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Emmanuel Macron

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Warnings over EM bond bubble as markets break records

By Olly West, Thierry Ogier and Katie Llanos-Small

Emerging markets are complacent about growing risks to global liquidity conditions, policymakers and analysts warned at this week's IMF annual meetings.

However, they said tightening US monetary policy appeared unlikely to be the trigger for an eventual bond market correction.

EM bond issuance is at a record high, as are flows into both EM and US investment-grade bond funds. Volatility is

low and credit spreads are nearing record tightness, provoking Brazilian finance minister Henrique Meirelles to warn of the "risk of our next bubble".

"The level of price of any kind of asset is currently high in the global economy," said Meirelles. "Policymakers should be watching carefully and measuring their steps."

With the Fed in a tightening cycle, the risks to bond markets would usually be clear: higher rates could push up yields in developed markets and suck



Meirelles: risk of next bubble

funds away from riskier assets. But bond bankers are exceedingly

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Europe 'falling behind' warns EIB chief as leaders look to build own IMF

By Elliot Wilson, Owen Sanderson and Toby Fildes

Fractured, unproductive and uncompetitive, Europe faces a bleak future unless it can boost investment and learn to embrace change and innovation, a senior development official warned yesterday.

Werner Hoyer, president of the European Investment Bank and touted as a potential successor to Wolfgang Schäuble as German finance minister, told *GlobalMarkets* in an exclusive

interview that Europe risked "completely underestimat[ing]" the scale of the challenge from global competition.

"Europe is falling further behind every day due to insufficient productivity growth," he said. "We are not good enough at taking seriously the fourth stage of the industrial revolution. Europe needs more courageous investment."

Unlike the US and China, Europe has completely failed to foster the creation of a clutch of digital giants, its politicians



Gramegna: time for a European monetary fund

preferring to overregulate and hobble the corporates at the

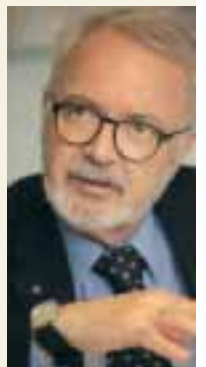
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SRI bonds advance despite market divisions on green

By Katie Llanos-Small and Owen Sanderson

As leading developed country borrowers look to innovate in socially responsible financing, those in developing countries say they are unconvinced by the advantages of such instruments.

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Hoyer: considering refugee bonds

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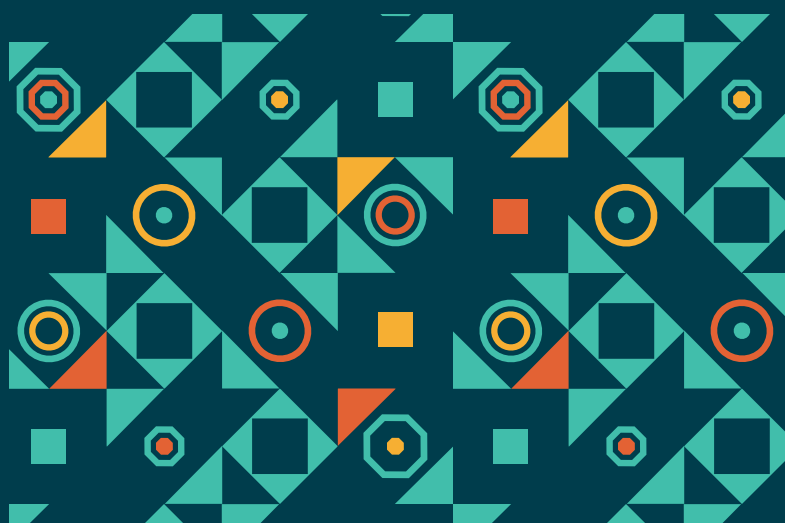
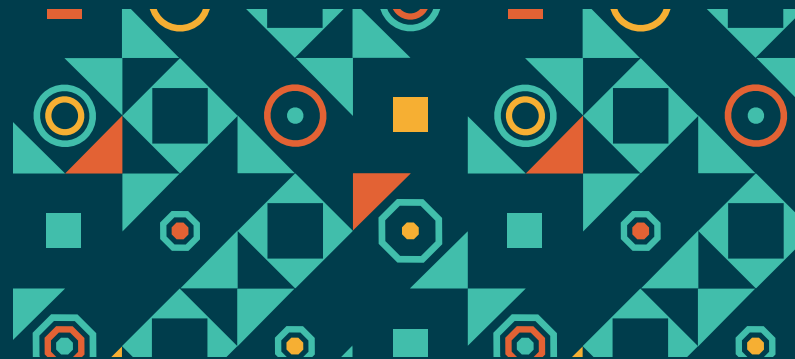


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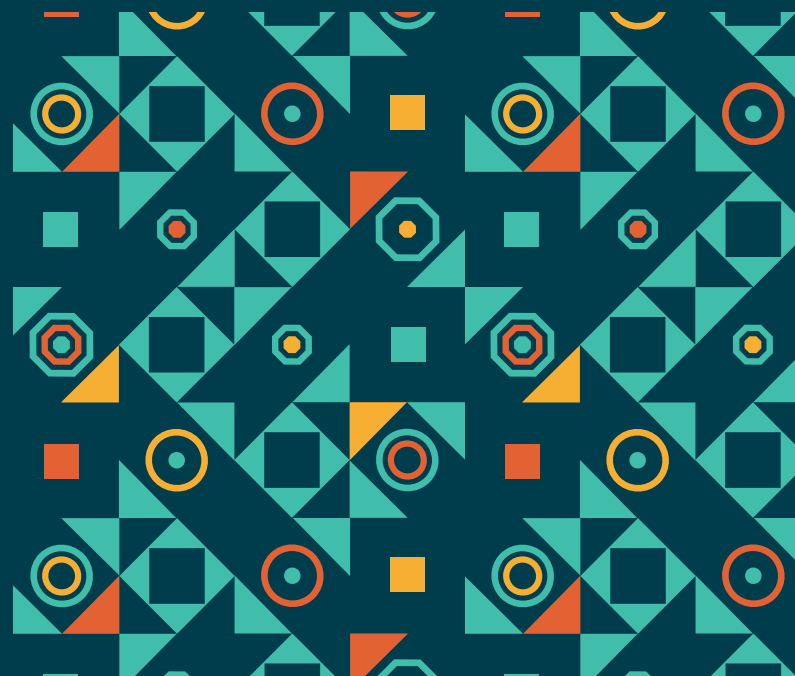
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European Bank
for Reconstruction and Development

Europe

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forefront of the so-called “gig” economy, he said.

The 28-nation European Union, set to lose a single but powerful member when Britain’s divorce from the EU is complete, has had to cope with “a number of big shocks in 2016” including the election of the populist and anti-trade figure of US president Donald Trump. But he added that these setbacks were “more than enough reason to be more active and less complacent. We need more development and more growth and more action.”

Asked what could be done to inject growth and investment into Europe’s still moribund economy — growth rates have picked up in recent quarters, but remain at troublingly low levels — the EIB chief said the region’s political leaders lacked momentum, with France’s new president Emmanuel Macron a rare voice calling for greater European cohesion and co-ordination.

“We are failing to address the issues of Europe’s lack of competitiveness and its lack of growth and structural reforms from a global point of view. We are bound up in our 28-nation [club], and we don’t think about the benefits of interacting and intermeshing with the world, in order to boost productivity and competitiveness.

EUROPE’S OWN IMF

However, in a sign that policymakers are responding to such warnings, some were this week pushing to establish a European Monetary Fund, taking advantage of the window of opportunity opened by the recent election of pro-European governments in major eurozone economies.

Pierre Gramegna, the minister of finance for Luxembourg, told *Global Markets*: “It could be useful to have an institution in an economic and monetary union, that plays, to a certain extent, the same role as the IMF, and we don’t have that institution right now.

“One idea on the table that Luxembourg is open to consider is to strengthen and widen the role of the European Stability Mechanism. This institution has worked really well in the years since it has been established.”

However the German finance ministry circulated a paper last week saying that using the ESM to backstop European deposit insurance would “put too great a strain on the ESM and go against its core purpose of bailing-out countries in severe trouble”.

Multilaterals urged to speed up to stay relevant in crowded world

By Jackie Horne, Elliot Wilson and Katie Llanos-Small

Multinational development banks are undergoing a seismic shift in a desperate attempt to remain relevant, senior figures in the development community have told *GlobalMarkets*.

They outlined plans to meet the challenges of development finance, shifting from pure lending outfits to complex institutions offering everything from insurance to risk-sharing to conflict resolution advice.

Multilateral chiefs admitted a key challenge was to offer better advice — and faster. “We need to speed up,” Werner Hoyer, president of the European Investment Bank, told *GlobalMarkets*. “We’re also sometimes too much of a bureaucratic monster and the private sector gets impatient with us.”

Asian Development Bank president Takehiko Nakao admitted that multilaterals were “often criticised about being slow” — but also pointed to the importance of “maintaining special attention to a project’s environment and social impact as well as procurement procedures”.

Suma Chakrabarti, president of the European Bank for Reconstruction and Development, argued that development policies needed to be less

about growth and sustainability, and more about understanding and covering of risks to encourage private sector involvement.

STRETCHED BALANCE SHEETS

Boamah Charles, senior vice president of the African Development Bank, said there had to be a greater focus on creating asset classes that the private sector actually wants to invest in — and providing risk transfer solutions. He said this would help stretch balance sheets further, using the analogy of elasticated trousers, which only stretch so far before the wearer needs a new pair.

Multilaterals face challenges wherever they look, from commercial banks willing directly to fund projects, to China’s policy lenders dishing out billions of dollars to finance railways and highways, without any governance strings attached.

Then there is the danger of an institution becoming obsolescent. In an interview with *GlobalMarkets*, Philippines finance minister Carlos Dominguez said there was a danger of the ADB, which turned 50 last year, becoming set in its ways.

“I told Nakao that if you persist in your bad habits, you’ll become irrelevant,” he said. “For instance, they have no skills in post-conflict administration



Nakao: attention to ESG impacts

like the situation we see in Myanmar.”

Nakao said that the Manila-based multilateral was staying relevant by adding more advisory and risk mitigation functions as well as mobilising private sector resources. “We set up a public private partnership office (PPP) two years ago and have already advised on several projects without using our money,” he said.

The Inter-American Investment Corporation (IIC), the private sector arm of the Inter-American Development Bank (IDB) echoed that message. Chief executive James Scriven told *GlobalMarkets*: “Traditionally a client would tell us their development challenges and we’d deploy long-term US dollar loans, a bit like going to a doctor and being prescribed an aspirin,” he said.

SRI

Continued from page 1

The European Investment Bank is looking at moving beyond green bonds — an area in which it has been a pioneer — to issue instruments tied to other sustainable development goals. “We are a pioneer in green bonds so why not other SDG bonds?” Werner Hoyer, president of the EIB, told *GlobalMarkets*. He pointed to notes with proceeds linked to water supply and treatment. “Take blue bonds, and what is happening in big oceanic conferences.

“We are also considering how to print refugee bonds but we are still in the early stages.” The comments came as bankers look to the biggest European sovereign issuers to follow France and Poland to provide more green bond supply.

“With COP23 coming up in Bonn, there is obviously a great opportunity for a sovereign to issue a green bond,” said one senior capital markets banker. “Germany would be a great candidate although such deals can take a long time to structure.”

Yet globally a steady supply of green bonds has failed to materialise, due to a

lack of pricing advantages.

Hugo Sarmiento, chief financial officer of Latin American development bank, CAF told *GlobalMarkets* that spreads on green bonds have not made the securities attractive for the multilateral, which has an annual funding target of \$3bn-\$4bn. “We haven’t done anything yet because we don’t see a pricing benefit,” he said.

CAF has sold “water” bonds in the Japanese Uridashi market. The funds from the securities are earmarked for supplying, cleaning and treating water in Latin America. The bank has considered more mainstream issues of green bonds to diversify investors, Sarmiento added. But not everyone agrees that even that benefit is evident.

“Everybody is looking at green bonds,” says one senior Latin American bond banker. “But at the moment it doesn’t translate into better prices, or new investors, for issuers.”

Sweden is another borrower that has proceeded cautiously on green finance. “I think it’s important for governments to promote green finance in different ways,” says Magdalena Andersson, the country’s finance minister. “We don’t have green sovereign bonds, but we are in different ways promot-

ing green finance, for instance we are a big donor to the green climate fund in the UN.”

At the same time, the government has nudged — but not mandated — its pension funds to look at environmentally-friendly investments. “Their focus is to invest as effectively as possible for the senior citizens of tomorrow,” says Andersson. “It’s just pointing out that green investments have certain advantages.”

THE RIGHT SIGNAL?

Another concern for Sarmiento was, ironically, sending the wrong message by issuing a green bond. “Anything we do is aimed at promoting development,” he said. “To that extent, should we segment our funding and our bonds — one is green bonds, one is water bonds — or should we say to investors that all of CAF is a socially responsible investment?”

Moody’s data show that Asia Pacific issuers have led the way on issuance of green bonds, accounting for 44% of such deals globally to date. Similarly, financial institutions are the biggest issuer type, having sold around 43% of such deals, according to Moody’s.

OUT OF THE WOODS

Seen and heard in the corridors of the Annual Meetings

• / **GlobalMarkets runs on Dunkin'** *Out of the Woods* does like a good nosh. But even he was surprised at the offer of culinary accoutrements while waiting to interview the Asian Development Bank chief. A reedy chap slipped in to offer the usual caffeinated beverages, before adding: "We also have cookies and doughnuts". Cue the arrival of a large tray of Krispy Kremes. It felt rude to refuse...

• / **Morning service** Delegates in search of spiritual balm at this year's meetings can always turn for succour to a diffident chap standing outside the World Bank. He handed *OOTW* a wristband bearing the legend 'fallingplates.com' — a website that contained little more than a gloopy video espousing the glories of the Lord. The video is available in 26 major languages but, oddly, not Chinese.

• / **Silver spoon** It's hard to get away from the First Family. A panel on female empowerment included Ivanka Trump, entrepreneur and self-styled "Advisor to the US President". A trio of impressive women spoke burningly about overcoming adversity to build their own corporate empire — while all eyes remained fixed on a lady raised in a house with golden taps and crystal chandeliers.

• / **The XX** Talking about girl power, the Rwandan finance minister, realising he was the only XY on stage in a sea of double-Xs, risked a rather lame crack about the need for gender equality. The moderator of the panel took a dim view, acerbically noting that the all-female panel would until very recently have been an all-male affair. Kerpow!

• / **Party Train** An African-style choir brought into entertain the Commonwealth event over lunch brought the house down, bringing a huge crowd to their feet in ecstatic applause. But they didn't just entertain the assembled finance ministers and bankers, keeping the party going all the way down to DC's metro system, where they left morning commuters bemused but properly entertained.

• / **Poker face** Wolfgang Schäuble, rarely short of a pithy aside, was asked yesterday on the way out of an IMF panel if he had any cogent advice for his successor. "Yes," he replied, playing with a straight bat. "They need to remember that German finance ministers should never look too friendly."

Bundesbank's Dombret sees mixed system beating mega banks

By Owen Sanderson

Following rumours that Commerzbank could be a takeover target, talk of European banking consolidation has kicked up into high gear, with three of Europe's globally significant financial institutions, UniCredit, BNP Paribas and Crédit Agricole linked to the German lender. *GlobalMarkets* spoke to Bundesbank board member Andreas Dombret about the benefits, or otherwise, of big banks.

Dombret declined to comment on Commerzbank's specific situation to *GlobalMarkets*, but said: "There are some markets which are global, in which scale is an advantage, but mortgages and some other products are more national markets. I'm a believer in banking markets with quite a number of banks with different scales and business focus. The German market has this sort of stability, though what's not so positive is their profitability."

He added: "Growing to a certain size allows these institutions to benefit from economies of scale. However, we have to keep the financial stability risks associated with very large institutions in check."

M&A, for Dombret, cannot serve as a way of masking the problem of weak

institutions.

"If you multiply two negative numbers you get a positive, but that's not the case in banking. Two weak banks don't give you a good bank", and he said, pointing out that some banking mergers had been deeply unsuccessful.

Consolidation, in Dombret's view, should be determined by market mechanisms. "As a supervisor, I am not in the business of attracting certain banks... where banks conduct their business and where they base their operations is not for me to decide or influence," he said.

In Europe, though, the largest recent bank consolidation, Santander's acquisition of Banco Popular Espanol was a direct result of supervisory action — the Single Supervisory Mechanism forced it into resolution, following the collapse of a non-performing loan sale and ensuing deposit run.

COMPETING WITH THE US

Some see consolidation in the European bank market as essential to allow Europe's banks to compete with their American peers, which dominate investment banking league tables today — and see having homegrown banks as



Dombret: local banks for local people

valuable for Europe's economy.

"Having a number of different investment banks in different countries is important to keep international competition among them alive," said Dombret.

"Hosting some of them in the euro area can benefit the companies here. Local investment banks are more familiar with the specifics of our market and the needs of European companies, enabling them to more effectively assist European companies conducting business here."

Profitability has been a major topic following a warning in the IMF's financial stability report. But Dombret said: "It's not for supervisors to have a RoA or RoE target. Profitability is for banks to figure out."

CEE countries show support for euro project even as Britons, Catalans lose faith

By Virginia Furness

Moves by Bulgaria and Croatia to push ahead with plans to join the euro will bolster efforts by the authorities in Brussels to maintain unity in the face of the decision by British voters to quit the EU and Catalans' demands for independence. However, policymakers will have to overcome opposition within their countries to membership of the single currency.

Bulgaria, which joined the EU in 2007, said it would like to join the euro "as soon as possible," Marinela Petrova, deputy minister of finance told *GlobalMarkets*. However, she admitted voters were concerned about the impact on prices, and that support for the eurozone project had waned since the debt crisis that began in Greece in 2010.

"The pro-EU feeling is going down because the ordinary people could hardly see the effects [of EU membership] after the crisis," she said. However, Petrova insisted that eurozone integration was not for economic purposes, but to add extra stability to the country.

"We want to feel further integrated

with the European Union and to share their common goals, especially in the face of planned deepening of the European monetary union," she said. "It will be a good sign to outsiders that the eurozone is still alive and still attractive to countries outside it," she said.

50-50 SPLIT

Next week, Croatia will begin a public consultation on eurozone accession. Unlike the UK, there is no requirement to hold a referendum on membership, but the response will have a bearing on the political decision making process, Boris Vujcic, governor of the Croatian National Bank, told *GlobalMarkets*. "Half of the population are in favour and half aren't," he said. "It begs for a public consultation, and I hope that support will increase."

Croatia joined the EU in 2013 and is now on track to join the exchange rate mechanism, a precursor to euro-adoption, but the government has a large task ahead if it is to convince half of the population that their concerns prices will rise once the euro is adopted are unfounded.



Vujcic: euro price rises are a 'myth'

"It is almost a myth that prices went up when other countries joined the euro," Vujcic said. "Another concern is that monetary policy is being given up as a tool of macroeconomic policy, but we are so heavily euro-ized that there isn't much room for independent policy. We've nothing to lose."

In Slovenia, which is already an EU and eurozone member, public support for the European project remains high, according to Mateja Vranicar Erman, its finance minister. "Despite some voices of scepticism, the vast majority are in favour of European integration, and still show strong support for the European idea."

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Success is a journey

Quick fix insurance plan offers model for vulnerable states

By Lucien Chauvin

An insurance scheme that ensured Dominica, a small Caribbean island, received a quick \$20m payout after it was ravaged by Hurricane Maria last month, could serve as a model for other groupings of small states vulnerable to natural disasters, according to industry experts.

The money came from the CCRIF-SPC, an insurance policy with 17 member Caribbean and Central American countries that pays out in the wake of hurricanes, earthquakes and excess rainfalls. It has paid out more than \$120m since its start in 2007, including \$50.7m so far during the 2017 hurricane season.

CCRIF can pay on premiums quickly, because disbursements are based on the conditions of the disaster — amount of rain or wind speed — instead of a post-disaster assessment. The model receives premium payments from members and is supported by a trust fund from donors, including the World Bank.

Isaac Anthony, CCRIF-SPC's CEO, said the insurance system was unique and could serve as a model. "CCRIF is the world's first multi-country, multi-peril risk pool and was the first insurance instrument to successfully develop parametric policies backed by both traditional and capital markets," he said.

Its influence has already started to spread. It is in talks locally to bring in three more countries and was the model for the Africa Risk Capacity. It has been working with small island states in the Pacific about how the CCRIF model could be adapted for those countries.

Anthony said the CCRIF was working on "new products that would enable countries to reduce the impacts of other types of hazards and also impacts on key economic sectors. We are currently in the process of developing models for drought, agriculture and fisheries."

Member states are pleased with how the CCRIF has worked, but they would like to get more outside support. "It is a very useful mechanism that is working, you can draw money. One of the most important things post-disaster is to get money quickly," Saint Vincent and the Grenadines economic planning minister Camillo Gonsalves told *GlobalMarkets*. "While it disburses funds quickly, it needs more money. Our countries don't have the fiscal space to make greater contributions to the CCRIF."

Russia's central bank plays down domino run fear after bank failures

By Virginia Furness and Elliot Wilson

The collapse of Russian lenders Otkritie and B&N bank will not spark a domino run of bank failures, nor does it mark the end of Russia's privately owned banking sector, Ksenia Yudaeva, deputy governor of the country's central bank, said as the regulator continued to take a hard stance on "risky business models".

The CBR's rescue in August of Otkritie, Russia's largest privately owned bank, marked the first bail-out of a systemically important financial institution in the country, and arguably the largest Russian bank failure in history.

Sector contagion fears saw investors rush to dump the subordinated bonds of other privately owned lenders, with yields on Credit Bank of Moscow and Alfa Bank's debt soaring. The subsequent bail-out of smaller lender B&N appeared to confirm fears.

The cost to the central bank is said to be Rb800bn (\$13.9bn)-Rb820bn (\$14.2bn), according to local press reports. The CBR argues that Otkritie and B&N had been on the watchlist for some time.

"We don't expect to see a domino effect," Yudaeva told *GlobalMarkets*. "Deposits stabilised quickly, and we see no reaction of equity markets [to the news]. There was only a muted reaction [in the senior] bond markets and the only significant reaction was in the subordinated bond market."

NEW OVERSIGHT REGULATIONS

Russia's central bank has closed more than 300 of the country's 900 banks since it began an aggressive clean-up of the country's banking system in 2013.

"Some banks have been operating very risky business models, based on money laundering and [other problems] so the central bank is strengthening implementation of regulation," she said. "We have implemented new oversight regulations and we are now seeking to ensure that banks are properly regulated."

The recently introduced Banking Sector Consolidation Fund — through which the bailout of Otkritie was managed — is new legislation bringing in a new banking sector resolution mechanism, as the previous credit-based resolution model was not fit for purpose, Yudaeva said.



Yudaeva: deposits stabilised quickly

"We have enough instruments of liquidity support to calm down the market," she said. "We opted for the recovery scheme with these banks as we believed they were systemically important and so enmeshed in the wider banking system as to need our full support."

Otkritie was previously one of Russia's largest banks by assets. The bank had suffered from a run on deposits after a downgrade by local ratings agency ACRA in June. It lost some \$7.4bn in deposits in June and July alone.

Russia's finance ministry is now focused on developing the country's capital markets, to reduce the reliance of corporates on bank financing.

African leaders hail offer of 'entente cordiale' with Macron's France

By Thierry Ogier

African leaders have welcomed a fresh start in their relations with France and Europe that goes well beyond the current migrant crisis after French president Emmanuel Macron vowed to launch a new partnership with the continent.

Africa should be treated as a partner and not as a "threatening neighbour", Macron said in a recent foreign policy speech at Sorbonne University. He also suggested introducing a European financial transaction tax to finance development policies in Africa.

