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Underperforming India has 'slipped off' global stage — Rajan

Exclusive Interview

By Rashmi Kumar

India's standing on the global stage has fallen as China steals all the focus, according to Raghuram Rajan, former governor of the country's central bank.

But in an interview with *GlobalMarkets* the former IMF chief economist insisted it was too early to write-off the south Asian country just yet, so long as reform was top of the government's agenda.

"In general, India has slipped off to some extent, as China has become more front and centre," said Rajan. "And even though India is growing faster than

China, China has more attention as it is bigger. But the promise from India has been: 'we will do the right things to become another China'.

"That's the reason people had faith in India, as the population is similar to China and the hope was that India will follow that path. In the last few years, that hasn't panned out."

Rajan acknowledged that there was a substantial amount of foreign direct investment coming into India, but said the country still needed to do more to find oppor-

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Rajan: "India needs to be doing more than beat its breast"

US-China trade war to intensify after mid-term elections

By Jackie Horne

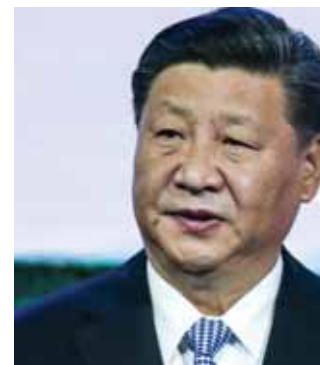
The trade war between China and the US is likely to escalate again once the American mid-term elections are out of the way as the real battle lines between the two countries start to come into sharper focus, economists have warned.

S&P Global Ratings global chief economist Paul Gruenwald told *GlobalMarkets* that the war was not really about trade at all, at least as far as the US was concerned. "The US could reduce its

trade deficit by getting consumers to save more," he said. "In our view, the real issue is the structure of the Chinese economy."

Gruenwald said the world was now starting to get a more coherent picture about what America was seeking from Chinese president Xi Jinping, which appeared to be a level playing field for its companies, less state-owned enterprises and even fewer subsidies for sensitive sectors such as tech.

He added that since these



Xi: facing US demand for less state interference

issues formed the lynchpin of China's economic model, "it's not clear that Beijing will make the concessions the US wants".

Fitch's global chief economist, Brian Coulton, agreed. "If you look

Continued on back page

Indonesia pledges firm stance against protectionism

Exclusive Interview

By Rashmi Kumar

Indonesia will not change its rhetoric to take a more inward-looking strategy to navigate the rising sentiment of protectionism driven by the US, according to Sri Mulyani Indrawati, the country's minister of finance.

Speaking exclusively to *GlobalMarkets*, Indrawati was adamant that Indonesia, which has

Continued on back page

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OUT OF THE WOODS

Seen and heard in the corridors of the Annual Meetings

• / **Housequake** So how was it for you? *Out of the Woods* was shaken from his beauty sleep on Wednesday night by a timely reminder of the fragility of the earth on which we stand. It was “only” a 6.0 magnitude earthquake, the IMF informed us all by email, and no tsunami warning — but it makes you think of the terror everyone on Sulawesi must have felt when their world was rattled to its core.

• / **Silence for Sulawesi** Speaking of which... At noon on Wednesday, a crammed auditorium stood for a minute's silence to remember the thousands who lost their lives in the Sulawesi earthquake. It was scrupulously observed, as one would expect — apart, that is, from the whip-crack sound of a hundred flash bulbs clicking around the halls. To all the off-fending photographers out there — a little decorum please.

• / **Gender (queue) jumping** Let the record show that *Out of the Woods* is a boisterous advocate for sexual equality. But waiting in the searing heat on Wednesday to clear security, he realised that women and men were in different lines, and that the former's sped along while the latter's was stuck in neutral. *OOTW* tried to self-identify as a woman in order to jump the queue — a logical reaction to our gender-fluid times — but no dice.

• / **PPP body-slam** When time was called on a downbeat debate on the uncertain future of public-private partnerships in a windowless Westin antechamber, a hirsute chap with more than a passing resemblance to the actor Joaquim de Almeida chirped up. Why, he wondered, did no one on the panel have anything good to say about PPPs? “Are there any good examples of these things,” he said, to general laughter. “Some people must be in favour, but if they are, they aren't in this room.”

• / **Shrug it off** When France was pipped by Poland in the race to print the world's first sovereign green bond two years ago, it was so irked it simply pretended it won. With Indonesian finance minister Sri Mulyani Indrawati claiming now that a \$1.25bn green bond makes our wonderful hosts the leading issuer of climate-friendly debt securities, how should Paris react? *OOTW* believes a Gallic shrug is the apposite response.

• / **Desperately Seeking Signore** Scanning the newsroom yesterday morning, *Out of the Woods* was surprised and startled to spot a missing face: the much-revered Signore Numero One, Italy's number-one journalist (see *OOTW* passim), a chap so dapper and stylish his tie has a producing credit in the film *Roman Holiday*. We'll update you on his presence at this year's event.

World Bank chief urges united action to reverse trade war threat on Africa poverty

By Phil Thornton

The World Bank has called on leaders of the major economies to use this week's meetings to take action to prevent a cocktail of trade tensions, climate change and conflict from derailing its goals of eliminating extreme poverty and reducing inequality.

Kristalina Georgieva, the Bank's chief executive, said she was fearful of the potential impact on smaller, emerging economies of the hikes in tariffs between the United States and China.

“What is emerging as a more serious concern is if there is an erosion of investor and consumer confidence,” she told *Global Markets*. “If investors are to more massively delay investments because of uncertainty and if consumers delay purchases... then there could be a more significant slowdown for global growth.”

Bank President Jim Yong Kim echoed this yesterday saying countries in China's supply chain could be hurt: “We are working with every single one of our countries in case it gets worse.”

She said the Bank would bring a report to the Bali meetings that showed “remark-

able progress” with a fall in the rate of poverty from 36% of the world population 25 years ago to less than 10% now. “We have 1.1bn fewer poor people while the population has increased by 2bn,” she said.

“But we also know that poverty is concentrated in sub-Saharan Africa and conflict-affected countries. The very simple message is that we will win or lose the fight against poverty in Africa.”

Kim has set a challenging target to cut the number of people living on less than \$1.25 a day to 3% globally by 2030.

“We remain convinced that it is possible to reach the 3% goal, but we are very concerned that reaching this goal will require more of the attention and focus of the world especially in terms of conflict prevention and conflict resolution, so we can get there,” Georgieva said.

“We will do our utmost to reach this goal. We believe it is within our reach, but we also know it would be a tall mountain to climb. We need collective action on many fronts.”

The World Bank is likely to use the meetings to push forward on its agenda on



Georgieva: hitting 3% poverty goal will require government action

Africa and on fragile and conflict-afflicted states in particular. Over the last year it has doubled funding for fragile states from \$7bn to \$14bn, opened a financing window of \$2bn to support countries hosting refugees, and channelled \$2.5bn of private sector financing for fragile states via the Bank's International Finance Corporation and Multilateral Investment Agency arms.

Asked whether the Bank risked losing to China its role as primary provider of development investment, Georgieva insisted Beijing was “eager” to work with the Bank. “The more difficult the environment the better the position for co-operation. If you are in a place where bullets are flying, people stick together and organisations will co-operate.”

Kim to use human capital index to put pressure on governments

By Thierry Ogier

The head of the World Bank will take a new index of countries' human capital that it launched yesterday to the World Economic Forum in January to urge companies to pile the pressure on countries to carry out reforms, he told *Global Markets*.

The index measures the amount of capital that a child born today can expect to attain by age 18 by measuring how far each country is from having a complete education and health system. The thinking is that a country with a high index score should attract more FDI than a rival with a much lower score because the workforce will be healthier and more skilled and therefore more productive.

World Bank Group president Jim Yong Kim said he would use the survey to raise investors' awareness about the issue. “I am going to Davos where I am going to make a big presentation on this,” he said.

“I am saying to the corporate leaders: we would like you to ask countries, specifically countries that do not do well: why are you so low on the index?

It matters a lot to us that you commit to invest in people.”

The World Bank expects that its new index will lead investors to put pressure on policymakers to improve their countries' performance in health and education.

AFRICA LAGGING

While Asia takes the top four places in terms of human capital (Singapore ranking first), 12 African countries are at the bottom of the ranking of 157 countries.

“If you are a corporate leader and you are thinking of investing in a country building production capacity, you are going to think about what is the workforce going to look like in five or 10 or 15 years. If you see that a country is surprisingly very low on the human capital index, you are going to think twice about whether you invest in that country.

“So we hope that market forces and corporate leaders will pay attention to this, and simply emphasise to national leaders that they should focus on this.



Kim: will take index to World Economic Forum in 2019

We are trying to make this a political issue that everybody will talk about.”

Investing in human capital may be preferable to investing in infrastructure, according to the World Bank chief. “This is about drawing their attention to a crisis that we think is real.

Nadia Daar, head of Oxfam International's Washington office, said: “While the index doesn't capture inequalities in outcomes, one thing should be clear: more and better spending is needed for governments to provide universal access to quality public education and health services.”

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Success is a journey

Equity markets increasingly wary of trade war escalation

By Sam Kerr

Global equity markets have been spared the worst effects of increased trade hostility between the US and China so far in 2018, but should the worst of the proposed tariffs be implemented global equity markets could be disproportionately affected by the disruption in supply lines.

This year the US has already, in a first round of tariffs on China, imposed a 25% tax on \$50bn of Chinese imports.

On September 17, President Trump announced that the US would impose an additional 10% of tariffs on \$200bn worth of Chinese imports, starting on September 24.

He has threatened to hike that further to 25% at the beginning of 2019, and potentially expand into a “phase three” to slap tariffs on another \$267bn of imports if China takes any retaliatory actions.

According to Ronan Carr, cross asset and equity strategist at Bank of America Merrill Lynch, the implementation of phase three would mean substantially all Chinese exports to the US would be

subject to these tariff increases.

