in Washington DC. We have devoted two articles to the Belt element, and two to the Road element,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



Belt and Road to bring vision to China's blindspot beyond the Malacca Strait

By Elliot Wilson

The Belt and Road Initiative (BRI), China's ambitious attempt to redraw the global trade map in its own image, has a blind spot. It isn't in Southeast Asia, where China is building ports and free trade zones with abandon. Nor is it in the desert states of Central Asia, through which it is building thousands of miles of rail lines, to help its manufacturers ship goods overland to Europe. Both these regions are well known to China, filled as they are with nations either on friendly terms with it — or suspicious of its motives, but keen to remain on good terms with the rising superpower.

No, the view in China's mirrors starts to blur only when we push west of the trade chokepoint of the Strait of Malacca, and enter the Indian Ocean. This is new territory for China in every way. What its ambitions are in this part of the world is largely a mystery. Perhaps China itself does not yet know. But it is an integral part of the Belt and Road Initiative, so the question is worth exploring.

This part of the maritime road stretches west across the Indian Ocean — which alone covers more than 70 million square kilometres — into the Persian Gulf and the Red Sea, before heading north, through the Suez Canal, to Europe.

For trade-dependent China, these are colossally important routes. More than 80% of its oil imports traverse the Indian Ocean, according to the US Energy Information Administration, heading from Africa and the Middle

East, before pushing north to the mainland. Most Chinese-made goods bought by European consumers make the opposite journey, after passing through the Suez Canal.

To many countries, a natural impulse would be to protect these routes using a judicious mix of carrot and stick. European colonists did so in the past, often erring on the wrong side of the equation. But this is the modern world, run according to international laws and norms, and China is still getting to know a vast region filled with cultures it does not yet fully understand, and business practices still alien to its eyes and ears.

Rather than seeking to dominate and bully regional trading partners, China's highly logical solution has been to pump billions of dollars' worth of capital into huge local projects, with the aim of building infrastructure that will increase the flow of trade, while being of use to both China and the sovereign in question.

EGYPT AND SRI LANKA IN FOCUS

Take two mega-projects that have, so far, flown under the radar. Many know of China's investments in Pakistan, most notably in the port city of Gwadar, where it is building a 2,280-acre free trade zone, an industrial port, and a naval facility large enough to dock visiting aircraft carriers.

But fewer know that China, thanks to a \$500m investment from Tianjin-based conglomerate Teda, is now the biggest investor in the Suez Canal Area Development Project, launched in 2014 by Egyptian

president Abdel Fattah el-Sisi, with the aim of developing three cities, including Ismailia and Port Said, and building a new canal that will run parallel to Suez. In effect, China and Egypt are working to transform a canal that generates \$5.2bn in annual revenues, into a \$100bn investment hub serving markets in Europe and eastern Africa.

Another mega-project that is likely forever to alter trade routes, in the Indian Ocean but also far beyond, can be found in Hambantota, on the southern shores of Sri Lanka. Not long ago, this was little more than a fishing village. But this month, if all goes to plan, another state-run firm, China Merchants Group, will sign a \$1.1bn deal to buy a majority stake in Hambantota's port.

China, naturally, has been quick to talk up the deal — and the loss-making facility. Its ambassador to Sri Lanka talks of turning the town into South Asia's answer to Shanghai. Many might scoff at the notion, but Sri Lanka is perfectly positioned on the map to become a major trading power — with Chinese help — over the coming decades.

An 11-square-kilometre special economic zone encircling the deep-water port is being planned by China Merchants, with the aim of sucking in investment from mainland manufacturers, logistics experts, telecoms equipment makers, and IT firms. In time, China hopes to brand Hambantota as the Indian Ocean's leading trans-shipment hub, capable of providing oil storage, refuelling and maintenance facilities for global shipping firms making the long trek between continents.

“Priority is being attached to promoting Sri Lanka as a regional and even a global hub”

—Indrajit Coomaraswamy, governor of the Central Bank of Sri Lanka



And why not — it is after all perfectly positioned on the map, close to the Indian mainland, and equidistant between Suez and the Strait of Malacca.

Sri Lanka, which has taken care to ally itself with China while remaining on good terms with its giant neighbour India, as well as the US and Europe, certainly identifies with China's vision of its future. "For millennia, Sri Lanka was an important trading centre in the middle of the Indian Ocean," Indrajit Coomaraswamy, governor of the Central Bank of Sri Lanka, tells *GlobalMarkets*. "We are equidistant between East Asia and Europe, 20 miles from India, and with easy access to the Middle East and Africa. Crucially, Sri Lanka is in the middle of China's Maritime Silk Road. Priority is being attached to promoting Sri Lanka as a regional and even a global hub."

And China is setting down roots across the region, building rail lines in Bangladesh and free trade zones in Myanmar. In the Republic of the Maldives, a collection of 1,110 islands scattered across an area of ocean the size of Syria, it has taken out a lease on an atoll within shouting distance of the capital, Malé, and is funding (via its two chief export lenders, China Development Bank and Export-Import Bank of China) the construction of a new airport.

Plans are afoot to build a port-cum-naval facility on Laamu, a Maldivian atoll that lies astride a deep stretch of ocean used by super-tankers heading to and from Africa. The atoll is a few hundred miles north of Diego Garcia,

a UK-administered island chain that hosts one of only two US naval and military bases in the Asia-Pacific region (the other is on Guam).

MILITARY MIGHT AND ECONOMIC DEVELOPMENT

This raises one last and highly pertinent question about the country's goals in the western maritime road. What indeed are China's ambitions? Some believe it wants to become an Indian Ocean superpower, wedding military might to its economic credentials. Many in this camp subscribe to the "string of pearls" theory, referring to China's growing network of naval facilities, from Sri Lanka to Pakistan to Africa. In August, China officially opened its first military base in Djibouti, a tiny but strategically relevant state on the Horn of Africa.

Others see in China's rise a purely commercial imperative. "There is a lot of supposition about the Belt-and-Road Initiative being geostrategic rather than commercial," says a leading Asia Pacific infrastructure banker. "To my mind, it is 100% commercial."

The truth — though few in China would be likely to admit it — probably lies somewhere in between. "China," notes one Asia-based banker interviewed for this story, "is nothing if not a great student of history." He points first to the fact that 60% of all the world's oil production passes through the Indian Ocean, and second to the words of Alfred Thayer Mahan, an 18th Century US naval officer and historian,

who wrote several classic texts on the history of maritime warfare. Mahan is a quasi-mythical figure in Washington, but also in China, where Party officials study his books, taking to heart his famous mantra: "Whoever attains control of the Indian Ocean will dominate Asia."

It is nigh on impossible to glimpse into the future, and to evince China's long-term strategy in this part of the world. Alexious Lee, head of industrial research at Hong Kong-based brokerage CLSA, says he "cannot imagine China becoming an Indian Ocean superpower within the next 10 years". But he points to the ports, industrial zones and communications networks it is building, which will make it "easier for its naval forces, including aircraft carriers, to park up and refuel almost anywhere. It also ensures that Beijing is able to defend shipping lanes."

In China's eyes, all of this extraterritorial activity just makes good commercial sense. It can be folded into the overarching Belt and Road Initiative, after all, creating, as China regularly insists, a "win-win" for everyone.

But to hawks in the likes of India and the US, wary of China's rise and bristling at the rapidity of its incursion into the region, it might look at an awful lot like a soft takeover by a mighty new power keen to suck an entire ocean into its sprawling new global trade initiative. Which one it is, only time will tell. **GM**

TOMORROW: the eastern section of the belt (overland) route

Go West

Sri Lanka: the chairman of the National Committee of the Chinese People's Political Consultative Conference (CPPCC) inspects the Colombo Port City project; celebrations at the launching of Hambantota port; Teda City on the desert road of Suez city north of Cairo



The other America says 'yes' to Paris Agreement

Three devastating hurricanes this summer have not changed President Trump's mind about leaving the Paris Agreement. But the response from US business and municipalities has been remarkable. Many reject Trump's decision and are determined to carry on regardless, resisting climate change

By Jon Hay

To many in other countries, the US is the land of climate change denial. Few were surprised when on June 1 President Donald Trump declared that the US would leave the Paris Agreement on climate change. After all, he had often described global warming as “mythical” and “non-existent”.

In doing so, Trump was simply copying others. Refusal to accept that climate change requires urgent action is a strong political current in America unlike in other developed democracies. The first big international agreement to cut greenhouse gas emissions, the Kyoto Protocol in 1997, was rejected in the US Senate by 95 votes to none.

But there is another, quite different, America. A mere four days after Trump's speech,

a movement sprang into action proclaiming the upbeat message: “We Are Still In”.

Co-ordinated by civil society groups, the initiative has amassed signatures from 2,300 state governors, CEOs, tribal and local government leaders and heads of universities, who are determined not to be turned aside from pursuing “ambitious climate goals”.

Organisations backing the drive include all the Pacific states (bar Alaska), New York, Virginia and North Carolina. All five of the FAANG tech giants — Facebook, Apple, Amazon, Netflix and Google — are in, as are minnows like Mobile Madness Cell Phone Repair of Oregon.

“Many companies now feel more motivated to speak up and recognise that the Trump administration has presented a moral and

practical challenge to the values of many companies in the US on environment, health-care, immigration,” says Richard Eidlin, a co-founder of the American Sustainable Business Council in Washington, one of the groups steering the campaign. “They feel they have a responsibility to challenge the administration and that if they don't speak up the more conventional and conservative voices in US business tend to dominate.”

STEADY COURSE

This kind of action, independent of the federal government, has been going a long time.

The US Conference of Mayors brings together the mayors of 1,250 cities. About a third are Republicans, two thirds Democrats.

In 2005, these mayors began signing up to a Climate Protection Agreement. It urged

Eyes wide shut

US president Donald Trump announcing his decision to withdraw from the Paris Climate Agreement in the Rose Garden of the White House in June; Mayor of Burnsville Elizabeth Kautz with vice president Mike Pence

Congress to legislate for emissions cuts in line with the Kyoto treaty — but also committed the mayors themselves to “meet or exceed Kyoto Protocol targets for reducing global warming pollution by taking actions in our own operations and communities”.

Some 1,060 mayors, 85% of the Conference’s members, have now signed the pledge. “My city went into a long, comprehensive review that produced a white paper,” says Elizabeth Kautz, mayor of Burnsville, Minnesota. “We looked at experts on the issue and their testimony and we adopted a sustainability plan. The state of Minnesota wanted us to reduce our greenhouse gas emissions from 2005 to 2015 by 15% and we have exceeded that — we’ve reduced by 17%.”

Kautz recalls with pride standing with the local president of Xcel Energy, the power company, as the last coal train pulled into Burnsville’s Black Dog power plant before it converted to gas.

POLITICAL PARADOX

That opinion — and action — at city level should be so different from the national and even state scene is a conundrum.

“Mayors are closest to the people,” is the explanation offered by Jim Brainard, mayor of Carmel, a fast-growing city of 100,000 on the outskirts of Indianapolis. “We see them at the greengrocer, at the pharmacy. We are not stuck away in Washington or a state capital. I have yet to meet a Republican or a Democrat that doesn’t want to drink clean water and breathe clean air and leave the earth in a better condition for their grandchildren.”

This direct connection to people’s everyday concerns — and responsibility for their quality of life — is a big part of why local leaders feel that on the climate Trump’s way is the wrong way.

Many of them — like Kautz and Brainard — are Republicans, who see no contradiction, in fact an alignment, between conservatism and conservation. “Only recently we have had this relatively small group that denies the [climate change] science — only 15%-18% of the population or about a third of Republicans,” Brainard says.

STAYING IN BUSINESS

Businesses, too, are umbilically linked with ordinary people and with the real world. Shona Quinn, sustainability leader at Eileen Fisher, the women’s clothing company, gives two reasons why pulling out of the Paris Agreement is bad for business.

“We use 90% natural fibres — we rely on agriculture, forestry, farms, ranches,” she says. “So when extreme weather patterns occur, whether floods or droughts, it has an

impact on the yields and we have to scramble and find fibres some other place.”

Cotton suppliers in one part of India can be suffering drought while those in other parts are hit by flooding and insect infestation.

Quinn’s second example is closer to home. The company’s headquarters in Irvington, New York is right by the Hudson River so was at risk of flooding when Hurricane Sandy struck in 2012. Some of the company’s stores lost power and had to close.

One approach to these risks would be just to live with them or buy more insurance. But many firms see it as part of their remit to tackle the problems — not least, to ensure their own survival.

Eileen Fisher has been working for years on sourcing its materials sustainably, such as switching to organic cotton. “We’ve set carbon-based goals and are moving slowly towards them,” says Quinn. For a business that makes physical products with a global supply chain and distribution to online shoppers’ homes, there are not necessarily many low-hanging fruit to cut.

But the company has just signed up to the Science-Based Targets Initiative, which helps firms align their greening commitments with what is actually needed if the world is to avoid warming more than 2°C.

“We are in this for the long run,” says Kirsten Spalding, head of the San Francisco office of Ceres, the sustainability NGO, summing up the reaction of Ceres’ network of businesses to Trump’s decision. “We are looking forward to where business will be in 10 years’ time. It’s going to be a carbon-constrained economy and we are going to be the winners in it. We are going to be prepared for the future — it doesn’t matter if it’s voluntary or mandatory.”

MUCH TO DO

How much can individual actors actually achieve if the government in Washington and many states are actively weakening environmental protections?

Many businesses resent climate controls — the US Chamber of Commerce, which represents three million firms, together with 28 states, is suing to block President Obama’s Clean Power Plan.

Eidlin says Trump’s decision to pull out of Paris has “inspired companies that might have been standing by the side to engage — they know they need to do more”. But he acknowledges that “while private sector efforts are necessary, they are not sufficient.”

A carbon tax would help, but there is very little chance of federal legislation at the moment. Massachusetts might bring in a local one.

In the We Are Still In community there are moves afoot to bring together all the in-

dividual commitments made by companies and municipalities into one aggregated drive. But for the time being, it is only the determination of particular people and organisations that can make a difference.

The gains can be impressive. The city of Pittsburgh made its first Climate Action Plan in 2008 and has just drafted version 3.0. There is plenty to do: in 2005, the state of Pennsylvania treated as a country would have been the world’s 22nd largest carbon dioxide emitter. And scientists project that by the end of the 21st century parts of the state could have temperatures over 100°F for more than 100 days a year.