The new warmth between France and Africa was praised by the finance minister of Burkina Faso, Rosine Sori-Coulibaly. "When you look at international trade and investment, we must go beyond exporting commodities and explore our own national resources to transform our local capacity and creating local added value," she told *GlobalMarkets*. "When you see this massive flow of youth towards the European continent, it is because there is no hope at home. We must give hope to our youth," she said.

Several French thinktanks have thrown their weight behind Macron's push to

boost ties with Africa after European investors have been sidelined by China recently. "He has the will to re-establish strong links between the two continents and the Mediterranean area. This provides a vision which may help stop the decline of France's position in the region," said Jean Louis Guigou, president of Ipemed, a research centre.

GROWTH ENGINES

Indeed, France's share of imports in sub-Saharan Africa has declined from 10% to 4% in 15 years, while China's share has increased to 22%, according to Côte d'Ivoire vice president Daniel Kablan Duncan. The country will host a summit between the European Union and Africa next month in Abidjan. Following Brexit, France and Germany are now expected to take the lead in strengthening ties between both continents.

"We will have a very strong alliance between Macron and Merkel to work actively in Africa," said Guigou. "Merkel has already called for a Marshall plan for Africa at the G20. This is motivated by security reasons, but also to find new



Sori-Coulibaly: we must give hope to our youth

growth engines. This is huge. They don't only want to go to Africa to export but also to create jobs," he said.

"The Germans have become more interested than ever in Africa. Following Brexit, the Franco-German couple will be the key to increasing investment in Africa," said Jean-Michel Huet, from the Paris-based Institut Montaigne, a Paris-based thinktank that has called for a "re-start" of France relations with Africa.

Morocco is one country that has already attracted investment from the two main French car manufacturers, Renault and PSA. The latter has recently unveiled a €550m euro plan to invest in a plant in Kenitra. But much more will be needed to lift industrialisation in sub-Saharan Africa.

Ukraine FM dismisses pessimist critics as dedicated followers of fashion

By Virginia Furness

Ukraine has no intention of easing up on its reform agenda as it heads towards presidential and parliamentary elections in 2019, Oleksandr Danylyuk, minister of finance, told *GlobalMarkets*, quipping that “pessimism is fashionable”.

However his comments came in the face of continued scepticism among market experts who doubt that the political will for change is there.

Ukraine has made remarkable efforts in reforms delivered in the energy sector, banking industry, as well as fiscal adjustment and a \$3bn bond market return, while GDP growth was back up to 2.4% year on year in the second quarter.

“We achieved this despite a very aggressive external environment — military and economic war from our largest economic partner Russia, volatile external markets — we have not just survived but managed to implement reforms that many countries will need years to enact.”

But investors remain concerned that political attention is turning to the 2019 elections, and away from the reforms necessary to meet IMF requirements. “I have my doubts,” said Tim Ash, sen-

ior EM sovereign strategist at BlueBay Asset Management.

“I think that President [Petro] Poroshenko is now focused on re-election. There is less willingness to do some of the less politically popular things but which are now crucial. True, pension reform was passed but the bill was still revised [and] watered down and I am not sure it is IMF-compliant as yet.”

Reform of Ukraine’s pension law, as well as sustainable gas pricing, have become a critical condition for the fourth review of the IMF’s funding programme, and looked ready to delay the disbursement until 2018.

But Danylyuk said the pension reform was a “great success” and that the IMF disbursement would be received this year.

PRIVATISATION PROGRAMME

Regardless of the recent slowdown, Ukraine has made impressive progress in a country which is still being cannibalised by its larger neighbour. The country is on track to maintain a budget deficit of 3%.

Danylyuk is working on several other key reforms including improving the process for privatisation which he said



Danylyuk: implemented reforms

was “enormously important,” and has sent a draft law for its first reading next week. The existing legislation is complicated, and led to the failure of Ukraine’s attempts to privatise its Odessa Portside plant last year.

Should this bill be passed, Ukraine’s privatisation programme could bring in H22bn (\$823.7m) in 2018, and H25bn in 2019. He is also looking to access some of the H350bn tax gap, and to establish a new financial police.

But even he reluctantly acknowledges the stumbling blocks ahead. “The main obstacle is political process — parliament — they need to adopt laws on privatisation and land reforms,” he said.

LatAm giants look to resurrect trade deal from TPP’s ashes

By Lucien Chauvin

Four Latin American countries will launch trade talks later this month in a move that could shake up the Asia-Pacific region and send a strong signal against the increasingly protectionist attitude from the United States.

The Pacific Alliance, which includes Chile, Colombia, Mexico and Peru, will sit down on October 23 in Cali, Colombia with Australia, Canada, New Zealand and Singapore for negotiations to let them in as associate members.

“Given the international context, the Pacific Alliance is one of the most important integration initiatives in the Asia-Pacific,” Peruvian trade minister Eduardo Ferreyros told *GlobalMarkets*.

He said members had decided two things even before talks begun: first, the process had to be ambitious, focusing on goods, services and investment; and second, it needed to be quick while still remaining rigorous.

Ferreyros said the parties did not want to “replicate the experience of other processes that have not seen the light of

day”. The participating countries know something about this. With the exception of Colombia, all of them were part of the long negotiations for the Trans-Pacific Partnership (TPP), a 12-nation effort that began in 2008 and was signed in February 2016. It has been in limbo since January, when President Donald Trump withdrew the United States.

The remaining countries, known as the TPP11, have met three times since July and leaders are scheduled to meet in Vietnam next month on the sidelines of the Asia-Pacific Economic Cooperation (Apec) summit.

Australia, New Zealand and Singapore are also part of the 16-country Chinese-led Regional Economic Cooperation Partnership (RCEP) that has sputtered after 19 rounds of talks.

WATCHFUL EYES

Policymakers in Asia and Latin America are watching the Pacific Alliance to see what it can get done while other projects are stalled and one, the North American



Ferreyros: won't repeat past mistakes

Free Trade Agreement (Nafta) that joins Canada, Mexico and the United States, may come undone after nearly 25 years.

“Trade and protectionism have grown more complex,” said Alan Bollard, Apec executive director. “We have Nafta renegotiation, TPP11 renegotiation, and RCEP seems to be the backburner, but the Pacific Alliance is pushing ahead with potentially four new members. I think it has quite a head of steam and there is a lot of interest, particularly if we were to see other negotiations slowing down.”

Luis Alberto Moreno, president of the Inter-American Development Bank, urged regulators to include Brazil and Argentina.

ADB to accelerate PPP plans to fill infra gap

By Elliot Wilson and Rashmi Kumar

Public-private partnerships remain paramount to Asia’s efforts to narrow a yawning infrastructure gap, senior officials at the Asian Development Bank told *GlobalMarkets*.

ADB president Takehiko Nakao said it was imperative to further boost growth rates and create new jobs across emerging Asia, but both factors were dependent on the construction of new highways, roads and power plants. Finalising chunky new PPPs were central to that process, he said.

Nakao said a new office, created in 2015 by the Manila-based multilateral and devoted to finding and funding new PPPs, was bearing fruit. “We are advising on a number of new projects, with a focus on mobilising private sector resources.” The new system was, he said, designed expressly to accelerate the process of getting PPPs from drawing board to completion. “It’s all about speed,” he said, noting that while the development bank “supported and designed the frameworks for projects”, it didn’t always put its own money to work.

Infrastructure building remains crucial to the region, with the ADB warning that developing Asia had to spend \$26tr on new projects by 2030, or \$1.7tr a year, just to maintain the current rate of growth. Right now, they spend \$881bn a year combined. “All countries in Asia except China need more [infrastructure],” Nakao added. He pointed to the examples of Thailand, India, Pakistan and Bangladesh, all of which suffered from “a huge infrastructure gap in terms of power plant, highways, and railways”.

ADB chief economist Yasuyuki Sawada said doubling the volume of PPP-related finance in Asia would extend much-needed access to electricity and water to millions of people. He pointed to ADB data, which says doubling PPP spend in Asia to 1% of regional GDP from 0.5% at present, would give 12 million more people access to safe drinking water, and plug 14 million into national power grids.

The concept of PPP is not new to Asia. The number of projects in developing Asia rose by a compound rate of 11% a year between 1991-2015, and the region accounts for half of all completed public-private projects the developing world.

Argentina to tighten fiscal policy after returning to Eurobond market

By **Thierry Ogier**

Argentina's finance minister Luis Caputo has brushed off concern over the country's rising debt and the potential impact of rising global risk, while insisting on his commitment to fiscal discipline yesterday.

The administration of Mauricio Macri is expected to tighten its fiscal policy after mid-term elections later this month.

"We have a target of 3.2% of GDP [for next year's primary budget deficit]. The strategy is to continue to reduce subsidies in utility prices. Growth will play also a significant role. What is important to understand is that for us to meet our fiscal target is a must, we have no other choice," said Caputo in an interview with *GlobalMarkets*. He added that the deficit could be zeroed in two years.

It will complete the issue of its €2.6bn bond later this month or in early November. Caputo said he has no immediate plans to tap the Eurobond market again, but he said there was little concern regarding a possible deterioration in external market conditions. "We spoke with the president of Citibank about that [during a meeting in New York]. I participated in a meeting last week held in Berlin, and this was one of the issues that we raised, too. The conclusion is that the situation will likely continue to be very supportive," he said.

"There is always a risk that there will be a sudden stop and that you find yourself in the middle of a shock," said Gabriel Torres, senior credit officer at Moody's, the credit rating agency. "We don't see this happening today, but that may be a risk," he said.

Caputo added that fiscal discipline would be increased. "The fiscal target cannot be missed. This is something that will just not happen. It takes a long time to gain credibility and a very short time to lose it. That [missing the target] would be the best way of losing it," said Caputo.

Investors have been very supportive of Argentina's policy under the presidency of Mauricio Macri, who was elected in late 2015. "It is very important to remember where Argentina is coming from. The exchange rate has been unified. The final agreement with international creditors has allowed the country to go back to the international credit market after seven years," said Carlos Vegh, chief Latin America economist at the World Bank. "Argentina is on a very good path."

Banking crisis looms in Caribbean and Central America

By **Lucien Chauvin**

Big banks moving to limit risk exposure to asset portfolios are systematically eliminating their corresponding relations with banks in the Caribbean and Central America. The process, known as de-risking, has sounded alarm bells throughout the region.

"It has had a tremendous effect. We have a small number of banks and each of those banks has lost at least one of its corresponding banking relationships. This means our connection to the outside world is really hanging by a thread. We are one or two terminations away from a real crisis," Camillo Gonsalves, economic planning minister of Saint Vincent and the Grenadines, told *GlobalMarkets*.

The lack of corresponding banks makes trade more expensive and limits engagement by foreign investors. It has

also affected the government's capacity to engage in state-to-state transactions and even dealings with multilateral institutions. It is also putting a crimp on tourism, the life blood of many small island economies, because tourists are not able to pull cash out of bank machines.

According to a study by the UN's Economic Commission for Latin America and the Caribbean, 64% of the region's banking sector has been adversely impacted by de-risking. One of the hardest hit countries has been Belize, which has lost all but two corresponding banking agreements. Prime Minister Dean Barrow said in late September, after completion of an IMF Article IV consultation, that the banking and financial sectors are constantly under threat.

"In countries that are small, vulnerable, open and do a great deal of their business through

international transactions, disconnection from the global economy is potentially devastating," said Gonsalves.

DIRTY LAUNDRY

The de-risking process is a response to a global effort to deal with money laundering and financing of terrorism. Jamaica's central bank governor, Brian Wynter, said many small countries were not involved in these crimes, but were suffering the consequences.

He and Gonsalves said it has simply become easier for banks to sever corresponding relationships than make the effort or incur the expense of maintaining ties. "Saint Vincent and the Grenadines has a well regulated financial sector, we are clean," said Gonsalves. "De-risking was supposed to deal with money laundering, grey lists, black lists. We and many other



Wynter: small countries are hit

countries are caught up in a series of regulations that make it cheaper for banks to cut ties and than continue to do business with us."

Wynter said that while Jamaica has so far avoided the crisis, "because our own financial institutions are de-risking, avoiding sectors where cash is king and could feed money laundering" this created domestic problems for money exchange houses and other components that were important in rural areas. "We need to transmit that de-risking should not have a blanket application," he said.

IDA cash deal 'victory for multilateralism'

By **Phil Thornton**

Africa is on track to receive the lion's share of a record \$75bn refinancing of the International Development Association, the arm of the World Bank that works with its poorest country members, a senior Bank executive told *GlobalMarkets*.

Axel van Trotsenburg, vice president for development finance, said: "Africa could get \$45bn of IDA resources during the next three years which is fantastic for a continent where we can engage not only at the country level but on regional programmes."

Van Trotsenburg co-ordinated the negotiations between 54 donor countries, beneficiary nations, and the other parts of the World Bank that led to a \$75bn three year deal that for the first time included plans to leverage private capital.

He said the replenishment, which was agreed in July but

still needs to be signed off by the end of the year, was a "victory for multilateralism". "It has shown that in today's world we can still come to a very ambitious agreement getting all the interested parties around the table."

For the first time, IDA is seeking to leverage its equity by blending donor contributions with internal resources and funds raised through debt markets thanks to the AAA credit rating that IDA this year secured from Standard & Poor's and Moody's.

DONOR CO-ORDINATION

Van Trotsenburg said he was confident the World Bank's treasury would issue the first IDA bonds by the end of the first half of next year. "The first step is to get all the donors' commitments firmed up and our treasury is in the process of preparing the first bond issue," he said.

"It's all on track but things are falling into place. There has been excellent co-ordination with donors, with our board, internally because a \$75bn business requires a very disciplined approach towards implementation."

The other innovative element is a new \$2.5bn private sector window being introduced together with the Bank's International Finance Corporation and Multilateral Investment Guarantee Agency (MIGA) to provide products such as first loss guarantees and local currency options to take some of the risk out of projects particularly in fragile states and so attract private finance.

He said that IFC and MIGA were working on a "host of projects" and he expected the first to come forward in the next couple of months.

Van Trotsenburg dismissed concerns by civil society



Van Trotsenburg: leverage

groups that the entry of private sector groups would create risks in vulnerable countries. "The financialisation of essential services is quite troubling," said Luiz Vieira, co-ordinator of the Bretton Woods Project.

Van Trotsenburg said the Bank was aware it needed to work carefully. "It is IDA that wants to push the frontier and tackle the hardest problem of creating jobs. It is one thing to sit on the side and watch things happen; it is another to take a proactive stance to see how we can bring wealth and solutions to these areas."

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Dealing with the Trump squeeze: World Bank focuses on agility and innovation

Facing a squeeze on funding from the Trump administration for its work in middle income countries, the World Bank is looking at innovative ways to fulfil its mission to end poverty and inequality

By Phil Thornton

It is one of the painful paradoxes for anyone working at the World Bank: the demand for help and assistance seems to be infinite while the supply of resources to tackle them is limited.

The last year has been a good example with the refugee crises in the Middle East and the Horn of Africa and the devastation of hurricanes Irma and Maria in the Caribbean coming as development agencies are still recovering from dealing with the Ebola outbreak.

“There’s a growing challenge of the Bank being drawn into headline situations and responding to refugee crises,” says Scott

Morris, a senior fellow at the Center for Global Development (CGDev) think-tank.

At the same time estimates of the shortfall in infrastructure spending needed to deliver the services to deliver faster economic growth continue to rise.

Demands on development assistance have risen in recent years, especially for pandemics, refugee crises and regional conflicts. The World Bank has managed to ratchet up its spending via the International Development Agency (IDA), which works with the poorest countries, to \$19.5bn in the year to June 2017 from \$16.2bn in the previous 12 months — a 20% rise.

A year ago, Axel van Trotsenburg, the World Bank’s experienced vice-president

who co-ordinates negotiations with donors, managed to secure pledges for a record \$75bn of funding for IDA over the next three years, including planned bond issues on the back of the state funding.

He told *GlobalMarkets* at the time it was “the most ambitious replenishment possible” and the funding would enable IDA to quickly scale up development interventions to tackle conflict, fragility and violence, forced displacement, climate change and promote governance and institution building.

But, of course, even \$75bn is a drop in the ocean. According to Swiss Re, natural catastrophes around the world caused \$166bn of economic losses in 2016 while the infrastructure gap has been measured at \$350bn



"We have to be much more adaptable and we have to face rapidly changing circumstances"

—Kristalina Georgieva, World Bank

"We are pressing the Bank at the very least to stop pushing PPPs"

—Luiz Vieira, BWP

a year. A detailed paper on the economic impact of conflicts by the International Monetary Fund found that after three years of conflict, MENA countries, on average, suffered GDP losses of between six and 15 percentage points. This equates to \$190bn to \$474bn.

But it is outside the work with the poorest countries under IDA that the funding drought really hits home, in particular the International Bank for Reconstruction and Development (IBRD), its arm that focuses on middle income countries and which depends on capital from its shareholders.

The World Bank has been pushing over the past few years for a general capital increase. However, it is growing increasingly clear that Donald Trump is unwilling to offer more money from the United States, which holds a 17.25% share in IBRD.

Morris at CGDev says that without a capital increase it will be hard for the Bank to move forward without what he calls "creative solutions in looking at the financial model that would allow them as an institution to do more to support the agenda".

Speaking earlier this year Jim Yong Kim, the Bank's president, said that in a world of squeezed public sector budgets the Bank needed to be an "honest broker" that helps "crowd in" the vast quantities of non-invested private sector capital.

At the heart of this agenda is the idea of de-risking long term infrastructure and humanitarian projects that investors such as pension funds shun. "We have to be much more adaptable and we have to face rapidly changing circumstances," says Kristalina Georgieva, chief executive officer of the World Bank.

"We are concentrating on how we can get the private sector to overcome risks and be more present and active in vulnerable countries by giving them the certainty that they

can invest — and by so doing can improve the lives of people."

PPP OR NOT PPP

A key tool that the World Bank is relying on to bring in outside capital is the public private partnership (PPP), a contract between a government and a private sector organisation to provide infrastructure or service.

Research by Eurodad, an NGO that monitors the Bank, shows that a wave of money invested through PPPs began in 2004. Over an eight year period, investments increased sixfold: from \$22.7bn in 2004 to \$134.2bn in 2012 [see graph].

While the majority of the money went to rich country enthusiasts such as the UK, measured as a share of their economy the influx of cash was higher in low income than in high income countries [see graph].

Luiz Vieira, co-ordinator of the Bretton Woods Project (BWP), says research shows the evidence of the effectiveness of PPPs in terms of both cost and the quality of the outcome is "questionable at best".

"We argue that the evidence is inconclusive and experience shows they tend to be more costly because private firms have higher borrowing costs and they can leave states with considerable contingent liabilities. We are pressing the Bank at the very least to stop pushing PPPs."

He is also sceptical the World Bank can ever wholly de-risk a developing country project. "Ultimately who will be responsible for the risk if these projects will go under?" he asks. "Whatever the contract says, the government will have to step in particularly if it is for essential services. They have to take responsibility in the end."

Georgieva says the World Bank is determined to use innovative financing that she says is key to restoring prosperity to countries

that are vulnerable to natural disasters. "We are trying to bring insurance to work for poor people. For years, rich countries have been using insurance to bring down risk so why not make that available to poor countries and poor people?"

A recent \$320m pandemic insurance bond sold by the World Bank to support its Pandemic Emergency Financing Facility (PEF) shows how this should work.

The bonds will pay investors a regular coupon, in exchange for which they lose some income or capital if a catastrophic infectious disease takes hold. It covers outbreaks of infectious diseases most likely to cause major epidemics, including filoviruses, which include Ebola.

PEF financing for eligible countries will be triggered when an outbreak reaches predetermined levels of contagion, including number of deaths; the speed of the spread of the disease; and whether the disease crosses international borders.

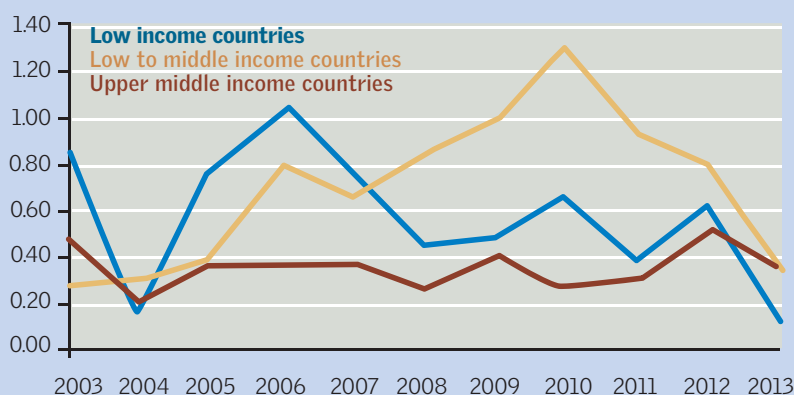
Georgieva says the Ebola outbreak was the "most tragic" case where the scale of the problem mushroomed while donors worked to mobilise funding. "We were running after a problem that ended up costing a couple of billions of dollars."

But some agencies are critical of insurance as a guaranteed method of delivering aid when it is needed. ActionAid highlights an insurance policy it says failed the people of Malawi during the 2016 *El Niño* drought. The policy, which cost Malawi nearly \$5m, failed to deliver timely assistance to 6.5m people because of major defects in the model, data and process used to determine a pay-out.

Despite Malawi declaring a national emergency in April 2016, the insurers initially refused to pay out. An \$8m payment was eventually made nine months later in January 2017 but ActionAid said total drought response costs were estimated at US\$395m.

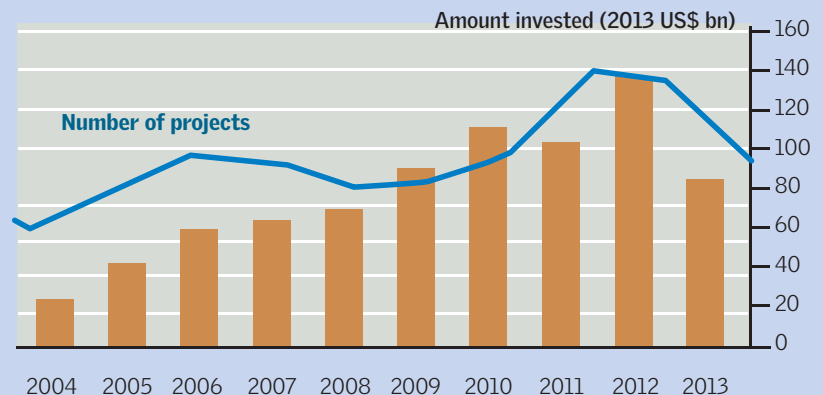
PPP investment: greater in low income countries

Investment in PPPs by country-income groups, 2003–2013 (% GDP)



... ballooned in the eight years to 2012

Investment in PPPs (\$bn); number of projects in the developing world, 2003–2013





On the ground

World Bank CEO Kristalina Georgieva in Mumbai in February travelling second class femal carriage to experience a World Bank supported suburban line

Speaking at a conference on global risk reduction in the summer, Jonathan Reeves, policy adviser on resilience and emergencies at ActionAid, said the research sent a clear message to the G7, World Bank and others agencies to stop their “headlong rush to push the false solution of insurance on poor and vulnerable countries” and re-consider the evidence. “World leaders should send a strong signal that insurance is not a quick fix for broken development, adaptation and humanitarian finance systems.”

SOLUTIONS BANK

Vieira at BWP says the Bank is responding to the squeeze on its income. “In terms of lending volume they are not as significant as they once were so they are trying to find their niche. What’s their niche? They want to become market makers. They were calling themselves a knowledge bank and now they are a solutions bank.”

Morris at CGDev said the idea of getting “trillions from billions” will still come down to securing the billions from shareholders to start with. He says that while the Bank can create instruments to make investment more attractive, it cannot control whether and when private investors will inject money.

“What they can control is conversations with their own shareholders about their own resources and that is where the pressing agenda is,” he says. “If they want to go from billions to trillions, they have to have the billions to hand and that’s where there’s some concern at the moment.”