“If we are sitting here in the middle of next year and there are 25% tariffs on up to \$517bn of Chinese exports to the US, and in turn China has imposed higher tariffs on imports from the US, the trade effect would be bad,” said Carr. “But the effect on supply chains, corporate confidence and investments would be significantly worse. It could even tip the global economy into a recession.”

Equity markets could be disproportionately affected should trade hostility ratchet up according to Paul Donovan, global chief economist at UBS wealth management.

“Listed companies represent a rather small part of the global economy, but they are a large part of global trade, using crude numbers you would expect listed companies to make up about 25% of the global economy but they are around 80% of global trade.

“That makes equity markets disproportionately vulnerable to trade hostility.”

For equity market investors, and bankers, the threat of trade hostility has



Trump: threatening tariffs on up to \$517bn of Chinese exports

so far this year outweighed the actual effects of the new taxes on Chinese goods by the US and markets remain hopeful a settlement can be reached, before the worst potential tariffs are levied.

“Potential trade wars do present an overhang and are a key concern for investors,” said Achintya Manila, head of EMEA equity capital markets at JP Morgan in London. “However, market impact has been limited by the actions being a lot less severe than the political soundbites.

“Current markets are pricing in a level of optimism based on an assumption, that the escalation in noise is only part of a negotiation process that will ultimately result in a more benign settlement.”

AfDB securitization opens new route for MDBs to leverage capital

By Jon Hay

The African Development Bank has become the first supranational bank to use a securitization sold to private investors to free up balance sheet capacity. The deal, four years in the making, demonstrates a new technique that could expand development banks’ firepower to promote development.

In the synthetic securitization, a fund managed by Mariner Investment Group, a New York hedge fund, and Africa50, the infrastructure fund set up by African governments, have taken a \$152.5m mezzanine slice of risk on a \$1bn portfolio of about 40 loans to banks, project finance vehicles and companies, for a yield of 10.625%.

The European Commission has taken the next \$100m of risk above that, leaving AfDB with the 2% first loss risk and the top 73% senior layer.

“It’s a road well trodden by commercial banks, but has never really been a model for multilaterals,” said Tim Turner, chief risk officer at the AfDB in Abidjan. “We finance 20 year loans to maturity. But that business model is

predicated on a continuous supply of fresh capital from donors. The shareholder community is finding it increasingly challenging to stump up the required capital.”

Conscious of the urgency of stepping up development finance to meet the Paris Agreement commitments and Sustainable Development Goals — while national governments are unlikely to dole out large capital increases — the G20 has been pushing MDBs to make the capital they have go further. There have been some quick wins, but little progress in moving the MDBs to a more active management of their balance sheets — the originate to distribute model used by commercial banks.

The AfDB’s deal is a breakthrough in that direction. Over many months, the AfDB, Mariner and arranger Mizuho found a portfolio and structure that worked for all parties. A crucial part was convincing the rating agencies, which govern the bank’s crucial triple-A rating, to give enough capital relief for the transaction to make it worthwhile.

The AfDB has been able to cut by 65% the capital it must hold against the



AfDB president Akinwumi Adesina: groundbreaking deal

assets, creating capacity to make another \$650m of loans. Yet it has only given up 42% of the portfolio yield.

As a condition of its guarantee, the EC has asked the AfDB to reinvest all the freed-up capital in renewable energy. Even without that promise, the deal’s power to expand the AfDB’s lending capacity made it an impact investment, in the eyes of Mariner’s 19 end investors.

“Almost anything AfDB could do in Africa would generate very significant impact,” said Andrew Hohns, CEO of Mariner Infrastructure Investment Management in New York.

The AfDB and other MDBs are working on follow-up deals and Hohns believes there could be five to eight in the next two years.

Turkey’s crisis presents opportunities as buyers return

By Sam Kerr

The decision by the Turkish Central Bank to raise rates to 24% has helped stop the fall of the lira and has fuelled a recovery in both bond and equity markets — Turkey’s benchmark BIST 100 has risen by over 7% since the decision.

“This is the third major Turkey crisis that I have experienced in my investment career,” said Robin Kollannur, managing partner at RVX Asset Management. “The first was a banking crisis in 1994, and then a political and banking crisis in 2001. Both were pretty nasty in terms of lira depreciation and a market sell-off, which eventually led to a workout of the banking system and the need for IMF aid.

“We have seen this story play out before, and this one was not much different regarding the well-known issues around the country’s fiscal policies and a reliance on foreign capital.”

The decision by the central bank to hike rates suggested that the government is looking to defend the lira. And while structural reforms are still needed, particularly in its banking system, buyers are coming back.

“Turkish bonds are up about 10% this month, slightly out-performing Argentina,” said Christopher McKee, CEO of country risk ratings service PRS Group. “There is some recognition from buyers that things are improving.

“The worst might be behind us but the uncertainty isn’t over. Investors might be able, nonetheless, to now find some value in Turkey.”

Kollannur says that he has avoided Turkey so far this year, but believes, as was the case in 1994 and 2001, the right stocks can start to shine.

“The companies that will likely do well may have top-line revenues in foreign currency and a cost-base in lira; it’s even better if their debts are in lira as well,” said Kollannur. “If you can find that combination, those stocks should attract investor interest and in fact some have already started outperforming this quarter.

Nevertheless, investors are likely to remain wary as there remains a question whether the country’s central bank is actually independent or still heavily influenced by President Erdogan.

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IMF strives to get its multilateral mojo back

The IMF needs to take steps to bolster its reputation as the guardian of multilateralism ahead of a possible meltdown in emerging markets that could put the Fund centre stage of any rescue effort



"The nations of the world have become less willing to take collective action"

—Vitor Gaspar, Jonathan Ostry, Sean Hagan, IMF

By Phil Thornton

The world needs a new multilateralism." The warning was stark and momentous given that it came from the head of the fiscal department at the International Monetary Fund, its deputy chief economist and general counsel just a few weeks before the Fund's annual meetings.

The three senior executives were encapsulating a growing sense of pessimism among member states, financial organisations and commentators that the IMF was being sidelined by a rising tide of protectionism especially in the United States.

Vitor Gaspar, Jonathan Ostry and Sean Hagan hinted at this politically combustible issue without naming countries, saying: "The nations of the world have become less willing to take collective action. The system of global co-operation is currently under stress."

But others put it more strongly and are happy to point the finger. Holger Schmieding, chief economist at Berenberg Bank of Germany, says that a transatlantic trade war "stoked by US president Donald Trump" poses the biggest threat to its otherwise modestly positive outlook for global growth and financial markets. "His disdain for rules, allies and multilateral institutions sow un-

certainty that is bad for business," he says.

That impact is already being felt. The decision by Trump to pull the US out of the Trans-Pacific Partnership trade agreement across much of the southern hemisphere, his insistence on the renegotiation of the Nafta trade pact with Mexico and Canada, and his imposition of tariffs of between 10% and 25% on steel, aluminium imports from the EU and China and a further 6,300 component items from China have unsettled trade flows.

Global Trade Alert (GTA), which monitors protectionism, has identified 567 trade distorting measures in 2018 up to September 12, more than at any point since it launched in 2009. To put this in context, there were 367 measures in 2009, which was seen at the time as a peak in protectionism. Co-ordinator Simon Evenett said it was almost certain 2018 would be the worst year on record.

World trade volume decreased 0.8% month on month in June, weakening growth in the second quarter of 2018 to zero from 1.2% in the previous quarter, according to the CPB World Trade Monitor. Alternative measures of trade have also continued to be downbeat. At around 4% y/y in May, growth in air freight traffic remains well below the pace of 14% a year ago. And the growth rate of sea container traffic was almost half its pace in May last year [see chart].

The negative impacts have not only been on trade. The United States has withdrawn from many global commitments, including the Paris climate agreement and the United Nations Educational, Scientific and Cultural Organization, and the Global Compact on Migration.

Ted Truman, senior non-resident fellow at the Peterson Institute for International Economics (PIIE) and a former assistant secretary at the US Treasury, said that the stress on multilateralism was not exclusively in the US. "It is fragmented all the way round from the European Union, eastern Europe and other parts of the world."

ECONOMIC INEQUALITY

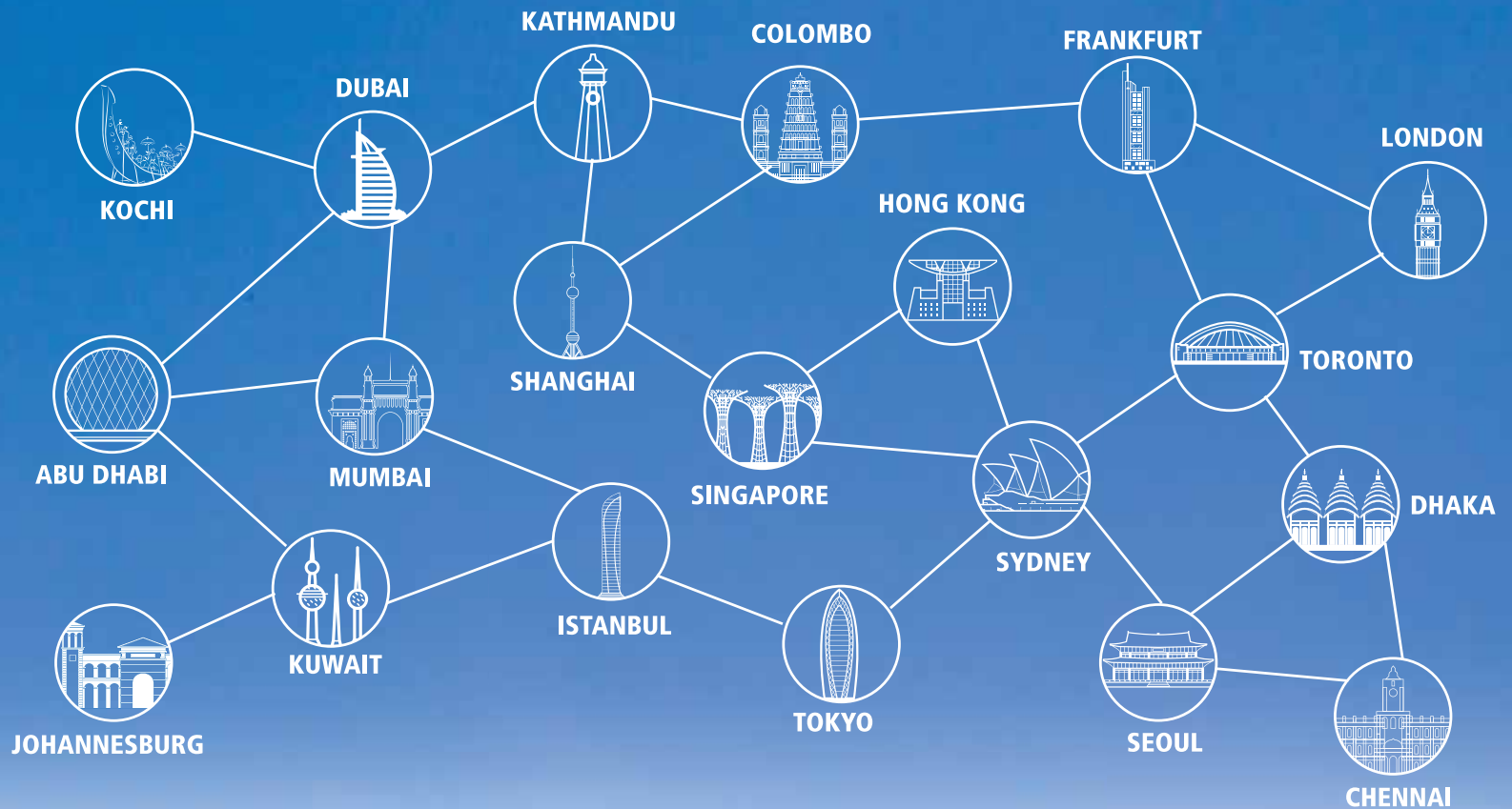
But the reason for the weakening of the IMF's position has not come so much from leaders such as Donald Trump and Hungary's Viktor Orban thumbing their noses at the multilateral organisations, but from the groundswell of public opposition that has propelled them into power.