Grant Ervin, the city’s chief resilience officer, says this is not just about warding off disaster. “This is an investment in our future,” he says. “It’s about fostering economic transition” to new, greener technology that drives growth.

Pittsburgh’s third plan sets seven tough goals to achieve by 2030. They include 100% renewable electricity for municipal operations, no waste to landfill, halving the whole city’s emissions and water use and divesting the city’s pension funds of “fossil-based companies”.

On a much smaller scale, Carmel, Indiana has already made great strides. It is common for Americans to commute for two to four hours a day by car. Few suburbs have any public transport. “In the central part of the country you rarely see a building over one storey,” says Brainard. “We are trying in a suburban area to move to the way London or Paris were built, before structural steel, with five levels.”

Condensing the city cuts the need for car use. Carmel has become famous for traffic roundabouts — it has built 110. Brainard says they have cut injuries from junction accidents by 80% and saved about 25,000 gallons of fuel a year per roundabout.

Like Pittsburgh, Carmel is ambitious to do more. “My 100% Republican city council passed a resolution a few weeks ago that set a goal of zero carbon emissions by 2050 for the entire city economy,” says Brainard.

“I think the mayors of this country are moving the needle to make sure that this country has a big voice and big outcomes in this arena of taking care of the planet and energy efficiency, whether Congress makes a decision or not,” says Kautz. “This is the US of A. We do what’s right.” 



“This is the US of A. We do what’s right”

—Mayor Kautz, Burnsville, Minnesota

'Climate in everything we do'

In terms of sheer volume of lending, the EIB have done more to address the problem of climate change than any other institution.

The European Investment Bank (EIB), says its president, Dr Werner Hoyer, has been the driving force for the commitment among multilateral development banks (MDBs) across the world to redouble their efforts to ensure that the targets on climate change set out in COP21 are met. The legally-binding agreement signed by 195 countries in Paris in December 2015 established the long-term goal of keeping the increase in the global average temperature to well below 2°C above pre-industrial levels.

The EIB's claim to leadership among MDBs in the fight against the long-term damage created by climate change may sound bold. But it is borne out by the bank's track record in environmental stewardship. As the largest multilateral provider of climate finance worldwide, EIB has made a commitment to channel at least 25% of its investments

into projects which have a significant positive impact on reducing greenhouse gas emissions and counter the impact of climate change. Outside the EU, it has established a supplementary target of allocating 35% of its lending to climate action projects by 2020.

Jonathan Taylor, vice-president at the EIB, says that against the backdrop of a balance sheet of €560bn, these targets equate to some very large numbers. Last year, the bank's climate lending reached €19.5bn, and in the five years to 2020 this total will comfortably exceed €100bn. "In terms of sheer volume, we have done more to address the problem of climate change than any other lender, and we have done so over a sustained period of time," says Christopher Knowles, head of infrastructure funds and climate action.

Taylor emphasises that the 25% lending target refers to projects with a "significant" climate impact, and that climate change aspects of our environmental standards are now firmly embedded across the bank's entire financing programme, known as climate mainstreaming. "In other words, climate in everything we do," says the EIB's chief climate change expert, Nancy Saich.

Saich says that the EIB has already played a key leadership role among MDBs in the promotion of mainstreaming. In Paris in 2015, it provided leadership on the establishment by several MDBs and the members of the IDFC of the first "Mainstreaming Climate Principles". Saich says that work on these common principles, standards and definitions will intensify with the relaunch at COP23 in Bonn later this year.

Managing climate risk

Another element of mainstreaming, says Saich, is the broader management of climate risk. "We need to do this because things are changing very fast, not just in terms of extreme weather and the effects of global warming, but also in low-carbon technologies, for example in industries such as

vehicle manufacturing," she says. "We need to look both at all our new investments and our existing portfolio, and find ways to assess the physical risk of underlying assets for us and our clients, and also to identify and measure potential stranded assets."

Establishing benchmarks

In mainstreaming, as in other areas of the global climate mitigation market, a clear pattern is emerging of the EIB establishing benchmarks and standards that others are following. Take the leadership role it has played in the global green capital market, which it kickstarted in 2007 by launching its first Climate Awareness Bond (CAB). Since then, the EIB has established itself as the largest source of supply in this fast-growing market, issuing some €20bn of green bonds in the last decade, the proceeds of which have supported over 150 projects in close to 50 countries. The EIB has also acted as a pioneer in the market by issuing in 11 different currencies to date and, most recently, by establishing a new benchmark at the long end of the curve with an €1bn 2047 issue in June.

As with the EIB's lending, its leadership in the green bond market extends well beyond its direct market activity. Aldo Romani, deputy head of funding euro, says that one added value of green bond issuance is the common language it creates among all market participants. Comparability serves both market efficiency and accountability vis-à-vis public policies. Although issuance volumes have mushroomed in recent years, green bonds still account for a tiny proportion of the global market and the growth of their share will be helped by more comparable taxonomies and standards facilitating the encounter of supply and demand.

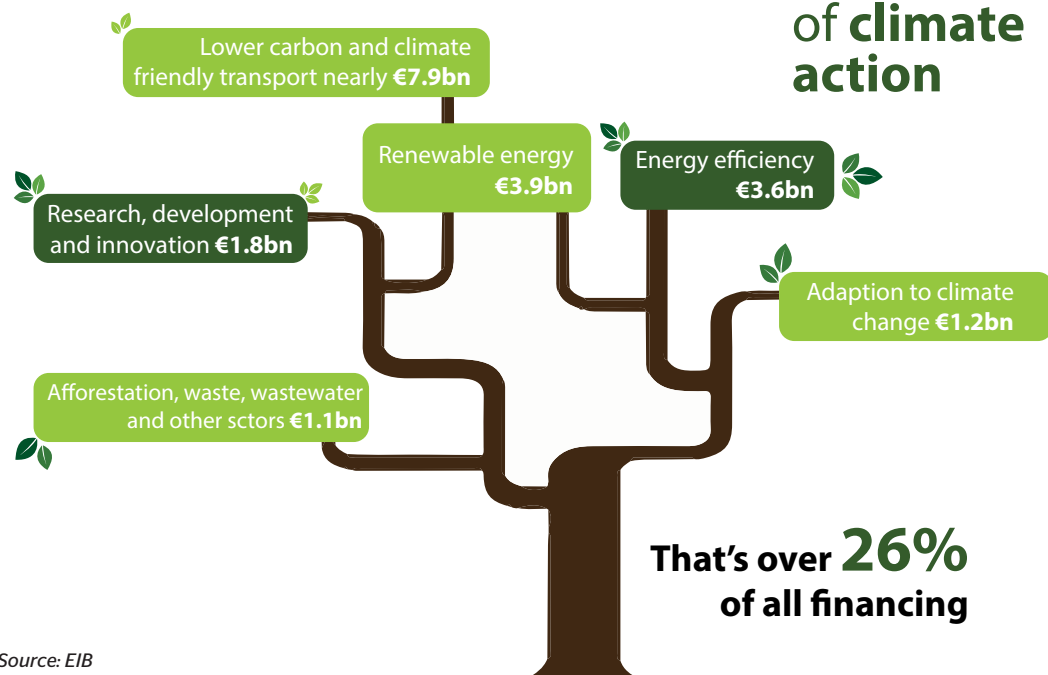
Already, the EIB has taken important strides towards enhancing co-ordination and comparability within the market, catalysing universal support for the Green Bond Principles (GBP) and coordinating the dialogue among MDBs before COP21 on impact reporting harmonisation.

The recent interim report of the European Commission's High-Level Expert Group on Sustainable Finance has recommended that the EC invites EIB to co-ordinate the development of an EU classification of climate change finance.



OUTSIDE EU: Hellisheidi (Iceland): The Hellisheidi geothermal power plant in Iceland is one of the largest geothermal plants in the world
INSIDE EU: Andasol (Spain): The Andasol solar power plants employ around 1,000 people in a non-industrial area in the province of Granada (Spain)

In 2016 the EIB financed **€19.5bn** of climate action



Source: EIB

Romani adds that the EIB also aims to build a “Rosetta Stone” of existing climate mitigation definitions. “By creating a translation device allowing people to establish equivalence between different lexicons and classifications, you remove a significant source of complexity. This allows you to use one of the existing classifications as a universally-accepted unit of account for the transparent comparison of eligibility criteria in each sector,” he explains.

Risk-sharing

Risk-sharing and the promotion of increased private sector activity across the wider market for green investment is fundamental to EIB’s strategy in the sphere of climate change. “The investment gaps are so large that government budgets and MDBs can’t close them on their own,” says Knowles.

This is why a cornerstone of the EIB’s strategy in the green market is the absorption of the junior risk in a number of funding structures and guarantee mechanisms. This support has underpinned the development of a number of funds in higher risk areas of the global green market, which would have been unlikely to generate sufficient investor support without a commitment from the EIB. “When we invest in climate action projects, we ask a lot of questions, which initially may not make us the most popular co-investor,” says Knowles. “But it means that when investors choose to partner with us, they know that projects have been exposed to very thorough due diligence.”

This has created a powerful multiplier effect. Knowles says that the EIB has a portfolio of about €2bn in over 50 infrastructure funds, but that this represents no more than about 10% of these funds’ total capital. The remaining 90% comes from more than 500 private sector investors drawing comfort from the imprimatur

of the EIB’s due diligence.

An early example of this process was the Green for Growth Fund (GGF), a public-private partnership launched in 2009 and supported by the EIB and KfW, which focused initially on the promotion of energy efficiency in the western Balkans and has recently expanded to North Africa. Today, private investors hold about 20% of this €410m fund, which helps reduce energy use by 1.3MWh, saving 329,000 tonnes of CO₂ per year.

More recently, the EIB has built on its success in risk-sharing in investment funds by diversifying into some less well-covered areas of the global environmental protection market. One example is the EcoEnterprises Fund, in which EIB is a co-investor, which provides mezzanine financing and equity to support companies benefiting biodiversity through the sustainable use of natural resources, principally in Latin America.

Public sector partners

Acting as a driving force in the market for climate action investment has also involved searching for partners elsewhere in the public sector which are equally committed to ensuring that the world meets the targets prescribed by the Paris Agreement, and prepared to support the de-risking of the EIB’s support for climate mitigation as co-investors. This was the genesis of GEEREF, a fund of funds initiative initiated by the European Commission in 2006 with funding from the EU, Germany and Norway. By the end of 2016, GEEREF had invested in 12 private equity funds across Africa, Asia, Latin America and the Caribbean, backing renewable energy and energy efficiency projects.

A more recent initiative has been the establishment of the Luxembourg-EIB Climate Finance Platform, under which

the Luxembourg government is committed to making €30m of funding available to investment vehicles based in the Grand Duchy financing high impact climate projects both within the EU and globally. To put this total into perspective, it amounts to a quarter of Luxembourg’s commitment under the Paris Agreement. “We will use this platform to seed smaller, high risk funds, and hopefully we’ll announce the first deals during COP23 in Bonn in November,” says Knowles.

Aside from continuing to engage with potential partners from the private and public sector to mobilise increased investment for green investment, EIB recognises that the need to extend beyond climate change mitigation, which refers to the reduction or prevention of greenhouse gas emissions. Given that emissions are unavoidable, equally important is climate adaptation. This refers to the anticipation of the adverse effects of climate change and taking proactive measures to prevent or minimise the damage caused by factors such as worsening droughts, more extreme weather events or rising sea levels.

Taylor explains that climate adaptation has captured less attention among investors than climate mitigation, in part because impact assessment is much harder to measure. It is easy enough to quantify the emissions prevented by the construction of a renewable energy plant; it is much less straightforward to put hard numbers on the economic benefits of a project aimed at mangrove conservation to protect coastal areas.



*Jonathan Taylor,
Vice-president in charge of Climate Action*

Nevertheless, forest conservation is another area that the EIB has pioneered, co-investing, for example, in Althelia Ecosphere, an innovative fund which has been developing multiple revenue streams from forest protection and sustainable land use in countries ranging from Kenya to Peru, Colombia and Ecuador. According to Knowles, the bank is monitoring similar climate adaptation opportunities in areas such as the marine sector, where artisanal fisheries are under threat from mismanagement and overfishing.



Afghanistan's new battle for economic development

Is Afghanistan finally turning the corner? The desert country, a crossroads between Central and South Asia, has for so long strived for stability and security and found neither

By Elliot Wilson

Not for nothing is Afghanistan described as the “graveyard of empires”, having rebuffed the British and Soviet empires at the height of their powers. When Barack Obama announced the end of the US-led mission in Afghanistan in 2014, it closed the book on America’s longest ever war, one that claimed the lives of 3,300 Allied troops.

Viewed from almost any angle, Afghanistan appears an unqualified sovereign basket case. One-third of the population earns less than \$2 a day according to the World Bank. Roads are old and broken or new but too unsafe to use. The energy grid is patchy and the extractives sector, while laden with potential, is either completely untapped or, notes Hameed Hakimi, a research associate at Chatham House’s Asia Programme,

“riddled with corruption and criminality”.

Personal safety, whether you live in Kabul or in the provinces, is elusive as ever. The number of terror-related deaths slipped a little in 2016, but only to 4,500, according to intelligence portal Statista, making it one of the world’s most dangerous countries.

By some counts, Afghanistan is home to 20 terror outfits, including Islamic State, a relatively new arrival. In September, US secretary of defence Jim Mattis said he would send 3,000 new troops to Afghanistan to train local forces and stem a sharp rise in insurgent-led attacks.

Yet despite the shadows that lie across the land there is cautious reason for hope. America’s decision to pull active troops out of the country came months after the election, in September 2014, of President Ashraf Ahmadzai.

An anthropologist by training, the former chancellor of Kabul University isn’t everyone’s cup of tea. Shoaib Rahim, a Kabul-based political and economic development analyst, says there is “a pre-2014 and a post-2014 era” in Afghanistan. “Before Ahmadzai, the economy was doing well. Since his arrival, international aid has diminished and capital flight has risen, with the well-connected taking their money to Turkey and Dubai.”