Ultimately a lot will rest on the relationship that Kim can forge with Trump and his administration.

The decision by the US president to put

forward a budget proposal reducing funding for multilateral development banks, including the World Bank, by around \$650m over three years was seen as a sign that the White House had gone cool on its neighbour two blocks west on Pennsylvania Avenue.

However, the White House’s position may be more nuanced, Morris says. The US did support the replenishment of IDA but has shown hostility towards the Bank’s work in countries such as China, Mexico, India and Brazil.

“Inside this administration, there will be more assertive views than under [former president] Obama that the Bank does not have a compelling role to play in emerging markets that have deep access to capital markets,” he says.

The Bank therefore has had to find creative solutions as it did in Lebanon and Jordan — both middle income countries hit by the Syrian refugee crisis. It used its Global Concessional Financing Facility to attract £370m to improve the lives of Syrian refugees and host communities by expanding crucial public health services in both Jordan and Lebanon as well as strengthening critical wastewater infrastructure in Jordan.

“Creativity was called for because these countries were middle income countries so they would not qualify for the sort of assistance that would come from IDA,” Morris says. “Those are the challenges that increasingly arise. If you have the US staking out a more rigid position and saying, ‘no, the only thing we are supporting is your work in strictly defined low income countries’ then it will be that much harder for the Bank to show up and be responsive in these complex situations.”

However, there has been evidence of a change of heart within the Trump administration. In July Trump threw his support — and some money — behind the World Bank’s \$1bn Women Entrepreneurs Finance Initiative to help women in developing countries start and grow a business.

The United States initiated the idea for the facility and will serve as a founding member along with other donor countries.

Significantly the move was championed by Ivanka Trump, America’s “first daughter”. “Whatever the merits of that fund there is no doubt that it did help to establish and build a relationship between the administration and the Bank in a positive sense,” Morris says. “We have to consider that as a channel between the president of the Bank and the White House, and [Kim] is doubtless using that to make a broader case.”

AGILE BANKING

Whether it is working with the president’s daughter or seeking bespoke donations for the refugee crisis, these responses are part of the Bank’s vision for an “agile” Bank — something Georgieva is implementing.

She has already taken on the institution’s renowned bureaucracy by cutting in half the frequency of regular meetings, significantly reducing the length of project documents and shortening the comment process.

“Kristalina Georgieva has been put in charge of daily administration of the Bank to free up the president to do more strategic thinking,” Vieira says. “She will be very focused on value for money.”

Allied to this is its “multiphase programmatic approach”, which was unveiled in July and proposes to delegate some executive board project reviews and approvals, and therefore its oversight functions, to management.

This worries the NGOs more. Vieira says it creates a system where the board does not have to approve every project the Bank agrees to. “They will approve a multi-year packet for, say, Malawi composed of many parts but not all the programmes will necessarily require approval.

“Of course CSOs are in favour of streamlining processes etc. but we are worried about the impact in terms of due diligence. The Bank will be hammering the message home that they are being more responsive to borrower countries but we will be asking what that means in terms of incentives for staff.”

Speaking at the London School of Economics on the eve of the meetings, Georgieva says that the Bank is determined to invest in people and in education and health in countries that are most vulnerable. “We want to be able to show results you can get for your money.” **GM**



“There’s a growing challenge of the Bank being drawn into headline situations and responding to refugee crises”

—Scott Morris, CGDev

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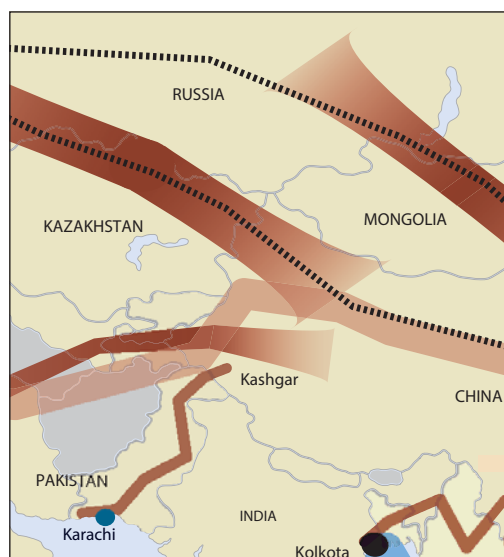
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Rebuilding Asia key to success of China's Belt and Road

By Elliot Wilson

For evidence of how profoundly China has cribbed from history in its efforts to flesh out the Belt and Road Initiative (BRI) one need only glance at a map of the old Silk Road.

The original stretched from northern China to Europe via Central Asia. But along the way it intersected with a host of other trade routes, one of which diverged at Bukhara in modern-day Uzbekistan. It pushed south to Barbarikon, a trans-shipment hub for Persian lapis lazuli and Afghan turquoise on the Indian Ocean.

Barbarikon is long gone but a few miles along Pakistan's coast lies Gwadar, a port city all but owned by China.

China has built a 2,280 acre free trade zone here along with an industrial port and a naval facility. In time, its aircraft carriers will dock here, a further sign of its regional aspirations.

PAKISTAN: BRI CENTRAL

For now, though, the real action is taking place north of Gwadar in the heartland of this troubled country. China will spend around \$50bn by 2030 — the final bill may be higher — to build the infrastructure Pakistan needs, from highways and power plants to gas pipelines and transmission grids. Much of the funding flows in from China's main policy lenders, China Development Bank and Export-Import Bank of China (Chexim).

Long term the aim is two-fold. First, China wants to transform Pakistan into a captive trade conduit. Commodities and energy will flow north from Gwadar to western China with completed goods making the return journey south. That, says James Cameron, Asia co-head of infrastructure and real estate at HSBC, allows Beijing to “open up new trade routes between China and the Indian Ocean, to compliment or compete with current trade routes that pass through [Southeast Asia] ports and through the Strait of Malacca, potentially cutting the time it takes to get goods to southern China from the Indian Ocean, and linking up regional value chains.”

Second, by piecing together the South Asian state, China aims to do some nation building. It wants a stronger and wealthier country to emerge overseen by a government able to stifle conflict.

The same pattern is playing out across a region dotted with low-income countries bedevilled by corruption, weak institutions and patchy infrastructure. In April, a pipeline opened that will carry 22 million tonnes of oil a year from Myanmar's coast overland to the southwest Chinese city of Kunming, helping China to receive faster supplies of crude from Africa and the Middle East.

Chinese firms are building a \$2.3bn industrial park and a \$7.3bn port, both at the Myanmar port of Kyaukpyu in the Bay of Bengal. They are also pushing ahead with \$6.8bn worth of infrastructure projects in Bangladesh, while in Sri Lanka policy lenders have funded

highways, ports and the \$209m Mattala Rajapaksa International Airport.

It's the number and sheer scale of these *grands projets* that compel experts, when asked to identify the key sovereign constituents of the BRI, to point in the region's direction. “Pakistan is obviously the most important BRI country,” says Paul Sheard, chief economist at S&P Global in New York. “Myanmar comes in second, with Central Asian states further back.” South Asia can also be seen as a vast economic hinge: a point where the overland ‘belt’ and the maritime ‘road’ meet.

TOO MUCH OF A GOOD THING?

Much of this infrastructure is useful and needed — but not all. That new airport in Sri Lanka, funded with a \$190m Chexim loan, was built too far from major cities — 100km from Galle and 200km from the capital Colombo — to be of any use. Built to handle a million passengers each year, it processes a dozen a day. The airport earned \$300,000 in 2016, according to the transport ministry, but faces \$23.6m in debt repayments made out every year to Chexim until 2025.

Pakistan faces a problem that will seem familiar to African states that borrowed heavily from the IMF in the 1970s only to get trapped in a debt spiral. China has on two occasions over the past year come to Pakistan's help, providing \$1.2bn in loans to stave off a currency crisis. Yet even that did little to bolster its finances: the country's forex reserves fell 10% month-on-month in

“A funding framework is now in place for BRI countries and India isn't part of it”

—Matthew Oxenford, Chatham House

“The BRI is a catalyst. It boosts competition and drives down prices”

—Alexius Lee, CLSA



July to \$14.6bn, according to the State Bank of Pakistan. One of the chief financial drains is China itself, with Pakistan forced to deplete its coffers to meet the interest on mainland bank loans — and to pay Chinese contractors and suppliers.

Indebtedness is also changing the composition of Pakistan's liabilities, with non-governmental debt up from 7% of total external debt in 2010 to 14% in 2016, according to World Bank data. Moody's Investors Service noted in a September 2017 report that the shift was mainly "because of inbound investment flows, which are likely to be a result of BRI projects".

This raises another issue for a state increasingly reliant on capital from its giant neighbour. "With Pakistan's external debt shifting to a bigger share of 'private' debt, the question is how stable that source of funding is in the long term," says Michael Taylor, chief credit officer, Asia Pacific at Moody's in Hong Kong. "It is never going to be as readily available as funding from the IMF or the World Bank."

INDIA SITTING OUT

There is one state in South Asia that has refused to play any part in the Belt and Road and that is the one that really matters. India, as S&P's Sheard drily notes, is "sitting this one out". The government's antipathy toward China dates back to a brief border war in 1962 started and won by Chinese forces. India, says Charlie Robertson, chief economist at investment bank Renaissance Capital in London, sees the BRI and China's funding of Pakistan's economy and military "as a means to check its own ambitions in the region".

This puts India in a tricky situation. Its finance minister Arun Jaitley reckons it must find \$1.5tr in fresh investment by 2025 to bridge its infrastructure gap — and China, flush with cash, can help. Yet the longer

India holds out, refusing to play any role in the greatest pro-trade project of the century, the less money will be forthcoming later. "When China makes the next round of BRI investments, that money will be less likely to go to India," says Matthew Oxenford, a research associate in Chatham House's global economy and finance team in London. "A funding framework is now in place for BRI countries and India isn't part of it."

Finally, there's Southeast Asia. China has to tread more carefully here. Some nations here are backward and in dire need of funding while others are highly economically and politically advanced. Projects in the region typically fall into one of two categories: big-ticket infrastructure deals and corporate acquisitions.

The latter has been a boon to the banking industry, with global lenders such as HSBC and Citi better able (versus their mainland peers) to pitch, plot and process financially complex deals that cross borders, currencies and cultures. HSBC's Cameron points to the \$1bn sale of John Holland, an Australian engineering contractor, to infrastructure giant China Communications Construction (CCC) in 2015. "We provided CCC with acquisition financing and cash management services and later helped to finance their first public-private partnership in Australia."

SUMMONING THE SPIRIT OF BRI

True, it can at times be hard to draw a line between some individual deals and China's overarching pan-regional trade initiative. If a mainland firm buys an Indonesian utility or a Vietnamese power plant, does that not constitute straightforward M&A, albeit led by corporate vassals of the Chinese state? But ambiguity is perhaps the greatest genius of the Belt and Road. Because no one knows clearly how to define it, virtually any deal, whether small or sprawling, can claim

to be part of a greater whole. That's a boon to bankers and nation states, both of which need only summon the spirit of the BRI to justify a project.

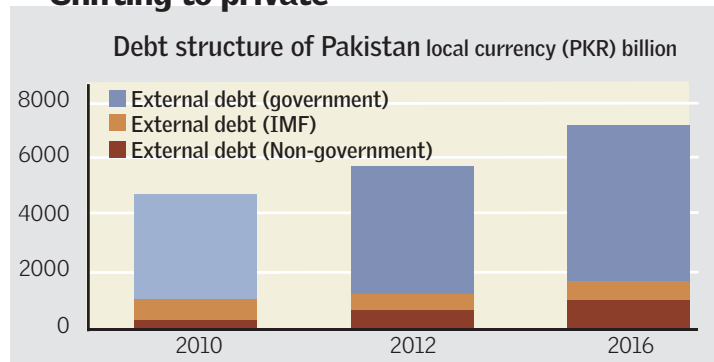
In Southeast Asia, the Belt part of the BRI comes into play in the field of high-speed rail. In July, China's railways operator secured its first major export order when Thailand approved a \$5.5bn high-speed service connecting southern China with Singapore. A month later, Kuala Lumpur broke ground on a \$13bn rail project, built by China's CCC, that will run from Malaysia's eastern coast near its border with Thailand to its western coast on the Malacca Strait.

China won't have everything its way. Japan has signed deals to build high-speed rail lines in Thailand and India using its own *shinkansen* bullet train technology and more will follow.

Alexious Lee, head of China industrial research at Hong Kong brokerage CLSA, says this competition will help the region. "The BRI is a catalyst," he says. "It boosts competition and drives down prices. China, better at construction, will win some rail deals; Japan, better at technology, will win others. Everyone benefits." **GM**

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

Shifting to private



Sources: World Bank, Haver Analytics, Moody's Investors Service

Powering through

Construction of the Gwadar port free zone in Pakistan; along the economic corridor; the China State Construction Engineering Corporation's Temburong Bridge project in Brunei

Indonesia's central bank reformer

GlobalMarkets talks to Agus Martowardojo, governor of Bank Indonesia, about making changes to his policy toolkit and whether another rate cut is on the cards



Exclusive GM interview

By Matthew Thomas

Central bankers can roughly be divided into two camps. There are those who thrive on the element of surprise, constantly keeping markets guessing with vague speeches that hawks and doves can get equally as excited about. The Federal Reserve's Alan Greenspan, who could speak at length without anyone understanding a word, is perhaps the best example. Japan's Haruhiko Kuroda has carried the torch for the latest generation.

Then there are those who value clear communication, trying their best to signal their intentions early to reduce the volatility that can result from policy decisions. Current Fed chair Janet Yellen is firmly in this camp; Amando Tetangco Jr, the recently retired governor of the Philippine central bank, made clarity almost another policy tool. But what about Agus Martowardojo, the governor of Bank Indonesia?

Judging by the Indonesian central bank's successive 25bp rate cuts in August and September, both of which surprised economists, you might think he was fond of the shock and awe approach. But Martowardojo sees himself as quite the opposite — and claims the need to communicate clearly to the market helped delay one of these cuts.

"Our opportunity to cut policy rates was in July," he says. "But when we reviewed our communication we hadn't signalled to the market about the possibility... I remember we were at the [monetary policy] board meeting until almost midnight because we were drafting a press statement to give a signal that if inflation, the balance of payments and other data support us, we will

take the opportunity to cut rates."

OUT WITH THE OLD

Martowardojo's emphasis on clarity has extended to the policy rate. As well as being among the most active central bankers in the world last year in terms of policy decisions — cutting rates six times — he was also one of the clearest reformers. He dumped the old 12-month policy benchmark rate, picking a seven-day reverse repo rate as the main policy tool in its place.

The move has won plaudits from analysts; DBS called the old policy rate "irrelevant". For Martowardojo, it was an obvious step to take. "The 12-month rate was not transactional; you could not hit it," he says. "But you can hit the seven-day reverse repo rate."

This attempt to improve the transmission mechanism — the means through which central bank policy decisions get fed through to the wider economy, generally through bank lending rates — is by no means a panacea. Kartika Wirjoatmodjo, Bank Mandiri's president, has said that non-performing loans are a bigger hindrance to credit growth, which fell into single digits this year. Jahja Setiaatmadja, president director of Bank Central Asia, told *GlobalMarkets* that lower lending rates at his bank have not led to a predictable increase in loan demand.

But the change to the policy benchmark was just one part of a transformation plan unveiled in October 2014, less than 18 months after Martowardojo took office. As well as revamping the policy rate, Martowardojo has also changed the reserve requirement, shifting the 6.5% requirement from a daily posting to a two-week average.

But although he sees room for major transformation in the country's capital markets, he says the bulk of the work reforming the central bank is done. That leaves him focusing on familiar tools — in particular, the question of where rates should go next.

Indonesia is in an enviable position. The ADB thinks the country will grow 5.1% this year and 5.3% in 2018; the World Bank also sees 5.3% growth in 2018 but has a slightly more rosy 5.2% projection for this year. Nor is inflation a major headache for the central bank. The ADB slashed its 2018 inflation projection in September, cutting it to 3.7% from the 4.5% it predicted earlier this year.

This appears to give Martowardojo more wiggle room to cut interest rates, *GlobalMarkets* suggests.

He is not so sure. And although Martowardojo identifies himself with the more transparent style of central banking, the nature of the job means certain buzzwords are unavoidable. After two rate cuts in two months, he has kept repeating one word in particular.

"After the last board meeting on September 22, we mentioned that we believed [the most recent 25bp rate cut] was sufficient," he says. "That was the word: 'sufficient'. I hope the market can read what that means."

Asked whether he will stay on at the central bank, as he is allowed to, after his five-year term expires in May 2018, he suggests it is time to stand aside to let his successor shoulder the burden. "My focus is to end my service so I can work together with the new governor and hopefully he can continue," he says. "Hopefully the system will find a good central bank governor." **GM**



"Sufficient'.
I hope the market
can read what that
means"

—Agus Martowardojo,
Bank Indonesia

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Exclusive GM interview

Despite a turbulent year, Meade stays focused on structural goals

Mexico has battled with market fright over the implications of US policy, Nafta changes and a series of natural disasters. But the country's finance minister now says advancing with reforms is top priority

By Katie Llanos-Small

Porfirio Diaz's lament has never sounded more appropriate. "Poor Mexico, so far from God, so close to the United States". The former Mexican president held office seven times over five decades from 1876 to 1911. But one could be forgiven for thinking the comment much fresher.

Indeed, if you wanted a worrisome headline on emerging markets this year, Mexico has had you pretty well covered. There were questions over the implications of the new administration in the US, which had campaigned on ad hominem attacks on Mexicans, among other targets. Uncertainty still lingers over the trade agreement under which Mexico exports \$36m of goods every hour. And in recent weeks, a series of natural disasters has killed people and destroyed infrastructure. Mexico has had it all.

And yet José Antonio Meade Kuribreña has his eye squarely on two core goals for the next nine months. One is to keep fiscal consolidation on track. The other, to support the country's reforms effort.

"If we are able to do both, I think we're going to have a good platform for growth going forwards," Mexico's secretary of finance tells *Global Markets*. "And we're going to have that platform consistent with the sound, stable and sustainable policy measures."

STRUCTURAL FOCUS

The twin goals of fiscal consolidation and the reforms endeavour go to the heart of what economists and analysts see as the keys to unlocking stronger growth in Mexico for the future.

The economy has expanded much more slowly than those of its big Latin American counterparts in the past 20 years, and, at

below 3%, has closely mirrored the growth rates of its peers to the north. That reflects low average labour productivity, largely a result of a persistent informal sector, according to Moody's.

Meade, who returned to the role of finance secretary last year after four years heading up other government departments, is fully committed to liberalising the economy.

"We need to continue implementing reforms," says Meade. "Those have proved useful in providing Mexico with alternative sources of growth in the face not only of a lot of uncertainty but a lot of structural challenges, especially in the case of energy. So I think we need to continue to work in making sure that the reforms are well embedded in the Mexican economy, so that we start to get the dual benefits of a more flexible, resilient and modern economy."

At the same time as it overhauls the

structure of the economy, Mexico is cutting spending. That has helped it defend its A3/BBB+/BBB+ credit rating and underscored the administration's commitment to following through on its promises.

Meade is equally certain that the government will keep up the fiscal consolidation project with planned budget cuts next year, even as the national election looms in July. "We're very committed, even in the face of an electoral year, to do what's right in terms of maintaining sound fiscal policies in order to maintain a commitment in terms of the fiscal consolidation programme that we have put forward."

After particularly deep budget cuts in the past two years, the toughest part is over, he adds. "Compared to the effort that we had to do in order to get here in our last project and the one before that one, the effort that we have to do in this project is I think small in comparison."

To help the fiscal consolidation, Mexico has adopted a policy of hedging the oil price. That gives a floor price to exports of the commodity, and offers some certainty when it comes to forecasting revenues for the year ahead. The hedge paid out in 2015 and 2016, supporting the economic package, Meade says. This year, the \$42 price hedge is likely to be lower than the average market price. But given the volatility in oil prices, "we were very comfortable that we had it", says Meade.

THE NAFTA QUESTION

Despite the commitment to Enrique Peña Nieto's long-term agenda for reform and fiscal tightening, Meade cannot escape the fact that it has been a bumpy road this year. Traders dumped the country's currency a year ago when Donald Trump won the US election. The peso's pounding was a reaction to Trump's direct antagonism of Mexico on the campaign trail. But it was also a proxy for more generalised worries about the fate of global emerging markets amid a more protectionist world order.

In the months that followed, it seemed that Trump's barking tweets would be worse than any tangible bite that might come from the administration in the near term. The Mexican peso rebounded and growth estimates were revised back up. "As compared to beginning of the year, we're looking at a better than expected performance," says Meade of the country's economic forecasts.

The biggest lingering uncertainty comes from risks around changes to the North American Free Trade Agreement, Nafta. Expectations have largely faded that the deal will be scrapped altogether, even

though Donald Trump reiterated his hope to that effect just this week in an interview with Forbes. Ultimately, the number of US businesses that benefit from the agreement make a complete withdrawal unlikely, analysts say.

But changes are in the works. Canadian, Mexican and US trade officials met this week for a fourth round of talks to update the 23-year old deal. The discussions offer an opportunity to modernise the agreement, argues Meade. That could make the deal more relevant, and the participating economies more dynamic and competitive, he says.

"If you look at some of the numbers that have been analysed, clearly there is scope for us to do better in terms of finding a better integration process in the North American region.

"Many of the things that we now trade between Mexico, the US and Canada, many of the sectors that explain the dynamism of the North American region were not there, or were not open, or were not part of the agreement," he says. "That means that we're getting a lot of integration that's outside the scope of Nafta. So if we can find ways to make sure that the integration process works through that agreement, I think that would be positive for all three nations and I think there's scope for doing it."

A mutually beneficial modernisation of the treaty should be the "central scenario", maintains Meade when pushed on whether he is optimistic about the outcome of negotiations.

"There's a case to be made for the way that the three economies work together and generate synergies that will complement each other from a demographic perspective," he says.

Meade points to energy as a potential area for a win-win outcome. "We can take better advantage of the fact that our energy matrixes are different. We can take advantage of the fact that through our reforms we can trade energy more freely. So I think that there's lots of scope for us to do better than we're doing now."

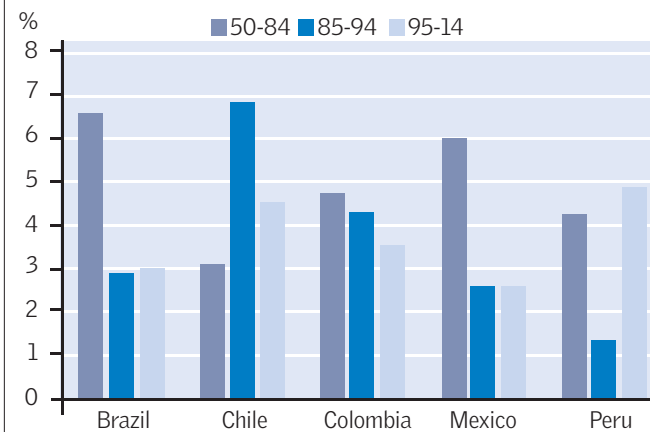
DEALING WITH DISASTER

Mexico has also had a tough run this year of natural disasters, being hit by both earthquakes and hurricanes. Meade is confident that the country has strong financial protection for such events. In addition to coverage through the capital markets in the form of catastrophe bonds, Meade notes that much of the public infrastructure is insured, and excesses are also covered.

"The fact that we had this multi layered approach where we put into place physical

All relative

Mexico's post Nafta economic performance (average GDP growth rate %)



Source: Penn World Table version 9.0/Moody's

insurance, excess loss insurance, and the cat bond — by accessing both the debt market and the insurance market — that provides us flexibility and that provides protection from a public finance perspective in terms of Mexico being able to solve these challenges that have hit us so hard."

Additionally, Meade is adamant that the companies will not need any public assistance to meet their obligations.