Voters are themselves questioning the benefits of international co-operation, and often for good reason. Economic inequality within nations is widening, especially in advanced economies. Many households have shared little of the benefit from the economic recovery since the 2008 crash, and

Contemplation

IMF managing director Christine Lagarde at the Borobudur temple in Magelang, Central Java, Indonesia in March

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“They [IMF] are doing the best they can for a membership organisation”

—Simon Evenett, GTA

communities have suffered losses of many jobs or even whole industries. “Voters are therefore readier to listen when politicians claim that global engagement prevents them addressing problems at home,” say Ostry and his colleagues.

The main causes for this are two counter-intuitive results of the explosion of free trade volumes since the post-Second World War settlement that gave birth to the IMF, the World Bank, the United Nations and the predecessor to the World Trade Organisation (GATT).

While inequality fell within countries, especially emerging markets, thanks to trade and technological innovation, it has fuelled greater inequality within many advanced economies — at least in the eyes of the public. Ostry says trade seems to get the lion’s share of the blame, making people “leery” of expanding trade further through ever more economic integration.

The other unexpected consequence is that the success of international co-operation has reduced the share of world economic activity taking place in advanced economies in Europe, the United States and Japan while increasing that of emerging markets. The benefits the US and other advanced economies derived from supporting global public goods such as international trade are now increasingly shared with other countries [see chart].

QUOTA REFORM

While it is the G20 countries that are mostly using protectionism they are not the only ones being harmed. GTA data show that while the majority of sub-Saharan Africa countries took no protectionist measures all of them were harmed at least once.

“Emerging markets are definitely implicated and hurt so there is a knock-on effect even though many small and medium-sized countries are not taking part in this,” says

Evenett, who is also professor of economics at the University of St Gallen.

The issue is what can be done at this week’s meetings to curb the tide of protectionism and give a new platform for multilateralism. “The leadership of the institution can try to use exhortation and make proposals that might attract attention, but in some sense it is up to the members to decide if they want to use the IMF as a forum to move things forward,” says Truman at the PIIE.

He says the priority should be to use the coming 12 months to finish the process of increasing and reallocating members’ voting quotas. A review of the IMF’s quotas is to be completed by the fall of 2019 at the latest.

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

The US currently holds a 17% stake that allows it to block major IMF decisions that require an 85% majority, which might be diminished under quota reform. Currently the US looks minded to block it. In July Treasury secretary Steven Mnuchin told the House Committee on Financial Services that the IMF’s resources were “adequate”.

“One would hope that other countries would prevail on the US to be reasonable and perhaps encouraged by the Fund,” Truman says. The key constituency will be Europe. While members of the EU would be the largest losers from a successful revaluation of the quotas, the continent as a whole would be the biggest victim of a collapse of multilateralism.

“One would hope that at a minimum the US would not close the door or that other countries would prevail on them not to close the door,” Truman adds.

As well as sending a signal that multilat-

eralism is alive and well it would also open the door to extra financial contributions to the Fund at what could prove to be a timely injection given the growing ructions in emerging markets. “Mnuchin has said IMF resources are adequate for now [but] in some sense quotas are about resources for the future,” Truman says.

The Fund has already committed \$50bn to bail out Argentina, or 11 times that Latin American country’s quota with the Fund. Truman identifies seven countries of economic and political interest to the US that are potential borrowers from the IMF over the next several years: Brazil, Colombia, Indonesia, Italy, South Africa, Turkey and Venezuela.

If these countries received exceptional access to IMF financial resources at 11 times their quotas, as Argentina was recently granted, the total call on IMF financial resources would be \$680bn. This is before considering whether Pakistan will come cap in hand to the IMF for a loan.

TRAGEDY AND HOPE

A September report from the Centre for Economic Policy Research (CEPR) says the weakening of multilateralism began during the financial crisis when the major Western central banks issued temporary bilateral swaps to each other that were converted into standing arrangements in 2012.

While swaps augment the emergency resources available in a crisis, they substantially alter the international financial architecture without formal international deliberation and agreement.

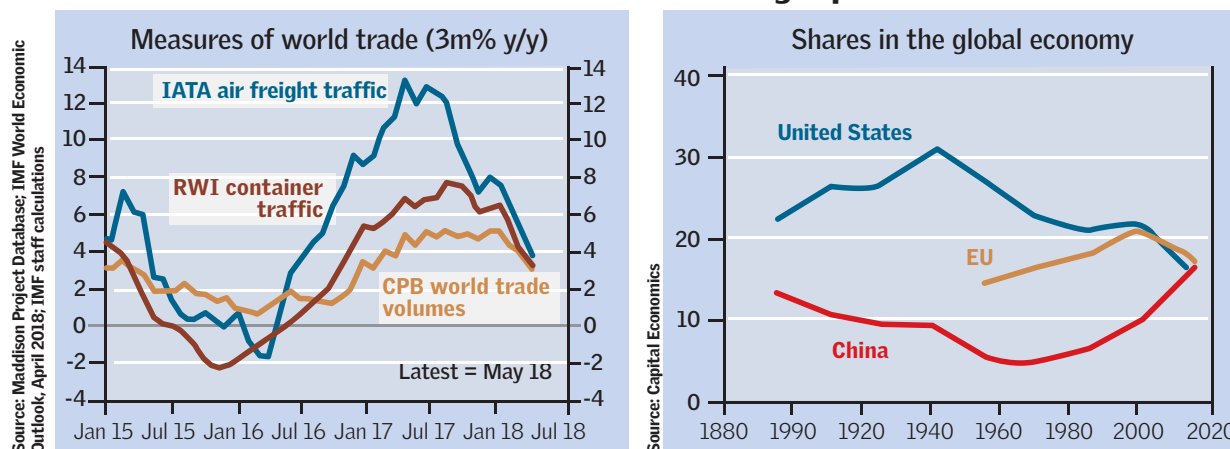
The report by four leading academics including former Chilean central bank governor Jose de Gregorio says this is a “troubling departure” from the principle of multilateralism that is the defining characteristic of the Bretton Woods Agreement.

“It is such a particular time with the US attacking multilateralism,” says Charles Wyplosz, economics professor at the Graduate Institute in Geneva and one of the authors. “It is not now that thing will happen. We are more in the seed planting mode than suggesting urgent action.”

While emerging commentators will wish to use the Bali meetings to work with the IMF to stem the tide of protectionism Evenett fears this is a “vain hope”. He has only praise for what he calls the “robust and consistent stand” that the IMF and particularly managing director Christine Lagarde has taken. “They are doing the best they can for a membership organisation.”

He points to a stark contrast with 2009 when all countries accepted that protectionism was wrong. “That moral suasion has gone and that’s a tragedy,” he says. **GM**

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Catastrophe bonds and the emerging markets fit well together, with perils in China and Southeast Asia particularly well placed to be covered. Can the insurance-linked security market take off?

Developing countries set to open up to catastrophe bonds

By Jasper Cox

“There is definitely a role for ILS, it’s just a matter of where, how and when”

—Emma Karhan, Aon

When an earthquake hit Chiapas province in Mexico in September, the president of the country said it was the strongest in a century. As scant a consolation this was to those affected by the quake, it did represent an unusual event in emerging markets: private bondholders saw their principal go towards the rebuilding effort.

The bond in question was a catastrophe bond, the most prominent instrument in the insurance-linked securities (ILS) asset class. Cat bonds offer investors a coupon if they put money aside in case of disaster. If a catastrophe meets certain conditions, the bonds trigger and money is released to help the issuer respond.

The developing world is in desperate need of protection from catastrophes.

Last year, 84% of economic losses were uninsured in both Asia and the Latin America and Caribbean region according to a report published earlier this year by Cass Business School. And the figure for Africa was 72%.

In developing countries, “where insurance penetration is typically low and governments and citizens have few financial reserves, losses from catastrophic disasters

can devastate the economy, rolling back development gains for the country and exacerbating global inequality,” said the report.

When looking at disasters through the lens of uninsured losses — known by specialists as the protection gap — the importance of innovative solutions becomes obvious.

“There has been a lot of talking about the protection gap and a lot of thinking about it but to date the gap hasn’t decreased dramatically,” says Emma Karhan, who leads Aon’s recently-launched Public Private Enterprise specialty practice in London.