It’s a fair point. Active foreign troops did more than just suppress gunfire and train local militia: they also built bridges, schools, hospitals and roads. Their presence helped to keep the peace ensuring a steady if low flow of inward foreign direct investment.

IRAQ’S BOND: A GLIMPSE OF THE FUTURE

But Ahmadzai’s vision of the future also makes sense. A natural technocrat who studied nation building at Johns Hopkins University before joining the World Bank in 1991, his presidential campaign included a pledge to wean Afghanistan off donor aid and to build a modern, stable, developed economy in which foreign corporates want to do business.

For proof that it’s possible to rebrand a troubled sovereign in the eyes of global investors you need only look at Tajikistan and Iraq, both of which printed heavily subscribed dollar bonds over the summer.

Ahmadzai’s record so far is mixed. An IMF

Ties that bind

Mazar-e-Sharif Afghanistan to Termez, Uzbekistan railroad

country report published in June warned that the “challenging” security situation was undermining confidence and crimping growth. It tipped the economy to expand by 3% in 2017 against 2% in 2016 and 0.8% in 2015. But this, it added, was “far below” the growth rate needed to create enough jobs and raise living standards. (In stark contrast, the economy in the 10 years to the end of 2012, buoyed by heavy infrastructure investment, grew at an average annual rate of 9.4%.)

GETTING AFGHANISTAN ON TRACK

The saving grace for Afghanistan could, as has through history so often been the case, come from its place on the map. Much of the infrastructure built by Allied troops and multilaterals focused on local or regional highways. But a slew of new rail lines could transform the entire economy.

In September 2016, a rail line linking western China with the Afghan border town of Hairatan, via Tajikistan, opened for business. Another track connects Turkmenistan with Tajikistan via the northern Afghan towns of Kunduz and Sheberghan. Then there’s the Five Nations Railway Corridor, which aims to link China and Iran via Kyrgyzstan, Tajikistan and Afghanistan by 2022. President Ahmadzai is an outspoken fan of the \$2bn project, which both he and the Chinese leadership view as an integral part of China’s Belt and Road Initiative.

These projects and a host of others are crucial to the country’s economic future. The Hairatan line cuts the time it takes to get Afghan goods to market in China’s main cities from six months to less than two weeks. It also means Afghanistan is less dependent on shipping most of its goods south through Pakistan.

And that, says Alice Mummery, an analyst in The Economist Intelligence Unit’s Asia team, should be a boon for the country’s agricultural sector. “Farming,” she notes, “drives the entire economy”. Indeed, Afghanistan has been growing the finest melons for nearly 5,000 years, while its grapes, apples, pomegranates, pistachios and strawberries are coveted across the Middle East.

That few beyond its borders know this is largely due to poor infrastructure, including a lack of cold storage facilities, ensuring fresh produce spoils before it hits the market. Good, working, pan-regional infrastructure, notes the political analyst Rahim, “should change that, giving a much needed lift to tax revenues”. (The IMF reckons that the government raised \$2.6bn in revenues in 2016, benefiting from a new 10% fee on cellphone top-ups, against \$2bn the previous year.)

And better infrastructure will help in

other ways. Afghanistan, notes the EIU’s Mummery, is “rich in natural resources”, including lithium, iron ore and coal. A 2017 survey by the ministry of mines and petroleum put the nation’s mineral wealth at north of \$3tr. It is also a potential future clean energy power, thanks to its wide, fast running rivers and deep lakes. If it invests well, Afghanistan could earn billions of dollars a year in revenues by exporting clean energy to the wider region.

THREE OPTIONS

From here the road forks. Afghanistan can pursue one of three options. One path leads nowhere, to a future in which the nation, in

failing to develop, remains addicted to foreign aid and US-led military support. Down the second lie only the shadows of the past: a nation controlled by warlords, riven by crime and corruption and exporting little but terrorists.

But the third path is the charm. This one leads to a brighter future in which the landlocked nation becomes not a bridgehead between Central and South Asia but an integral part of both — a “great transit point”, in the words of EIU analyst Mummery, linking China with Iran and India with Central Asia. Much needs to go right to make this a reality. But the hope, for the first time in many years, is real. **GM**

“International aid has diminished ... with the well-connected taking their money to Turkey and Dubai”

—Shoaib Rahim, development analyst

Cricket

Cricket drives Afghanistan’s reintegrated future



It’s the closest thing that Afghanistan has to a fairy story. Twenty years ago, cricket, that most quintessential of summer games and one of Britain’s most enduring exports, was virtually unknown in Kabul.

Now it’s not only the country’s most popular sport but one it’s genuinely good at. Afghanistan’s debut appearance in cricket’s 2015 World Cup, a tournament where nations play each other in one-day matches, was a big step up. Better yet was its inclusion in June as a full member of the International Cricket Council, the sport’s governing body. Afghanistan can now play five-day ‘Test’ matches, considered the highest form of the game, against the likes of Australia, England and India.

Its rise from obscurity to the fringes of cricket’s big time is that most unlikely of good luck stories: one that everyone, no matter their politics or world view, is rooting for.

Consider that members of the national team, once described by former US secretary of state Hillary Clinton as a “model of skill, dedication and teamwork”, are personally sponsored by the Taliban, which rather likes the conservative dress code. It helps that cricket is widely seen here as an import from Pakistan rather than a ‘Western’ game.

BRIGHT FUTURE

And the future augers well. Tim Wigmore, a correspondent for the news website Cricinfo and co-author of *Second XI: cricket in its outposts*, tips the men’s national team to be in the top eight of the world rankings “within two or three years. They are a top tier team already. And there’s so much talent and so much money, they can only get better.”

He points to the example of Rashid Khan, a 20-year-old spin bowler and one of the global game’s great young talents. And

Khan, who plays for the Kabul Eagles, is just the tip of the spear. Afghanistan pays 180 players annual salaries, encouraging them to develop their game at home. Financial aid comes not just from the ICC (which will dish out \$40m to the national cricket board over the nine years to the end of 2023) but also from sovereign donors. In 2014, Germany pledged \$840,000 towards the construction of a new national stadium.

There are pitfalls, most notably security. In September, a suicide bomber exploded a device outside a cricket stadium in Kabul, killing three.

But for now, Afghanistan in cricketering terms is a nation on the rise. Its under-23 team knocked India out of a tournament in March while its national side beat the West Indies, once one of the sport’s great powers, in a one-day match in June. As a sovereign state, Afghanistan’s plight is as great as ever — but the future of its cricket team is bright.—*E.W.*

[noun]

{factoring}

m. Econ.

Factoring is a financial transaction in which a credit institution collects funds to build a factory.

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Qatar: Vibrant economy

Qatari decision makers have worked hard over recent months to reassure the country's partners and foreign investors about the country's economic resilience, in the face of unprecedented strains created by the blockade imposed on June 5th by Saudi Arabia, the UAE and Bahrain

Despite some disruption, the consensus is that Qatar's economy is holding up well. As an IMF statement issued on August 30 noted, the Qatari economy and financial markets are adjusting to the shock associated with the June 5 measures imposed following the diplomatic rift with some trading-partner countries.

While the Fund acknowledges those measures led to a sharp contraction in imports in June (40 percent year-over-year), with a slight recovery in July, it said efforts to diversify sources of imports and external financing and enhance domestic food processing were accelerating.

The tough conditions have forced the Qatari authorities to be innovative in the way the country does business. Trade has been re-routed and alternative sources of food supply have been established. Yet, the initial concern that trade disruptions could impact the implementation of key infrastructure projects has also been mitigated by the availability of an inventory of construction materials and of alternative sources of imports, noted the IMF.

This underscores the authorities' careful planning in recent years. Minister of Economy and Commerce Sheikh Ahmed bin Jassim bin Mohammed Al Thani has highlighted the government's aim to break the siege by "activating strategies and pre-emptive plans that have been in place for many years to address any local or global crises". In an address at the UN in New York on September 24th, Sheikh Ahmed stressed that these efforts contributed to the maintenance of the normal daily life by finding alternative markets to the siege countries to import goods and services.

In fact, said Shaikh Ahmed, the measures imposed by the siege countries had a positive impact on the economy, and that the government succeeded in establishing alternative and direct trade routes with a number of strategic venues around the world



within a few days of the imposition of the blockade.

The fiscal situation is improving. Despite the challenges facing the country, the budget deficit is set to ease this year, with the IMF projecting that Qatar's 2017 deficit will amount to 5.9% of GDP – significantly better than in 2016 when Qatar reported a deficit equivalent to 8.8% in 2016.

The government is set to maintain its focus on fiscal consolidation, with plans for the introduction of a series of tax and administration measures, including the introduction of a VAT and excise duties during the first half of 2018.

This year has also seen an improvement in the country's external position. According to Qatar National Bank's Qatar Economic Insight, the current account balance registered a surplus in the first quarter of 2017 of 0.3% of GDP, compared to a -1.7% deficit in the previous quarter. The surplus reflects higher oil prices, which have led to increased export revenue. Exports grew 5.4% year-on-year to \$5.1bn, helped by the recovery in oil and gas prices, while imports fell 40%.

For the year as a whole, the IMF forecasts the current account position is projected to improve to a surplus of about 3.9% of GDP in 2017, from a deficit of 7.7% in 2016, in light of the contraction of imports and the recovery in oil prices.

Sheikh Ahmed affirmed in New York in September that Qatar's economy has proved its strength and resilience in the face of many global challenges. Despite the fact that more than three months had elapsed since the blockade, Qatar had succeeded in strengthening its power and independence more than ever, he told a dialogue session organised by the Business Council for International Understanding at Harvard Club, held on the sidelines of Qatar's participation in the 72nd session of the UN General Assembly.

Diversification focus

Much of Qatar's economic focus remains fixed on boosting diversification, a long-standing driver of policy. Over the medium term, non-hydrocarbon GDP growth is expected to reach 4.8%, as structural reforms are implemented, says the IMF. Currently, 61% of Qatari GDP

charts ambitious new course

comes from the non-hydrocarbons sector – this despite the significant contribution of oil and gas revenues.

Senior Qatari business leaders urge the Qatari authorities to prepare for a longer period of sustained lower oil prices. Commercial Bank of Qatar CEO Joseph Abraham says the policy of economic diversification under the Qatar National Vision 2030 has been successful, as a healthy private sector has allowed the overall economy to continue to grow despite a contraction in the hydrocarbon sector. “The days of oil prices rising to \$100 per barrel are over, and Commercial Bank’s five-year Strategic Reshape Plan was developed in the context of this new economic reality and includes steps to improve corporate earnings quality,” he says.

While diversification remains a core thrust of economic policy, the country’s hydrocarbons sector has shown itself to be solid and the country has maintained its commitment to keep its oil and gas customers supplied. Strengthening commodity prices this year have provided welcome relief.

Exports boost

In fact, the Saudi based Joint Organizations Data Initiative (Jodi) revealed that Qatari exports of refined products hit a two-year high in July, more than one month after the blockade was imposed. Exports of refined products grew by 22% in month-on-month terms to average 592,000 b/d in July. This was the highest level since July 2015 and has given a boost to export revenues, with oil products revenues reaching \$420m in July, up from just \$270m in June.

According to Doha Bank CEO Dr R. Seetharaman, with oil and gas being the major contributor to the government’s exchequer, “any upward surge in the oil price in the international market would boost the domestic economic activity and would further ease the current situation.”

In the long-term, Qatar’s economic health will be supported by its liquefied natural gas (LNG) exports, which have left it as the world’s leading LNG exporter with output of 77.1 million tons a year (t/y). After a long period

of moratorium on developing its giant North Field, Qatar this year announced a decision to substantially expand its gas development plans as part of an effort to increase LNG export capacity to 100 million t/y by 2024. With its strategic geographic location and low-cost base, Qatar is in a strong position to expand output and secure new markets for its gas.

“Any upward surge in the oil price in the international market would boost domestic economic activity and further ease the current situation”

Dr R. Seetharaman, CEO, Doha Bank

State owned Qatar Petroleum (QP) president and chief executive Saad al-Kaabi announced in April 2017 that QP has decided that “now is a good time to lift the moratorium”, with work to start on a new 2 billion cubic feet a day (cdf/d) gas-export project, increasing current production by about 10% and adding 400,000 barrels a day of oil equivalent to Qatar’s output. Kaabi said the new project would “further strengthen Qatar’s leading position as a major player in the global gas industry”. The 1.4 billion cf/d Barzan gas project is expected to commence production in 2017.

But Qatar’s expansion plans go beyond the oil and gas sector. Preparations for the 2022 FIFA World Cup are well in hand, with a multi-year \$200bn infrastructure investment programme underway that will provide additional momentum to economic activity. The construction, real estate, transport and services sectors are all poised to benefit from the investment.

Structural Reforms

In the meantime, the Qatari government is pressing ahead with an ambitious programme

of structural reforms designed to improve the ease of doing business in the country and attract more investment.

The Supreme Council for Economic Policies and Investment has approved the second national development strategy, with enhanced focus on economic diversification. Labour market reforms are prominent. Qatar has announced a visa-free entry programme for 80 nationalities to stimulate tourism. It has also forged a new permanent-resident status for foreigners and has approved a new law to protect domestic staff, addressing criticism over the country’s track record in this regard.

Sheikh Ahmad bin Jassim says Qatar was working on developing the necessary mechanisms to reduce costs and improve speed, time and efficiency required for the import of goods and services, noting that the blockade contributed to speeding up the pace of launching initiatives, programmes and laws, particularly those related to investment.

One of the most significant developments has been the launch of Hamad Port at Umm al Houl in September. This is the largest port in the Middle East with annual capacity of 7.5 million twenty-foot equivalent unit (TEU) and should give a boost to diversification efforts and competitiveness.

This forms part of a push to develop non-petroleum exports and building manufacturing industries, with a free zone established adjacent to Hamad Port.

The port has a general cargo terminal with a capacity of 1.7 million tonnes annually, a terminal for cereals with a capacity of 1 million tonnes, a terminal to receive vehicles with a capacity of 500,000 vehicles.

Sheikh Ahmad bin Jassim frames the opening of Hamad Port project as part of a broader strategy aimed at ensuring the continued flow of alternative consumer goods and products to local markets at the same level as before the crisis. The project will make Qatar an important commercial centre in the region, giving fresh ballast to the economy’s formidable existing array of strengths.