"Without a doubt. We've had several meetings with them. They are well regulated, well capitalized, they have very good practices they have access to the reinsurance market globally," he says. "So both from the adequacy of the reserves to the adequacy of their practices, we're absolutely confident that the insurance sector is going to be able to adjust into this process. Without it being a challenge on their solvency — or even a challenge to their liquidity."

ELECTION IN VIEW

Meanwhile, Mexican political actors are jostling for their positions to start the country's presidential race. Meade himself is being discussed as a potential candidate for the governing Institutional Revolutionary Party, PRI. Meade first worked in government in 1991, as an analyst on the privatisation of Banamex. He has held ministerial roles since 2011, when he was appointed as energy secretary. Subsequently he has managed the foreign relations and social development portfolios.

He will not be drawn on the speculations. "I think the time is not there yet. At this stage I'm very focused on working with congress to get the economic package approved."

It is a very diplomatic answer. Meade doesn't miss a beat. "That's what I do," he says. **GM**



I think that there's lots of scope for us to do better than we're doing now"

—José Antonio Meade



Exclusive **GM** interview

Espenilla eyes reforms, bond market boost

Nestor Espenilla, the new governor of the Philippine central bank, talks to *GlobalMarkets* about the country's infrastructure spending push, the need for a deeper bond market and his long wait for reform

By **Matthew Thomas**

On the fifth floor of the Bangko Sentral Ng Pilipinas' main building in Malate, Manila the past looms large. The walls are covered with portraits of the Philippine central bank's long line of past governors, from its first governor, Miguel Cuaderno, to Amando Tetangco Jr, the recently retired central bank chief whose 12 years in charge made him the longest serving in the country's history.

When *GlobalMarkets* visited the central bank in early September a portrait of the new governor, Nestor Espenilla Jr, had not yet been hung alongside his predecessors. But after more than three decades with the central bank, he could be forgiven for not feeling in a rush.

Espenilla is a career central banker having first joined the bank in 1981. He has served through tumultuous moments for the Philippines from the ousting of former dictator Ferdinand Marcos to the impact of the Asian financial crisis, which the Philippines survived much better than some of its neighbours. His most recent job was a crucial one: supervising the Philippines' banking system.

But he is now taking on the toughest job of his career:

The Philippines' economy is in better

shape than it has been in years. The country's 6.9% growth in 2016 made it one of the fastest growing in Asia. The Asian Development Bank thinks the country will grow 6.5% in 2017 and 6.7% in 2018. The careful stewardship of Tetangco, well regarded among international investors, has also helped.

But Nestor Espenilla knows that as others reap the benefits of this growth he needs to be careful to look for potential downsides. He is also painfully aware of how much work is still to be done.

BUILD, BUILD, BUILD

It can be hard for international observers to focus on anything in the Philippines besides Rodrigo Duterte, the country's unpredictable president.

Duterte's war on drugs has led to a rash of extrajudicial killings, drawing criticism from human rights groups at home and abroad. His penchant for rude jokes and outlandish threats has ensured he has attracted international attention like no Philippine leader since Corazon Aquino. But the economic story of the Philippines bears examination.

The country's growth trajectory is undoubtedly eye-catching but perhaps just as noteworthy is how much 'Dutertenomics' is making the most of this growth.

Carlos Dominguez, the country's finance

minister, is pushing an ambitious tax reform bill which will help the government invest as much as 7% of GDP in infrastructure over the coming years. Duterte's promise to "build, build, build" has made the Philippines a shining example to others in a region that suffers from chronic underinvestment in infrastructure. The image of the Philippine government as being slow and obsessed with process has changed almost overnight.

Espenilla speaks with determination about the need for these changes.

"For a long time we have been lagging in infrastructure investment and that's very evident today," says Espenilla. "The current administration is determined to catch up... It's necessary to promote our competitiveness and the efficiency of the economy as a whole."

Espenilla says the central bank will add between 0.4% and 0.6% to its inflation projections for 2018, presuming the tax reform bill is passed (it is still being debated in the Senate). But by 2019, the impact should go down to 0.1%.

That is a small worry for a country that is benefitting from quite low inflation. It was just 1.8% last year, and although the ADB thinks it will be much higher in 2017, it still projects just 3.2% inflation followed by 3.5% in 2018.

Espenilla is, of course, only working off

Ready for his close-up

Central bank governor Nestor Espenilla walks by the portrait-filled walls to his office at the Bangko Sentral Ng Pilipinas in Manila

early assessments but he points to the tax reform bill as evidence the government is being fiscally responsible at the same time as making a commitment to boost infrastructure spending. That should reduce headaches for the monetary policy board in the coming years.

“The positive signal the tax reform bill will send will potentially further dampen the impact,” he says. “If it’s going to lead to more productivity over the medium term as well as a more positive view by creditors, it will lower the credit risk assessment of the country in general ... It’s very crucial.”

One notable change for the Philippines is in its balance of trade. The Philippines swung into a small current deficit earlier this year, the first time it has done so since 2002, according to Moody’s. Espenilla expects the country to stay in a deficit for the foreseeable future but thinks it will be no higher than 1% of GDP.

It is hardly surprising that Espenilla strikes a positive note about infrastructure investment in the Philippines, something international observers agree is desperately needed. But he is realistic enough to know the government will not be able to go it alone.

For that reason, he is helping lead a push to develop the country’s embryonic domestic bond market.

A LASTING BOND

Espenilla has a number of priorities including the reform of the Philippines’ electronic payments system, an area where he has already made considerable headway. But he tells *GlobalMarkets* at length about just how important it is for bonds to play a much bigger financing role in his country.

The Philippines has a tiny bond market even by Asia’s standards, with just \$19bn of corporate bonds outstanding by the end of the second quarter of 2017, according to the ADB’s Asian Bond Monitor report. The government had another \$83bn outstanding but even that combined figure is less than just corporate issuance elsewhere. Malaysia, by comparison, had \$134bn of corporate bonds outstanding, with \$156bn more from the government.

“It’s largely a public sector debt market [in the Philippines] and even in that regard it is still shallow in places and very fragmented in terms of the maturity structure,” says Espenilla. “There are significant areas that can be improved.”

A major hurdle is the sheer wall of liquidity provided by the country’s banks, which compete hard to provide loans to the Philippines’ sprawling conglomerates. That leaves little room for bonds to develop at the short end of the curve. But Espenilla says the inability of these banks to provide long tenor loans in any real size means the Philippines has little choice but to deepen its bond market.

“The end game is to create a healthy capital market system that can lead to well-discovered prices in the long end,” he says. “This is where our insurance companies can come in and invest. They are natural buy-and-hold investors.”

This is a sensible step. The government plans to spend between \$160bn and \$170bn on infrastructure between now and 2020, Espenilla says. Multilateral institutions including the Asian Infrastructure Investment Bank can add to that. Public-private partnerships will also help.

But much of the shortfall will need to be made up by pure private sector investment. A vibrant long term bond market is all but crucial to make that happen. As a result, the BSP has teamed up with the Securities and Exchange Commission and the Bureau of Treasury to try to make real change happen.

The Treasury promised to increase its peso bond issuance as well as work to develop the repo market in the country — ostensibly the major change under discussion. The SEC will launch new financial benchmarks and approve a self-regulatory body for repo. Espenilla will do his bit by cutting reserve requirements for repo transactions, removing a cost hurdle that could scupper growth.

Espenilla says a roadmap for the development of the bond market will be launched imminently and after that it will take 18 months before a much deeper bond market is developed. That is an ambitious and

speedy target but Espenilla is unlikely to give up if the plan does not work as quickly as he hoped.

He has already demonstrated admirable patience over the course of his career.

STILL HOPING FOR CHARTER CHANGE

The first time this correspondent spoke to Espenilla was in August 2015 when the central bank was pushing the country’s politicians to approve a rewriting of the BSP’s Charter that would have raised its capital, bolstered its supervisory powers and better protected its employees from expensive law suits.

Espenilla spoke carefully at the time, choosing his words deliberately and precisely — and with no shortage of caveats. This personal style has not changed but what is remarkable is that nor have many of the things he is forced to talk about. More than two years later, he is still waiting for politicians to approve reforms at the central bank.

SB 1297, the umpteenth version of a bill detailing changes to the BSP’s charter, has been stuck in the political mud since being filed in the Senate this January. In July, Senate majority leader Vicente Sotto said the bill was not a priority, according to local press reports.

Espenilla admits that the tax reform bill is a higher priority for the government but he clearly hopes SB 1297 will not be forgotten amid the hubbub about tax reform.

“The BSP Charter amendment is still a high priority but it has to take its position in the overall scheme of things,” he says. “Passing the BSP Charter amendment is the optimal outcome but not withstanding that, even in its current form the BSP is able to function quite effectively. Nonetheless, we have not relented on our advocacy for getting that done.”

From bond markets to regulation to financial technology, this a central bank governor committed to change. His long list of goals makes him appear a man with little time to spare. But as *GlobalMarkets* left his office on a sunny September day, we hoped he would get a brief moment to slow down soon.

After all, he has a portrait to sit for. **GM**

“It’s necessary to promote our competitiveness and the efficiency of the economy as a whole”

“The end game is to create a healthy capital market system which can lead to well-discovered prices in the long end”

—Nestor Espenilla

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The whip-smart Dominguez ... was a canny pick for the role of finance minister

Finance Minister of the Year, East Asia Pacific

CARLÓS DOMINGUEZ, PHILIPPINES

Reformist zeal combined with a new approach to financing infrastructure

Since being appointed finance minister of the Philippines by Rodrigo Duterte in July 2016, Carlós Dominguez, a childhood friend of the president's, has barely stood still.

A five-pronged tax bill passed by the lower house and, in recent weeks, the Senate is the most ambitious reform package attempted by the government of the fast growing Asian state in decades. Then add in the ambition to tackle the country's woeful infrastructure. Previous finance ministers

talked up the need to build good roads, airports, schools and power grids yet all too rarely did their words result in meaningful action.

Dominguez's approach has been to engage with any source of funding willing to help build a better country, from private investors to multilaterals such as the Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank.

In this vein, he has pledged to widen the fiscal deficit to 3% by 2022, from an average of 2% over the last five governments, and to boost spending on infrastructure to 7.4% of GDP by 2022 from 5.2% in 2016.

INFRASTRUCTURE HIT LIST

Dominguez has drawn up a list of 75 infrastructure projects. Top of the to-do list are 12 projects worth \$4.4bn including a \$3bn north-south rail line, a \$374m dam in Quezon province and the expansion of Clark airport.

Given that the country is reckoned by the ADB to have a \$190bn infrastructure gap, Dominguez's ambitions are wholly dependent on raising more revenues — and this is where the tax plan comes in. The finance minister aims to generate Ps133.8bn (\$2.6bn) in additional revenues in 2018, according to data from CLSA, rising to Ps375bn a year by 2020, or 1.7% of GDP.

The reform package as it stands will raise taxes on those earning Ps5m or more, increase levies on fuel and tobacco and offset the pain by cutting the corporate tax rate to 25% from 30% to encourage more local and inward investment. The bill as it stands should be passed into law in December.

Of course, this only works if the country's economy continues to impress. And it's a case of so far, so good, with growth tipped by the IMF to rise from 6.8% in 2017 to 6.9% in 2018 and to 7% by 2022, making it one of the emerging world's faster growing economies.

The whip-smart Dominguez, a cheery soul with an easy way, who has worked in the private and the public sector before, having run two ministries in the 1980s under former president Cory Aquino, was a canny pick for the role of finance minister. So far, he has certainly not disappointed.—*Elliot Wilson*



"We need more products, more instruments"

Central Bank Governor of the Year, East Asia Pacific

AGUS MARTOWARDOJO, INDONESIA

Ambitious transformation plan is paying off

If there is an award for keeping calm and carrying on — remaining steadfast in the face of adversity — Agus Martowardojo would be a valid contender for the prize.

Bank Indonesia's (BI) Dutch-born central bank chief has endured plenty of highs and lows since being nominated for the top job in 2013 having spent the previous three years as one of the country's most successful finance ministers.

He has since charted the economy through some choppy waters,

keeping the economy motoring along thanks to a judicious sprinkling of interest rate cuts, including six in 2016 alone.

Martowardojo's genius has been to acknowledge that the innate fragility of Indonesia's economic model (it remains overly dependent on commodity exports, for instance) meant that a new, more technocratic approach to financial modelling was needed. In 2014, it unveiled a 10 year transformation plan, created in consultation with global advisory firm McKinsey and drawing on the help and advice of the IMF and the Bank for International Settlements.

In an exclusive interview with *GlobalMarkets*, Martowardojo outlines the benefits of the plan, noting that the country has revamped "not only [its] monetary policy but also [its] payments system, financial stability and money circulation. It's a huge transformation."

And so it is. On the monetary side, BI shifted its policy rate to a seven-day

reverse repo rate while modifying its reserve requirement system to an averaging system and launching a market-deepening programme, all introduced over a three year period.

Martowardojo admits that the currency, which touched a 10 month low against the dollar in the last week of September, has been weaker than anticipated but expects a strong economy to ensure the depreciation is "temporary". Economic output is tipped by the World Bank to grow by 5.3% year-on-year in 2017, having swelled 5% on an annualised basis — placing it third among the G20 group of countries — in the first half of the year.

Inflation continues to hover around the 3% mark in line with targets, while Martowardojo said on September 29 that two cuts in the benchmark rates in the previous two months were "sufficient", signalling a pause in recent policy easing.

BROAD AND DEEP

Going forward, key ambitions are to broaden and deepen the onshore financial and capital markets. "We need more products, more instruments," he says, adding: "The central bank has introduced negotiable certificates of deposits and derivatives like cross-currency swaps, call spreads and interest rate swaps. We have also improved standardisation between different contracts. This will help improve governance for both investors and issuers, which is very important to boosting the financial markets."

Asked whether he will stay on at the central bank, as he is allowed to after his five-year term expires in May 2018, he suggests it is time to stand aside to let his successor shoulder the burden. "My focus is to end my service so I can work together with the new governor and hopefully he can continue," he says. "Hopefully the system will find a good central bank governor."—*Elliot Wilson*



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Jaitley's financial acumen has really shown through when the shadows have been at their longest

Finance Minister of the Year, South Asia

ARUN JAITLEY, INDIA

Having triumphed with GST, Jaitley turns to privatisation

It's hard to think of a finance minister who has had a busier year — and a more stressful one — than India's Arun Jaitley. When he was first appointed to the role in May 2014 some questioned his aptitude for the job, but he has emerged as one of Narendra Modi's better ministerial picks as well as a fierce advocate of the Indian premier.

Over the past 12 months, Jaitley has faced a slew of challenges, any of which could easily have led to the departure of a lesser operator. True,

he came into office at a time when India's economy was enjoying a rare moment of serenity. He has not been forced to tackle soaraway inflation or sudden currency shocks, the bane of many of his predecessors. But he has done the simple things well, keeping inflation low and growth reasonably high while continuing to shrink the budget deficit.

Jaitley's financial acumen has really shown through when the shadows have been at their longest. Take last year's decision by Prime Minister Modi to pull all Rs500 (\$7.77) and Rs1,000 bank notes out of circulation overnight. The decision was purpose built, designed to crack down on 'black money' coursing through

the economy and which funded everything from under-the-table wage payments to terror activities.

LIQUIDITY BATTLE

With more than 90% of all consumer transactions conducted in cash, Jaitley knew he faced an uphill battle to keep enough liquidity circulating through the system. His ability to keep lenders well stocked with new bank notes and to reduce chaos to a reasonable minimum spared India from greater local unrest and opprobrium.

Then there is India's first nationwide goods and services tax (GST), introduced in July, replacing a tangle of local levies that businesses said discouraged them from trading across state borders.

The GST, viewed as a crucial move for a country desperate to raise additional revenues to pay for new rail lines, hospitals, highways and airports, was Modi's decision but Jaitley's responsibility to implement and on the whole the finance minister did a sterling job. The state collected more than \$14bn in fresh tax revenues in July alone, more than even Jaitley had been expecting.

The finance minister's next quests are just as pressing. In June, he announced plans to begin the process of selling all or part of Air India, a woeful state-run carrier — and more privatisations are likely to follow. Then there's the need to raise funds to inject fresh capital into the country's struggling public sector lenders, which are bowed down by \$191bn worth of souring debt. Any doubts that Arun Jaitley is the right man in the right job at the right time for India have now surely been dispelled.—*Elliot Wilson*



Central Bank Governor of the Year, South Asia

INDRAJIT COOMARASWAMY, SRI LANKA

Cool, calm and collected approach to central banking

South Asia is awash with highly capable central bank chiefs, yet Indrajit Coomaraswamy fully deserves this award for his unstinting professionalism and for ushering his country through some choppy waters over the past year.

Sri Lanka is in a strange position. On the one hand, foreign investment is flooding in as are tourists, with inward arrival numbers at a record high in 2016. Yet on the other hand, this is a highly friable economy struggling to deal with rising national liabilities (its public debt-to-GDP ratio is the highest in the region), a fragile currency

ESCAPING THE PAST

Improved modeling and better accountability and legal frameworks, he says, have created the conditions for a proactive monetary policy, ensuring that "interest rates will be insulated from the fiscal forbearance of the past, which made Sri Lanka a classic stop-go economy with recurring balance of payments crises and bouts of high inflation".

A data-driven approach to policy meanwhile has enabled the central bank to "keep interest rates fairly stable while containing pressure on prices and the current account of the balance of payments".

At a meeting on September 26, the central bank kept its key rates steady, saying inflation and private growth were under control. Coomaraswamy hopes that having got the basics right the central bank can begin to lay the foundations for a stronger economy capable of supporting an ambitious and growing middle class. "We are... creating the robust macroeconomic fundamentals necessary for accelerating growth and employment generation," the central bank chief says, adding that keeping the nation's public finances in order will "provide the space for credit creation to support private sector activity".

But there remains much to do. Coomaraswamy admits the debt situation remains "challenging" but is confident it can be handled "in a manner that does not disrupt" the creation of fresh growth and new jobs.

A fiscal consolidation programme aimed at cutting the budget deficit to 3.5% of GDP by 2020 will, he adds, generate primary surpluses in fiscal assets from the start of 2018.

Sri Lanka has many problems but also many positive assets and attributes. Its cool, calm and collected central bank chief is certainly one of them.—*Elliot Wilson*

"We are... creating the robust macroeconomic fundamentals necessary for accelerating growth and employment generation"

and a narrow tax base — though a recently passed bill aimed at simplifying the tax structure and widening the tax base should help to tackle the last of those issues.

In light of all of such challenges, the central bank's ability to keep calm and carry on has been admirable. In an interview with *GlobalMarkets*, Coomaraswamy says establishing a flexible inflation targeting regime has successfully kept a lid on prices over the past year, with consumer inflation up 6% year-on-year in August but tipped by the central bank to settle at around 5% by the end of the year.

Finance Minister of the Year, Middle East & North Africa

ANAS KHALID AL SALEH, KUWAIT

Public finances on track, DMO office set up

As with other hydrocarbon-dependent economies, the main challenge facing Kuwait over the past three years has been adapting to a new environment of lower oil prices. Buoyed by a strong sovereign balance sheet and hampered by local political divisions, policymakers in the Gulf state have been slower to react to falling revenues than their peers in some neighbouring countries.

Over the past year, however, significant progress has finally been made in implementing fiscal and economic reform. Anas Khalid Al Saleh, Kuwait's dynamic young finance minister, has been a key driver of this process. Educated in the US, Al Saleh joined the cabinet in 2012 as minister of commerce and industry following a career in business and banking. He moved to the finance ministry in January 2014 and has also held the office of deputy prime minister since January 2015.

In his capacity as finance minister, Al Saleh has played a leading role in putting Kuwait's public finances on a sustainable trajectory following the collapse of the oil price in late 2014. A sharp decline in commodity revenues has been at least partly offset by a reduction in fuel subsidies, implemented in September last year, and more recent hikes in electricity and water tariffs. Further subsidy cuts have been promised as well as curbs on public sector pay.

PROMISE OF TAXES

On the revenue side, Kuwait joined other Gulf states last year in pledging to introduce VAT and excise tax. A levy on corporate profits is also in the works and in addition Al Saleh has advocated the sale of minority stakes in Kuwaiti public sector firms as a means of raising budgetary funds and improving governance.

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

TAREK AMER, EGYPT

Back from the brink, Egypt begins to see benefits of reform

In his two years as head of the Central Bank of Egypt (CBE), Tarek Amer has been one of the main drivers of a reform programme that has transformed the country's economic outlook.

When the former Citi banker took over as governor in November 2015, Egypt was on the verge of a balance of payments crisis. Foreign exchange reserves were plummeting as policymakers struggled to defend the Egyptian pound's peg to the dollar in the face of dwindling tourism revenues and almost non-existent foreign direct investment.

Amer's appointment marked a turning point. In his first year in office the new governor won plaudits for pushing through an initial 14% devaluation of the pound, tightening monetary policy and lifting onerous capital controls.

This presaged the full liberalisation of Egypt's FX regime in November 2016 — a move that Amer describes as the pinnacle of the government's reform programme. "This bold move was planned for meticulously, down to the smallest detail, and its success was the catalyst that jumpstarted the economy," he says.

The introduction of a floating exchange rate and an inflation targeting regime was followed a week later by the approval of a new \$12bn three year extended fund facility (EFF) for Egypt by the IMF's board. Amer, who was a key architect of the IMF programme, says it was essential for the country.

"It was a clear demonstration of Egypt's steadfast commitment to reforming, to progressing, to unleashing the vast potential of our economy," he says. "Acquiring the IMF's support and stamp of approval was a vote of confidence to the international community."

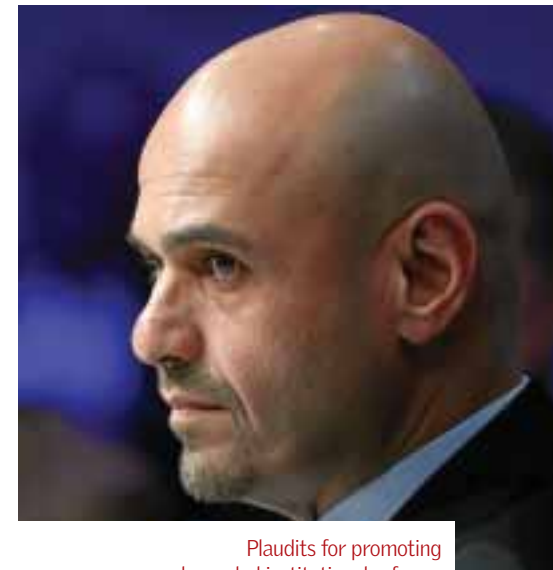
INVESTOR ENTHUSIASM

The response from both foreign and domestic investors was prompt and impres-

He was also responsible for the establishment of a debt management office within the finance ministry last year, which paved the way for Kuwait's stunningly successful sovereign Eurobond debut in March. The eagerly anticipated deal raised \$8bn of five and 10 year financing for the public budget at ultra-low yields on the back of strong demand from funds in Europe and the US as well as regional investors, with total orders topping \$27bn.

Even after the transaction, however, Kuwait's public debt to GDP ratio remained below 20%, leaving policymakers with ample room to tap international markets for further budgetary requirements over the coming years. The country also still boasts foreign exchange savings of \$550bn.

Al Saleh has also earned plaudits for promoting much-needed institutional reforms, including improvements in co-ordination between the finance ministry, the central bank and Kuwait's sovereign wealth fund. Moody's cited improvements in Kuwait's institutional capacity to effectively implement fiscal and economic reforms as a key factor in its decision to upgrade the outlook on the sovereign's rating from negative to stable in May—*Lucy Fitzgeorge-Parker*



Plaudits for promoting much-needed institutional reforms



"Acquiring the IMF's support and stamp of approval was a vote of confidence to the international community"

sive. Since November, Egypt's banks have received more than \$47bn in hard currency inflows. This in turn was reflected in the balance of payments. In the year to end-June, the current account deficit fell by 21.5% to just \$15.6bn.