Karhan’s practice is trying to address the protection gap through bringing together public and private bodies, including the ILS market.

“There is definitely a role for ILS, it’s just a matter of where, how and when,” she says.

WHY THE FIT?

So, how do we go about defining the role for ILS? In particular, why would the developing world use cat bonds rather than traditional insurance?

There is certainly a space for ILS in the developing world due to how cat bonds can be structured.

Rather than using an indemnity format where payment reflects losses incurred, in

the developing world it often makes sense for insurance to use a parametric structure. This is where the amount paid out is based on the physical attributes of a catastrophe such as wind speed or earthquake strength.

This is partly because the mechanisms for assessing loss are often patchier in the developing world. It also gives transparency to both sides in a market where trust may be lacking. National governments may not want to pass wealth out to foreign companies and may be suspicious about whether reinsurers will ultimately pay up.

“Parametric triggers are independently controlled and verified, which supports trust between national governments in developing countries and western corporations,” says Will Wilson, senior manager in insurance regulation and strategy at Deloitte in London.

The simplicity of the triggers also makes compensation speedier. This “supports liquidity in government budgets and enables them to quickly focus on responding to a disaster,” Wilson adds.

And for their part, ILS investors prefer this type of trigger to indemnity loss, because “they can stay at an arm’s length with a looser relationship but — crucially — more transparency,” according to Wilson.

8.2

Oaxaca, Mexico. September 9, 2017. The 8.2 magnitude earthquake, the biggest in the country since 1932, left at least 61 dead and 250 wounded



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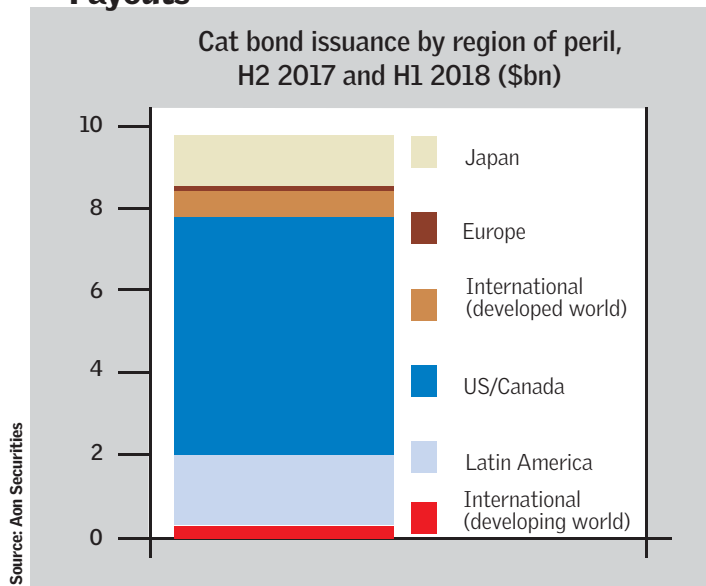
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“Parametric triggers are independently controlled and verified, which supports trust between national governments in developing countries and western corporations”

—Will Wilson, Deloitte

Insurance firms can offer parametric coverage too. But the desirability of the parametric structure puts cat bonds — which cut out some of the middle-men in traditional insurance — firmly in the game.

Ironically, ILS will gain a more competitive edge once insurance firms themselves have a solid foothold in emerging markets. Risks providing diversification, such as those in developing countries, are attractive for reinsurers, which have leveraged balance sheets.

Reinsurers only need to allocate a small amount of capital to write those diversifying risks so currently they can provide cheap coverage in some parts of the world. But as a risk becomes more concentrating it becomes less attractive for reinsurers to write as it requires more capital.

This makes reinsurers less competitive when this happens and ILS can slowly start to offer a better price.

POLITICISED SITUATIONS

The Caribbean Catastrophe Risk Insurance Facility uses parametric triggers when it pools risk from different countries and offers insurance policies to governments.

CCRIF’s 2018/2019 risk transfer programme only included traditional reinsurance but in the past it has made use of the cat bond instrument. It told *GlobalMarkets* it sees numerous benefits from the parametric structure.

It said this is generally less expensive than equivalent indemnity insurance; payouts can be made very quickly as loss adjusters are not needed; governments have just one form to sign during the entire claims process; and the calculation of payments is “totally objective”.

Since its birth in 2007, the entity has made 36 payouts worth a total of \$130.5m to 13 governments and all those payments were made within 14 days.

CCRIF does say that for all the benefits of avoiding the indemnity format there is a risk that payouts based on calculated losses do not match what happens on the ground.

And this has led to criticism. After flooding in Jamaica last year did not lead to a payout, the country’s politicians criticised CCRIF’s models.

“Often we are dealing with more highly politicised situations when we are working with emerging sovereigns,” says Stephen Moss, director of capital markets at catastrophe modelling firm Risk Management Solutions in London. “As a result, there’s an expectation that: ‘We’ve bought insurance, we will get paid.’”

But he thought frictions would ease as people become more familiar with the product they buy.

And ILS in the developing world could evolve to use more indemnity structures once trust has built up, following a path trodden in developed countries, according to Wilson.

For all Jamaica’s problems, CCRIF does provide benefits.

Entities in emerging markets face challenges when trying to offload risk on to the capital markets. They may lack the size for a transaction to be worthwhile and also the know-how. But this is where an intermediary such as the World Bank or CCRIF comes in.

These can play the role of “accumulating risks from many small entities and mashing them together to get the economies of scale and also provide an attractive amount of risk for the market,” says Moss.

CCRIF says that small islands and coastal states in the Caribbean would find it harder to insure themselves without an aggregator.

“The ability of these countries to effect financial risk transfer through affordable catastrophe insurance in traditional international insurance and reinsurance markets is limited by the high transaction costs that result from the limited volume of business they could bring to these markets,” it told *GlobalMarkets*.

Supranationals also have the expertise to produce a market-friendly product and can look beyond simple commercial goals.

“They can act or buy on behalf of the public and are often a simpler vehicle to work with than governments to help close these protection gaps,” says Karhan.

WHICH RISKS? WHICH COUNTRIES?

Southeast Asia and China are now tipped as locations where more risk could be transferred through catastrophe bonds.

In Southeast Asia there is growing risk, growing awareness of risk and better data and modelling, according to Moss.

The Monetary Authority of Singapore has been keen to develop the market. Its grant scheme offers to fund all of an issuer’s upfront costs to set up a catastrophe bond.

“Transactions happen in financial hubs where there is a confluence of banking, insurance and legal expertise,” says Wilson. “Singapore has demonstrated it is welcoming for new activity.”

Singapore as an active participant in regional forums can also spread awareness of ILS instruments.

“I don’t believe there’s an actual need to have a hub in Southeast Asia,” says Moss. “But what there is a need for is a strong regional advocate for these kind of tools being a viable cost effective and efficient way of transferring risk.”

China may also use ILS more; only one Chinese entity has issued a catastrophe bond so far. But administrations in Hainan, Hunan and Shanghai have all launched pilot programmes for catastrophe insurance this year or last.

According to Moss, reinsurers still offer cheap protection there due to the diversifying quality of Chinese risk. But this is likely to change.

“As China continues to grow that’s not going to continue to be the case,” he says. “We are going to end up in a scenario where China becomes the concentrating risk for the insurance market, and that’s really where the ILS market becomes incredibly powerful because it doesn’t need to be diversifying for it to be able to provide competitive prices.”

Regardless of where it spreads, how will the market cope once it starts taking losses from developing world perils?

Creditors generally hate losing their principal but when the earthquake bond was triggered in Mexico last year the ILS market was positive. The issue was settled quickly with no ambiguity hanging over participants.

“They don’t like paying out, but they like certainty,” says Moss.

It may also be true that the market liked the event because it demonstrated the value of coverage. In the same way that reinsurers can benefit from big catastrophes, the disaster could prompt other countries and firms to consider ILS.

And several months later Mexico came back to the market for earthquake protection along with Chile, Colombia and Peru, producing one of the largest catastrophe bonds ever.

It would be brave to bet against other developing world entities using the tool in the next few years. **GM**

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What is sustainable finance?

If that sounds like an easy question to answer, consider the hypothetical case of a lender backing a scheme to retrain adults as computer programmers, or accountants in a city like Katowice, the capital of the Polish region of Silesia

Superficially, that may not appear to qualify as sustainable finance. But the wider metropolitan region of Katowice, which will be hosting the COP24 summit in December, accounts for more than half of the 82,000 jobs that rely on coal production in Poland.

Like scores of other cities across the world, if Katowice is to build a just and sustainable economy, it will need to create employment opportunities for thousands of workers who for generations have depended on an industry that is causing extensive environmental harm. Creating alternative jobs for the coal workers of Katowice will therefore be every bit as important for long-term sustainable growth as financing a wind farm or installing a handful of solar panels.

The need to balance environmental and economic sustainability is one of the definitional challenges that faces lenders committed to supporting the wider Sustainable Development Goals (SDGs) outlined by the UN in September 2015. The agreement on this framework means that rather than focusing narrowly on climate change and the environment, lenders are being called upon to extend their financing to comply with 169 targets enshrined within the 17 SDGs.

Some of those targets may appear to be in direct conflict with others. Finance for a wind farm or solar power installation, for instance, is sustainable — but not if it is harmful to biodiversity without compensating for the impacts. Loans supporting rail and inland water transportation may traditionally have been regarded as more sustainable than those supporting car production. That is no longer necessarily true if the cars in question are super-efficient electric-powered vehicles.

Strengthened Climate Finance Definitions

It is against this backdrop that the world's leading multilateral development banks (MDBs) convened last month in Washington DC to begin working towards the establishment of a strengthened set of definitions on climate finance, which is generally the first category included under Sustainable Finance, although not the only one. This work is quite challenging, explains Nancy Saich, Chief Climate Change Expert at the EIB, who represented the bank at the week-long Wash-

ington discussions.