“We are coping commendably

Qatar Central Bank (QCB) Governor Sheikh Abdullah bin Saud al-Thani explains why Qatar’s economy and financial sector are holding up strongly

Sheikh Abdullah started his career at the Bank in 1981, and witnessed significant changes in the Gulf state’s fortunes over the past three and a half decades – an era that has seen it transformed into a regional economic superpower.

The recent turbulence in the Gulf has not diminished Sheikh Abdullah’s confidence in the essential health of the Qatari economy and that of the banking system – resilience being hardwired into the Qatari DNA.

“Given the duration of the challenge, the Qatar economy has been coping commendably well with the challenges. Our real GDP growth for the first quarter of 2017 is much higher than any of the quarters of 2016,” he points out.

An inflationary spike has not materialised, and the governor sees inflation as being contained. “We expect inflation to be lower this year. Average CPI inflation during the first seven months of 2017 has been less than 1% as compared to the same period of 2016. Driven by buoyant oil prices, we expect the current account to exhibit improved performance during the year.”

Some of the resilience is already in evidence with the current account recording a mild surplus during the first quarter of 2017, he points out. And the banking system – the mainstay of Qatar’s financial intermediation – remains solid, solvent and profitable and, he says, capable of facing any possible abnormal conditions. “This is amply evident from the way banking sector handled the challenges during the past three months.”

The Qatari economy and financial sector have adjusted well and overcome the initial disturbances associated with the diplomatic rift, argues Sheikh Abdullah. This can be traced back to longer-standing efforts to reduce the country’s hydrocarbons dependence.

“Supported by the economic diversification and the ongoing implementation of infrastructure projects the dependency of the

economy on hydrocarbon sector has reduced considerably in the last couple of years. Further, proactive measures taken by the authorities have helped the economy to become more self-sustained,” says Sheikh Abdullah.

Exports resilient

The authorities have made arrangements to establish alternative supply chains, for the smooth supply of goods ensures price stability. “Our external trade has not been impacted by the embargo as we have rerouted the trade channels and initiated fresh trade relationships with other countries. Export of goods are also not affected by the current circumstances as the major export destinations continued with their existing trade relations. We expect higher foreign and domestic investments in non-hydrocarbon sector that will help the economy to post a robust growth going forward,” says Sheikh Abdullah.

There have been also efforts to reassure overseas investors about the safety of their investments in Qatar. “The Central Bank has been monitoring the banks on a close and continuous basis and stands ready to support them, as and when necessary,” he says.

All overseas depositors who sought to withdraw their money have been provided

“Our external trade has not been impacted by the embargo as we have rerouted the trade channels and initiated fresh trade relationships with other countries”

Governor Sheikh Abdullah bin Saud al-Thani



Governor Sheikh Abdullah bin Saud al-Thani

with the necessary flexibility.

“Thankfully, with a major portion of such funds having already been withdrawn, the banking system has become less reliant on such deposits and are exploring ways of securing more stable funding sources. Given the commendable way in which they have responded to the challenges, I am confident that they will devise imaginative strategies of improving the quality of their funding base,” says Sheikh Abdullah.

There is no need for the Central Bank to draw down on its reserves significantly. Qatar boasts reserves of US\$ 340 billion, including assets of its sovereign wealth funds, that could help the country to resist the isolation from its neighbours in the Gulf.

The country’s credibility lies in the sufficient amount of cash the system has to face any kind of shock, says Sheikh Abdullah. “With the initial outflows of deposits having already been met, I do not think right now there is any concern and any ensuring outflows can be met without any pressure on the system whatsoever.”

with the challenges’



The initial pressure on the riyal in June is viewed as more of a sudden reaction and the cost of a 12-month forward contract on the riyal increased significantly during the initial days of the diplomatic rift, but has since returned to more manageable levels. As the governor points out, the central bank has a significant stock of forex reserves – including assets of its sovereign wealth fund – and is keeping a close and continuous watch on the situation and are in a position to respond

"With their good financial records, banks can source funds across various geographical areas"

Governor Sheikh Abdullah bin Saud al-Thani

proactively, if and when the situation requires.

The activities in the Repo market increased after the declaration of the embargo in early June. The Qatari banking sector resorted to Repo funding as an alternative channel among others for managing their daily liquidity requirement. As at end July 2017, the outstanding Repo stood at around QR 20 billion for the banking sector as a whole.

Sheikh Abdullah has stated that the local banks are capable of facing any possible 'abnormal conditions' resulting from the siege imposed on the country, proclaiming the Qatari banking system as strong and efficient, as proved by stress tests carried out routinely by QCB.

Sound and liquid

QCB has implemented the Basel III guidelines on capital requirements in January 2014. "Prudential requirements on liquidity including the Liquidity Coverage Ratio and Net Stable Funding Ratio have also been implemented subsequently. All the domestic banks are complying with these regulatory requirements

as envisaged under Basel III," notes Sheikh Abdullah.

In terms of banking regulations, the Central Bank is strictly following international standards, especially in terms of capital adequacy and liquidity.

Given the strong capitalisation and high asset quality, the Qatari banking sector remains sound and liquid. The capital adequacy ratio of the banking sector stood at 16.1% in December 2016, which is well above the required minimum and continue to remain at high level in the current year.

Bank metrics also remain strong. By the end of June 2017, one month since the embargo, Qatar banking sector recorded an asset growth of around 11.6% in year-on-year terms supported by a significant growth in credit portfolio (11.9%). "At the same time, deposit growth surpassed the growth in credit improving the loan to deposit ratio. Delinquency level stood at low level positioning Qatar banking sector in the number one position in the GCC region as regards to the quality of assets," says Sheikh Abdullah. "Given the low level of delinquent loans, cost of provisioning is expected to be lower. Further supported by higher growth in credit and improvements in deposits flows, I am sure the banking sector will post strong asset growth and profitability."

Explaining the Central Bank's strategy for supporting Qatar's banking sector, the governor highlights the twin objectives of price stability and financial stability as guiding its main approach.

Prudent management

"We manage the liquidity in the banking system by smoothening undue volatility without compromising on our efforts to control inflation. We ensure maintenance of prudential management by banks which includes stress testing their ability to withstand various contingencies that may arise," he says. "Our banks are well equipped to take care of various contingencies based on their capabilities and resources. While QCB will function as the lender of last resort, we have been strengthening our banks through implementation of Basel III and

other international standards and practices."

Given the soundness and a good track record in posting healthy profits, Sheikh Abdullah notes that Qatari banks enjoy high ratings by external rating agencies, which enables them to access wholesale funds easily. "Moreover, the outreach of our major banks in various global destinations provide them access to international financial markets. Hence, going forward, I do not see any problems for Qatari banks in accessing wholesale funding domestically as well as internationally."

The Central Bank governor highlights the fact that Qatari banks have a greater outreach in the international market. "With their good financial records, they were able to source funds across various geographical areas at favourable market rates," he says.

Domestically, customer deposits are showing signs of improvements along with the stable oil prices. "Going forward, with sustained growth of the economy, recovery in oil prices and increasing surplus in balance of payments I am sure the availability of liquidity will be improving thereby lowering the cost of funds for banks over time," he says.

The governor remains upbeat about Qatar's chances of riding out the current challenges and resuming its strong economic growth trajectory.

"Qatar has already taken steps to overcome the current challenges and the effects of these steps are now becoming visible. As I have mentioned earlier, the availability of food and other commodities were quickly met by establishment of alternative supply chains," he says.

Existing inventories helped in the smooth continuance of activities of construction sector while alternative channels of supply were being established. That, he points out, ensured price stability in the market. As noted, inflation is also at lower level as compared to last year. "Construction activities are also expected to continue with their healthy pace of growth in view of the FIFA and other projects. Overall sustained growth in the real sector would facilitate the healthy growth of the financial sector," says Sheikh Abdullah.

Q&A with QNB CEO

Ali Ahmed al-Kuwari

QNB is the Gulf's largest lender. Do you envisage more growth opportunities in the Qatar market in 2017 and 2018?

QNB's strong and profitable growth will continue as it strives to maintain its market share in Qatar by offering innovative products to cope with evolving market demand. Dominant market share allows conservative growth, in line with overall economy growth, which will help preserve credit quality.

We see the recent regional political developments as an opportunity to further support the Qatari private sector and small and medium sized enterprises (SMEs). The aim is to further diversify the local economy and create standalone businesses independent from our neighbouring countries. This will also help to establish the state of Qatar as a major trade hub in the region.

In which sectors do you expect to see increased lending opportunities in Qatar?

The growth of the private sector and the nurturing of SMEs are key pillars of the Qatar National Vision 2030. That requires a shift from the public to the private sector, which is progressively taking place. The government consequently acts as an incubator to nurture the growth of this segment. The vision also aims to transform the state of Qatar into a service and knowledge based economy, further promoting growth in sectors such as education, healthcare and trade.

Going forward, QNB's focus will remain on the key economic sectors in the private and SME segment, such as commercial, manufacturing and contracting for major infrastructure projects. The focus will continue to be on cash flow lending and where applicable supported by collateral in line with QCB guidelines.

Is QNB investing heavily in technology? What are the main themes in terms of deploying and capitalising on technology advances?

QNB is committed to invest in future technology innovation, as the QNB management believes that the banking model will rapidly be shifting from traditional banking into an extended digital model covering customers' life style and surrounding ecosystems.



"The aim is to further diversify the local economy and create standalone businesses independent from our neighbouring countries"

Ali Ahmed al-Kuwari, CEO, QNB

QNB investment is based on a strategic transformation plan spanning over 4 years to increase gradually every year through digital innovation and shifting from traditional investment of expanding the local physical presence based on market needs and cover the global customers across the network.

Will the bank's strong and growing overseas footprint help deliver continued earnings growth?

International expansion is one of the cornerstones of QNB Group's strategy developed to achieve its vision of becoming a leading bank in the Middle East, Africa and Southeast Asia (MEASEA) by 2020. Through the expansion, QNB aims to diversify its revenue and income sources with the objective to reach 40% of our net profits from international markets by 2020.

In line with its vision, QNB Group will continue to invest strategically while ensuring adequate due diligence in markets that expand its geographic footprint, primarily in the MEASEA region. These regions are considered

as one of the world's fastest-growing economies, fuelled by on-going improvement in business conditions and increasing globalization. QNB will consider its acquisition on a purely opportunistic basis if suitable targets are available in these markets.

Do you see the fin-tech sector as a challenge?

At QNB, we don't see fin-tech as a challenge but rather as an opportunity. We see the fin-tech sector as the embodiment of a transformation that brings the customer's experience to the forefront of banking. QNB Group has started to actively engage in innovation, not only through innovative products and services, but also by trying to embed a culture of innovation within the Group.

Is project finance an area that QNB is active in, and will there be opportunities for QNB to participate in longer-tenor loans?

Large investment spending is expected to continue as the government is committed to ambitiously implement its investment programme; in this regard, government capital spending is expected to progressively increase with the ramp-up in infrastructure spending. QNB is very active in almost all local and regional project finance deals, with an appetite for participation subject to internal approvals and satisfactory due diligence.

Has QNB made progress in addressing asset-liability mismatches, and therefore build up its capacity to lend on long-tenor projects?

QNB has worked hard over the past few years to build out and diversify its wholesale funding platform, both in terms of currency and tenor. Asset-liability mismatches have been reducing over this period, with a key driver being compliance to the prescribed NSFR (Net Stable Funding Ratio) targets. As well as deposits, CDs and structured deposits, the bank has been active in the Private Placement space under the EMTN Programme, with increased activity over the past 2 years in the 1 to 5 year maturity range, with investors ranging from Europe to Asia.

Q&A with Doha Bank CEO Dr. R. Seetharaman

2016 was another successful year for Doha Bank, with total assets rising by 8.5%, loans and advances growing by 6.5% and customer deposits expanding by 5.6%. What were the main drivers of this growth?

The growth in total assets of the bank for 2016 was mainly contributed by growth in loans and advances and investment books. During 2016, the bank's loans and advances grew by 6.5% or QAR 3.6bn to reach to QAR 59.2bn. The major growth areas have been government, real estate, services and contracting.

Also during 2016, the bank's investment book grew by 20.6% or QAR 2.5bn to reach to QAR 14.7bn with most of the growth happening in SOQ fixed income bonds. With regard to customer deposits, it increased by 5.6% or QAR 3.0bn to reach to QAR 55.7bn during 2016 with most of the growth contributed by term deposit and corporate sector.

What impact will the current political disagreement in the GCC have on the Qatari economy and on demand for credit and trade and project finance in the local market?

Qatar's domestic businesses are mostly aligned to the country's economic activity which in turn is largely dependent on government and public sectors' spending on various long-term large-scale infrastructure projects. As these are long-term planned projects, the current situation is unlikely to have a major impact on these to the ongoing projects and hence the bank does not see any significant drop in demand for trade and project financing in the recent future.

Moreover, as the bank's NIM is protected due to its ability to re-price the loans and hence as at his point in time it doesn't foresee it as a major concern.

What is your bank's strategy for building its loan book and growing assets?

The bank's strategy for building wholesale banking asset book is to grow business with existing and new low risk and high value corporate names with strong balance sheet and long successful track record. It also focusses on producing synergy working



"We are focused on building domestic deposits tapping on the cash rich government, semi-government and large corporate names"

**Dr. R. Seetharaman, CEO,
Doha Bank**

closely with and building on the successful existing international network. The overall retail credit market in Qatar has been quite subdued now for over 18 months, especially for personal loans and auto loans. The strategy we have deployed has been to increase focus on premium customers especially in Home Loans and Credit Cards.

For example the sale of our premium credit cards has increased 28% YoY, Home Loans portfolio has increased 11% YoY, and Credit Cards portfolio has increased 14% YoY. In addition the strategy focus has been to deepen relationships with existing customers, and this has resulted in a significant increase in protection and investment product sales to our customers.

How is the bank's programme of international expansion progressing, and which countries present the most attractive growth opportunities for Doha Bank?

The bank has obtained approval in principal from the management for converting

some of its key representative offices into a full-fledged branches. Also, it is vying for establishing representative offices in key strategic location across the globe. Singapore, Turkey, South Korea, Australia, Germany and India are comparatively considered as growth prospect for the bank.