The return of investor confidence also allowed Egypt to return to the Eurobond market after an 18-month absence. A record \$4bn deal received a warm welcome from global fund managers in January and a \$3bn follow-up in May was equally successful.

Amer has also proved adept at managing the aftershocks of currency liberalisation. The CBE tightened rates by 700bp between November and July to curb surging inflation while at the same time working to minimise market disruption through timely and transparent disclosure.

"We have undertaken definitive measures for the first time in the CBE's history to activate the expectations channel of the monetary policy transmission mechanism," says Amer.

Under his leadership, the CBE has also played a key role in encouraging Egypt's banks to fund the real economy. "We have managed to buttress SMEs by providing them with more accessible, attainable funding in order to enhance their businesses and power the economy forward," says Amer. "We have also progressed significantly in our ambitious targets for financial inclusion."—*Lucy Fitzgeorge-Parker*



"Achievements that substantially and consistently exceeded the expectations of IFIs, economic analysts and rating agencies"

Finance Minister of the Year, Central & Eastern Europe

DUŠAN VUJOVIĆ, SERBIA

Rigorous fiscal consolidation drives speedy recovery

Serbia's economic outlook has changed greatly since Dušan Vujović took over as finance minister in mid-2014. At that time, the country was heading back into recession after a shallow recovery in 2012. The fiscal deficit was running at more than 8% and debt to GDP had jumped to close to 70% from less than 45% four years earlier.

An IMF programme had gone off track in late 2011 and international investors were losing confidence in Serbia. Five-year CDS spreads were

above 350bp and fiscal liquidity was declining at an alarming rate.

Three and a half years later, the picture is very different. Last year, Serbia's economy expanded by 2.8%, the highest rate since 2008. A programme of rigorous fiscal consolidation brought the general government deficit down to just 1.3% of GDP for the year, less than half the 4% target set out in the 2016 budget, while the primary budget was in surplus for the first time in more than a decade.

In the first eight months of this year, the government also managed to run a fiscal surplus of more than 1.5% of GDP. As a result, the debt to GDP ratio fell to below 64% from a peak of close to 75% last year and further reductions are expected over the coming years. The recovery was reflected in Serbia's five-year

CDS spread, which was hovering around 130bp in late September.

"These are impressive achievements that substantially and consistently exceeded the expectations of IFIs, economic analysts and rating agencies," says Vujović.

STATE BUDGET REFORMS

The turnaround has been achieved through an ambitious programme of reforms covering both the expenditure and revenue sides of the state budget. Around 22,000 state employees have been laid off since the start of 2015, bringing the public sector wage bill down to below 10% of GDP. Meanwhile, general government revenue has risen to 44% of GDP, the highest level since 2007, according to Moody's.

The rating agency recognised Serbia's achievements in March, raising the sovereign rating by one notch to Ba3. Analysts cited policymakers' "highly successful fiscal consolidation", wide ranging labour market reforms and improvements to the business environment as the main drivers for the upgrade.

The IMF has also praised the Serbian administration, led by Aleksandar Vučić, for overseeing a remarkable economic recovery. "Serbia has pursued a comprehensive reform agenda encompassing public enterprises and state-owned enterprises, public administration, the financial sector and the business climate," Fund officials said in September. "Overall progress has been good."

They also noted that in several areas Serbia has surpassed the targets set by the IMF in early 2015 when it approved a new €1.2bn three-year stand-by arrangement for the country. As finance minister, Vujović played a key role in arranging the facility as well as in driving the overall fiscal consolidation that followed.—Lucy Fitzgeorge-Parker



"We transparently communicated about the exit well in advance"

Central Bank Governor of the Year, Central & Eastern Europe

JIRÍ RUSNOK, CZECH REPUBLIC

Deft handling of koruna cap removal with 'hard commitment'

For any central bank governor, lifting a longstanding exchange rate regime will inevitably be a delicate procedure. For a relatively new incumbent it might be expected to be still more nerve testing — particularly with memories of the market turmoil caused by the Swiss National Bank's surprise decision to remove the cap on the franc in January 2015 still fresh in the minds of bankers and investors.

It is therefore all the more impressive that, in his first year as governor

of the Czech National Bank (CNB), Jiří Rusnok managed the removal of a three-year cap on the koruna with a minimum of market disruption.

Introduced by his predecessor, Miroslav Singer, in November 2013 to counter deflationary pressures, the cap is credited with providing a major boost to the Czech economy. The CNB estimates that it added around two percentage points to the country's GDP in 2014-15.

With economic growth running at close to 3% and inflation approaching 2%, it was clear by the end of last year that the cap had served its purpose. It therefore fell to Rusnok, who took office in July 2016, to oversee its removal.

After months of speculation, this was finally implemented on April 6. Following

the announcement, trading volumes in the koruna jumped. Nevertheless, the Czech currency appreciated by just 2% against the euro and markets remained orderly.

CONSISTENT AND TIMELY

Rusnok tells *GlobalMarkets* that consistent and timely market communication was key to the CNB's success. "We transparently communicated about the exit well in advance and lived up to all our promises regarding its timing and design," he says.

To this end, the CNB Bank Board primarily used a "hard commitment" with a specified minimum duration. The central bank also provided information on the exit date considered likely by the Bank Board and on the timing assumed in its own forecasts. "This allowed all the market participants to prepare for the exit and there were no panic trades afterwards," says Rusnok.

The CNB also helped to soothe markets by repeatedly stating its readiness to act in the event of excessive koruna fluctuations. Rusnok notes, however, that in the event no intervention was required following the exit.

In his first year in office, Rusnok has also been responsible for translating new EU banking regulations, most notably CRD IV, into supervisory practice. In January, the CNB widened the group of systemically important banks in the Czech Republic, while in May it took the decision to double the countercyclical capital buffer rate for lenders to 1% from July 2018.

Other achievements include the introduction in December 2016 of legislation designed to enhance credit protection for consumers as well as further action to prevent overheating in the Czech Republic's buoyant banking sector.—Lucy Fitzgeorge-Parker

Finance Minister of the Year, Sub-Saharan Africa

KEMI ADEOSUN, NIGERIA

Fighting corruption improving transparency, boosting public finances

When Kemi Adeosun took over as Nigeria's finance minister in late 2015, she faced a unique set of challenges. The country was heading into recession for the first time in 25 years, hard currency was in short supply and capital controls were deterring much-needed foreign investment.

Nearly two years later, Nigeria is still struggling to adjust to a new environment of low oil prices. Nevertheless, the economy has returned to growth, public spending has been kept in check and the depletion of the country's FX reserves is steadily being reversed.

Adeosun has played a leading role in this turnaround. Her commitment to fighting corruption and improving transparency has not only boosted the public finances — notably through the removal of nearly 60,000 “ghost workers” from the federal payroll — but also helped to restore Nigeria's credibility among international investors.

As a result, Nigeria was able to return to the Eurobond markets in February for the first time in more than three years. Adeosun's hands-on approach to marketing was widely cited as a key factor in persuading global fund managers to buy the \$1bn 15 year note. The deal, the longest ever issued by a Sub-Saharan African sovereign, attracted nearly \$8bn of demand from around the world.

External investors were particularly impressed by the finance ministry's promise to use the proceeds of the deal — and of a \$500m tap in March — to finance long-term capital projects, including transport infrastructure.

A further \$300m of funding for infrastructure development was raised in June through a bond offering targeted at Nigeria's diaspora. Meanwhile, an inaugural local-currency sovereign sukuk in September was marketed to domestic retail investors as an opportunity to finance road building in the country.

The deal, which had a minimum subscription of just N10,000 (\$27.9), raised N100bn.

FILLING THE INFRASTRUCTURE GAP

Both these deals not only opened up important new sources of stable funding but also demonstrated Adeosun's commitment to innovation in financing Nigeria's yawning infrastructure gap.

As well as attracting new funding and improving budgetary discipline, the London-born minister is also working to tackle Nigeria's parlous record of revenue collection. She was the driving force behind the introduction in June of a tax amnesty. The deal, which will run until the end of March, offers defaulters the opportunity to avoid interest payments, penalty charges and prosecution in return for full asset declaration.

Throughout her tenure at the finance ministry, Adeosun has shown an admirable willingness to take on vested interests. She has been particularly bold in her approach to the country's notoriously opaque regional governments and state agencies. She is fighting to improve the collection and management of data across government ministries, departments and agencies in order to improve transparency and promote accountability.—Lucy Fitzgeorge-Parker



Restoring Nigeria's credibility among international investors

Central Bank Governor of the Year, Sub-Saharan Africa

LESETJA KGANYAGO, SOUTH AFRICA

Fighting off pressure to maintain investor confidence

Lesetja Kganyago's commitment to monetary discipline has played a key role in maintaining investor confidence in South Africa at a time of political and economic uncertainty.

Over the past 12 months, the governor of the South African Reserve Bank has managed to strike a delicate balance between the competing demands of rising inflation and the need to encourage GDP growth. This has been achieved by means of an orthodox but proactive approach to monetary policy.

After the South African economy slipped into recession at the start of the year, the Reserve Bank faced intense pressure from local politicians to cut rates to support growth. Echoing calls by president Jacob Zuma and his allies, a June report by the country's state ombudsman called for changes to the constitution to force the bank to prioritise the socio-economic wellbeing of citizens over inflation-targeting.

Kganyago — who has been in office since November 2014 — led a robust defence of the Reserve Bank's independence, both publicly and in the courts. In August, in response to a challenge by the bank, South Africa's High Court ruled that the instruction to change its remit was unconstitutional.

Within the limits of monetary discipline, however, the bank's governor has proved ready and willing to cut interest rates. After inflation fell to below 6% in April and then again to 5.1% two months later, Kganyago pushed through South Africa's first rate cut for more than five years in July. The benchmark rate was reduced by 25bp to 6.75%.

HIS OWN MAN

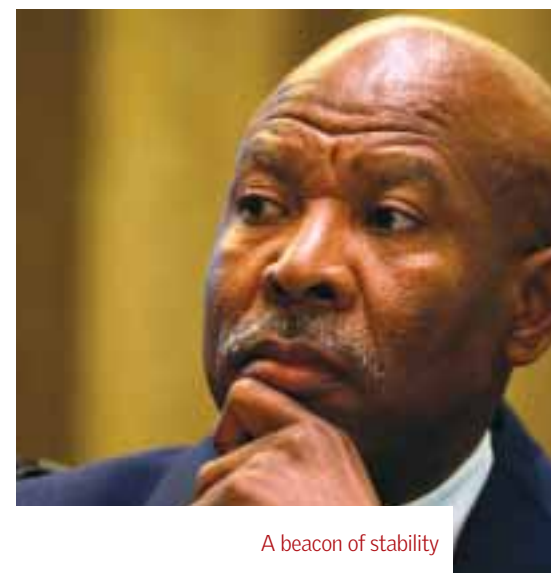
At the same time, Kganyago issued a clear warning to markets that the rate

reduction would be reversed in the event of a resumption of inflationary pressures. He also declined to deliver an expected second cut in September, citing the risk to inflation from the weakening of the rand due to investor concerns over economic uncertainty and the potential for further ratings downgrades.

Moody's reduced its rating on South Africa to Baa3 with a negative outlook in June, putting the sovereign one step away from the loss of investment grade status following a similar cut by Standard & Poor's in April. Fitch already rates South Africa at BB+.

Despite these headwinds, however, in September the South African Treasury was able to raise \$2.5bn from a dual-tranche Eurobond that included a 30 year note. The deal attracted strong support from emerging market investors and was priced at attractive levels.

Much of the credit for this success must go to the Reserve Bank, which under Kganyago has remained a beacon of stability and good governance against South Africa's increasingly fragile economic and political backdrop.—Lucy Fitzgeorge-Parker



A beacon of stability



"Now we're seeing a better functioning market"

Finance Minister of the Year, Latin America

JOSÉ ANTONIO MEADE, MEXICO

Fiscal discipline brings rating comfort

It had only been a few days since Standard & Poor's placed Mexico's BBB+ rating on negative outlook, amid concerns about the growing debt-to-GDP ratio, when in September 2016 new finance minister José Antonio Meade presented his budget proposal for 2017.

Meade immediately made his priorities clear, elevating the fiscal surplus target from 0.2% of GDP to 0.4%.

A year on, not only is Mexico on course to post its first fiscal surplus in nearly a decade, but the negative outlook from

S&P — as well as its peer Fitch — has been lifted.

In what was predicted to be a very difficult year for Mexico given the hostile attitude of its northern neighbour's new president, investors are impressed.

"His co-ordination with Pemex has been excellent, his fiscal stance has been very strong, and he has thus achieved very positive results," says Graham Stock, head of emerging markets sovereign research at BlueBay Asset Management.

Certain Mexico City-based investment bankers talk of Meade's "unrivaled" technical capabilities as he has stabilised the debt-to-GDP ratio — which had risen from 40% in 2014 to 44% in 2016.

It was Banxico that had to most carefully manage the depreciation of the peso after the election of Nafta-basher Donald Trump as US president. Yet the finance ministry's commitment to pre-established fiscal consolidation targets has "made

the central bank's job easier", Shelly Shetty, head of Latin America sovereign ratings at Fitch, tells *GlobalMarkets*.

FUEL PRICE MOVE

Shetty argues that Meade's most praiseworthy move came in January, when he went ahead with a controversial gasoline price increase "despite a challenging election cycle in the state of Mexico".

In conversation with *GlobalMarkets*, Meade admitted that liberalising a market is "always difficult" and that there is "never a good time". But it was the right thing to do to open the market to investment, increase energy security in Mexico, and maintain fiscal consolidation, he said.

"I think that [the liberalisation of gasoline prices] added confidence to the Mexican economy [and] in the administration of our fiscal balance," says Meade. "Now we're seeing a better functioning market that's receiving investment in all of its different sectors."

Such confidence from investors is crucial as Mexico faces uncertainty in its relationship with the US. "Meade has also been part of an economic team that has remained very focussed on what it can achieve in terms of the renegotiation of Nafta," says Stock. "They have not made outlandish claims about what they can do, and have honed their efforts where they do have room for manoeuvre."

Focussing on what he can achieve, Meade sticks to the fiscal line.

"The most important thing is to keep to Mexico's programme in terms of fiscal consolidation," says the minister. "[That way] we can end the administration with a downward trend in our debt to GDP ratio, can keep to the trajectory that we committed to previously, and can find strength in both our numbers and our commitment."—*Olly West*



"Ilan Goldfajn has restored the credibility of Brazil's central bank"

Central Bank Governor of the Year, Latin America

ILAN GOLDFAJN, BRAZIL

The inflation buster

When Ilan Goldfajn took the reigns at the Central Bank of Brazil in June 2016, he faced the unenviable task of grappling with annual inflation hovering above 9% while trying to avoid worsening Brazil's longest ever recession.

Admittedly, the challenging economic conditions somewhat aided the impressive drop in price rises that followed. But analysts have no doubt that Goldfajn's unwavering commitment to the bank's inflation target has been the central factor in turning around how investors view monetary policy in Latin America's

largest economy.

"Ilan Goldfajn has restored the credibility of Brazil's central bank and the inflation-targeting process," says Graham Stock, head of emerging market sovereign research at BlueBay Asset Management. "He has been very orthodox in his approach to inflation-targeting, and has managed to stay above the fray on the political side."

While Brazil's political drama shows no signs of slowing and growth is — though now positive — still low, on the monetary side of the equation the country is progressing rapidly.

In August, annual inflation stooped to 2.46% — the lowest level in 18 years. Moreover, Brazil has achieved this even as the central bank has made 600bp of rate cuts in the past 12 months.

Simultaneously, data from Euromoney Country Risk shows that Brazil's economic assessment has improved — from 53.58 in the third quarter of 2016 to 53.97 in Q3 this year.

GENTLE START

Some feel that the country is reaping the rewards of not cutting too quickly, too early. "Goldfajn was clever in starting quite slowly with monetary easing," says Edward Glossop, Latin America economist at Capital Economics. "He was very hawkish even though there was an economic case for rate cuts, and this won him credibility with the markets."

"This then allowed the bank more room to cut more aggressively later on."

Remaining hawkish during his first six months "rebuild the credibility" of the inflation target, says Stock.

Since then, Goldfajn has been "cautiously realistic" and "not shied away from highlighting risks both fiscally and in terms of prices", says the BlueBay economist.

Speaking to *GlobalMarkets*, Goldfajn himself says that showing commitment to lower inflation was key. "You need to show that you are committed to lower inflation, that you are committed to the inflation target, that you're not willing to accommodate the target, which was one of the demands [of some people] last year," says the governor.

So impressive has the reduction in inflation been that the National Monetary Council in June lowered the inflation target for the first time. The target will drop from 4.5% plus or minus 1.5% to 4.25% in 2019 and 4% in 2020 — with the tolerance range remaining the same.

Goldfajn is keen to point out, however, that the central bank's work is more than monetary policy. In December, it launched the so-called BC+ agenda, a series of reforms that aims to enable cheaper credit and increase financial inclusion and education, among other factors.

"We have taken reforms one by one [...] we are sending a project to forge a new relationship between the Treasury and the Central Bank," he said. "It is not only monetary policy."—*Olly West*

Finance Minister of the Year, the Caribbean

AUDLEY SHAW, JAMAICA

Beating expectations with focus on growth and stability

Campaigning on a promise of moving “from poverty to prosperity” propelled Jamaica’s Labour Party to a victory in the February 2016 general election. Nearly two years later, finance minister Audley Shaw remains just as committed to the vow.

“We have to send that message to every Jamaican,” he says. “We don’t need to be poor. We are rich in natural resources. We have one of the most beautiful countries in the world. We’re a country that has produced world icons from Bob Marley to Usain Bolt.”

For Shaw, though, it is a tough mandate. He inherited the thankless task of pushing through an extensive roster of economic reforms launched by the previous administration and necessitated by the country’s overwhelming debt to GDP ratio.

He is focused on cutting that debt load with an aggressive programme of fiscal consolidation including overhauling the tax system and jettisoning some 40% of state owned companies. To top it off, he’s eying a 5% annual GDP growth rate within four years.

“It’s a very ambitious target,” says Shaw. “We’ve come out of a period of very marginal 1% growth for far too long. We realise that we’re going to have to do some big things to achieve those higher levels of growth. Those big things have to be a combination of issues, including systematic investment promotion.”

The results are impressive so far. The country’s fiscal performance stands out, says Charles Seville, an analyst at Fitch Ratings. “The new administration has run a large primary surplus. The country still has a very high debt burden but it’s falling as a result of the tight budget.” The sovereign has “outdone expectations” in this regard, he adds.

In a progress review in June, the IMF commended the Caribbean country for

posting a primary surplus of over 7%. And Moody’s rewarded the sovereign with an upgrade of its foreign currency rating one notch, to B3 in November, extending a positive trend for the country’s credit rating that started in 2014. The agency cited the government’s “strong commitment” to cutting debt in its decision.

Capital markets investors are also applauding the country’s direction. The sovereign attracted \$3bn of demand for a dual tranche bond sale in August, printing a 5% 2028 and a 6.45% 2045. It used the fresh cash to buy back more expensive debt in a liability management exercise.

Now Shaw is focused on attracting investment. Already, China’s Jisco has committed to investing over \$2bn in an aluminium plant, while a further \$2.1bn is set to come in for hotels, housing and an industrial park around a new highway running from the north to south coasts of the country.

Shaw hopes to attract \$2bn-\$3bn more private investment for a logistics hub in the centre of the country, which will have air and sea links. Investors from China and Europe are interested, he says.

“Within another six months to a year we’re going to have that investment rolling,” says Shaw. —Katie Llanos-Small



“We’re going to have to do some big things to achieve those higher levels of growth”

Central Bank Governor of the Year, the Caribbean

HÉCTOR VALDEZ ALBIZU, THE DOMINICAN REPUBLIC

Strong respect and credibility, generating confidence

“Blood, sweat and tears” is how Héctor Valdez describes the efforts of staff at the Dominican Republic’s central bank over the past 13 years. Since becoming governor in 2004, just as a domestic banking and economic crisis spiraled, Valdez says the team has worked tirelessly to professionalise and institutionalise the country’s central bank. He points to the introduction of inflation targeting in 2012 as an example of a major step forward.

Today, Valdez commands exceptionally strong respect and credibility in the role and is seen as having generated huge confidence in the institution that he leads. “Others can deliver stable indicators but Valdez stands out for being particularly effective in interacting with the market,” says one observer.

Annual inflation has remained firmly in check in recent years and the Bank is transparent in its monetary policy decisions. The Bank’s monetary policy committee cut interest rates by 50bp, to 5.25%, at its July meeting as inflation fell below the bottom of the 3%-5% target range.

“Over the next 12 months, we see that there is room to meet the central bank’s inflation target providing there are no unexpected events,” says Valdez.

Unfortunately, it is the season for unexpected events in the Caribbean. Valdez spoke to *GlobalMarkets* shortly after Hurricane Irma had grazed the northern coast of the island and noted that the republic was lucky not to have much damage to its agriculture and farming industries.

“Hurricanes and floods threaten price stability in any economy that produces food, such as the Dominican Republic,” he says. “We need to be alert as we still have several months of the hurricane season left this year.”

Meanwhile Hurricane Harvey — which did not even come close to the country,

hammering Texas instead — is set to have a direct economic impact all the same. That’s because fuel prices have a direct connection to price stability for the Dominican Republic, he says.

“Oil has had some price fluctuations this year,” says Valdez. “But the impact of hurricanes Harvey and Irma and the probability of larger production cuts by Opec could cause upward pressure on the price of oil in the short term.”

Another important challenge for Valdez, however, is not directly related to monetary policy. Rather, it comes in the form of succession planning. Much of the bank’s credibility hinges on confidence in Valdez himself. And while there are no plans for his departure yet, some are already questioning if the institution can be perceived so robustly after the governor, who turns 70 next month, does step down. Valdez for his part argues that a deep bench of highly qualified policy advisors within the bank, as well as the institution’s legally guaranteed independence, will ensure stability and a smooth transition when he does eventually depart the bank.

“It’s not a question of just one person,” he says.—Katie Llanos-Small



“We need to be alert as we still have several months of the hurricane season left this year”



A philosophy for living from a Buddhist turned banker

Buddhist monk and former investment banker **Michael Dobbs-Higginson** has written a rip-roaring account of an astonishing life that has included success and failure in equal measures. Now facing terminal illness he uses this book to offer lessons on running a balanced life

A Raindrop in the Ocean: The Life of a Global Adventurer

By **Michael Dobbs-Higginson** Eye Books, £16.99

Review by Phil Thornton

Arriving in Liberia in the late 1970s for a meeting with the African Development Bank about its first ever Eurodollar bond, CSFB director Michael Dobbs-Higginson found his favourite hotel had misplaced his booking.

With a major coffee convention in town and all hotels booked, Dobbs-Higginson asked a taxi driver to take him to the best brothel in Abidjan. Arriving at a gaudily lit house, the banker asked the Madame for his “best girl”, whom he immediately paid \$100 to give him her room for the night.

So far, so good. But in the middle of the night he realised the brothel’s top prostitute was in great demand and he spent a sleepless night screaming at sex-deprived clients to “get lost in sailor’s French”.

“It was an effort to concentrate through my meetings with the AfDB but I had to put my best face on it,” he writes in his autobiography *Raindrop in the Ocean*. “I could hardly tell them I had not had a wink of sleep because I had spent the night in a whorehouse.”

Such stories adorn a fast-paced account of the life of a man born in a house without electricity in colonial Rhodesia who went on to become chairman of Merrill Lynch Asia Pacific.

The farmer’s son took a complicated journey towards a business career and it is those adventures as a logger, sailor and drug smuggler to name just three that provide the most laughs in an account of a life Walter Mitty dreamed of.

Dobbs-Higginson worked his way across the globe as a stevedore in San Francisco, a navigator in a seven metre sloop across the Atlantic without GPS and teaching English to Japanese students.