These definitions, she says, are unlikely to be radically different from those that the MDBs developed and have used for their reporting since 2012, which are recognised as the gold standard. But it is essential that they are updated in order to take account of technological changes in high-emissions sectors and other options for tackling climate change not previously captured. "Our ambition has to be stepped up, whilst still providing clarity and comparability, which are prerequisites if sufficient flows of investment are to be driven towards underpinning long-term sustainable growth."

There are at least two compelling reasons for this urgency. The first is that, according to the European Commission, if the EU is to achieve the 2030 targets agreed in Paris, including a 40% cut in greenhouse gas emissions, it will need around €180bn of additional investments a year.

If the financing requirement is extended to take account of the broader global SDGs, it would rise to an eye-watering \$6tr of new investment each year, according to the United Nations.

Tipping Points

The daunting volume of financing necessary tells only part of the story. The equally unnerving part of the narrative is that the planet is fast running out of time if it is to prevent catastrophic and irreversible environmental damage. "If we pass certain tipping points on climate change, the consequences for the world our children and grandchildren will live in will be disastrous," says Saich. "So the urgency is overwhelming."

The magnitude of funding required, coupled with the speed with which it needs to be mobilised, means that no single institution can hope to address even part of the challenge alone, no matter how well-resourced it may be.

"Multilateral financial institutions like the EIB have a vital role to play to help channel private capital towards the energy transition and sustainability objectives that are needed to reach the Paris Agreement and the Sustainable Development Goals. But no single entity can achieve enough in isolation," says Werner Hoyer, President of the EIB.

"The world is just too interconnected and com-



Werner Hoyer, EIB: "Partnerships and co-operation are increasingly critical"

plex, and the amounts of money needed to deal with the issues are so vast that they can be addressed only if we work in partnership together. Partnerships and co-operation are also becoming increasingly critical in the green capital market, where the EIB has acted as a pioneer ever since it launched the world's first green bond in July 2007. Since then, the bank has maintained its leadership position, issuing more than €23bn of climate awareness bonds (CABs)."

But aside from the liquidity it has injected into the green capital market via its direct issuance, the EIB has also been at the forefront in encouraging continuous dialogue between issuers, intermediaries and investors in the green bond market.

A Common Standard

Much of this dialogue has been aimed at establishing common standards and an agreed taxonomy understood and observed by all market participants.

As with the broader sustainable finance market, it is essential that common definitions are observed in the green capital market to give investors the confidence they need to commit large allocations to green bonds in the primary and secondary markets.

The range of definitions circulating is illustrated in the latest Climate Bonds Initiative (CBI) report on the state of the market, which notes that the total volume of outstanding climate-aligned bonds reached \$1.45tr by mid-September 2018. Of this total, however, less than a third (\$389bn) is accounted for by more narrowly defined green bonds.

This is not to belittle the continued impressive

growth of the green bond market, where issuance volumes this year look set to chalk up a new record in excess of \$180bn. Appropriately, given its role as a pioneer in the market, it was the EIB which took green bond issuance volumes for 2018 above the magic \$100bn mark when it launched its maiden Sustainability Awareness Bonds (SABs) in early September.

Sustainability Awareness Bonds

Eila Kreivi, Head of Capital Markets at the EIB, describes the new Sustainability Bonds as siblings to the CABs. In other words, the SABs are intended to complement rather than replace the bank's existing funding programme by bringing greater specificity to the use of proceeds in the broader green and social bond market.

Kreivi adds that whereas the CABs are allocated exclusively to climate change mitigation, SABs are intended to address distinct themes specified in the SDGs, with water identified as the first sector to be targeted by the new bonds. "The framework for the SABs is identical to the CABs, but the use of proceeds is wider, because they mix green and social projects," says Kreivi.

The SAB programme will in time be extended to other sectors, such as health and education, once detailed reporting frameworks are in place, building on the global success of green bonds by ensuring that socially responsible investors are offered market-leading standards of reporting.

"The key words for us are transparency and accountability," Kreivi says. "We don't believe you can build a sustainable financial system if you simply expect investors to take your word for how the proceeds of green or social bonds are used. Our philosophy is to be entirely transparent and then let investors judge for themselves whether it matches their requirements in terms of sustain-

ability."

Investors responded warmly to the €500m seven year transaction. The issue was exhaustively roadshowed and priced in line with the EIB's existing CAB curve, generating demand well in excess of €1bn from more than 50 investors.

Thomas van Gilst, acting head of the water division at the EIB's Project Directorate, says that the water sector was an obvious one for the first SAB issue. "It was a pragmatic choice, given that water is a relatively simple sector which is very clearly aligned with the sustainability goals," he says.

Because the water sector is also relatively large, he says it is ideally suited to a €500m benchmark. The EIB lends about €3bn annually to the water sector, according to van Gilst, of which about 20% (roughly equivalent to the proceeds of the first SAB) is allocated to high impact water projects.

An example of this would be the extension of a water network to the peri-urban communities of Malawi's rapidly growing main cities of Lilongwe and Blantyre which previously had no access to clean water.

It is a mistake, however, to assume that funding raised through the first SAB is earmarked exclusively for water projects in developing countries outside Europe. As van Gilst says, there are still plenty of areas in Europe where leakage rates are very high due to ageing networks, including pipes that can be well over half a century old and in urgent need of replacement. Projects addressing deficiencies of this kind, he says, are still very much in line with the SDGs.

The most recent example of the role the EIB has played in helping to foster closer partnerships and comparability in the green capital market is its support for the Global Green Bond Partnership (GGBP), which was launched at the Global



Eila Kreivi, EIB: "The key words for us are transparency and accountability"

Climate Action Summit (GCAS) at San Francisco in September. There, the members of the GGBP partnership reaffirmed their commitment to work together to scale green bond issuance primarily by sub-national entities and corporates through "targeted technical assistance, capacity building, de-risking, investing, and underwriting support."

The GGBP is also committed to supporting the development of innovative funds and other financial vehicles to mobilize investor capital. But the EIB recognizes that there is still much to be done if the potential of global institutional resources to support sustainable investment is to be harnessed more effectively.

Risk-sharing Guarantee Initiatives

This, says Maria Shaw-Barragan, head of the EIB's Global Partners Department, is why the EIB is looking to develop risk-sharing guarantee initiatives for cash-rich institutional investors such as pension funds.

Mechanisms of this kind will be a prerequisite for unlocking institutional money that is tied up in unproductive, low-yielding government bonds or money market instruments and redirecting it towards productive long-term support for sustainable infrastructure projects, for example.

"When you speak to institutional investors about this, they say they can generally live with regulatory and political risk," says Shaw-Barragan. "What they are much less able to tolerate is the short-term liquidity risk arising from non-payment from public sector off-takers."

Efficient risk-sharing mechanisms, she adds, would help to stimulate more public-private partnerships (PPPs) that have already proved their worth as a means of supporting sustainable infrastructure investment in several emerging economies.

"There have already been some very striking success stories in the application of PPP, especially in the energy sector, in countries such as South Africa, Ghana and Kenya, and we're beginning to see it emerge in Cameroon," says Shaw-Barragan. "But we need to see progress across many other regions if more institutional money is to flow into these projects."



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Opportunity knocks for Doha

Qatar has moved on from dealing with the impact of the blockade imposed in 2017, and is now looking to build on its self-reliance to fashion new trade and investment opportunities

Out of adversity, comes opportunity, goes the saying. No-one would pretend that things have been easy for Qatar. But the Gulf state has demonstrated that in the face of some challenging conditions, its economy has prospered. Rather than sit back, Qatar has taken the initiative and significantly expanded its international trading relationships.

As Economy Minister Sheikh Ahmed Bin Jassim Bin Mohammed Al Thani told Bloomberg in in early September, the embargo may even have been a "blessing" for the gas-rich nation's economy.

The IMF has attested to the country's resilient growth performance, underscoring how the direct economic and financial impact of the diplomatic rift between Qatar and some regional countries has been manageable for Doha.

After its Article IV consultation with Qatar that concluded in May, the Fund said that considerable buffers and sound macroeconomic policies had helped Qatar successfully absorb shocks from lower hydrocarbon prices and the diplomatic rift.

The near-term growth outlook is broadly positive. Overall, GDP growth of 2.6% is projected for 2018 – though other analysts put it higher still. Public finances remain in a robust position, with the underlying fiscal position continuing to improve. The fiscal deficit is estimated to have narrowed to about 6% of GDP in 2017 from 9.2% in 2016, says the IMF. National Bank of Kuwait's research team forecast the fiscal deficit to decline further to just 1.2% in 2019.

The stronger foundations follow government-backed measures aimed at fiscal consolidation, with reductions to subsidies and the introduction of a series of government



efficiency measures. This helped bring public expenditure down by 12% in 2017. Additional support has come with the strengthening of oil prices this year, and additional non-hydrocarbon revenue streams, such as VAT, which is on course to be implemented next year.

Since the boycott began, Qatari exports have risen 19%, while its global trade climbed 16%, Sheikh Ahmed told Bloomberg. "The blockade on Qatar from an economic point of view is behind us," he said.

Qatar's economic diversification strategy has helped it deal with dislocation in the supply chain caused by the embargo. The embargo's impact in suppressing imports was mostly transitory, noted the IMF, and new trade routes were quickly established. The rerouting of trade led to a significant recovery in imports. And the implementation of key infrastructure projects was unaffected due to the availability of inventory of construction materials and alternative, and competitive, sources of imports, it said.

Although bank deposits and inter-bank placements fell by about \$40bn (11% of total liabilities) in the wake of the blockade, the decline was offset by liquidity injections by the central bank and public-sector deposits, particularly from the Qatar Investment Authority (QIA), the country's sovereign wealth fund.

"I take solace from the fact that the local economy has all but weathered the negative effects of the economic blockade," says Adel Mustafawi, Group CEO of Masraf Al Rayan, a Qatari commercial bank. "In fact, local economic growth in Qatar has picked up from the second quarter onwards, benefitting from increasing construction activities in anticipation of finishing 2022 World Cup projects. The hydrocarbon sector has also been positively contributing to the growth story with increased output levels. As a result, the consensus is that Qatar's GDP growth rate can reach above 3% in 2019-2020."