Is Doha Bank focused strongly on building up domestic deposits?

We are focused on building domestic deposit tapping on the cash rich government, semi-government and large corporate names under an integrated service proposition that delivers on the client's total financial service needs. We also have our Al Dana product, which arguably is Qatar's leading savings product in terms of brand recall.

What is Doha Bank's approach towards strengthening its liquidity ratios, and to boost capitalization?

Doha Bank recently increased its capital by 20% through a successful rights issue. As of June 2017, due to the Right Issue, Doha Bank's Capital Adequacy Ratio has improved to 17% and which is one of the best among Qatari Banks.

Our liquidity position also has improved on account of procurement of deposits by leveraging our relationships.

How has the bank's corporate governance strategy evolved over the last 12 months?

Over the past 12 months, Doha Bank had realigned its risk management and corporate governance framework in line with the regulatory reforms which have come after the global financial crisis. In line with the corporate governance guidelines issued by QCB, Doha Bank has revised its Board membership composition by bringing in more independent non-executive Board members and brought the total count to 9. The independent non-executive Board members are also part of key Board level committees to ensure transparency and independent control.

Doha Bank has consistently produced Governance reports and Sustainability Report (in compliance with GRI guidelines) for many years.

Q&A with Bassel Gamal, Group CEO, Qatar Islamic Bank

QIB is a leading Islamic lender. How is Qatar's shariah banking sector performing, and how well developed is the market for Islamic banks?

QIB was the first Islamic bank to operate in the country, starting in 1982. In the early years, most Shariah-compliant banks were mainly leveraging a "positional advantage", vis-a-vis conventional banks, with certain segments in personal banking. As a result, Islamic banks were progressively losing market share and were failing to attract new customers.

Naturally, at a certain point in time a necessary change in innovation and service levels became a prerequisite for the further success of many Islamic banks. In Qatar, the change was further facilitated by increased competition after the establishment of two new Islamic banks and the opening of Islamic branches at conventional banks, which was later revoked.

As a result, the Islamic banking sector performance has witnessed strong growth rates over the last few years and has often been recognized as the fastest growing one in the world. In addition, over the past decade Qatar's regulatory authorities have enacted several changes to improve governance standards in Islamic financial services.

The share of Islamic assets in the local banking sector now accounts for more than a quarter of total banking assets at 25.7%, while its share of deposits is nearly 27%, QR 206 billion, as of June 2017.

How has QIB's performance been, and how do you see it shaping up in the next year?

During the last years we have been able to post solid growth rates and to recapture market share in all business sectors. Our net profit average growth rate has been 17% for the last four years, making us the fastest listed growing bank in the country throughout this period.

As a result, we are now the second largest bank in Qatar in terms of assets, deposits, financing and net profit controlling, in terms of assets, around 12% of the total market and 45% of the Islamic Banking sector.

As we are increasing our business



"Our strategy is closely tied with Qatar's National Vision 2030 and the country's commitment to investments in infrastructure, the diversification of the economy and the development of a strong private sector"

**Bassel Gamal, Group CEO,
Qatar Islamic Bank**

volumes and diversifying across all business segments, we are doing so by applying a conservative risk management framework which has allowed us to keep the ratio of the non-performing financing at 1%, one of the lowest in the region, with a well provisioned coverage ratio for non performing financing assets of 118% as of end of June 2017.

We have also created efficiencies and synergies across the organization and have managed to reduce the group's cost to income ratio to 25.3%, from 35.5% back in 2013. Our return ratios have also improved significantly over the years and are now above the market average. Our return on equity (ROE) stands at 16.3%, up from 10% in 2013, and our return on assets (ROA) is at 1.6%.

To sustain our growth rates into the

future we will maintain our focus on our core business. Our strategy is closely tied with Qatar's National Vision 2030 and the country's commitment to investments in infrastructure, the diversification of the economy and the development of a strong private sector.

We will also keep on investing in technology and innovation so as to further increase our internal efficiencies as well as improve the entire customer experience.

Where is the financing growth emerging from? Which sectors are showing the strongest growth potential?

We expect growth to accelerate across all banking sectors as the remaining major infrastructure projects kick off in preparation for Qatar hosting the 2022 World Cup. At QIB, we have developed strong capabilities and the capacity to structure and finance the major infrastructure projects taking place in Qatar as part of the country's National Vision 2030.

Over the course of the past few years, we have been involved in financing agreements for large projects in the sectors of energy, industry, infrastructure, construction, and trade.

Growth will also be supported by numerous initiatives and programs introduced by the government and government bodies in order to support the development of the private sector.

Does QIB expect to see increased growth beyond Qatar's borders, for example through acquisitions?

It is a natural step for any leading financial institution to consider expansion beyond its borders to fuel further growth. Of course, expansion for the sake of expansion can prove very costly and might not always serve the best interest of the shareholders.

As for our specific plans at QIB, our priority remains to strengthen the position of our existing international entities to make sure that our customers and shareholders derive real value from their existence. In parallel, we are constantly following the developments outside Qatar, particularly in a predefined list of potential markets of interest for the Bank.

Doha's banks demonstrate resilience

Qatar has developed a sophisticated financial sector over the years. Local banks have proved themselves to be resilient, building their loan books and growing assets, even in the face of some challenging economic and political circumstances

While the Gulf embargo imposed on Qatar in June has been a challenge, it is not one that banks have ducked. Thanks in good measure to the Central Bank of Qatar's (CBQ's) efforts, the banking system has remained solvent and profitable. Armed with reserves of US\$ 340 billion, including the assets of its sovereign wealth funds, the financial system is coping admirably with the tough regional isolation.

Qatari lenders' solid financials and diversified international footprint have enabled them to source a greater range of funding across geographies and at favourable market prices. Meanwhile on the home front, healthier oil prices in 2017 have boosted customer deposits. Banks on the whole remain profitable.

Qatari bank chiefs do not appear concerned by falls in foreign currency deposits since June. As Doha Bank CEO Dr R. Seetharaman points out, Qatar's reserves are more than twice of its GDP. "In terms of financial stability Qatar is strong, stable and functional. The recent crisis has proved that the QCB and Ministry of Finance had ample resources to service external funding."

By end-June 2017 – one the month after the embargo was imposed – Qatar's banking sector recorded asset growth of a respectable 11.6% in year-on-year terms. Deposit growth has exceeded credit increases, resulting in a better loan to deposit ratio. And in terms of asset quality, Qatar holds the number one position in the Gulf Cooperation Council, with low loan delinquency levels.

Well-capitalised banks

The IMF, in its Article IV assessment this year, noted that the Qatari banking sector remains healthy and well-capitalised. Non-performing loans (NPLs) fell to 1.2%.

Ratings agency Moody's also noted the government's sizeable asset buffers, including more than \$300 billion of assets managed by Qatar Investment Authority (QIA), the sovereign wealth fund., Moody's contends that the government's resources together with liquid foreign assets in the banking system provide a strong mitigant against rollover risks, and credibly support the pegged exchange rate

regime.

Overall, notes QNB's 2017 Qatar Economic Insight, the banking system remains healthy, reflecting high asset quality, strong capitalisation and high profitability. Regulatory capital to risk-weighted assets (CAR) was 16.1% in 2016, and returns to equity (ROE) were high at 14.5%. It forecast banking sector assets to grow by 8-10% over the medium term. While deposit growth would slow to 8.5% in 2018 it would then rise to 8.8% in 2019. Efficient cost bases and strong capitalisation will continue to support banks' strength and profitability in the future.

"In terms of financial stability Qatar is strong, stable and functional"

Dr R. Seetharaman, CEO, Doha Bank

This is good news for Qatar Inc, which needs its banks to be in strong shape, given the substantial financing requirements coming up – such as those focused on the 2022 FIFA World Cup.

Rising deposits

Banks have had to widen their deposit sources. Recent years have seen an increase in overseas deposits in the banking system, as Qatari institutions look beyond the domestic market. According to figures from QNB, the country's deposit growth accelerated from 8.2% in 2015 to 11.8% in 2016, led by an increase in foreign deposits.

Ratings agency Fitch reported that non-domestic deposits represented 26% of banking sector deposits at the end of February 2017, compared to 15% one year earlier.

Qatar Islamic Bank (QIB) Group CEO Bassel Gamal says the current situation in the Gulf has





"Commercial Bank employs a strategy of ensuring a diversified funding base among tighter liquidity conditions"

***Joseph Abraham, Group CEO,
Commercial Bank of Qatar***

not impacted the bank's operations, given that the vast majority of its business is local and it has a large and diversified customer base of individuals and companies.

"On the liquidity front, a sizable portion of Qatari banks' deposits have historically been sourced locally and this continues to be the case, with the public sector regularly placing deposits with all Qatari banks. Of course, over the years, we have built strong and diversified relationships with a large number of financial institutions so as to raise liquidity in the international interbank markets," he says.

For QIB, as an Islamic lender, the future cost of funding and decisions on whether to launch a new Sukuk programme depend on many factors. "We have tapped the debt markets several times in the past and issued a US\$ 750 million tranche just back in May this year. We have received exceptional interest for this last issuance highlighting once again the continued strong support and confidence of both international and local investors in QIB's strong business and credit fundamentals," says Gamal.

Commercial Bank of Qatar's Group CEO Joseph Abraham says the bank is well positioned to meet any challenges arising from the regional situation. "We have only very limited exposure to impacted GCC countries and Commercial Bank has sufficient liquidity to meet the withdrawal of these foreign deposits in the event this should

occur," he points out. "Our deposit base has remained stable and Commercial Bank employs a strategy of ensuring a diversified funding base among tighter liquidity conditions."

Commercial Bank is a regular issuer of senior debt through its Euro Mid Term Programme. In 2016, it tapped the Japanese market with the first Ninja Bond for the region, and this year has diversified further geographically by accessing dollar funding in the US through a US\$ 450 million commercial paper programme, as investor demand for paper remains strong in the market.

Sticky funding

Islamic lenders like QIB traditionally enjoy stable funding as the larger part of their deposits coming from "sticky" personal banking deposits. According to its Group CEO Gamal, it has a high market share of retail deposits deriving from a well-diversified large customer base. "We have managed to develop a holistic business relationship with our customers at the corporate banking front: from government institutions and large corporations to thousands of Small & Medium Enterprises (SMEs) that are banking with us."

Long-term customer relationships with recurring business is contributing significantly to the bank's stable deposit base, says Gamal. Liquidity has been supported by the parallel growth of sukuk issuances. "We have successfully accessed the debt capital markets for a number of landmark transactions, both in the public and private markets."

Where banks have experienced the loss of overseas deposits, they have been able to raise these within Qatar. Doha Bank's Seetharaman says volatile customer deposits from blockading countries had mostly run-off between June and July 2017, and have been replaced with local funds from government-related entities and the QIA. The majority of remaining non-resident deposits – 20% of all customer deposits as at July 2017 – have been acquired from customers with long standing relationship and have shown firm commitment.

While here has been some tightening of liquidity in Qatar's banking sector, given the effect of lower oil prices on the economy, Qatari banks have forged strategies to mitigate the conditions.

Some, like Commercial Bank maintain a conservative loan to deposit ratio and have diversified their liquidity pools to manage risk, cash flows and costs in tighter market conditions.

"As a bank, fundamentally we have to make

"We have successfully accessed the debt capital markets for a number of landmark transactions, both in the public and private markets"

***Bassel Gamal, Group CEO,
Qatar Islamic Bank (QIB)***

sure we are well capitalised to meet our overall aim of building sustainable earnings, and we raised our CET1 Capital through a successful QAR 1.5 billion rights issue in January 2017, increasing our capital from 10% to 11.4%. This, together with an asset revaluation of over QAR 1 billion, will help ensure our CET1 Capital is well above the regulatory minimum of a domestic systemically important bank required by the QCB," says Abraham.

Qatari bank results this year have been solid. At QNB, the Middle East's largest bank with assets of US\$ 211 billion at end-June, first-half profits in 2017 were up 7% in year-on-year terms to US\$1.8 billion. Loans and advances increased by 11% to US\$ 152 billion. The bank highlighted its diversified wholesale funding pools in terms of currencies, tenors, and product mix and its pursuit of a conservative approach to managing its liquidity needs.

QIB saw first half 2017 net profit up by 10% to QAR 1.17 billion. Doha Bank recorded a small 1% increase in net profits to QAR 716m for the first half of 2017, but total assets increased by QR4.5bn, a growth rate of 5.1 percent, QAR 91.8bn as at 30 June 2017.

Commercial Bank has been focusing on implementing its 5 Year Strategic Reshape plan, positioning the Bank for future growth. The lender is in the process of reshaping its loan book to cleanse legacy assets with prudent provisioning, and diversifying its loan book by sector, geography and tenor. It is also growing international portfolio and increasing its share of high-quality government and public-sector loans.

"Reshaping and diversifying our loan book is already showing results and business momentum is currently strong with our domestic loan book in H1 2017 growing 10.7% which is well ahead of the market, and a healthy government loan pipeline in undrawn commitments of QAR 5 billion in place," says Abraham.

Overseas opportunities

Overseas expansion has emerged as viable means of boosting earnings. QNB has been one of the more active M&A players, finalising last year the takeover of Turkish lender Finansbank in a deal worth \$2.95bn.

QNB CEO Ali Ahmed Al-Kuwari says growth in overseas markets has been and will continue to be driven by trade opportunities, direct investments, and large infrastructure spending opportunities – complemented by favourable demographics characterised by a young, growing, urbanizing and increasingly educated middle class.

"Markets of relevance would be considered from a macroeconomic outlook, banking sector penetration, growth potential and regulatory requirements for market entry. QNB will consider its acquisition on a purely opportunistic basis if suitable targets are available in these markets," he says.

Doha Bank opened its 13th representative office overseas last year. The bank has obtained approval in principal for converting some of its key representative offices into fully-fledged branches. It is also looking to establish representative offices in key strategic location across the globe. Singapore, Turkey, South Korea, Australia, Germany and India have been considered as growth prospects for the bank.

"QNB will consider acquisitions on a purely opportunistic basis if suitable targets are available"

Ali Ahmed Al-Kuwari, CEO, QNB

Commercial Bank's subsidiary ABank and its associates National Bank of Oman and United Arab Bank in the UAE are key parts of the Group and Abraham says it is working very closely within the Group to ensure business alignment and integration in terms of risk protocols, forming regional relationships for clients, extending regional facilities, and obtaining common sourcing of funding to reduce costs.