FROM WINDSURFING TO BUDDHISM

But the defining experience that informed his attitude to life was the gruelling training he undertook to become a Buddhist monk. Dobbs-Higginson persuaded a Japanese tourist he met in Hawaii to give him an introduction to a Buddhist monastery in exchange for teaching him to windsurf.

As a result he found himself knocking on the door of a monastery on Mount Koya where he spent three months of extreme austerity, learning Buddhism in a sub zero wooden complex while surviving on rations designed to fuel the body engine but no more.

Ordained a monk at just 22, he became the first Westerner to be accepted into the Shino-in monastery in

its 1,200 year history. “The whole experience had been a deep-end immersion from which I emerged stronger and with a different outlook on life,” he writes.

It also left him fluent in Japanese with a love for a country that in the early 1960s was still not popular with foreigners. He persuaded his future wife, Marie-Thérèse, to join him there in 1968. But four years later he found himself facing financial ruin.

He had built up a successful operation together with an American former GI acting as the represen-

After changes at CSFB made working there less enjoyable, he became the first person to lead a major walkout of a big team in the Eurobond market as he defected to Merrill Lynch.

SHARP TAILORING

As chairman of ML, Asia Pacific he pursued the eccentric ways that had marked him out from his British and American colleagues. He wore a kimono to a signing ceremony in London and a sarong



“Hating may feel justified and even cathartic at a time of great injury or upset but in reality it is a terrible waste of energy”

tative for Western tour operators such as Thomas Cook. They had branched out to redevelop a petrol station, adding a 10 storey office block above. One night, Dobbs-Higginson walked into the building and saw operatives bugging the floor his partner had been keen to let to the Libyan embassy.

The operation was run by the head of Tokyo’s CIA station, who first tried to recruit Dobbs-Higginson as a spy and, being swiftly rebuffed, offered him a choice of handing over his share in the business or having a “bad accident”.

Understandably furious he had been robbed of \$50m and forced to leave the country he loved, he once again drew on his monastic training to fend off complete despair. “Hating may feel justified and even cathartic at a time of great injury or upset but in reality it is a terrible waste of energy,” he writes.

Picking himself up, he looked for work at the investment banks that were starting to eye up Japan, choosing White, Weld & Co, which was taken over by Credit Suisse and then First Boston, where Dobbs-Higginson secured a seat on the board and helped pioneer the Eurobond market in Asia.

in Hong Kong. Indeed *Euromoney*, the parent of *GlobalMarkets*, marked his appointment with a cartoon of him in a Samurai kimono wielding a sword.

But the question most readers will ask is how a Buddhist monk can pursue a career in investment banking while living in accordance with his religious commitments. He insists there is no contradiction between being a Buddhist and pursuing a commercial career. There is no reason, he says, why one cannot aspire towards spiritual experience and truth while also leading an outwardly successful life.

Dobbs-Higginson, who quit banking in the 1990s, has been diagnosed with pulmonary fibrosis and given two years to live. He is using his remaining time to work on start-ups in Asia and Africa and to put down his life lessons for posterity.

At the heart of those has been a battle to minimise the ego that he says constantly demands satisfaction and focus that energy on creating something of tangible and lasting value to humankind. Thus he has harsh words for the culture of greed and bonuses he says led to the global financial crisis. Today’s bankers could take a leaf out of his book. **GM**

GlobalMarkets

Leaders in Middle East Banking and Finance

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Bank Audi





"Our resilience and success stem from a thorough understanding of the region, prudent practices and well-diversified income streams"

Nemeh Sabbagh, CEO, Arab Bank

The Arab Bank Group, noted Fitch in a recent update, has been a "consistently solid performer, even during difficult domestic or regional operating conditions."

This resilience has shone through once again over the recent past. In 2016, Arab Bank Group reported a 20% growth in net profits, with net operating income before provisions and taxes exceeding \$1.1bn and net profit after tax increasing from \$442m to \$533m.

In the first six months of 2017, Arab Bank Group continued to register impressive growth. "Our performance continues to be strong, and we delivered solid growth in underlying core revenues in the first half of 2017 despite the significant impact of the translation effect of foreign currency devaluations," says Nemeh Sabbagh, Arab Bank Group's CEO.

Net operating income for the six months ended June 30th 2017 reached \$593.5m, compared with \$591.3m for the corresponding period in 2016. Excluding the effect of the devaluations of a number of Arab and other currencies, says Sabbagh, the group's net operating income grew by 7%.

Long-Term Loan Growth

Currency devaluations have had a noteworthy short-term impact on loan growth, which expanded continuously between 2012 and 2015, but was flat in 2016, with the loans to deposit ratio reaching 70.4% at year end, compared with

Arab Bank: MENA's Primary Financial Gateway

67.1% at the end of 2013. "Excluding the impact of FX devaluations, the loan portfolio would have shown solid growth of 7% during the first half of 2017," says Sabbagh. "The Group has continued to record growth in its loan portfolio in most of its key markets, and in both its consumer and corporate banking business."

The asset quality of Arab Bank Group's loan portfolio has remained high in recent years, falling from over 5.6% at the end of 2013 to 4.9% of gross facilities as of December 2016. "It is worth highlighting that our NPL ratio is inflated by legacy loans that are fully provided for, but not written off from the books," adds Nemeh. "If we exclude loans that are fully provided for, Arab Bank Group's NPL ratio drops to slightly above 2%. We expect to maintain our high asset quality in spite of the challenging conditions of our environment. Our NPL coverage ratio was 116% at the end of 2016, and we are committed to keeping this ratio well above 100%, excluding the value of collateral held."

A range of other efficiency indicators also point to the strength of Arab Bank Group's overall financial profile. Its cost to income ratio (excluding provisions) fell from 42.3% in 2015 to 41.9% in 2016.

The Largest Global Arab Banking Network

There are plenty of reasons for believing that Arab Bank, which was established in 1930, is well-positioned to retain its position as the primary financial gateway in and out of the Middle East and North Africa (MENA) as well as between the countries in the region.

Sabbagh highlights three clear competitive strengths enjoyed by Arab Bank Group. The first of these is that with over 600 branches in 28 countries spread across five continents, the Group has the largest global banking network of any bank in the Arab world. Second, the Group operates in almost all Arab



countries, and has a sizeable presence in most of these markets.

Third, Arab Bank has deep roots in the region, with operations stretching back more than eight decades. This, says Sabbagh, has earned the Group credibility as a prudent, safe and successful bank across the region. It has also meant that the Group has built an exceptionally well-diversified and sustainable franchise. Sabbagh is confident that this well-diversified regional and global presence makes the bank ideally positioned to continue to support international companies to do business and grow in the region, and to help local companies to expand both regionally and internationally.

"The Bank's resilience and success stem from a thorough understanding of the region, prudent practices, and well-diversified income streams," Sabbagh says. "This has allowed Arab Bank Group to grow its business consistently and profitability under challenging regional circumstances, while ensuring the safety of deposits, providing quality service to customers, and delivering steady returns to its shareholders."

Sabbagh's confidence in the outlook for Arab Bank is underpinned by its comfortable liquidity and strong and robust capitalization. As of December 2016, its capital adequacy ratio under Basel III stood at a strong 15.68%. "This is a very comfortable ratio particularly since all of it is comprised of Core Equity Tier 1," says Sabbagh.

Company data

■ Total assets (2016)	\$475bn
■ Net profit (2016)	\$533m
■ Core Tier I ratio (2016)	15.68%
■ Loan to deposit ratio (2016)	70.4%

Qatar National Bank (QNB): A Middle East and Africa Icon

2016 was another highly successful year for Qatar National Bank (QNB), which was established in 1964 and is now the leading bank in the MEA region by total assets, loans, deposits and profits. In 2016, assets rose by 34% to QAR720bn, while net profit reached QAR12.4bn. In the first half of 2017, profits continued to expand at a healthy rate, growing by 7% year-on-year to QAR6.7bn. The bank's Capital Adequacy Ratio (CAR), meanwhile, stood at 15.6% at the end of June 2017, comfortably above the regulatory minimum requirements of the Qatar Central Bank and Basel Committee.



Ali Ahmed Al-Kuwari, CEO of Qatar National Bank (QNB), reports that in 2016 QNB reported the best absolute results in the group's history. Robust growth last year was supported by continued international expansion, notably in Turkey, where QNB completed the acquisition of the country's fifth largest private bank by assets, Finansbank, in June 2016. "The acquisition of Finansbank A.Ş, which has now been rebranded as QNB Finansbank, helped QNB Group strengthen its position as the largest financial institution in the MEA region," says Al-Kuwari. "This strong growth has helped QNB realise its aspiration of becoming a Middle East and Africa icon by 2017 ahead of schedule."

Continued International Expansion

QNB's acquisition of Finansbank, which now contributes more than 15% of the group's total balance sheet, is another key step in the growth of the bank's international franchise, where it is now represented in 31 countries across three continents, employing more than 28,000 staff. "We continue to witness significant growth in all international locations," says Al-Kuwari. "This has been driven by a mix of organic expansion, through an increase in the branch network, and by inorganic growth, via our acquisitions in Egypt in 2013 and Turkey in 2016."

Al-Kuwari says that while Egypt and Turkey are likely to remain the principal engines of QNB's international growth, the bank will continue to monitor opportunities elsewhere. "QNB intends to build a specialised international wholesale bank, and enhance its ROE-driven business focusing on fee and commission income," he says. "QNB will continue to scale up its international footprint through organic growth. It will also selectively explore inorganic growth opportunities in relevant markets in line with its vision of becoming a leading bank in the wider MEASEA region by 2020."

Overseas expansion will complement QNB's activities in the domestic market, where it remains the dominant player with a market share of more than 40%.

Among the Most Efficient Banks in the Region

Continued international growth has had a limited impact on QNB Group's overall asset quality and efficiency ratios. While the acquisition in Turkey led to an increase in the Group's non-performing loans (NPL) ratio to 1.8% in 2016, the ratio excluding Finansbank fell in 2016 from 1.4% to 1.2%, which bears witness to the overall quality of the bank's loan book. QNB's coverage ratio, meanwhile, is now 110%.

The Group's efficiency has also continued to improve. "Our prudent cost control policy and strong revenue generating capacity has allowed the Group to reduce its cost to income ratio to 29.3% at the end of June 2017, which is one of the best ratios among financial institutions in the region," says Al-Kuwari.

The strength of QNB's financial profile, twinned with its highly diversified and profitable business model, make Al-Kuwari confident that recent negative ratings action on the bank will be temporary. "We expect that once the political spat between Qatar and some of neighbouring countries is resolved, the overall outlook and rating both for the sovereign and for QNB will be amended," he says.

Al-Kuwari reports that recent political uncertainty has had a minimal impact on QNB's funding structure, and has not restricted its access to top-tier investors in Europe, Asia and the Middle East. "Moreover, we do not see



"Strong growth has helped QNB realise its aspiration of becoming a Middle East and Africa icon by 2017 ahead of schedule"

Ali Ahmed Al-Kuwari, CEO, Qatar National Bank (QNB)

any increase in the bank's overall cost of funds, with much of its funding in longer tenor facilities at market rates," he says.

QNB maintains a healthy liquidity buffer, both in local as well as in major international currencies. "We remain opportunistic in the international markets with respect to our wholesale funding platform, and will not be forced to go to the market due to the current situation," says Al-Kuwari.

Stable Deposits

QNB's deposit base is stable, with the bank's loan to deposit (LTD) ratio declining from 101.7% in June 2016 to 98.3% at the end of the first half of 2017.

"The liquidity profile of our deposits has remained quite stable over recent years, with a focus on diversification and tenor extension," Al-Kuwari adds. "We are continuing to initiate new client relationships globally to minimise our concentration risk."

"As we term out our deposit base, there is naturally a small increase in our cost of funds," he says. "However, deposit maturities are not concentrated and we anticipate the vast majority rolling over as we conduct business as usual."

Company data

■ Total assets (updated to June 2017)	\$211.0bn
■ Net profit (2016 v 2015)	2016: \$3.4bn v 2015: \$3.1bn
■ Return on assets (End 2016) 2016:	1.97%
■ Return on equity (End 2016) 2016:	19.7%
■ Cost to Income ratio (End 1H 2017 v 2016)	1H17: 29.3% v 2016: 30.4%
■ Core Tier I ratio (End 1H 2017)	15.6%



"We feel very confident in our numbers as they are primarily driven by core banking activity and strong business trends"

Issam Al-Sager, Group CEO, National Bank of Kuwait (NBK)

Established in 1952, National Bank of Kuwait (NBK) is the dominant bank in its domestic market, accounting for more than 30% of assets within the Kuwaiti banking system as of the end of 2016.

In 2016, the bank enjoyed another strong year, with net profits rising by 4.6% year-on-year (yoy) to KD295.2m (\$964.5m). Adjusting for exceptional gains from the Group's divestment of its investment in its Qatar associate (IBQ), net profits expanded by 11.2% yoy. On a similarly adjusted basis, net operating income rose by 5.4% to KD745.3m (\$2.4bn).

A range of other growth indicators in 2016 also underscored NBK's position as a market leader in Kuwait and one of the top 10 financial institutions in the region. Assets grew by 2.6% to KD24.2bn, while shareholders' equity increased 4.3% to KD2.7bn. Customer loans and advances rose marginally to KD13.6bn, despite larger than usual loan settlements as well as currency devaluation in Egypt, while customer deposits were up by 4.6% to KD12.6bn.

Asset quality, meanwhile, continued to remain exceptionally strong in 2016, with the bank's NPL/gross loans ratio falling to 1.28%, which is well below the regional average, and its NPL coverage ratio climbing to 365%.

"We feel very confident in our numbers as they are primarily driven by core banking activity and strong business trends," says Issam Al-Sager, Group CEO. He adds that NBK continued to build on this positive trend in the first half of 2017, posting an increase in operating income of 10.1% year-on-year (yoy).

A Vibrant Local Economy

Al-Sager says that he is confident about the prospects for continued improvement in profitability as well

National Bank of Kuwait: Expanding on all Fronts

as asset quality at NBK, underpinned by a vibrant local economy. "Economic activity in Kuwait is expected to maintain healthy growth trends despite the low oil price environment," he says. "Ambitious capital spending targets have boosted aggregate investment and should continue to do so in the period ahead, given that the government's ability to finance projects is not in question."

"NBK is well-positioned for this lucrative operating cycle and will continue to play a key role in financing the government infrastructure development plan," Al-Sager adds. This, he says, is principally a reflection of the bank's strong balance sheet, its proven track record of financing large and complex transactions and its international reach.

NBK's investment banking arm, NBK Capital, is also a major beneficiary of the government's ongoing capital spending initiatives. A recent example of a project on which NBK Capital has played a key advisory role is the financing of KNPC's landmark Clean Fuels Project, the largest of its kind in Kuwait's history.

A Commitment to Diversification

Diversification is a pillar of NBK's strategy, with consumer, corporate and private banking all contributing to the bank's overall growth. While consumer and retail banking will focus on growing market share by prioritising the digitalisation of its services, the corporate banking unit will continue to leverage its pedigree in loan structuring, underwriting and distribution. In private banking, meanwhile, NBK has well-regarded and long-established operations in Kuwait and Geneva, which will strengthen their market presence with its wide portfolio of innovative and products and client-tailored services.

Islamic banking is also a core part of the bank's broader product offering. In 2012, NBK took full control of Boubyan Bank, making NBK the only bank in Kuwait with a dedicated Shariah-compliant as well as conventional operations. "Boubyan Bank remains the fastest growing bank in Kuwait and will continue to concentrate on implementing NBK's conservative strategy with a customer-centric focus, helping the Group to diversify its income, product offering and client base," says Al-Sager.

International Strategy

Beyond its market-leading presence in Kuwait, NBK has continued to build a highly diversified international operation, with non-Kuwaiti business contributing 32% of total group profits in 2016. Especially noteworthy in 2016 was the performance of NBK Egypt (NBKE), which achieved significant growth following a transformation strategy implemented at the



start of 2015. This successful programme helped the NBKE to offset the impact of the drop in the value of the Egyptian pound.

Al-Sager is upbeat about the prospects for NBK's international business. "Our strategy going forward focused on organic expansion as we target high growth markets in the GCC," he says. "We are also prioritising Egypt where NBKE is positioning itself for continued growth as the country emerges from a period of instability and the reform programme starts to deliver economic strength and attracts foreign investment."

NBK is comfortable with its funding profile as well as its capital and liquidity positions. A highly successful \$750m transaction, executed under the bank's new \$3bn Global Medium-Term Note programme, generated demand of more than \$2bn.

The bank's capital plan, initiated in 2014 and aimed at ensuring timely compliance with Basel III regulations, has also been warmly received by investors; allowing for a successful issuance of a \$700m additional tier one (AT1) offering and KD125m tier II subordinated debt issue followed by a capital increase in 2016. Today, NBK has a comfortable capital ratio of 17.7%, well above the minimum regulatory requirement.

Company data

■ Total assets (updated to June 2017)	KD 25,453m
■ Net profit (1H 2017 v 1H 2016)	KD 165m vs KD 151m
■ Return on av. assets (End 1H 2017 v End 1H 2016):	1.34% vs 1.26%
■ Return on av. equity (End 1H 2017 v End 1H 2016):	11.3% vs 10.8%
■ Cost to Income ratio (End 1H 2017 v End 1H 2016)	31.5% vs 33.9%
■ Tier I ratio (End 1H 2017)	15.4%



Rising Through the Ranks of the World's Safest Banks

NBK Jumps 8 Places to 41st
in Global Finance's Ranking
of the World's Top 50 Safest Banks

For more information about this ranking and its methodology, please visit
the Global Finance website: gfmag.com/worlds-safest-banks-2017/



The Bank You Know And Trust

بنك الكويت الوطني
National Bank of Kuwait SAKP



"Over the years, AUB has consistently delivered growth in profit"

Adel El-Labban, Group Chief Executive Officer and Managing Director, Ahli United Bank (AUB)

Formed in 2000 following the merger of United Bank of Kuwait (UBK) and Al-Ahli Commercial Bank (ABC), Ahli United Bank (AUB) has rapidly evolved into one of the most successful financial institutions in the Middle East. "Over the years, AUB has consistently delivered growth in profit," says Group Chief Executive Officer and Managing Director, Adel El-Labban. "This is clear proof of the viability of its core business model, based on prudent and diversified streams of operating income, proactive risk management, intelligent cost spend and a continuous focus on developing cross-border business opportunities."

In 2016, AUB continued to build on its impressive pedigree, registering positive growth across all its business streams. In the first half of 2017, profits continued to expand, while return on assets rose from 1.8% at the end of 2016 to 2.1% at the end of June 2017, with return on equity increasing over the same period from 15.7% to 16.7%.

El-Labban says that the main drivers of AUB's robust showing have been its prudent lending strategy and effective balance sheet management, within a conservative and balanced risk framework. This has been reflected in a net interest margin (NIM) which has risen from 2.54% in 2015 to 2.56% in 2016 and 2.73% in the first half of 2017.

AUB's prudent lending policy has also been reflected in the bank's success in restricting its NPL ratio to just 2.3%, with a healthy provision coverage ratio of 155.6%, in spite of a difficult operating environment. "Although the outlook for the business environment is challenging, AUB remains committed to its strategy of early problem recognition and quick remedial action for potentially impaired accounts to maintain asset quality and to control its NPL ratio," says El-Labban.

Another notable indication of AUB's discipline

Ahli United Bank: Prudent and Diversified Growth

and efficiency is its exceptional cost to income ratio, which reached 27.8% at the end of 2016, compared with 28.3% the previous year. El-Labban attributes this to what he describes as the bank's "focused and judicious intelligent spend" approach without compromising on client service or investment in growth.

A Significant International Footprint

An important recent milestone in the bank's continued expansion was the opening in 2016 of AUB's fully-owned subsidiary in the Dubai International Financial Centre (DIFC). "The expansion into the UAE market was part of the bank's strategy of delivering an integrated presence in all the Gulf markets and of acting as a preferred regional intermediary for its clients, particularly in servicing their cross-border needs," says El-Labban.

Extending the bank's footprint to Dubai, he adds, builds on an international presence which already includes operations in Bahrain, Kuwait, Oman, the UK, Egypt, Iraq and Libya. Opening in the DIFC gives the Group's clients both in the UAE and throughout the region access to corporate and private banking services, as well as to wealth management, trade finance, treasury and cross-border financial products and services.

Although the Dubai operation is little over a year old, El-Labban says that returns have been positive and that he is confident about the growth prospects for AUB in the UAE. This will complement growth in other regional economies such as Bahrain, Kuwait and Oman, where El-Labban sees considerable opportunities in large-scale infrastructure projects backed in some cases by extensive government support. A range of non-oil sectors, tourism and other services are also identified as promising areas supporting economic growth in the region where AUB's corporate banking expertise will play a key role.

In retail banking, meanwhile, El-Labban says that AUB is aiming to increase financial inclusion and provide dynamic products and services through technological enhancements to a range of distribution channels. "AUB is positioned to leverage its technology to meet its customers' needs and to offer products and



services in a secure and client-friendly environment," he explains.

El-Labban is also optimistic about the prospects for Shariah-compliant banking in the region, and for AUB's Islamic banking unit. "Islamic banking has become systematically important in Asia and the Middle East, and this trend is expected to continue in the foreseeable future," he says.

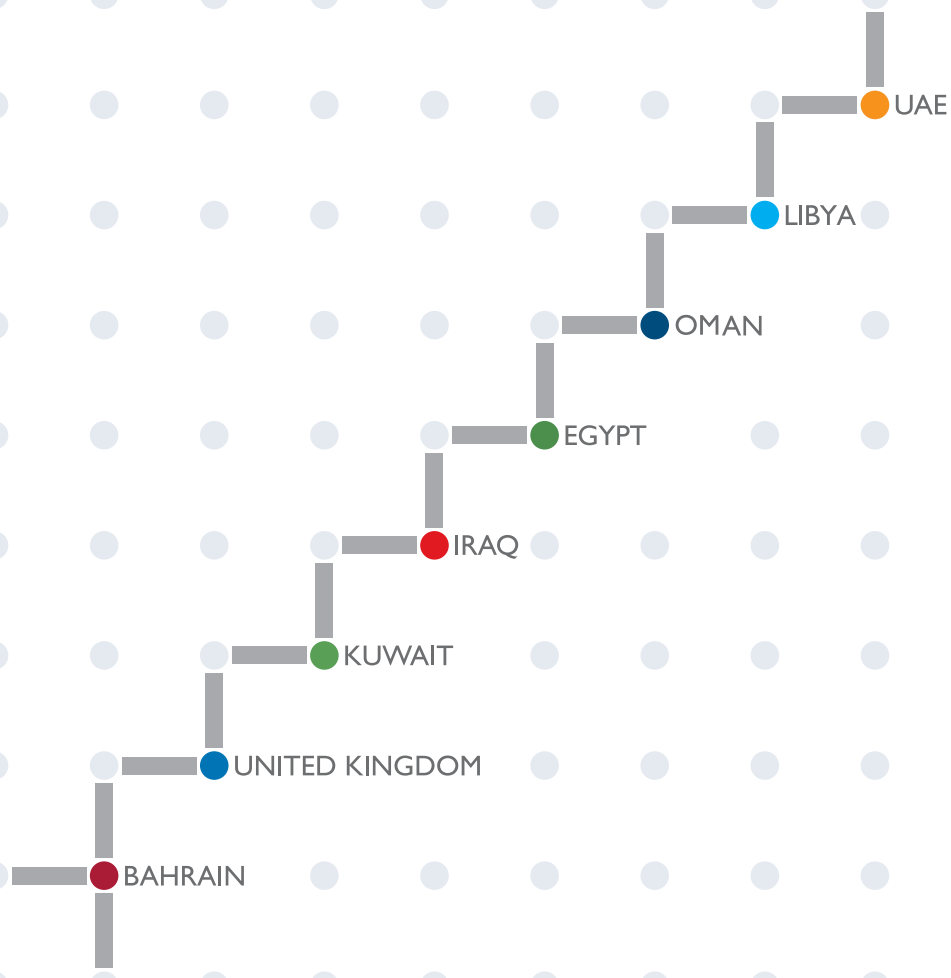
A Strong Liquidity and Capital Position

Across all its well defined and diversified business streams, AUB is well-positioned to continue growing over the coming years, given the strength of its liquidity and capital. "AUB has a strong liquidity position backed by its stable deposit base and high amount of liquid assets," says El-Labban. He adds that the bank's balanced loan to deposit ratio, which reached 85.7% at the end of June 2017, minimizes AUB's use of wholesale funding.