Ratings agencies have lauded the Qatari

authorities' use of the country's large fiscal and external assets to mitigate the impact of the boycott. S&P expects the authorities to continue the key macroeconomic policies of the QR461bn (\$127bn) infrastructure development plan for 2015-2024. It said the Qatari authorities' policy response to falling oil prices since 2015 has been relatively strong, covering the reining in of current expenditures, merging line ministries, and implementing numerous cost-saving initiatives within its core government-related entities. Fiscal deficits have been modest as a result.

The past year has also provided an opportunity for Qatar to broaden its horizons, diversifying its trading and commercial relationships well beyond the confines of the Gulf Cooperation Council. Rather than losing "a 110-million market, Qatar had opened a 400-million market," Sheikh Ahmed told Bloomberg – taking in countries including Turkey, Azerbaijan, Armenia, Pakistan, Iran and central Asia.

Turkey remains a close trading partner, with Qatari-Turkish trade growing by 30% in H2 of 2017. Turkish companies are heavily involved in the Qatar economy, working on some \$11bn worth of projects including those related to the FIFA 2022 World Cup. In light of the Turkish lira's recent problems, Qatar pledged to invest up to \$15bn in Turkey to support Ankara's effort to shore up its financial system.

Back home, Qatar has worked hard to capture foreign investor interest. "Qatar's economy has been enriched with different investors taking interest in the country due to the 2022 World Cup and a number of billion-dollar mega projects related to the National Vision 2030," says Bassel Gamal, Group CEO of Qatar-based QIB Group. "The economic diversification, strengthening foreign investments and upgrade of Qatar's financial capabilities are key factors pointing to further domestic business growth and opportunities for all banks present in the country."

Prospects for 2019 have been boosted by stronger growth, due in part to rising LNG production and the stronger oil prices.

"The government has renewed its commitment to spending on major projects in the build-up to the 2022 FIFA World Cup and in realisation of the National Vision 2030 which presents financing opportunities. The economic blockade has also resulted in new types of opportunities with government-led initiatives related to economic self-sufficiency, such as transport and logistics, food production,



tourism and LNG downstream industries using abundant feedstock," says Joseph Abraham, Group CEO of Commercial Bank of Qatar.

Qatar National Bank (QNB), the country's largest lender, has revised its average oil price forecast up to \$72bn 2018 and \$69bn in 2018. "Strong global demand and various supply disruptions will keep prices firm heading well into 2019 before slowing global GDP growth and increased US shale supply damp prices somewhat," says Ali Ahmed Al-Kuwari, QNB Group CEO. He projects Qatar's GDP growth to gain by a solid 2.6% in 2018 as headwinds from the hydrocarbon sector abate and the booming construction sector drives non-hydrocarbon growth.

"Government policies to promote private-sector development are also lifting domestic demand," says Al-Kuwari. "We anticipate non-hydrocarbon GDP growth of 5% in 2018, rising to 5.3% in 2019, and hydrocarbon GDP at a modest growth of 0.2% in 2018, which would end four years of declines. Overall GDP growth is seen at 3.2% in 2019."

Qatar is benefiting from the judicious completion of key infrastructure projects, notably the \$74bn Hamad Port, which as finished at the end of 2018 and which will bolster Qatar's plans to become regional transport hub.

Looking forward, there is a growing attention on the country's hydrocarbons sector, particularly its prize asset – its natural gas industry. Qatar has the world's third-largest proven natural gas reserves. By the end of this year, the 1.4bn cubic feet a day Barzan gas facility will come on stream, providing gas feedstock to a series of domestic downstream industries. Plans also call for Qatar to expand its gas liquefaction capacity by 30% to 100m tonnes a year (t/y), with state energy company Qatar Petroleum planning to add three 7.8mn-t/y LNG trains by 2023. This will help Qatar maintain its position as the world's leading liquefied natural gas (LNG) exporter, amid

increasing competition from new market entrants.

Last year, QP announced an end to the 12-year moratorium on drilling in its giant North Field. That will pave the way for more gas to be diverted to LNG exports over time. More recently, Qatar struck a major deal to supply 3.4m t/y of LNG to China over a 22-year period.

The government is meanwhile keeping its foot on the reform pedal, for example announcing legislation to end the system of exit visas which had required almost 2 million expatriate workers to obtain their employers' permission to leave the country. Another recent law allows children and spouses of Qatari women married to non-Qataris to acquire permanent residence status.

This year, the International Labour Organization (ILO) inaugurated its first project office in Qatar to support the implementation of a comprehensive programme on working conditions and labour rights in the country.

Qatar's Minister of Administrative Development, Labour and Social Affairs Issa Saad Al-Jafali Al Nuaimi, reiterated Qatar's commitment to the implementation of this programme which he said is fully in line with international standards and best practices, as well as with Qatar's National Development Strategy 2018-2022.

Other measures have made it easier for non-Qataris to obtain visas to visit the country. According to the World Tourism Organization, Qatar has become the most open country in the Middle East and the 8th most open in the world in terms of visa facilitation. Nationals of 88 countries can enter Qatar visa-free and free-of-charge, including Indians, Chinese and Russians.

The IMF has supported the Qatari authorities' efforts to enhance economic diversification and promote private sector development, welcoming reform efforts related to the labour law, privatisation, special economic zones, and increased foreign ownership limits. The Fund noted that laws promoting equal remuneration and discouraging gender-based discrimination would help contribute to inclusive growth. Additional measures to improve the business environment, including contract enforcement and reform of the insolvency mechanism, will boost private sector growth prospects.

All this will give additional confidence to local business leaders, as they look to build for growth. "The future is bright for Qatar with or without any regional political bickering. It has always been," says Masraf Al Rayan's Mustafawi.

Governor steers a steady course for Qatar



Qatar Central Bank Governor Sheikh Abdullah bin Saud al-Thani says that after showing the country's resilience last year, it is poised for a new phase of growth



Governor Sheikh Abdullah bin Saud al-Thani

In June of this year, Qatar Central Bank governor Sheikh Abdullah Bin Saud Al-Thani saw his term of office extended for a further five years – recognition perhaps of his assured handling of a sometimes challenging brief over recent years.

Sheikh Abdullah played a key role ensure that the imposition of an embargo by some Gulf states last year left little collateral damage. Indeed, as he notes, Qatar's economy has been thriving.

The latest data shows some impressive metrics. Real GDP growth expanded by 1.4% in Q1-2018, primarily driven by the strong performance of the non-hydrocarbon sector. Strong growth in construction, manufacturing and others emerged as key drivers of economic growth.

Although Qatar's hydrocarbon sector recorded a marginal decline – a result of the production cut under the OPEC+ agreement – nominal GDP growth expanded at a much

higher rate of 7% due to pick-up in global crude oil prices.

Other economic indicators also remained supportive to the overall growth performance. Leading indicators point towards a gain in momentum in Q2 2018.

"Industrial production during April and May 2018 shows successive month-on-month gains in both mining and manufacturing. Inflation has meanwhile remained benign at around 0.4% during 2018 so far. With the substantial recovery in exports and oil prices, the current account balance increased progressively and stood at 7.3% of GDP in Q1 2018," says Sheikh Abdullah.

With the further increase in trade surplus in the second quarter of 2018, the current account surplus is set to expand.

"We have been continuously strengthening our regulatory and supervisory systems to ensure that the financial system remains safe, stable and solid"

Governor Sheikh Abdullah bin Saud al-Thani

The overall economic outlook remains positive for 2019. "In view of the present global and domestic demand conditions, real GDP growth is expected to grow higher than the trend level in 2019," Sheikh Abdullah predicts. "Inflation is expected to remain stable and conducive to growth and development. With the recovery in global oil prices, fiscal and current account balances are also expected to improve further and will bring stability to the economic outlook."

What explains this strong performance?

The resilience shown by the economy is a combination of factors including policy measures by QCB, the recovery in oil prices and economic diversification strategy followed over years.

"The strength of non-hydrocarbon sector growth reflects the importance of our diversification strategy to encourage the domestic manufacturing base, construction sector and others. The impact of stronger oil prices can be seen on exports, which played the major role in boosting current account surplus," says Sheikh Abdullah.

Proactive approach

The improvement in the current account balance has somewhat eased pressure on the fiscal balance. The governor says that the stability of banking sector mainly reflects the impact of the proactive measures taken by QCB to deal with the situation of withdrawal of non-resident deposits after the economic blockade.

Qatar's success story reflects a variety of issues, says Sheikh Abdullah. "It is difficult to highlight one factor that played the major role in contributing to the resilient performance of the economy since the blockade imposed in June 2017."

So has the Bank's policy of pumping liquidity into the system now been completed? Or is further action needed to ensure the banking system and economic are sufficiently supported?

"QCB's active liquidity management with the support of the government has brought back banking system liquidity to complete normalcy," says Sheikh Abdullah. "The primary liquidity in the banking system (as measured by deposits of banks with QCB and excess reserves) at end-July 2018 was more than five times the level at end July 2017, when liquidity

tightened sharply following the economic blockade. Provision of liquidity to banks by QCB through repo transactions has been minimal and intermittent since April 2018, with the outstanding amount being nil during the first half of August 2018."

"The strength of non-hydrocarbon sector growth reflects the importance of our diversification strategy"

Governor Sheikh Abdullah bin Saud al-Thani

Dealing with the blockade

From the outset, QCB adopted a proactive approach to the embargo imposed in June 2017. First, it created a special task committee that meets daily to assess the impact of the blockade on the financial sector and the overall economy by monitoring high frequency data. However, as the impact was limited and addressable by normal conventional measures, major non-conventional measures were not adopted.

There was liquidity infusion into the banking system through public sector foreign currency deposits, while QCB provided foreign and local currency liquidity through liquidity windows including repo.

"The initial disturbance from outflows of non-resident deposits was well absorbed by the banks through proactive liquidity management with the guidance and support of QCB," says Sheikh Abdullah. "Strong communications to market participants about our commitment to the currency peg and our deep reserves were used to ward off speculative and motivated attacks on the currency."

Frequent stress tests were undertaken to assess the ability of the banking sector to withstand various stress scenarios. Further, banks, in consultation with QCB, drew up contingency plans to meet various stress conditions.