"Commercial Bank views the Turkish economy as having tremendous potential in the medium and long term, with ABank expected to capitalise on this future growth," says Abraham. "Qatar and Turkey are also strategic trading partners with substantial and diverse bilateral trade volumes, and the Commercial Bank Group



is well positioned to capture a share of these increasing economic and investment flows."

QIB's Gamal warns however that expansion for the sake of expansion can prove very costly and might not always serve the best interest of the shareholders. "It is very difficult to succeed and maintain a leadership position at home, so imagine the size of the challenge for international expansion with so many factors coming in play," he says. "I personally believe that the first pre-requisite for a successful expansion is to have a proven business and operating model as well as a solid management team at the home country to support any international move. Then, target markets need to be chosen wisely, it should make absolute business sense for a company to set up in a new market."

Consumer Growth

Banks are also looking at growing their consumer and retail segments. Doha Bank for example has launched 'Doha Miles', a new loyalty program, designed to convert credit card spends locally and internationally, into reward points, which can be redeemed against free flights and hotel bookings.

In light of the significant infrastructure developments underway in Qatar, Qatari lenders are also turning their attention to project financing opportunities. As QNB's Al-Kuwari notes, the project finance market is growing strongly on the back of the government's infrastructure programme – and QNB is benefiting from this opportunity. "There have been several project finance and private-public-partnership deals signed recently in infrastructure, transport and energy sectors. Besides regional banks, many international

banks have participated and played an important role," he says.

Al-Kuwari notes that local regulation is well developed for international lenders and contractors. "QNB is very active in almost all local and regional project finance deals, with an appetite for participation subject to internal approvals and satisfactory due diligence," he says.

Doha Bank's Seetharaman also expects a thriving project finance market, in light of the opening up of economy. "With new developments such as setting up of free zones, speedier licensing processes and a focus on self-sufficiency in key manufacturing sectors, the projects space is expected to expand. This is in addition to the already ongoing project developments taking place aimed at FIFA 2022 and Qatar 2030 vision."

Many Qatari bankers prefer to take a longer-term view on the future, looking beyond the immediate issues in the Gulf.

Commercial Bank's Abraham says that while the GCC diplomatic dispute may be resolved, the prolonged period of lower oil prices is likely to continue. Despite this, Qatar's economy is stronger than most in the GCC, supported by its strong fiscal position and solid fundamentals of the financial system.

"The policy of economic diversification under the Qatar National Vision 2030 has been successful, as a healthy private sector has allowed the overall economy to continue to grow despite a contraction in the hydrocarbon sector," says Abraham.

The days of oil prices rising to USD 100 per barrel are over. Bank strategies in Qatar are being developed in the context of this new economic reality.

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Decisive government action and a collaborative approach to working with foreign partners, both in the private sector and among multilateral institutions, is paying off for Egypt

The economy is in better shape than it has been for years – supported by growing investment inflows, backed by increasingly attractive opportunities and a much-improved regulatory framework.

An extensive reform programme – including the November 2016 currency floatation, and the removal or reduction of subsidies in key areas, such as fuel – has won plaudits from the international community. More importantly, it has supported economic recovery. The government estimated the country's economic growth rate for the three months to September 2017, to be an annual 4.75-5%, compared to around 3.4% a year earlier.

Confidence in the country's recovery is such that the Egypt was able to make a successful return to international debt markets earlier in 2017, issuing \$7 billion of Eurobonds – the country's first such issue since before the unrest of 2011. More are planned in coming months.

IMF plaudits

The International Monetary Fund also believes Egypt is heading in the right direction, having agreed a \$12 billion, three-year loan programme, known as an Extended Fund Facility (EFF), with President Abdel Fatah El-Sisi's government in November 2016. The first \$4 billion of disbursements had already been made by September.

"Egypt's reform program is off to a good start"

IMF

The IMF said in its First Review under the EFF: "Egypt's reform program is off to a good start. The transition to a flexible exchange rate went smoothly. The parallel market has virtually disappeared and central bank reserves have increased significantly. The

energy subsidy reform, wage restraint, and the new VAT have all contributed to reducing the fiscal deficit and helped free up space for social spending to support the poor. Market confidence is returning and capital flows are increasing. These augur well for future growth."

Dr Sahar Nasr, Egypt's Minister of Investment and International Cooperation, says such multilateral support has been invaluable.

"The Egyptian reform program is homegrown, with many international development partners, such as the IMF, the World Bank, the African Development Bank, the European Bank for Reconstruction and Development and other renowned institutions providing immense support. Ensuring that these reputable institutions are on-board with Egypt's reform program gives positive and unbiased signals to investors that we are on the right path," she says, noting the international partners are also making significant contributions in terms of knowledge and technical expertise.

Sustainable future

The government is well aware that much more needs to be done if the country is to realise its full potential – the economy was growing at around 7% a year prior to 2011, and more needs to be done to restructure the economy and the country's finances to push sustainable growth beyond that level.

Meanwhile, inflation has shot up due to the removal of subsidies and the devaluation of the Egyptian pound, topping 30%. But peak inflation should be over and the government believes it will start easing from now on. Key economic indicators, such as the budget deficit, are improving.

Dr Nasr says the challenge is to maintain momentum. "The government, under the leadership of President El-Sisi, is firmly committed, not only to accelerate inclusive development, but also to ensure the



"Egypt has a rapidly growing population that is fuelling the consumer goods, healthcare, energy and real estate sectors"

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

sustainability of growth, and resilience to internal and external shocks."

The country's leadership has been moving forward with broad, long-term structural reforms, aiming to stimulate efficiency, dynamism, and overall shared prosperity.

"Chief among these reforms has been the enhancement of the policy and business environment, to bridge opportunity gaps, unleash Egypt's considerable growth potential, and stimulate private sector participation in

the development process," says Dr Nasr.

"Concerted efforts have been underway to eliminate constraints on private enterprise development and boost investment among both foreign and domestic firms, large and small. These actions, and the firm political commitment to reform, are translating into concrete results on the ground," she adds.

Rising investment, new laws

Measures already in place are making an impact. Egypt attracted \$79 billion in foreign direct investment in the fiscal year to end- June 2017 – and the government is targeting \$10 billion this year. Meanwhile, the unemployment rate fell to 11.9% in the second quarter 2017 from 13.3% in the second quarter 2014.

"This can be attributed to the improved investment environment in the form of legislative and administrative reform encouraging investors in Egypt to start up new businesses. In 2016/17, 15,000 new companies were established compared to 12,000 in the previous year," Dr Nasr says.

The government expects the economy to continue to grow fast, given the increase in export-driven investments, state support for mega-projects, financial inclusion measures and support for small businesses, together with the overall improvement in the investment environment.

However, ministers say economic growth should not be achieved at the expense of the poorest Egyptians, who could bear the brunt of measures such as subsidy reductions on fuel and some other everyday items.

"We are keen that all segments of society will benefit. Hence the government program includes a social safety package to lessen the impact of the reform program on the poor and vulnerable segments of society. Furthermore, several programs in housing, sanitation, health, education, transportation and other sectors, are being implemented to directly improve the living standards of Egyptians across social segments," says Dr Nasr.

Key to maintaining momentum is Egypt's recently ratified investment law, issued in May 2017, which includes a package of incentives designed to boost economic growth and the attractiveness of Egypt as an investment destination. President El-Sisi ratified the law in May 2017. The new law brings in a set of tax incentives; specifically to projects in lagging regions and on projects in some strategic and highly significant sectors. The law also provides a wide range on non-tax incentives. The law also aims to speed up the time it takes

to set up a company, which, in the past, could take months to get through the country's bureaucracy.

State-supported projects to create jobs, boost disposable income and consumption are also contributing to an increase economic activity. Public and private investments by the government should exceed \$13 billion in 2017.

One major driver has been the Suez Canal Economic Zone project, which has attracted hundreds of millions of dollars in both state and private sector investments in recent years.

One such investment, by China's Jushi Group, has resulted in the creation of 1,500 jobs and has turned Egypt into a world-class fibre-glass producer, placing the country in the global top 10 for this product, Dr Nasr notes.

"We expect to continue our public investment plan behind infrastructure development to provide the needed road systems, utility networks and energy grids to support our growing economy," she says.

A plethora of projects

However, for sustainable growth, foreign investment will need to play a crucial role in the long-term. The good news is that perceived political and business risks seem to be receding in the minds of foreign investors.

Hisham Ezz El-Arab, Chairman and Managing Director of the Commercial International Bank Egypt (CIB), sums up the renewed sense of optimism surrounding investment prospects.

"Opportunities span across all sectors, which are ready to offer new avenues for growth for foreign investors. Egypt is an enormous market that needs infrastructure, energy, transportation, and water desalination projects. We have a rapidly growing population that is fuelling the consumer goods, pharmaceutical and healthcare, energy and real estate sectors," he says.

Of course, the Suez Canal zone is major investment target with growing potential, given it lies on the fastest growing shipping route between Europe and Asia. The Suez Canal Authority's revenues rose by 5.1% in August 2017, compared to the same month in 2016, to reach \$470.6 million. In August, 1,528 ships passed through the canal compared to 1,462 in August 2016.

Dubai's DP World has been involved in developing port facilities at Sokhna at the southern end of the canal, well placed to serve the huge markets in and around Cairo. The company's involvement with this major development broadened in August 2017 with the establishment of a joint development



"The government, under the leadership of President El-Sisi, is firmly committed, not only to accelerate inclusive development, but also to ensure the sustainability of growth, and resilience to internal and external shocks"

Dr Sahar Nasr, Egypt's Minister of Investment and International Cooperation

company between the General Authority for the Suez Canal Economic Zone (SCEZ) and Dubai Ports to carry out further development projects in the area.

Sultan Ahmed Bin Sulayem, Group Chairman of DP World has said his group plans to implement an integrated investment plan to support sustainable development in Egypt, while Mohab Mameish, Chairman of the Suez Canal Authority, has described the project as a "qualitative leap for the economy".

As part of the agreement, a 95 sq km section of the SCEZ at Sokhna will be developed to include a 75 sq km industrial zone and a residential area covering 20 square km, capable of accommodating about 650,000 people. The industrial zone will include logistics services, electronics industries, automotive spare parts capacity, a medical city, and petrochemical plants. The partnership aims to provide direct



Alamein, on the Mediterranean coast, and at Madinaty, a residential area east of Cairo. Alwaleed already owns some 40 hotels and resorts in Egypt, as well as 18 more still under construction. The Four Seasons expansion will turn the facility into the world's largest hotel resort.

Such investments reflect new-found belief in the sector's health. The number of tourists visiting Egypt rose by 54% in the first seven months of 2017, on an annual basis, to reach 4.3 million, supported particularly by growth in visitor traffic from Germany and Ukraine, according to government officials. This translated into a 170% increase in tourism revenues for the same period, which totalled \$3.5 billion.

Egypt hopes that tourist arrivals for the whole of 2017 will total around 8 million, up from 4.7 million in 2016. That this is still well short of the 14.7 million tourists who visited Egypt in 2010, indicates the potential rewards on offer to new investors eager to participate in continued recovery, backed by the prospect of cheaper holidays for visitors, due to the weaker Egyptian pound.

Sun shines on renewables

The energy sector is another obvious target for investors, now receiving the attention it deserves. Besides some huge flagship oil and gas investment, renewable energy, and power in general, is also attracting interest.

In September 2017, GE agreed to build a 50-megawatt photovoltaic solar (PV) plant on behalf of Saudi Arabia's FAS Energy, which was awarded the contract to develop the plant at Benban in Aswan province, as part of the first round of Egypt's feed-in-tariff (FIT) scheme.

While the first round of the FIT programme suffered problems relating to its legal framework, and bad timing – it took place in the time of uncertainty when Egypt's currency was floated – the second round, is proceeding much more successfully.

In August, Saudi Arabia's Acwa Power was awarded contracts to develop three projects, also in Benban, as part of the second round. The company is to invest around \$190 million to build, own and operate three PV facilities with a total capacity of 165.5MW. Alfanar Energy, another Saudi firm, signed an agreement to develop a 50MW PV solar plant in the second round earlier in the year.

Similar encouraging stories can be found across the economy. Continued political and economic stability will surely improve business confidence further and bring in the increased investment that Egypt needs.

"Opportunities span across all sector, which are ready to offer new avenues for growth for foreign investors"

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

job opportunities for around 500,000 people over the life of the project. Implementation of the project is scheduled to start in 2018

Backing for Egypt's new 'capital'

Meanwhile, China has said it could invest as much as \$11bn as part of efforts to build and develop Egypt's new administrative 'capital', around 45km from the outskirts of Cairo.

One early part of the project is a Chinese-supported \$700 million-plus rail link to connect Cairo with the new administrative complex, the construction of which is scheduled to start in late 2017. The project will include 11 stations along a 68km route, connecting residential and industrial zones, and will serve around 340,000 passengers daily.

Various companies from other countries, such as the United Arab Emirates, along with domestic firms will also work on aspects of the wider project.

The idea of building a new 'capital' has been on the agenda for decades for successive governments, as Cairo has expanded and its infrastructure has become more unwieldy,

bit without the project coming to fruition. So, it is a measure of the determination of the current government to make the levers of power work more efficiently and stimulate the economy through the development of major infrastructure projects, that the idea is now becoming a reality.

The Chinese rail investment was firmed up at a meeting between President El-Sisi and his Chinese counterpart Xi Jinping in September. The two leaders also signed an economic and technical cooperation pact to develop the EgyptSat satellite programme, which will result in \$45 million of Chinese funding for the project, with the launch of a new Egyptian satellite lined up for 2019.

The presidents met at the BRICS summit in the Chinese city of Xiamen, where El-Sisi also met India's Prime Minister Narendra Modi, with whom he discussed closer economic ties, as well as Russia's President Vladimir Putin, another important investment partner.

Tourism on road to recovery

The tourism sector is also receiving much needed investment and is being revitalised, having been in the doldrums for a long period since the 2011 unrest, with the delay to its recovery exacerbated by more recent militant attacks on planes and at tourist centres.