El-Labban adds that AUB's capital adequacy ratio (CAR) of 17.1% as of December 2016, is comfortably above the minimum regulatory requirement of 12.5%. "AUB Group aims to optimize its capital structure to maximize returns for shareholders," he says. "It continuously monitors and evaluates capital requirements and sources and pursues a conservative dividend policy."

Company data

■ Total assets (End H1 2017)	\$32.4bn
■ Net profit (End H1 2017 v 2016)	\$311.3m v \$570.6m
■ Return on assets (End 2016):	1.8%
■ Return on equity (End 2016):	15.7%
■ Cost to Income ratio (End H1 2017 v 2016)	27.5% v 27.8%
■ Core Tier I ratio (End H1 2017)	12.4%



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"We at CIB are working hard to ensure that our products and services reflect the latest technology and meet the demands of our customers"

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

Against a challenging macroeconomic and regulatory backdrop, Egypt's largest private sector bank delivered another impressive set of results in 2016, with net income reaching a record EGP6.01bn, up 27% on the previous year.

CIB's Chairman and Managing Director, Hisham Ezz El-Arab, says that the bank's outstanding performance in 2016 was a product of the combination of its strong fundamentals, nimble business model and thorough planning. "Foreseeing the potential for a very difficult year, in 2015 we made sure we maintained a strong balance sheet and preserved our robust fundamentals," he says.

Combining this with a strategic focus on asset quality and targeted revenue growth underpinned the bank's robust performance last year. It also ensures that CIB is well-positioned to navigate a challenging environment going forward. "The bank not only withstood the macroeconomic pressures and fallout from the currency devaluation in 2016, but also reported record revenues and net income for the year," says El-Arab. "While the economic environment has improved, significant challenges remain, such as inflationary pressures and the recent 200bp increase in interest rates."

Further Growth Potential

While deposits and loans at CIB have continued to expand in recent months, El-Arab is confident that there is abundant potential for further growth over the next 12-24 months. "With the IMF programme, continued economic reforms and an easing of inflationary pressures, we expect to see growth pick up in 2018, particularly given the solid fundamentals of the banking system – including excess reserves, ample liquidity and strong deposit base," he says. "Banks are well positioned to take advantage of pent-up demand among corporates, and seize the opportunities

Egypt's Leading Private Sector Bank

presented by the enormous young and unbanked population."

Specifically, El-Arab says that he sees room for expansion in traditionally under-developed areas of the Egyptian banking market, such as SME and consumer finance. "We at CIB are working hard to ensure that our products and services reflect the latest technology and meet the demands of our customers, especially the younger generation," he says.

The Importance of Data

Pivotal to this work is CIB's investment in data analytics which El-Arab believes will give the bank a competitive edge in identifying the precise needs and objectives of its retail customers, allowing the bank to deliver customer-centric and timely solutions. "Growth in an ever-changing world of technological advancement calls for continuous improvement in the services we provide for our customers," El-Arab explains.

One recent example of CIB's investment in technology is the Smart Wallet, introduced in 2016, which delivers secure, cost-effective and convenient financial services via mobile phones. Others include its collaboration with Vodafone to develop a broad spectrum of phone-based banking services and, more recently, its launch of the CIB mobile banking app.

The advance of technology and digitalisation, however, also calls for increased vigilance against fraud. "Critical to all our activities is our unwavering commitment to providing customers with a safe banking environment," says El-Arab. "To that end, we are implementing a comprehensive cyber-security strategy that is aligned with international standards." The most visible example of this commitment is the recent launch by CIB of its Cyber-Security Operational Center (SOC), the first initiative of its kind by an Egyptian bank, to monitor, assess and defend its enterprise information systems on an ongoing basis.

Healthy Longer Term Indicators

Beyond Egypt's favourable demographics and positive economic out-

look, there are plenty of other reasons underpinning El-Arab's upbeat assessment of CIB's prospects. One of these is the quality of its assets. Although NPLs reached 6.7% in 2016, El-Arab says that CIB remains confident that its disciplined risk management framework, stress testing and provisioning will safeguard the bank's loan portfolio against serious impairment. "Throughout a difficult year in 2016, our asset quality remained resilient," says El-Arab. "We are confident of our ability to protect the quality of our assets

through continued conservative risk, liquidity and balance sheet management."

Another reason for El-Arab's optimism is the strength of CIB's capital and liquidity position. Although Fitch warned recently that the capital of some Egyptian banks with a high exposure to foreign currency loans was weak-

ened by the flotation of the pound last November, between 2Q2016 and 2Q2017, CIB's capital adequacy ratio rose by 11% year-on-year (yoy) to 15.61%. "Our capital adequacy ratios well exceed the Central Bank of Egypt and Basel II guidelines, and our capital base has given us a significant competitive advantage," he says.

El-Arab also emphasizes that with customer deposits accounting for 96% of total liabilities, CIB has a very high quality and sustainable funding profile. "We are comfortable with our funding strategy, as we continue to attract a healthy inflow of new deposits," he says. "In addition, over 40% of our overall customer base are in current and savings accounts (CASA), which helps the bank in achieving its goal of creating a sustainable liability base, supported by stable and cost-effective customer deposits. It is the growth in these deposits that helps lower the cost of our funds."



Company data

■ Total assets (June 2017):	EGP277,678m
■ Net profit (June 2017 v June 2016):	EGP3,561m vs EGP2,756m
■ Return on assets (June 2017 v June 2016):	2.61% vs 2.94%
■ Return on equity (June 2017 v June 2016):	31.28% vs 32.66%
■ Cost to Income ratio (June 2017 v June 2016):	21.67% vs 22.53%
■ Core Tier I ratio (End 1H 2017):	14.55%

BLOM BANK: Well-Diversified Growth

Established in 1951, BLOM BANK is a leading Lebanese universal bank active across a wide range of financial services including retail, commercial and investment banking, wealth management, Islamic finance, capital markets and insurance.

Having posted a compound annual growth rate (CAGR) in annual income of 5.8% between 2010 and 2016, BLOM BANK continued to report strong numbers in the first half of 2017, earning \$233.5m in net profit, up just over 3% on the same period in 2016. During the same period, assets rose to \$31.32bn, and loans increased to \$7.69bn, with retail loans reaching more than \$3.2bn. As of the end of June, shareholders' equity stood at \$2.73bn.

Saad Azhari, BLOM BANK's Chairman and General Manager, says that the bank's first half performance implied a return on average common equity of 16.66% and a return on average assets of 1.54%.



Healthy Efficiency Indicators

A range of other healthy indicators point to an impressive increase in efficiency at BLOM BANK. One of these is the bank's NPL ratio, which was 3% at the end of June 2017, compared with an industry average of 3.6%. Azhari attributes this to BLOM BANK's strategy of prioritising asset quality and adopting very conservative credit and investment strategies. "Our coverage of NPLs is also quite solid at close to 84% without collective provisions, 111% with collective provisions, and 150% including collective provisions and real guarantees," he says.

Another notable indicator of improved efficiency at BLOM BANK is its cost to income ratio. This has fallen from 39% in 2014 to around 34% today, which Azhari says is the lowest among listed banks in Lebanon. "This is the result of the bank's strategy of controlling risk and enhancing efficiency," he says. "We envisage further efficiency enhancement due to the revamping of our branch network. This will involve the reduction of front and back office work through centralization, introduction of all-digital outlets, and the re-thinking of branch layout and function." These initiatives, says Azhari, will mirror trends across the global banking industry.

BLOM BANK's capital is also in line with international standards. As of June 2017, its capital adequacy ratio (CAR) was 17%, compared with a regulatory minimum for the end of this year of 14%.

Exploring Growth Opportunities in Lebanon

Although BLOM BANK has extensive international operations, Lebanon remains the bank's core market, accounting for 83% of total deposits and 74% of its loan portfolio at the end of 2016.

The most recent indication of BLOM BANK's commitment to the local market was its acquisition of HSBC's three branches in Lebanon, which were merged with BLOM BANK in June 2017 in a highly successful operation. "HSBC brought with it \$473.08m in loans, \$599.21m in deposits and \$840.6m in assets," says Azhari. "More importantly, HSBC brings to us a wealth of experience in corporate loans and trade finance that will enrich

our operations in those areas, besides introducing new ways of improving customer relations in an increasingly digital age. This will all have a positive impact on our asset consolidation and customer expansion."

The expansion of BLOM BANK's presence in the domestic market comes

against the backdrop of brightening prospects for the Lebanese economy, according to Azhari. "Growth is expected to reach at least 2% in 2017, driven by rising tourism revenue, increased exports and investment spending, and an improvement in overall sentiment," he explains. "In the fall, the process of selecting companies drilling for oil and gas is due to be completed, which should generate more confidence in the outlook for the economy."

With a new government plan to stimulate economic growth and development also in the pipeline, Azhari says he is confident that the 4.2% loan growth posted in the year to May 2016 will be eclipsed over the next 12 months.

Diversified Growth

Beyond loan growth, Azhari believes the prospects for growth across BLOM BANK's well-diversified local and international franchise remain positive. Its private bank, which has assets under management (AUM) in excess of \$7.5bn, has recently moved to new premises in Geneva, which is an expression of confidence in its longer-term expansion potential. The newly



"We envisage further efficiency enhancement due to the revamping of our branch network"

Saad Azhari, Chairman and General Manager, BLOM BANK

created BLOM Asset Management Company will operate as a separate institutional entity to handle the burgeoning investment management business which has funds of more than \$630m. In Saudi Arabia, meanwhile, BLOM BANK has just launched the first Smart Beta Fund in the Middle East in co-operation with MSCI Emerging Markets.

Other business areas that continue to show promising growth are insurance, where BLOM BANK recently opened its ninth branch in Lebanon, and Shariah-compliant banking. "Although this is still minuscule in comparison with conventional banking, we are still the only conventional bank in Lebanon with an Islamic window," says Azhari.

A Cautious International Strategy

While BLOM BANK has 131 branches in its overseas network, Azhari says that the bank is following a very cautious expansion strategy, characterised by a reluctance to go overseas simply to enlarge its foreign footprint. "A very good example is our disinclination to enter the Turkish market to date," he says.

"As to the coming one to two years, I think the bank will work on deepening and solidifying its activities in the countries where it has an existing presence, but keeping a watchful eye out for new opportunities in the regional market," Azhari adds.

Company data

■ Total assets (updated to June 2017)	\$31.32bn
■ Net profit (2016 v 2015)	\$462.83m vs \$404.26m
■ Return on assets (End 2016) 2016:	1.55%
■ Return on equity (End 2016) 2016:	16.63%
■ Cost to Income ratio (End 1H 2017 v 2016)	34.32% vs 35.88%
■ Core Tier I ratio (End 1H 2017)	17%



"We will be looking to further strengthen our leadership in our main markets"

Samir Hanna, Chairman and Group CEO, Bank Audi

Founded in 1830 and incorporated in its present form in 1962, Bank Audi is one of the largest banks in Lebanon and has the fourth largest coverage among the top 15 Arab banks in the Middle East and North Africa (MENA).

Against the backdrop of a challenging macro-economic and regional geopolitical environment, Bank Audi's results for 2016 bore witness to the group's resilience and flexibility, as well as to the soundness of its integrated and well-diversified growth strategy. In 2016, consolidated assets rose by 5%, from \$42.3bn to \$44.4bn. Adjusted to include assets under management, fiduciary and custody accounts, total assets reached \$55.2bn as of the end of December 2016. Consolidated net profits, meanwhile, expanded in 2016 by 16.6%, from \$403m to \$470m.

A Commitment to the Lebanese Market

Although international expansion has been a hallmark of Bank Audi's strategy for more than a decade, Lebanon accounted for 59.1% of its assets as of June 2017 and for 51.1% of the group's net profits in the first half of the year.

The bank is confident about the growth prospects for its home market. "The election of the new President and the formation of the national unity government in October 2016 have had a positive impact on economic conditions," says Samir Hanna, Bank Audi's Chairman and Group CEO. International analysts, he adds, have revised their forecast for GDP growth in 2017 from 1% to between 2% and 3%, which is still well below Lebanon's potential output.

"Lebanon has a wide range of resources at its disposal, including an innovative and resilient business sector, and a pool of high quality human talent," says Hanna. "But if the country is to unlock its economic potential, it will need to adopt structural reforms, eliminate infrastructural bot-

Bank Audi: Continued Resilience in a Challenging Environment

tlenecks and improve competitiveness."

Lebanon's brightening political and economic prospects have already been reflected in an encouraging increase in bank deposits. Hanna says that he expects the positive momentum of the first half of 2017 to be maintained, with deposit growth projected to reach \$10bn this year. "Deposit growth at Lebanese banks is being supported by sustained inflows which reached \$6.8bn in the first half of 2017, an increase of 9.4% compared to the corresponding period in 2016," says Hanna. He adds that in spite of domestic and regional uncertainty, Lebanon has been attracting 18% of average inflows to the MENA region over the last five years, even though it accounts for just 1.5% of the region's consolidated GDP.

Strong Asset Quality

While the strength of deposit inflows is one yardstick of Bank Audi's continued resilience, another is the standing of its loan portfolio. "Despite the weakening and uncertain regional environment, the bank continues to enjoy good asset quality," says Hanna. He reports that gross doubtful loans accounted for just 3.3% of the total at the end of June 2017, which compares favourably with sector averages of 3.6% in the MENA region, 7.2% in emerging markets and 7.4% globally.

"The bank's prudent lending strategies and conservative provisioning policies have been at the core of its ability to maintain a good quality of assets in a tough operating environment," Hanna adds.

An Expanding International Footprint

Given the limitations of the Lebanese market due to its relatively small size, international expansion has been a key component of Bank Audi's strategy since 2004. Between then and 2017, Bank Audi has successfully engineered a transformation from being a Lebanese universal bank to a regional universal player. During this period, its assets in foreign subsidiaries (outside Lebanon) have grown from 16.4% of the bank's total to 41%, while those subsidiaries' share of Bank Audi's loans have expanded from 20.8% to 63.6%. As of June 2017, 48.9% of the bank's net profits were generated in subsidiaries outside Leb-



anon, compared with 3.3% in 2004. Today, Bank Audi has 122 branches in the MENAT region (excluding Lebanon), with 15 in Jordan, 45 in Egypt and 52 in Turkey.

Hanna says that Bank Audi expects a sustained albeit measured activity growth for the coming years with a more than proportional increase in net earnings due to economies of scale and productivity gains. "We will be looking to strengthen our leadership in Lebanon and consolidating our market background in Turkey and Egypt where we have a visible presence while continuing on growing the asset under management for the Private Banking business line," he says.

He adds that in the case of Bank Audi's Turkish subsidiary, Odea Bank, commitment to its market was illustrated by its recent inaugural subordinated bond issue. This was a \$300m 10 year non-call 5 Basel III-compliant tier II transaction which was substantially oversubscribed.

Bank Audi's longer term growth ambitions are not confined to Turkey and Egypt, nor to the MENA region. "Once our objectives in these markets have been reached, the Groups plans to explore new areas for future expansion," he says.

With consolidated shareholders' equity of \$3.8bn as of the end of June, and with a CET1 ratio of 9.7%, Bank Audi is sufficiently capitalised to pursue growth opportunities as and when they arise.

Company data

■ Total assets (updated to June 2017)	\$439bn
■ Net profit (2016 v 2015)	\$470m vs \$403m
■ Return on assets (End 1H 2017 v 2016)	0.98% vs 1.10%
■ Return on equity (End 1H 2017 v 2016)	12.97% vs 14.75%
■ Cost to Income ratio (End 1H 2017 v 2016)	53.55% vs 46.95%
■ Core Tier I ratio (End 1H 2016)	9.7% vs 9.1%

Bankmed: Continued Expansion at Home and Abroad

With a distinguished history dating back more than 70 years, and with total assets of over \$16bn, Bankmed has positioned itself at the forefront of the Lebanese banking industry and earned a reputation for being one of the most innovative and dependable partners within the country's financial services industry.

Today, Bankmed's principal activities are commercial and private banking, as well as investment banking and wealth management through its network of 66 branches in Lebanon and a well-diversified presence overseas.

In spite of the uncertain political and economic outlook for the region, Bankmed remains confident about the prospects for Lebanon's economy and for its banking industry. "The Lebanese economy has shown gradual improvement since the conclusion of a two-and-a-half-year political impasse," says Mohamed Ali Beyhum, Bankmed's Executive General Manager. "The election of a new president and the formation of a new cabinet have restored confidence in the country's ability to boost its economic status, and conditions within the country have been well-maintained in spite of the ongoing war in neighbouring Syria." Throughout the recent regional turmoil, says Beyhum, Lebanon's economy grew by an annual average rate of 1%. In 2017, growth is expected to accelerate to 2%.

With assets equating to more than 350% of GDP, Lebanon's vibrant, well-regulated and strongly capitalized banking system is one of the main drivers of the country's economic resilience. The strength of the system, says Beyhum, is underpinned by private sector deposits which have expanded impressively over the past five years, reaching \$167.7bn by June 2017. This is a rise of 8.5% from June 2016, with 80% of new deposits coming from residents. Beyhum adds that much of this growth is attributable to an increase in foreign currency deposits, which rose by 11.7% in the year to June 2017, reaching \$111.8bn.

Unwavering Confidence

A recent illustration of investors' confidence in Lebanon's banking industry in general, and Bankmed in particular, came this summer. In June, OLT Holdings, which is owned by the prominent Jordanian investor, Ala Al Khawaja, announced the purchase of a 42.2% stake in the capital of GroupMed Holding. "This acquisition is

an unwavering display of confidence in Bankmed as well as in Lebanon's banking sector and its economy," says Beyhum. "It also serves as an endorsement of the bank's current strategy to promote its growth and improve its performance."

In the domestic market, this commitment to further growth is underpinned by Bankmed's continued investment in expanding its branch network and building on its success in areas such as corporate and retail banking, where it has seen significant growth. It is also supported by the bank's investment in state-of-the-art technology, an area in which Bankmed is recognised as a local pioneer.

A Prudent and Selective International Strategy

Bankmed also remains committed to its international operations, where it has pursued an expansion strategy founded on the principles of prudence and selectivity, establishing successful franchises in markets ranging from Saudi Arabia and Turkey to Iraq and Cyprus. Its private banking arm, Bankmed Suisse, which has been operating in Geneva for more than 30 years, meanwhile, remains one of the bank's most successful units.

A more recent illustration of Bankmed's expansion strategy was its establishment in 2015 of a presence in the Dubai International Financial Centre (DIFC), which has granted the bank a prestigious category 1 license, allowing it to take

deposits and provide credits.

Given that a category 1 license is granted only to the most financially sound and best-governed institutions, this represents another important vote of confidence in Bankmed's credentials. "Our presence in the DIFC serves as a clear attestation of Bankmed's continuous effort to maintain its leading position and sound reputation," says Beyhum. "It also reflects the Bank's progressive approach to widening its client base and addressing its customers' financial needs wherever they are, given the importance of Dubai as a crossroad between three regions: Africa, the Middle East and Asia."

A Presence in Insurance, Investment Banking and Securities Trading Bankmed's international footprint is not restricted to commercial



"The acquisition is an unwavering display of confidence in Bankmed"

**Mohamed Ali Beyhum,
Executive General Manager, Bankmed**

banking and wealth management. As part of its expansion in Turkey, Bankmed acquired a local insurance company, Turkland Sigorta (T-Sigorta) in 2013, complementing its activities in the insurance sector in Lebanon. Bankmed has recently completed a license process to establish an insurance subsidiary in the UK.

Investment banking and the securities trading also play a pivotal role in Bankmed's regional expansion. In 2017, the bank revamped this business line in order to consolidate all investment, hedging, and trading activities in one place to better serve its clients and ensure a comprehensive coverage for all asset classes. Future plans include the establishment of a new unit to cater for non-resident high net worth and institutional clients, and the expansion of a desk dedicated to sourcing and placing corporate advisory transactions, says Beyhum.

A Comfortable Liquidity Position

Maintaining high capitalization and comfortable liquidity positions remains one of Bankmed's major objectives. The bank's capital adequacy ratio reached 15.4% as at end of 2016, exceeding the Central Bank's regulatory requirement of 14%. Its Foreign Currency (FCY) liquidity ratio, meanwhile, stood at 33.3% at year-end, well above the 10% regulatory requirement set by the Central Bank.



Company data

■ Total assets (updated to June 2017)	\$16.3bn
■ Net profit (1H 2017 v 1H 2016)	\$79.38m vs \$77.08m
■ Return on assets (1H 2017)	0.98%
■ Return on equity (1H 2017)	10.30%
■ Cost to Income ratio (1H 2017 v 2016)	56.65% vs 58.59%



"We do not foresee any significant drop in demand for trade or project financing in the near future"

Dr R Seetharaman, CEO, Doha Bank

Inaugurated in 1979, Doha Bank is Qatar's third largest conventional bank measured by assets, with a 7% market share, and the country's second largest retail bank, with 31 local branches, 15 e-branches and more than 120 ATMs.

Having registered consistent growth over the last decade, with net loans growing since 2007 at a compound annual growth rate (CAGR) of 13%, 2016 was another highly successful year for Doha Bank, which posted growth across the board. Loans and advances in the key areas of government, real estate, services and contracting expanded by 6.5% or QR3.6bn to reach QR59.2bn.

Customer deposits, meanwhile, grew by 5.6% or QR3bn to reach QR55.7bn in 2016, with most of the growth accounted for by term and corporate sector deposits.

Another notable development in 2016 was the continued expansion in the bank's investment book, which grew by 20.6% or QR2.5bn, to QR14.7bn. Most of this growth was driven by investment in SOQ (State of Qatar) fixed income instruments.

Asset quality remained strong in 2016. The bank's non-performing loan (NPL) ratio has been consistently low and stable, falling from 3.27% at the end of 2016 to 3.11% at the end of the first half of 2017, with its loan loss coverage ratio reaching 119%. The NPL ratio in Doha Bank's real estate portfolio, meanwhile, is negligible at 0.04%.

Doha Bank's robust performance in recent years provides a strong platform for the implementation of its growth strategy. This is to



Doha Bank: A Strong Platform for Growth

leverage the bank's strong existing distribution channels in order to expand its loan book, produce more revenue and generate enhanced operational efficiencies.

Building on a Strong Domestic Franchise

Doha Bank's CEO, Dr R Seetharaman, says that the impact of political uncertainty in the Gulf on the Qatari economy and on the country's banking industry is measurable and manageable. The expansion of the Qatari corporate sector, he explains, is strongly correlated to domestic activity, which in turn is driven chiefly by public sector spending on long-term, large-scale infrastructure projects. These include construction in advance of the 2022 FIFA World Cup and a range of other major developments underpinning the government's Vision 2030 agenda, which is aimed at building a well-diversified and sustainable economy.

"The current situation is unlikely to have a major impact on these long term projects," says Seetharaman, "so we do not foresee any significant drop in demand for trade or project financing in the near future. Moreover, as the bank's net interest margin (NIM) is protected by its ability to re-price loans we don't see the current situation as a major concern."

"Additionally, as oil and gas are the main contributors to the government's revenues, any rise in the oil price in international markets would boost domestic economic activity and further ease the current situation," he adds.

An expanding International Footprint

Since opening its first overseas representative office in Dubai in 2004, Doha Bank has consistently added to its international network. Between 2012 and 2016, international assets grew at a CAGR of 18%, and now account for 19% of the bank's total assets. In 2016, the bank built on its international presence by opening its 13th overseas representative office in Bangladesh.