As the governor points out, non-resident (NR) deposits have already recovered substantially. After declining in the second half of 2017 to around QR 137bn in January, 2018, NR deposits have been secularly increasing to exceed QR 150bn by end June 2018 and are currently hovering a little below QR 170bn.

"A positive aspect of the recent rise in NR

deposits has been the diversification of its sources as lot of these deposits are coming from Asia, Europe and the US. Thus, the concentration risks posed by NR deposits are less than those during the pre-blockade days. With economic diversification, the private sector deposits are also expected to pick up. In such a scenario, the share of government deposits in the bank deposits is expected to decline over time," says Sheikh Abdullah.

Following best practice

Under Sheikh Abdullah's watch, QCB's focus in its regulatory actions has been to maintain financial stability through implementation of international standards and best practices.

A key part of this strategy is ensuring that the benefits are shared as widely as possible. "While the banks have the flexibility to pursue their own strategies for revenue generation, QCB is encouraging banks to pursue financial inclusion. A key element of this strategy is to nurture and promote the SME sector with the objective of economic diversification and promoting greater private participation. At the same time, QCB is focusing on developing a fintech strategy to create a 'fintech hub' in the country," says Sheikh Abdullah.

Qatar's April 2018 sovereign bond issuance met with a strong response, raising \$12bn and was oversubscribed four to five times – despite the issuance of similar bonds by a neighbouring country earlier in the same week, with potential to tighten liquidity in the international debt market.

"The yields on the \$12bn bonds were also lower than the similar issue by the neighbouring country and from our own expectations. Undoubtedly, it indicated international investors' confidence on the strength of the Qatari economy despite the unjust economic blockade. Since then, our sovereign rating has also been upgraded by rating agencies," says Sheikh Abdullah.

So will there be further approaches to the debt capital market?

"We had tapped dollar-denominated bonds from the international market to finance our infrastructure development, taking advantage of easy financial conditions and low interest rates. With the substantial rise in energy prices, there has been significant improvement in the fiscal position. Some rating agencies have even forecast a return to fiscal surplus of the general government this year itself. Thus, any further approach to the debt capital market would depend on the evolving

circumstances though we are aware of the rising yields in the international debt markets," says Sheikh Abdullah.

Sticking with the peg

Monetary policy is geared around ensuring that the exchange rate is targeted at the most appropriate framework. Given the nature of Qatari economy – still largely dependent on hydrocarbon exports – this approach has the IMF's backing. "Our sufficient reserves and huge buffers from the past surpluses also provide comfort in adopting the framework without any constraints. The central component of our monetary policy framework continues to be maintaining the currency peg of 3.64QR = 1 US dollar so as achieve price and financial stability and support economic Growth," says Sheikh Abdullah. Interest rates remain the main instrument of monetary policy, with which it guides short-term interbank interest rates and other deposit and lending rates of banks through liquidity management.

"While our policy rates largely respond to the policy rate moves of the US Federal Reserve, we give due considerations to evolving domestic economic conditions and try to ensure enough systemic liquidity that is consistent with the real economy," he says.

In December 2017, QCB published the Second Strategic Plan (SSP) for Financial Sector Regulation 2017-22. The SSP will focus on guiding the State of Qatar in its future endeavours towards building a sound and resilient financial sector in order to ensure sustainable and inclusive economic growth.

Consistent with this objective, QCB has been focusing on two key initiatives. On the one hand, it is considering financial inclusion strategy that will seek to broadbase the financial sector through both supply and demand side measures.

"A key element of this strategy is to nurture and promote the SME sector, consistent with the Qatar National Development Strategy (QNDS 2) objective of economic diversification and promoting greater private participation," says Sheikh Abdullah.

QCB is also focusing on developing a fintech strategy to create a 'fintech hub' in the country. "We have been continuously strengthening our regulatory and supervisory systems to ensure that the financial system remains safe, stable and solid and is resilient enough to address unforeseen challenges," says Sheikh Abdullah.

Q&A – Ali Ahmed Al-Kuwari, Group CEO, Qatar National Bank

Profits at QNB grew 7% in H1 2018. What is the main contributor to this performance, and do you expect the full-year to also show a positive earnings performance?

QNB's strategy is to pursue sustainable profitable growth. QNB's objective is to capture relevant share and risk-adjusted returns in markets that demonstrate strong macroeconomic and banking sector growth, higher than average net interest margins (NIMs) and a good mix between interest and non-interest income. We continue to experience strong growth in all our three core markets Qatar, Turkey and Egypt as well as from the rest of international network.

How do you explain the strong asset growth that QNB has recorded (up almost 13% in 2017)?

We continue to experience strong growth in all our three core markets Qatar, Turkey and Egypt as well as from the rest of international network. In H1 2018, Turkey accounted for 15.2% of group profits and 15% of group assets while Egypt accounted for 8.2% of group profits and 5.8% of group assets.

We stand out as a strong international bank, operating as a full-service financial institution in our core markets of Qatar, Turkey and Egypt, and as a wholesale commercial bank across a range of frontier and emerging markets in Middle East, Africa and South East Asia. We also have a growing presence in more developed economies, such as UK, France, Switzerland and Singapore. By doing so, we help to grow and protect wealth for all our clients through our range of banking services.

What has QNB done to ensure good asset quality?

QNB's non-performing loans ratio was 1.8% as at 30 June 2018 reflecting the high quality of the group's loan book and the effective management of credit risk. Additionally, our strong recovery efforts helps reduce the net impairment charge on QNB's loan book demonstrating strong credit



**Ali Ahmed Al-Kuwari,
Group CEO, Qatar National Bank**

quality of the bank's asset base. Moreover, we maintain our conservative policy in regard to provisioning with coverage ratio at 110% during the same reporting period.

What measures is QNB undertaking to ensure improved efficiency of its operations?

QNB's focus is on continuous improvement. Our drive for operational efficiency is yielding cost-savings in addition to sustainable revenue generating income streams. We target efficiency enhancement by leveraging technology and streamlining our processes to ensure better customer experience.

Furthermore, we have started a new programme to identify additional levers to generate revenue and cost synergies across the group. The primary objective of this initiative is to extract value across all business lines by leveraging capabilities, streamlining our global product offering and consolidating operations to improve efficiency.

Integration activities encompass aligning the acquired entities with the overall Group's strategy, business and operating model as well as the brand. The roll-out of QNB's global operating model across the network has improved QNB Group's efficiency to better serve customers and provide a consistent level of service across all segments and geographies. This has enabled to strengthen our client proposition as the financial gateway to Middle East And Africa

(MEA) – as exhibited by improvement in the efficiency ratio to 27.2%, as at June 30 2018. This is considered one of the best ratios among large financial institutions in MEA.

You conducted some fund raising on the international market in Q1 of this year. Can more such capital raising moves be anticipated?

At QNB, we always maintain a very healthy liquidity buffer, both in local and major currencies in the domestic market and remain opportunistic in the international markets with respect to our wholesale funding platform. This is to ensure the group's capital adequacy ratio is higher than the regulatory minimum requirements of the Qatar Central Bank and Basel Committee as well as to sustain the continued growth of our book.

We have a well-established and diverse international wholesale funding platform.

QNB's funding base is spread across various geographies in terms of currencies, tenors and product mix. As demonstrated by our successful funding from the international markets during the first six months of 2018 which includes, amongst others, (1) capital market issuances of \$560m with a 5 and 10-year maturity in Australia and (2) \$720k bonds with 30-year maturity in Taiwan.

This reflects the group's success in diversifying funding sources by entering new debt markets, sourcing sustainable long-term funding, extending the maturity profile of funding sources and the trust of international investors in the strong financial position of QNB and the strategy it pursues.

What about QNB's operations in overseas markets?

International expansion is one of the cornerstones of QNB Group's strategy to achieve its vision of becoming a leading bank in MEASEA by 2020. As at June 2018, the international share of profit, loans and deposits represented 36.7%, 30.8% and 44.1% respectively. These results substantiate that our increasing geographical diversification positively contributes to growth.

Q&A: Bassel Gamal, Group CEO, QIB Group

QIB showed robust profit growth in H1 2018 of almost 14%. What is the source of this strong showing?

QIB's innovative financial solutions together with prudential risk management practices have helped us to achieve a 13.8% growth rate in the first half of the year. The strong performance of the local economy as a whole, driven largely by the non-hydrocarbon sector, is another key factor to this success. According to all latest reports, the overall GDP growth in Qatar for 2018 is projected just under 3%, the highest forecast in the GCC.

At QIB we have managed to increase our market share significantly to become the second largest bank in the country, holding approximately 11% of total banking assets. In addition, we were able to maintain the ratio of non-performing financing assets to total financing assets at 1.1%, one of the lowest in the industry, reflecting the quality of the bank's financing assets portfolio and its effective risk management framework.

As part of our long-term strategy, in the last few years we have been focusing on transforming QIB into a fully-fledged modern bank meeting all the financial needs of a diversify base of customers. We continue to invest in modernizing our infrastructure and the way we provide services while upgrading information security systems and controls to ensure secure banking operations for all our customers.

How do you view the Qatar economy's prospects and recent performance? Has the Qatar Central Bank's interventions proved effective in insulating the country from damage?

Despite the recent challenges, Qatar's financial market remains one of the most powerful and competitive ones in the region. The Qatari economy is supported by its strong financial position and future development plans.

Following the recent geopolitical developments, Qatar's financial sector, supported by actions initiated and coordinated by the Qatar Central Bank, demonstrated its ability to maintain stability amidst the past period. The initial pressure



**Bassel Gamal,
Group CEO, QIB Group**

on the financial sector, especially on the liquidity front, has been mitigated by an increase of public deposits and available funds at the Central Bank. Banks are now proactively focusing on raising additional long term funding at competitive prices for their future operations. Moreover, non-resident deposits are returning having grown by QR 13bn (+9.5% YTD) since December 2017.