A new display of confidence in the sector is being led by Saudi Arabia's Prince Alwaleed bin Talal, who said in August that his businesses would invest around \$800 million in hotel and hospitality projects. These will include the expansion of the Four Seasons resort in Sharm el-Sheikh, in partnership with Egypt's Talaat Moustafa Holding Group, the construction of two new hotels at al-

CIB – an inclusive approach

The banking sector will play a crucial role in sustaining Egypt's economic recovery, which has been gathering momentum this year. Not only must they back domestic and foreign companies and investors operating in the country, but they must also support ordinary Egyptians, who have had to weather tough times over recent years

The government's decision to float the Egyptian pound in 2016 was one clear signal of intent – among many others – from the government that Egypt was ready to move on from the period of political and economic uncertainty following the unrest of 2011, and direct efforts into producing sustainable economic growth and viable long-term employment prospects for the Egyptian people.

The upsurge in foreign investment that has followed is one factor providing the banking sector with the resources to broaden the scope of what it can offer.

In August Rami Aboul Naga, the Assistant Sub Governor of the Central Bank of Egypt (CBE) said that Egypt had received \$40 billion in investments and transfers from abroad since floatation. This includes receipts from exports, the sale of dollars by investors buying Egyptian assets, and the exchange of dollars for the local currency via remittances or on local forex markets.

Vote of confidence

And that figure does not include financing received through International Monetary Fund loan tranches or Eurobond sales – \$7 billion up to that point in 2017. Support from the IMF and other multilateral institutions, along with the success of international bond sales, have not only provided much needed financial support – the underlying vote of confidence in the Egyptian economy will have contributed greatly to the willingness of investors to plough money into the Egyptian banking sector and capital markets.

According to Deputy Finance Minister Ahmed Kojak, foreign investment in Egyptian debt instruments between the pound's floatation and mid-September, totalled \$17.6 billion.

As a result of the upswing in investment,

Egypt's foreign currency reserves have, unsurprisingly, strengthened, surpassing \$36 billion in July 2017, almost \$6 billion up on the previous month and the highest level for seven years.

The banking system has proved pretty resilient during recent turbulent times – and it has needed to be: Egypt's banks have helped to keep key areas of the economy moving, for example by helping to finance essential infrastructure and the massive Suez Canal project for which they helped overcome a funding shortfall through the issue of certificates.

Strongest sector

Now the banks must be agile enough to make the most of the opportunities presented by the upsurge in foreign investment.

"The banking sector is perhaps the strongest in the emerging markets in terms of efficiency and liquidity, and certainly the strongest in the Egyptian economy," says Hisham Ezz Al-Arab, Chairman and Managing Director of the Commercial International Bank - Egypt (CIB). "It is full of opportunity grounded by solid fundamentals – excess reserves, liquidity and strong deposit base – that have enabled it to weather the economic turmoil of the past six years."

The Egyptian banking sector's capitalization levels exceed Basel III requirements, with banks remaining well funded due to its ability to maintain its strong deposit bases, he notes. The sector's loan-to-debt ratio at 47.1% as of March 2017, according to CBE data – one of the lowest among emerging markets.

Al-Arab says that, because of the banking sector's strength and stability, it can focus its efforts on bringing the large unbanked population into the formal economy. Whether through partnering with FinTech companies,

"The Egyptian banking sector is perhaps the strongest in emerging markets in terms of efficiency and liquidity"

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

building scalable businesses that cater to SME's, transitioning to digital platforms, or leveraging and capitalizing on the information derived from data analytics to better serve the consumer, targeting this segment represents perhaps the greatest single growth prospect for banks.

"The end result will go a long way in helping the country increase financial inclusion, thus aligning the banking sector's interests with those of the government," he says.

One notable contribution to extending the reach of banking services has been the Central Bank of Egypt's drive to increase the use of mobile phone payments – technology enabling money transfers to be carried out from phone to phone. This is revolutionising the work lives of small business owners and individuals with limited access to banking services the world over and is now benefitting millions of Egyptians. Since mobile payments systems were launched in Egypt in 2013, the user base has climbed above 6 million. The figure is expected to rise further, supported by extensive marketing campaigns by the CBE and banks including CIB.

Stimulating the economy

"We are all aware of the several macroeconomic challenges Egypt has been faced with during this past year," Al-Arab says. "However, current conditions give all of us a great incentive to work harder to increase productivity and output in order to stimulate GDP and economic growth. Economic growth, in turn, will significantly narrow the inequality gap in Egypt and ultimately lead to a sustainable and flourishing economy."

As a vital cog in the wheel of Egypt's economic regeneration, the country's banks have massive potential for growth in themselves. Hisham Ezz Al-Arab, Chairman and Managing Director of the Commercial International Bank Egypt (CIB) knows his company will need to be agile in order to maintain its position as a market leaders.

"Tailoring truly customer-centric digital products and the ability to deliver our services digitally, is the ideal way to attract a technology-dependent segment"

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

"The government's over-arching goal for the country is financial inclusion, and this is what is driving the bulk of its current economic program. It is the key to a sustained economic growth and stability, and has enormous positive implications for the banking sector," he says.

Certainly, CIB has been able to capitalise on the recovery thus far. Net income at the Cairo-based institution rose 29% year-on year to EGP3.56 billion (\$200 million) in the first half of 2017, on revenues that rose 29% to EGP6.88 billion. CIB remains the largest private sector bank in the country in these terms and in terms of total assets

Diverse portfolio

Once focused on primarily on corporate clients, CIB diversified its revenue base by investing in consumer banking, taking a dominant position in that area too. The wide spread of its activities has helped the bank to ride out market cycles more comfortably than some other banking institutions.



"Our loan portfolio cuts across a broad and diverse spectrum of sectors, both national and multinational, and is positioned in primary growth industries, including healthcare, energy – including renewables – shipping and infrastructure among others," says Al-Arab.

While times are rough for many Egyptians during the country's current economic restructuring, CIB believes longer-term prospects are bright and is backing up this view with investment in products for a new generation of Egyptians.

"In targeting the segments where we see the greatest growth potential – namely the consumer sector and SMEs – we are working hard to ensure that our products and services reflect the latest technology and meet the demands of our customers, especially those of the younger generation," he says.

Small- and medium-sized companies are the lifeblood of the Egyptian economy, certainly in terms of employment – around 80% of the working population have jobs in SMEs. So, they will need to be well served by the banking community, if Egypt's rapid pace of growth is to be sustained past the current era of large multilateral loans and the bounce in investment triggered by last year's currency flotation.

Supporting SMEs

As part of that push, CIB is adopting a more holistic approach to SME services, providing not just the expected financial services, but also a wider range of services related to business management and advice.

"Our Business Banking programs and products address the financial needs of these clients, including financing solutions, cash management solutions, and most importantly, e-business and digital products that enable our customers to manage their businesses, wherever they are. But, CIB also provides other equally critical solutions for SMEs, such as cash cycle management, better accessibility to accounts, transaction management, and business plan development," says Al-Arab.

Training and workshops are also made

available to CIB's customers, held in partnership with other financial institutions, such as the International Finance Corporation and the European Bank for Reconstruction and Development.

The bank has made big strides towards digitizing its services and products, with the objective of allowing customers to bank and manage their finances conveniently whenever they like through their preferred channels, whether they be smartphones, tablets, or laptops.

"Tailoring truly customer-centric digital products and the ability to deliver our services digitally, is the ideal way to attract a technology-dependent segment," Al-Arab says.

Data revolution

CIB is supporting this drive through the development of more sophisticated data analytics to better to identify and cater for the needs of its clients. For example, data management tools aimed at SMEs enable customers to model their financial performance on multiple data sources and scenarios.

But this is an area that has much wider implications for CIB and other Egyptian banks. Al-Arab believes that the introduction of improved data management is the single largest transformational development for his bank – and for the sector as a whole.

Mining the vast amounts of valuable data collected over decades, but largely un-sifted to date, reveals hitherto-hidden patterns in money movements, can help prevent fraud and thefts, and provide a better understanding of consumer behaviour.

"We are the first bank in the region to have an advanced analytics and data management team and will soon be the first bank to harness the power of big data for the benefit of our customers," he says. "As a result, we are now able to extract good information quickly and easily from the data and convert it into meaningful solutions that better meet our customers' specific needs, ensuring massive growth potential for the bank."

Investment magnet

The massive offshore Zohr gas discovery of 2015 put Egypt firmly back on the radar for the global hydrocarbons industry and provided a springboard for the country's drive to become a regional energy export hub. Since then, the sector has gone from strength to strength, attracting big investments from leading international players

Egypt has long played host to global oil companies, but the relationship sagged in the years after 2011, as the country, mired in economic crisis, struggled to meet its financial commitments to the industry. Now, with the economy on the up and much greater political stability, the oil companies are beefing up their presence once more.

The industry's new-found confidence was underscored by the signing in August of three oil and gas exploration and production agreements by Oil Minister Tarek El Molla with Royal Dutch Shell and the US firm Apex International Energy, worth around \$80 million, covering 16 new fields in the Western Desert. Shell is to invest about \$35.5 million in one area, while the other two pacts will see Apex – a new name among operators in Egypt – invest a total of some \$45.9 million. The agreements result from efforts to open up acreage in the Western Desert and the Gulf of Suez, which could bring generate at least \$200 million of investment from international oil companies.

The Egyptian General Authority for Petroleum (EGPC) has also said it wants to open up fresh areas of the Eastern Desert region to exploration, offering around 70 sq km of acreage for which bids must be received by the end of this year.

Fast track

Meanwhile, the pace at which Zohr, the flagship development in the Egypt's renaissance hydrocarbons sector, has been developed, shows how a country that once had a reputation for excessive red tape now has the ability to fast-track major projects.

Only discovered two years ago, Zohr, which holds an estimated 30 trillion cubic feet of gas and is the largest gasfield in the Mediterranean, is scheduled to produce 500 million cf/day by the end of 2017m with output slated to rise to some 2.7 billion cf/d by the time the project's second phase is complete in 2019. Total Egyptian gas

production currently stands at around 5 billion cf/d, recently boosted by additional production from BP's North Alexandria project.

The Zohr development is another example of Egypt's growing pulling power for international firms. Italy's Eni, which discovered the field, has been able to bring both BP and Russia's Rosneft into the project to inject capital and share risk, since November 2016. Rosneft has taken a 30% stake in Zohr in a deal worth some \$1.575 billion, while the sale of a 10% stake to BP brought in around \$375m of further investment. Rosneft said in December 2016 that its total investment in the project over the following four years would reach \$4.5 billion. The full development cost of the field could reach \$14 billion. Services firms from all over the world have been contracted to work on Zohr, including, recently, US firms DuPont and GE's Baker Hughes.

Egypt is "home"

Claudio Descalzi, Chief Executive of Eni, which has been operating in Egypt since 1954, has said it is a country that his company likes to think of as "home". The successful collaboration between his company and the Egyptian authorities on the Zohr development has done much to bring the government's vision of turning Egypt into a regional gas export hub – as well as using gas to power domestic economic growth – much closer to becoming a reality.

The country is at the heart of an expanding network of international gas pipelines and already has two gas liquefaction complexes. These LNG plants have struggled to maintain operations over recent years due to feedstock shortages caused by limited supply from onshore and offshore gas fields and competition from the burgeoning domestic market. This crisis turned Egypt from a gas exporter into an importer.

However, with the resurgence of investor interest in the sector the future looks a lot rosier and the government hopes the country can

"Hydrocarbons investment will fortify Egypt's position as a key exporter of natural gas and secure energy resources for a sustainable economy"

Dr Sahar Nasr, Egypt's Minister of Investment and International Cooperation

achieve self-sufficiency in gas by around 2019 and become a net exporter by 2021.

Dr Sahar Nasr, Egypt's Minister of Investment and International Cooperation, says the country's strategic geographical location, Zohr's gas and infrastructure such as the Suez-Mediterranean (Sumed) oil pipeline connecting Alexandria with the Gulf of Suez, are among the factors attracting oil and gas investors.

"This will fortify Egypt's position as a key producer and exporter of natural gas in Africa, increase foreign currency reserves and secure energy resources needed for a sustainable and energy efficient economy," she says.

Investor-friendly legislation is being put in place that allows private-sector firms to use the state import and distribution infrastructure to trade in natural gas. The country's access to the Suez Canal – a gateway to LNG-hungry Asian markets – is another advantage. Meanwhile, operators of Egypt's two existing LNG plants, both on the Mediterranean, are already weighing up whether gas from discoveries in Israel and Cyprus can be brought to Egypt for re-export.

Dynamism has returned to Egypt's oil and gas industry.