Continued targeted international expansion will remain a key com-

ponent of Doha Bank's strategy, while the existing overseas network will be strengthened. "The bank has obtained approval in principle from management to convert some of its key representative offices into fully-fledged branches," says Seetharaman. Economies identified as offering strong growth prospects for Doha Bank include Singapore, Turkey, South Korea, Australia, Germany and India.

A Model for Good Corporate Governance

As one of the few Domestic Systematically Important Banks (DSIBs) in Qatar, Doha Bank is committed to the promotion of the highest standards of corporate governance, and has produced governance and sustainability reports in compliance with GRI guidelines for many years. The bank's commitment in this area was recognised in 2017 when it was named as the best bank for corporate governance in Qatar by Capital Finance International (CFI).

"Over the past 12 months, Doha Bank has realigned its risk management and corporate governance framework in line with the regulatory reforms which were introduced after the global financial crisis," says Seetharaman. For example, he explains that in line with guidelines issued by the central bank, Doha Bank has brought more independent non-executive board members to ensure enhanced transparency.

Solid Capital and Liquidity

Doha Bank's continued growth will be underpinned by a well-diversified funding strategy and a sound capital base. A well-received rights issue in March has helped to lift the bank's capital adequacy ratio from just over 16% at the end of December 2016 to 17% at the end of June 2017, significantly above the regulatory minimum.

Seetharaman adds that the bank's liquidity position also remains strong, with a liquidity coverage ratio (LCR) of more than 200% and a loan to deposit ratio of 106% at the end of June 2017.

Company data

■ Total assets (End 1H 2017)	QAR91,800m
■ Net profit (FY 2016 v 1H2017)	QAR1,054m v QAR716m
■ Return on assets (End 1H 2017)	1.57%
■ Return on equity (End 1H 2017)	14.7%
■ Cost to Income ratio (End 1H 2017)	37.1%
■ Core Tier I ratio (End 1H 2017)	16.85%

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"We remain confident about the growth potential embedded in Palestine's economy and banking system"

Hashim Shawa, CEO, Bank of Palestine

Established in 1960 to promote the broader penetration of financial services across the country, Bank of Palestine is one of the fastest-growing banks in the Middle East. In 2016, net profits rose by 23% to \$53m, while total assets increased by 48% to \$4.1bn.

In the first quarter of 2017, Bank of Palestine continued to build on this impressive performance, with net profits advancing by 19% and total assets up 14%. Deposits in the first quarter increased by almost 13%, with loans rising 2.8%.

Organic and Inorganic Expansion

Bank of Palestine's CEO, Hashim Shawa, explains that the bank's recent expansion has been underpinned by a judicious combination of organic and inorganic growth. Much of the bank's recent organic expansion has been turbocharged by lending to Medium and Small Enterprises (MSME) and banking for women. This supported a 60% increase in Bank of Palestine's overall lending portfolio from \$1.4bn to \$2.2bn.

As Shawa adds, however, this dramatic increase was not accompanied by a decline in asset quality. In 2016, the bank's non-performing loan (NPL) ratio remained well below industry norms, at 1.9%, reflecting prudent risk management, especially in Bank of Palestine's MSME lending.

Company data

■ Total assets (June 2017):	\$4,656,357,657
■ Net profit (2016 v 2015):	\$53,055,980 vs \$43,167,433
■ Return on assets (2016 v 2015):	1.29% vs 1.55%
■ Return on equity (2016 v 2015):	13.15% vs 14.12%
■ Cost to Income ratio (2016 v 2015):	61.69% vs 60.11%
■ Core Tier I ratio (2016):	12.48%

Bank of Palestine: Modernized Banking Entrenched in Values

Another notable recent driver of growth at Bank of Palestine has been inorganic. In 2016, the bank completed its merger with the Palestinian Commercial Bank (PCB), which had a positive impact on all the bank's key performance indicators (KPIs), including assets, deposits, loans, branch network and client base.

Other subsidiaries also made a contribution to the robust results posted by Bank of Palestine in 2016. These included Palpay, which increased its penetration of the electronic payment market, and the Al Wasata brokerage firm, which registered healthy volumes and attracted additional customers.



Growth in Islamic Banking

Inorganic growth at Bank of Palestine has also been supported by the consolidation of the Arab Islamic Bank (AIB), which has 16 branches and generated net profits of \$6.2m in 2016. "AIB's assets grew by 22% last year compared with a growth rate across the industry of 10%," says Shawa. He adds that Islamic banking still has a market share in Palestine of just 11%, compared with 25% across the region as a whole, which is a compelling indicator of the growth potential at AIB.

Digital Investment

A continuous improvement in operating efficiencies at Bank of Palestine has been supported by the bank's investment in technology, with 2016 an especially eventful year for the bank's IT department, according to Shawa. "We are proud of our technology teams, which were instrumental in the smooth integration of PCB into Bank of Palestine," he says. The team was able to migrate all PCB customers together with their products and services in a flawless manner, integrating all the PCB branches and ATMs into the Bank of Palestine system, Shawa says.

"Adding new servers with advanced storage technologies and cyber-security elements is of paramount importance as we build the digital infrastructure for the future," Shawa adds. "These new initiatives will not only allow for the addition of more digital channels, but also create business in-

telligence platforms for analytics and improved customer service."

Another recent significant milestone for Bank of Palestine's technology investment programme was the launch in partnership with Palpay of version 2 of its state-of-the-art mobile application, Banke. This gives the bank's customers a full view of their banking products and services, and allows them to make payments, settle outstanding credit card balances, top up pre-arranged phone payments, and pay other utility bills. This service plays an important role in supporting the bank's financial inclusion strategy by providing access to banking services for clients in remote areas.

Reaching out to the Unbanked

The enhancement of Bank of Palestine's digital banking channels was one of the drivers of the impressive enlargement of the bank's deposit base, which grew by 40% in 2016, from \$2.2bn to \$3.1bn. This growth was also underpinned by the continued expansion in the bank's network to 67 branches by the end of 2016.

Shawa is upbeat about the prospects for continued expansion of the under-developed banking sector in Palestine. "As a bank that is committed to economic development in Palestine, we remain confident about the growth potential embedded in the country's economy and banking system," he says. "With more than 50% of the population still unbanked, and with 76% under the age of 34, there is plenty of opportunity for further growth." To capture these opportunities, Bank of Palestine is committed to continued investment in digital banking, he adds.

Shawa is quick to add, however, that growth is not the bank's sole objective. Bank of Palestine's leadership in corporate and social governance (CSR) is reflected in its donation of 6% of its profit to community and human development.

Serving the Palestinian Diaspora

Promoting financial inclusion does not just mean making banking services available to Palestinians in the domestic economy. Bank of Palestine is also committed to serving more than 7.6m individuals living in the Palestinian diaspora. In support of this large community, the bank inaugurated its first representative office in the Dubai International Financial Centre (DIFC) in 2016, and will be opening an office later this year in Santiago de Chile.

Kuwait Finance House (KFH): Pioneer in the Islamic Banking Industry



"KFH is keen on utilizing technology to offer high-end services consistent with high security standards"

**Mazin Al-Nahedh, Group CEO,
Kuwait Finance House (KFH)**

banking strategy of rolling out innovative services to customers, and in Turkey Al-Nahedh reports that growth at Kuveyt Türk Participation Bank – in which KFH has a 62.2% stake – has also been encouraging. Al-Nahedh says that the diversification of the Turkish economy and the resources that are being mobilized in areas such as infrastructure, education, health and real estate will all create a wealth of new opportunities for conventional as well as participation banks.

Al-Nahedh says that he is comfortable with KFH's capital and liquidity position. "Our capital adequacy ratio has now reached 17.5%, which is well above the minimum requirement of 15%, and underscores the strength of KFH's financial position," he says.

Al-Nahedh adds that KFH Group is committed to diversifying its investment portfolio to achieve low-risk returns, while enhancing its presence in the global arena and continuing to lead major development projects. "We will continue to focus on core banking activities, optimizing our cost structure and improving our capital adequacy," he says. "We will also aim to expand our market share and embrace innovation in order to meet our customers' requirements in an increasingly competitive market."

Established in 1977 as the world's first dedicated Islamic bank, Kuwait Finance House (KFH) is recognised as a pioneer in Shariah-compliant financial services and one of the leading banks in the Middle East. Today, KFH remains an acknowledged leader in Islamic finance, accounting for about 57% of Shariah-compliant deposits in Kuwait and running successful operations in Turkey and Malaysia.

Rated A+ by Fitch, A1 by Moody's and A- by Standard & Poor's (S&P), KFH has assets of \$55bn, deposits of \$40bn and shareholders' equity of \$6bn. Represented by 15,000 employees across 500 branches in a network that encompasses Turkey, Germany, Saudi Arabia, Bahrain and Malaysia, as well as Kuwait, KFH has posted a continuous improvement in its key performance indicators (KPIs) over the last three years. Between 2014 and 2016, net profit rose by 31% from KD126m to KD165m, while earnings per share (EPS) increased by 19% from 27 fils to 32 fils. Over the same period, operating expenses fell by 23%, from KD386m to KD295m.

Mazin Al-Nahedh, KFH's Group CEO, says that the bank's solid recent performance has been underpinned by an improvement in its service quality,

risk policies and regulatory compliance standards, which have all combined to build a platform for the delivery of attractive returns for shareholders and customers alike.

Continuous Investment in Technology

Al-Nahedh says that KFH is also well-positioned to deliver growth by maintaining the highest levels of customer service and focusing on product innovation through leveraging the symbiotic relationship between banking and fintech. "KFH is keen on utilizing technology to offer high-end services consistent with elevated security standards," he says. "KFH is already the leader in digital banking in Kuwait."

Another attractive growth area for KFH is the Kuwaiti government's ambitious economic development strategy, aimed at encouraging expansion of public-private partnerships (PPPs). KFH played a lead role among Islamic lenders in a recent KD1.2bn financing for Kuwait National Petroleum Company (KNPC), and Al-Nahedh says that KFH is ready to support other development projects in the country.

KFH is committed to supporting the contribution made by Sukuks as an Islamic product addressing the financing needs of governments and corporates worldwide, acting as lead arranger of \$5bn of issuance in this innovative and flexible market over the last two years.

Al-Nahedh also says, "Kuwait's debt issuance programme is good for KFH. This opens new horizons for financing and increases credit growth in the economy. KFH has played a key role in financing Kuwait's budget deficit through Islamic Tawarruq issues, which also contribute to the increase in opportunities for credit growth."

A Successful International Franchise

Internationally, meanwhile, KFH also continues to flourish. In Malaysia, it has implemented a digital



Company data

■ Total assets (June 2017):	\$55bn
■ Depositor's account (June 2017):	\$37bn
■ Shareholders' equity:	\$6bn
■ Capital adequacy ratio (CAR):	17.5%

What's happening Saturday, October 14

9.00am – 10.00am

Seminar: Scaling up coastal resilience in West Africa

Moderator: **Karin Kemper**, Sr Director, Environment and Natural Resources, World Bank Group

Panelists: **Makhtar Diop**, Vice-President for Africa, World Bank; **Laura Tuck**, Vice-President, Sustainable Development, World Bank

Location: WBG J Building, J B1-080

10.00am – 11.30am

Seminar: State of the Africa region: skills for success in a transforming Africa

Speakers: **Makhtar Diop**, Vice-President for Africa, World Bank; **Rosine Soricoulibaly**, Minister of Economy, Finance and Development, Burkina Faso; **Sidi Ould Tah**, Director-General, Arab Bank for Economic Development in Africa (BADEA); **Albert Zeufack**, Chief Economist, Africa, World Bank Group

Location: WBG MC Building, MC1-250

11.00am – 12.00pm

Seminar: Taking women-owned businesses to the next level

Location: World Bank Group, Atrium



See today's *GlobalMarkets*, pages 23-31

EventPick

6.00pm – 9.00pm

Awards Ceremony and Reception

Central Bank Governors and Ministers of Finance of the Year

Hosts: *GlobalMarkets*. (rsvp@globalcapital.com)

Location: Willard Intercontinental Hotel, Willard Room, 1401 Pennsylvania Ave NW

12.30pm – 2.00pm

IFR Thompson Reuters: The internationalization of capital markets in emerging market economies

Moderator: **Steve Garton**, Editor, IFR Asia

Speakers: **Alexi Chan**, Global Co-Head, Debt Capital Markets, HSBC; **Arnab Das**, Head of Emerging Markets MacroResearch, Invesco Fixed Income; **Bill Foster**, Senior Credit Officer, Sovereign Risk Group, Moody's Investors Service; **Monish Mahurkar**, Director, Treasury Market Operations, IFC; **Edgardo Sternberg**, Vice-President, Portfolio Manager, Loomis, Sayles & Co

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

1.00pm

DC at the 2017 AM Cultural Event

Location: IMF HQ2 Atrium

1.00pm – 1.30pm

Postcard series: **Helping countries manage the challenge of natural disasters and climate change**

Speaker: **Adrienne Cheasty**, Deputy Director, IMF Fiscal Affairs Dept

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

Don't Miss

4.00pm – 5.00pm

Per Jacobsson Foundation: Economic and financial issues related to the impact of climate change

Moderator: **Pilita Clark**, former Environment Correspondent, *Financial Times*

Opening remarks: **Guillermo Ortiz**, Chairman, Per Jacobsson Foundation

Speakers: **Mark Carney**, Chair, Financial Stability Board; **Maureen Cropper**, Distinguished University Professor & Chair, Dept of Economics, University of Maryland; **Nicholas Stern**, IG Patel Professor of Economics and Government, London School of Economics; **Ashley Schulten**, Head of Responsible Investing, Global Fixed Income, BlackRock

Location: IMF HQ1, Atrium



1:00pm – 2:30pm

Seminar: Pathways for Peace — Inclusive Approaches to Preventing Violent Conflict

Moderator: **Nancy Lindborg**, President, United States Institute of Peace

Speakers: **Kristalina Georgieva**, CEO, World Bank; **Achim Steiner**, Administrator, UNDP; **Lilianne Ploumen**, Minister for International Trade and Development, Ministry of Foreign Affairs, The Netherlands; **Tone Skogen**, State Secretary, Ministry of Foreign Affairs, Norway; **Ulrika Moder**, State Secretary to the Minister for International Development Cooperation, Sweden; **Thomas Silberhorn**, State Secretary, Federal Ministry for Economic Cooperation and Development, Germany

Location: WBG MC Building, MC 4-800

1.00pm – 2.00pm

Seminar: Maximising finance for development

Speakers: **Jim Yong Kim**, President, World Bank Group; **H.E. Paul Kagame**, President, Rwanda. **Renu Sud Karnad**, Managing Director, Housing Finance Corporation of

India; **Adrian Orr**, CEO, NZ Super Fund; **Bill Winters**, CEO, Standard Chartered

Location: World Bank Group, Atrium

2.00pm – 3.15pm

Seminar: Small is beautiful – regulatory approaches for non-systemic banks

Moderator: **David Lipton**, First Deputy Managing Director, IMF

Speakers: **William Coen**, Secretary-General, Basel Committee on Banking Supervision; **Nestor Espenilla Jr**, Governor, Central Bank of the Philippines; **Michael Gibson**, Director of the Division of Banking Supervision and Regulation, Federal Reserve Board; **Ryozo Himino**, Vice Minister of International Affairs, Japan Financial Services Agency; **Sabine Lautenschlager**, Member of the Executive Board, ECB; **Jose Maria Roldan**, Chairman and CEO, Spanish Banking Association

Location: IMF HQ2, Conference Hall 2

2.00pm – 5.00pm

Transforming tax systems in developing countries: introducing the medium-term revenue strategy

Location: IMF HQ1 – Meetings Halls A&B

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ExtraCurricular

Institute of International Finance (IIF) 2017 Annual Membership Meeting

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

7.45am – 9.00am

Breakfast Conversation

Lawrence H. Summers, Tim Adams (moderator)

Location: Atrium Hall

9.05am – 9.50am

Views from the C-Suite: Global Markets and Macro
Tim Adams, Douglas Peterson, Daniel Pinto, Jes Staley

Location: Amphitheater

Concurrent Sessions: Location — Amphitheater

10.00am – 10.50am

Robots/AI and the Future of Work

David Autor, Mitali Das, Greg Ip (moderator), Susan Lund

11.00am – 11.50am

China Outlook: What to Expect after 19th Party Congress

Brian Coulton, James Daniel, Gene Ma (moderator), Helen Qiao, Jing Ulrich, Pingkang Yu

12.00pm – 12.50pm

Brexit Update: Hard, Soft or Over Easy?

Andreas Dombret, Stephen Jones, Gerard Lyons, Simon Nixon (moderator), Faryar Shirzad

Concurrent Sessions: Location — Atrium Ballroom A

10.00am – 10.50am

Infrastructure

Sara Bonesteel, Marcelia Freeman, Fabio Gallia, John Garvey, Hung Tran (moderator), Glenn Youngkin

11.00am – 11.50am

Markets and Investment

Pascal Blanque, Lisa Emsbo-Mattingly, Sonja Gibbs (moderator), Isabelle Mateos y Lago, Jens Nystedt, Lupin Rahman

12.00pm – 12.50pm

AI and the Future of Finance

Tim Baker, Adam Broun, Loren Bushkar, Axel Lehmann, Doug Shulman

Concurrent Sessions: Location — Atrium Ballroom B

10.00am – 10.50am

Emerging Markets Political Risk

Blaise Antin, Katinka Barysch (moderator), Meral Karasulu, Jonathan Lemco, Mario Mesquita

11.00am – 11.50am

Energy

Donui Agbokou, Bejoy Das Gupta (moderator), Steven Fries, Miriam Levy, Ed Morse

12.00pm – 12.50pm

Global Capital Flows

Taimur Baig, Joyce Chang (moderator), Hyun Song Shin, Richard Lacaille, Nouriel Roubini

Location: Atrium Hall

1.00pm – 2.30pm

Lunch: Big Think

Tim Adams (moderator), Mohamed El-Erian, Ravi Menon, Robert B. Zoellick

Location: Amphitheater

2.30pm – 5.00pm

Conversations with policymakers — Amphitheatre

2.30pm – 3.15pm TBC

3.15pm – 3.45pm

In conversation

Valdis Dombrovskis, Tim Adams

3.45pm – 4.30pm

In conversation

Agustin Carstens, Tim Adams

4.30pm – 5.00pm

In conversation

François Villeroy de Galhau, Tim Adams

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EM Bonds

Continued from page 1

bullish and even some central bankers appear calm about the dangers.

“The Fed has communicated as clearly as any central bank could and has learnt its lessons from the 2013,” the governor of the South African Reserve Bank, Lesetja Kganyago, told *GlobalMarkets*. “We are not going to see another taper tantrum.”

Shanta Devarajan, senior director of development economics at the World Bank, agreed markets expected gradual rate rises but said there was a risk of “substantial” rate hikes if US tax cuts led to a bulging budget. “We have seen this movie before with the [Ronald] Reagan tax cuts and then you had the Latin American debt crisis in the 1980s.”

Colombia’s central bank chief admitted the country had benefited from liquidity via foreign investor flows into its local curve. But Juan José Echavarría, the governor, said his feelings were “mixed”. “The bad news is that you are very worried and nervous about these flows all the time, because they are very mobile.”

TRIGGER EVENT

Yet even if valuations look exceptionally tight, few are expecting US monetary tightening to be the cause of any correction. Max Volkov, head of Latin America debt capital markets at Bank of America Merrill Lynch, told *GlobalMarkets* the technical picture remained “very strong”.

“As the Fed continues to hike interest rates, there may be some volatility but there will still be inflows into bond markets,” said Volkov. “The US still has the highest interest rates in the developed world. The one factor that could change things is if we start to see European inflation.”

A bond banker at another firm said retail inflows to EM local and hard currency bond funds were \$56bn so far this year — versus net inflows of \$12bn for 2012-2016.

If Fed caution is dampening worries about rate rises, economists are looking elsewhere for what exactly could trigger a market correction. “Geopolitical risk is at a pretty high level,” said Roberto Sifón Arévalo, lead analytical manager for the sovereign and international public finance group at S&P.

“Those things are definitely scary and the trigger could be an actual event. We are very cautious in this environment because you talk about events and triggers, they have much more potential to be extremely disruptive.”

THE final word

Mobilising financing is key to tackling climate change

By Emmanuel Macron

Ecological, social, and economic impacts of climate change are worsening. The intensity, rhythm, and power of climate disasters have been growing in the last years. In this context, mitigation efforts need a new push and adaptation to climate change must be a priority for our countries.

Two years ago, the adoption of the Paris Agreement during COP21 represented a key milestone in the climate negotiations and a new hope in the fight against climate change. Not only had this Agreement reconciled views of 195 countries around ambitious objectives, but it was also the opportunity to demonstrate the strong commitment of non-state actors in implementing the ecological transition, including the financial sector.

The financial community has taken important steps forward to tackle climate change and to accelerate the greening of finance. Private capital flows are now being directed towards low-carbon projects, transition risk management and green infrastructures. This incentivises the financial sector to better account for environmental and social risks in the long-term and brings a response to market demand. However, are these evolutions enough to meet the goals that we set two years ago to limit warming to 1.5°C or below 2°C and to build a resilient economy? Where does the financial sector stand in terms of objectives, pathways and climate policies?

Accelerating the greening of finance is an urgent matter to carry out credible climate actions and to achieve very concrete results. In order to play its role in the fight against climate change, the private finance has to take up three challenges.

First, better information is needed for stakeholders to best integrate climate change-related issues in their analysis. That is why we need all economic actors to improve climate-related reporting, in ways that must be tailored and adapted for each of them. In that sense, I fully support the conclusions drawn by the Taskforce on Climate Financial Disclosure (TCFD) in their report delivered last June. At the EU level, I am convinced that the conclusions of the high-level expert group on sustainable finance will give a new impetus. In France the implementation of article 173 of the Energy Transition Law for Green Growth (August 2015) was perceived as a key evolution by private actors and could set an example for other countries. It expands the climate reporting of firms to the emissions related to the use of their products and services and introduces a framework for Environmental, Social and Governance (ESG) report-



ing by financial institutions. I warmly encourage each country to define appropriate and ambitious solutions to ensure the implementation of the TCFD recommendations and improve its climate reporting standards.

Developing financial instruments dedicated to financing the transition is one of the other key challenges for the private sector. Expanding the current green bond market is one option. France has taken decisive action on that matter by issuing the largest sovereign green bond — €7bn — in January 2017. France also intends to be a constructive partner in the discussion on how to structure the global green bond market, both by creating a clear taxonomy and by defining rigorous processes. The Paris Financial

Center will continue to develop this market.

Finally, private initiatives need to complement the role of governments in the greening of private finance. Private actors need to play a leading role when it comes to the development of disclosure standards, climate scenario analysis or sectoral impact evaluation standards. To accelerate this process, consideration of sustainability criteria or accounting frameworks in credit ratings should be reinforced. The constitution of green financial centres is also key to push forward this dynamic.

Mobilising climate finance, public as well as private, for increased climate action in terms of greenhouse gases emissions reduction and adaptation will be one the key objectives of the upcoming Summit that will be held in Paris on December 12. This Summit, organised in close collaboration with the United Nations and the World Bank, will highlight very concrete solutions and initiatives that will foster the transformation of the financial sector so that it can efficiently support the ecological and energy transition that we need to achieve the Paris objectives. Greening public and private finance will also be at the heart of the Climate Finance Day and the meeting of the International Development Finance Club (IDFC) that will take place on the eve of the Summit. By launching the initiative Make Our Planet Great Again, France demonstrated its willingness to stay at the forefront of fighting against climate change.

The world is at a tipping point. All the voices of change and all the energies need to gather in Paris in order to set in motion the world of tomorrow.

I look forward to meeting you in Paris.

Emmanuel Macron is President of France

“
*Accelerating the greening of
finance is an urgent matter to
achieve very concrete results*”

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