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What's happening Friday, October 13

9.00am – 5.30pm

Civil Society Policy Forum

Location: World Bank Group I Building, Rooms I2, 210, 220 and 250

11.00am – 12.15pm

Resilience dialogue: the disaster that never happened — how resilient infrastructure will save the world

Speakers: **Koichi Hasegawa**, Senior Vice President, Japan International Cooperation Agency; **Richard Branson**, Founder, Virgin Group; **Aris Papadopoulos**, Former CEO of Titan America, author of *Resilience: The Ultimate Sustainability*; **Kamal Kishore**, Member of the National Disaster Management Authority, India; **Christiana Figueres**, Former Executive Secretary of the United Nations Framework Convention on Climate Change; **Ede Ijjasz-Vasquez**, Senior Director for the Social, Urban, Rural and Resilience Global Practice, World Bank
Location: WBG MC Building, Preston Auditorium

11.00am – 12.15pm

Seminar: How technology can improve growth in MENA

Moderator: **Mina Al-Oraibi**, Editor-in-Chief, *The National*
Speakers: **Mitsuhiro Furusawa**, Deputy Managing Director, IMF; **Ahmed Al-Bader**, Founder and CEO, Siha Tech; **Ola Doudin**, Co-founder and CEO, BitOasis; **Sherif Kamel**, Professor of Management, American University in Cairo
Location: IMF HQ1 – Meetings Halls A&B

11.00am – 12.15pm

Postcard series: EU-IMF strategic partnership framework for developing countries – good governance for sustainable infrastructure

Opening remarks: **Carla Grasso**, Deputy Managing Director, IMF
Speakers: **Vitor Gaspar**, Director, Fiscal Affairs Dept, IMF; **Amar Bhattacharya**, Sen-

ior Fellow, Brookings Institution; **Hadizatou Rosine Coulibaly**, Minister of Economy, Finance and Development, Burkina Faso; **Stefano Manservigi**, Director-General for the European Commission's DEVCO
Location: IMF Gallery, HQ1-R-700 (Red Level)

12.00pm

German cultural event

Location: IMF HQ2 Atrium

12.30pm – 1.45pm

Seminar: Leapfrogging development: innovation and growth in sub-Saharan Africa

Moderator: **Clapperton Mavhunga**, Associate Professor of Science, Technology and Society, MIT
Speaker: **Keller Rinaudo**, CEO and Co-founder, Zipline
Location: IMF HQ1-1-660

1.00pm

Indonesian cultural event

Location: IMF HQ1, Atrium

1.00pm – 1.30pm

Coffee corner chat: Nonprofits empowering women

Speakers: **Laurie Adams**, CEO, Women for Women International; **Megan O'Donnell**, ONE Campaign
Location: IMF Innovation Lab, HQ1 2-701

2.00pm – 2.30pm

Postcard series: Strengthening government institutions in Africa

Speaker: **Erica Gerretsen**, Head of Unit, Budget Support and Public Finance Management, DG-DEVCO
Location: HQ1-R-700 (Red Level)

2.30pm – 4.30pm

Billions to trillions: the role of national development banks

Moderator: **Danny Leipziger**, Professor of

International Business and International Affairs, George Washington University and Managing Director, The Growth Dialog
Host: **Joaquim Levy**, Managing Director and CFO, World Bank Group
Panelists: **Clemente del Valle**, President, Financiera de Desarrollo Nacional de Colombia (FDN); **Mohamed El-Erian**, Chief Economic Advisor, Allianz SE, and member of its International Executive Committee; **Patrick Khulekani Dlamini**, CEO, Development Bank of Southern Africa (DBSA), **Joachim Nagel**, General Manager and Member of the Executive Committee, Kreditanstalt für Wiederaufbau (KfW); **Shaharuddin Zainuddin**, President, Bank Pembangunan Malaysia Berhad
Commentators: **Remy Rioux**, CEO, Agence Française de Développement (AFD); **Gerardo Rodriguez**, Managing Director, Blackrocks; **Ambroise Fayolle**, Vice-President, EIB
Location: WBG J Building, J B1-080

3.15pm – 4.00pm

Analytical corner: Inequality in good and bad times: a cross-country analysis

Moderator: **Ketil Hviding**, Secretary's Dept, IMF
Presenters: **Burcu Hacibedel**, Economist, Institute for Capacity Development, IMF; **Priscilla Muthoora**, Economist, Institute for Capacity Development, IMF; **Nathalie Pouokam**, Economist, Institute for Capacity Development, IMF
Location: IMF HQ1, Cedar Hall (1-660)

4.00pm – 4.30pm

Coffee corner chat: Banking on women: the changing face of finance

Speakers: **Ratna Saha**, Deputy Director, IMF and co-author, *Banking on women leaders: a case for more?* **Mary Ellen Iskenderian**, President and CEO, Women's World Banking
Location: IMF Innovation Lab, HQ1 2-701

4.00pm – 5.00pm

What is the role of multilateral development banks in the 21st century?

Moderator: **Tanya Beckett**, BBC World News
Panelists: **Boamah Charles**, Sr Vice-President, AfDB; **Takehiko Nakao**, President, ADB; **Suma Chakrabarti**, President, EBRD; **Werner Hoyer**, President, EIB; **Julie Katzman**, Executive Vice-President, IADB; **Kristalina Georgieva**, CEO, World Bank
Location: World Bank Group MC Building, MC2-800

4.00pm – 5.30pm

Human capital summit: committing to action to drive economic growth

Moderator: **Lerato MBele**, Africa Business Report, BBC World News
Speakers: **Jim Yong Kim**, President, World Bank Group; **Paul Kagame**, President of Rwanda; **Amadou Gon Coulibaly**, Prime Minister, Cote d'Ivoire; **Sri Mulyani Indrawati**, Minister of Finance, Indonesia; **Priti Patel**, Secretary of State, UK Dept for International Development; **Lilianne Ploumen**, Minister for Foreign Trade and Development Cooperation, The Netherlands; **Tone Skogen**, State Secretary, Ministry of Foreign Affairs, Norway
Location: World Bank Group, Atrium

6:00 pm – 6:45 pm

A Conversation with a "Flying Physicist"

Speakers: **Christine Lagarde**, Managing Director, IMF; **Sabrina Gonzalez Pasterski**, Theoretical Physicist at Harvard University; **Sabina Bhatia**, Assistant Director, Communications Department, IMF
Location: IMF HQ1 – Meetings Halls A&B

6.00pm – 9.00pm

Reception

Patron: **HE Tarek Amer**, Governor of the Central Bank of Egypt
Hosts: **The Federation of Egyptian Banks**
Location: Willard Intercontinental Hotel, Willard Room, 1401 Pennsylvania Ave NW



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ExtraCurricular

Institute of International Finance (IIF) 2017 Annual Membership Meeting

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

Concurrent Sessions: Location — Amphitheater

8.20am – 8.25am Welcome Ben White (host)

8.25am – 8.30am Welcome Tim Adams

9.00am – 9.50am

Views from the C-Suite: Global Outlook and Macro
Mary Callahan Erdoes, Martin Gilbert, Nobuhide Hayashi, Axel Weber, Martin Wolf (moderator)

9.50am – 10.40am

Views from the C-Suite: Europe

Ana Botin, John Cryan, Howard Davies (moderator), Jean Lemierre, Andreas Treichl

10.40am – 11.30am

Views from the C-Suite: Western and Southern Hemisphere

Sonja Gibbs (moderator), Ben Kruger, Brian Porter, Roberto Setubal

11.30am – 12.20pm

Views from the C-Suite: Asia

Sergio Ermotti, Datuk Abdul Farid Alias, Piyush Gupta, Raymond McDaniel, Jose Vinals (moderator)

Lunch

Location: Atrium Hall

12.30pm – 2.00pm

Views from the C-Suite: US

Tim Adams (moderator), Jamie Dimon, Laurence D. Fink, James Gorman

Concurrent Sessions: Location — Amphitheater

2.10pm – 3.00pm

Global Monetary Policy: the \$13 Trillion Challenge

Lorenzo Bini Smaghi, Richard Clarida (moderator), Jacob Frenkel, Randall Kroszner, Sayuri Shirai

3.10pm – 4.00pm

Views from the C-Suite: Market Infrastructure

Michael Bodson, Carsten Kengeter, Steven Maijoor, Richard Teng, Hung Tran,

4.10pm – 5.00pm

US Policy and Economic Update

Celia Dallas, Megan Greene, Douglas Holtz-Eakin, Rohit Kumar, Kristen Silverberg

5.10pm – 6.00pm

Europe Economic and Political Outlook

Stephanie Flanders (moderator), Jose Manuel Gonzalez-Paramo, Michala Marcussen, Reza Moghadam, Jean Pisani-Ferry

Concurrent Sessions: Location — Atrium Ballroom A

2.10pm – 3.00pm

Chinese Internet Finance

Conan French (moderator), Chen Long, Jared Shu, So Lan Ip

3.10pm – 4.00pm

New Data for Old Problems, Filippo Altissimo, Jessica Donohue, Marcel Kasumovich, Alvaro Ortiz

4.10pm – 5.00pm

Bolstering AML: Regtech and Regulatory Reform

Marc Andrews, Jennifer Calvery, Jay Collins (moderator), David Lewis, Gurjeet Singh

5.10pm – 6.00pm

Cybersecurity and Financial Stability

Martin Boer (moderator), Beth Dugan, Mary Kirwan, Susan Nash, Greg Rattray

Location: Atrium Ballroom B

2.10pm – 3.00pm

The State of Global Financial Regulation

Svein Andresen, William Coen, Frédéric Oudéa, Andres Portilla (moderator), Sid Sankaran, Victoria Saporta

3.10pm – 4.00pm

Financial Regulatory Reform under the Trump Administration

Kevin Bailey, Joe Carapiet, Adam Gilbert (moderator), John Hele, Barbara Novick, Craig Philips,

4.10pm – 5.00pm

The Future of the European Financial Sector

Douglas Elliott (moderator), Sabine Lautenschlager, Martin Merlin, Marcus Schenck, Huw van Steenis

5.10pm – 6.00pm

The Future of Risk Management

Brad Carr (moderator), Craig Broderick, Tom Campanile, Holger Harreis, Daniel Moore,

6.00pm – 7.30pm Networking Reception Location: Atrium



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Protectionism

Continued from page 1

longstanding North American Free Trade Agreement.

“The change in the US administration is worrying for everyone,” said Mario Guillén, Bolivia’s minister of finance. “The measures that the US takes or does not take will affect the whole world. Bolivia as a country is no exception to that and so any change in the measures that President Trump takes or his actions obviously could affect us.”

Guillén said Bolivia was unlikely to take a direct hit from a protectionist turn in the US, but only because it did not have an existing free trade agreement with the world’s largest economy. A greater threat, he said, stemmed from protectionism being embraced by other markets more closely linked to Bolivia’s economy. “What could affect us is if difficulties arise in other countries that we have trade relations with. It’s worrying. We’re looking closely at what might happen to see what actions we should take and what position we should assume with regards to our trade relationships.”

Even if Trump’s protectionist agenda so far has been more hot air than concrete action, fears that the world has already entered a more protectionist era have already taken root.

Janet Heckman, head of the EBRD’s Southern & Eastern Mediterranean region, said it was a “particular concern for export-oriented countries” in areas such as Northern Africa and the Middle East. “Access to other markets is a huge concern for these economies. The last thing they want is to be limited in terms of their capacity to trade with one another. We may see it as rhetoric but you see it everywhere now.”

Others shared these fears. “I don’t see an immediate danger of a knee-jerk effect, where we throw up barriers to global trade,” said Paul Sheard, chief economist of S&P Global Ratings. “But we are seeing an uptick in protectionism.”

This week, Andrea Dombret, a member of the executive board of Germany’s Bundesbank, warned that “protectionism and populism still enjoy strong support” in the developed world, adding that the problem had spread to Britain — evidenced in part by the UK’s vote to leave the EU, as well as to many European countries.

The world, Dombret said, needed “better globalisation” that works for the benefit of the many not the few, he said, otherwise “unresolved economic tensions could become the roots of serious political conflict. We need to find a form of global co-operation that lies in between the two extreme, ideologically motivated solutions of national isolation and a borderless global economy.”

THE final word

Green finance and the role of government

By Ma Jun

Green finance has grown exponentially in recent years and — fortunately for the planet — shows no sign of stopping.

In 2016, global issuance of green bonds reached \$84bn, more than doubling 2015’s total, with many countries issuing them for the first time. In the first nine months of 2017, global green bond issuance rose 54% year-over-year. In China, at least 50 green investment funds were recently launched, and new green financial products have popped up like mushrooms. Government policy is developing apace, with China, the EU, Italy, Singapore, Hong Kong, India, Indonesia and many more developing green finance-related policy guidelines.

This rapid growth results in part from the increased attention of G20 leaders. During its G20 presidency in 2016, China launched the G20 Green Finance Study Group (GFSG), co-chaired by the People’s Bank of China and the Bank of England, with United Nations Environment as its secretariat. The GFSG developed seven options for scaling up the global green finance market that were included in the G20 Hangzhou Communiqué in September 2016. This year, during the German G20 presidency, GFSG proposals on encouraging environmental risk analysis by financial institutions and improving the availability of environmental data for financial analysis were included in the G20 Hamburg Action Plan. These policy signals from G20 leaders have inspired many countries and their financial institutions to be more actively engaged in green finance and to devote more resources to capacity building.

A broad consensus has emerged in recent years that if nations want to mobilise the tens of trillions of dollars needed to finance environmentally sustainable development, then the financial system must proactively “go green”. The key question now is how to do it faster and more effectively. Historically, many countries adopted a *laissez-faire* approach, believing market forces alone would develop green finance. Indeed, some good practices, such as the Equator Principles, the Principles for Responsible Investment, and the Green Bond Principles, gradually emerged after multiple rounds of negotiation among private sector players and industry associations. However, more than a decade after the Equator Principles were agreed, only three countries have developed definitions and statistics on green loans. Worse yet, fewer than 1% of the



“If nations want to mobilise the tens of trillions of dollars needed to finance environmentally sustainable development, then the financial system must proactively “go green”

global bonds are labelled “green” bonds, and only a few global institutional investments are classified as “green” or “low carbon”. The world cannot wait another few decades for the financial system to green itself, particularly in light of the massive environmental challenges we now face.

I believe governments, regulators and multilateral development banks (MDBs) need to play a more prominent role in encouraging green finance by helping the market allocate resources in a more sustainable way and by lifting private sector capacity to do so. This role can take many different forms and does not need to be very costly. For green projects that deliver ROEs slightly below market expectations or involve higher risks, incentives — such

as guarantees, interest subsidies, and co-investment by public sector or MDB funds — could help mobilise private investment with limited public resources. I have come across several successful cases involving actors such as China, the US,

the World Bank, the IFC and the ADB that prove this point. For markets that cannot identify green firms, green securities and green projects, government leadership in co-ordinating work on green definitions, information disclosure, and impact evaluation could significantly speed up the development of the green finance market. China’s relatively new green bond market, which accounted for 30% of global green bond issuance since

2016, provides an excellent example of government action that helped quickly create a sizeable green market. Moreover, the public sector should play a more active role in developing green finance capacity. Many key elements of this capacity, such as environmental risk analysis models and environmental data for assessing green investment opportunities, are largely public goods in nature. Some public sector-led work on developing and disseminating such methods and data could help avoid wasteful duplication of efforts by financial institutions investing in similar models and data.

I am glad to see that many policymakers and policy advisors, including in the EU, Asia, and Latin America, are beginning to appreciate the signalling and convening power of the government in developing green finance, and are exploring the role of government in catalysing private green investment.

Ma Jun is Chairman of the Green Finance Committee of China Society for Finance and Banking, Co-Chair of G20 Green Finance Study Group and Special Advisor to United Nations Environment on Sustainable Finance



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