International financial credit rating agencies such as Moody's and Fitch have upgraded ratings of Qatari financial institutions. At QIB, Moody's recently affirmed QIB's deposit ratings to A1 with a "stable" outlook, Fitch affirmed QIB at 'A' with a stable outlook, S&P affirmed the bank's credit rating at 'A-', and CI affirmed QIB's Financial Strength Rating (FSR) at 'A'.

What are the main opportunities and challenges facing banks active in the country?

Qatar's banking sector financials remain healthy, and the sector boasts the highest asset growth rate in the region for 2017. All banks report positive profitability growth, good asset quality and strong capitalization. According to the latest consolidated figures, as of end of 2017, the sector's return on average equity (ROE) is at 17.5%, the cost to income ratio is 28% - the lowest in the region - and the capital adequacy ratio is at 16.8% indicating the strength of the banking sector as a whole. The industry-wide NPL ratio remains low at 1.6% and banks have increased sufficiently provisions to raise the sector's coverage ratio to 83.2%.

What measures has QIB undertaken to improve its capital and liquidity positions?

As per our latest published financials in June 2018, at 17.5% QIB has a strong capital adequacy ratio while 65% of our assets are funded by customer deposits. Having said that, one needs to consider that Islamic banks have relatively stable deposit bases. In addition, in recent years, Islamic banks and QIB in particular have been successfully raising long-term funding from international markets to support long term growth, supporting both liquidity and capital structures.

At QIB, we have built strong and diversified relationships with a large number of financial institutions and institutional investors so as to raise liquidity in the international interbank and debt markets. The objective is to secure relatively low-cost funds to support the bank's growth and to maintain QIB's strong capital adequacy ratio.

What about the Islamic banking sector in Qatar? How has this developed, and do you expect further growth within the Shariah-compliant sector?

Islamic banking has been a growing sector in Qatar. QIB, being the first Islamic Bank in Qatar founded in 1982, has shown impressive growth and progress over the years of service. As of June 2018, QIB is the leading Islamic bank in Qatar with a 42% market share among the Islamic banks. Today, more than ever, we remain committed to creating innovative and comprehensive Sharia compliant products and offer convenient services in favor of our corporate and individual customers.

Over the past decade, the regulatory authorities have enacted several changes to further improve governance standards in Islamic financial services in the country. Qatar's solid Islamic financial industry is built upon fully-fledged Islamic banks with conventional banks not being allowed to operate Islamic windows. This has provided interested customers the assurances they were looking for that there is no mix between Islamic and conventional assets.



Q&A: Joseph Abraham, Group CEO, Commercial Bank

Commercial Bank reported a substantial increase in Q2 net profits. What is behind this strong showing?

Commercial Bank reported a net profit of QAR 855m in July 2018, representing an increase of 376% compared to the same period in 2017. This growth demonstrates that the execution of our five-year strategic plan, initiated in 2016 to reshape our business for sustainable growth, is on track.

Several actions taken under our strategic plan led to the improved financial results. This led to us growing our loan book while simultaneously reshaping and de-risking our balance sheet through sector diversification. We also increased our focus on the government and service sectors to reflect current and future market opportunities.

We reduced our cost to income ratio by reducing waste and eliminating unnecessary expenditure. We also completed most of our legacy loan book provisioning. Reducing costs has not, however, come at the expense of investment in technology and our people, which are critical parts of our five-year strategic plan. This is especially true in terms of investment in digital technology, where we lead the Qatari market by continuing to introduce new and innovative products in retail banking as part of our digital agenda.

How successful has Commercial Bank been at diversifying its sources of income over the past year?

Over the past year, Commercial Bank has successfully continued its diversification agenda. We continue to focus on re-shaping the profile of our loan book, which has seen growth of 4.3% year-on-year. Corporate customers represent 77% of our total loan book and we are diversifying risk across a range of sectors. One way we are doing this is by decreasing our exposure in the real estate sector and increasing our exposure to government and the public sector, which has driven our loan growth over the last year.

Our focus going forwards is to continue improving market share in loans to government and semi-government organisations, with a strong deal pipeline. We are also working towards geographic loan book diversification.

Although our loan book is strong, increasing fee income that is not lending-based is an important strategic aim of our Wholesale Banking division for more diversified and sustainable earnings. Trade finance and cash management has emerged as a priority area for Commercial Bank, due to its attrac-



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

tive returns, low risk, self-liquidation and high level of customer loyalty.

Recently, the Bank has upgraded its back-end trade system (Trade Innovation) which allows the smooth processing of transactions and improved TAT. The Bank is now capitalizing through innovative products and services supported by new capabilities such as our state-of-art customer facing 'trade portal' that allows the issuance of all types of trade transactions: from customers' desktops connected directly to Commercial Bank's back end system, to Supply Chain Finance, Alerts, Notifications and an e-transaction trade tracker.

The Bank has also revamped CIB, our mobile banking solution, to offer our customers a multi-channel approach and cheque digitization solutions through Remote Cheque Deposit. Our direct debit solution is the first by any bank for corporate customers, and we are market leaders with our cash centre and cash collection proposition. The implementation of these changes has cemented our place ahead of the competition in Qatar and on par with MNC banks. In Retail Banking, we are diversifying through our wealth management and remittance initiatives, and in remittances alone we have completed over a million digital transactions since launch.

Commercial Bank was the first Qatari lender to issue a public bond since the embargo was launched. Why is this important, and will you be making further moves on the debt capital market?

Qatar's banking sector has fully bounced back after the short-term initial disruption of the economic blockade and this includes a return to the public bond market. In May 2018, Commercial Bank

successfully issued a USD 500m five-year bond – one of the largest of its kind in the region from a financial institution.

Demand from investors was strong and the bond's attractive pricing is a clear indication of the continued confidence of international investors in the strength and economic stability of Qatar, as well as Commercial Bank's strategy, financial strength and prudent management.

This bond has a high quality, diversified investor base from the Middle East, Asia, the UK and Europe, which is indicative of the global interest of the investment community in the Qatari financial sector.

Ongoing fundraising is a part of Commercial Bank's normal business operations, with the proceeds used to support our five-year strategic plan. In addition to the USD 500m five-year bond under our European Medium Term Note Programme, this year we also successfully signed a USD 250m syndicated loan in the Asian market and issued CHF bonds in Switzerland.

Overall, what are your views about the Qatari economy's prospects for the remainder of this year and in 2019? What are the main opportunities – and challenges – for major Qatari lenders like yourselves?

Qatar's economy, and in particular the banking sector, has demonstrated impressive resilience in the face of the illegal blockade that began in June 2017 against the backdrop of economic conditions that remain challenging. The Ministry of Finance anticipates that Qatar's economy will grow by 2.6% in 2018, with prospects for 2019 looking better with growth at 3%, due in part to increased LNG production and a higher forecast oil prices.

Our key business areas are aligned with this new economic environment, with less concentration in real estate and an increasing share of high quality government and public sector loans. Public sector loans are a strategic priority for Commercial Bank, not only in terms of overall growth, but also to diversify our loan book.

The government has renewed its commitment to spending on major projects in the build-up to the 2022 FIFA World Cup and in realisation of the National Vision 2030, which presents financing opportunities. The economic blockade has also resulted in new types of opportunities, with government-led initiatives related to economic self-sufficiency such as transport and logistics, food production, tourism and LNG downstream industries using abundant feedstock.

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

In terms of Doha Bank's performances, H1 2018 profits were hit by loan loss provisions. Is this a one-off hit, and is the underlying trend a positive one?

The bank's H1-2018 profit was affected mainly due to the required significant additional provisions in relation to its GCC branches. The reserves for impaired loans to impaired loans coverage stands healthy at 171%. The bank is closely monitoring these accounts with a special focus on regularizing them and consolidating its position to avert possible shocks.

How are Doha Bank's core revenue streams looking?

Doha Bank's core revenue streams are two-fold and comprise of interest and fee incomes. Through initiatives such as changing the asset allocation model, periodic re-pricing of its portfolio, and managing low-cost deposits, the bank continues to maintain its net interest margin, which is currently the highest among all the Qatari banks.

In line with its innovation strategy, the bank launched Qatar's first Exchange Traded Fund (QETF) as a tool for investment. In a continuation of its international expansion strategy, after the successful establishment of Mumbai and Kochi branches in India, Doha Bank inaugurated its third dedicated branch in Chennai. This is in addition to its branches in Dubai, Abu Dhabi and Kuwait.

The bank further augmented its large representative office network of Japan, China, Singapore, Hong Kong, South Africa, South Korea, Australia, Turkey, the United Kingdom, Canada, Germany and Bangladesh by adding Sri Lanka and Nepal. This will further help the bank to capture the synergistic opportunities within its network. Over the years, Doha Bank has diversified its business strategy with a focus on fee income to add more value to its shareholders.



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

What new products and services is Doha Bank launching? What impact has the QETF had, and can other innovations be expected?

As a leading financial institution in the region, Doha Bank continually looks to set the industry standard and explore innovative financial instruments that drive maximum value for investors in Qatar and around the world. Several products have been identified as "First-in-Qatar" – QETF, Ladies Banking package, Al Dana Savings Scheme, to name a few. The QETF has come at a time when global fund houses are increasingly showing interest in the country's capital markets in view of its macroeconomic potential and is expected to bring in huge inflows from global investors.

Will Doha Bank be focusing on expanding the retail segment? Will new products be forthcoming in this area?

The retail lending growth in Qatar's banking sector was more than 4% YTD in August 2018. To maintain its competitive advantage, Doha Bank will continuously innovate to introduce new products and services to its customers. In addition, the bank will also look to expand its retail banking operations in overseas markets and contribute to the bottom line.

What about capitalisation and liquidity issues? What measures are you taking to boost capital and liquidity?

As at end-June 2018, the bank's capital ratio stands strong at 16.63% against the minimum requirement of 12.875%. The loan to deposit ratio of 112% compares to the local banking system of 114%. The bank maintains the holding of QAR 14.4bn SOQ bonds which it could repo with QCB. Besides, the bank maintains sufficient credit limits from other local and international banks which it can enjoy at any time.

How is loan demand holding up from the Qatar private sector? Is this something you expect to solidify in the coming years?

As at YTD August 2018, overall lending growth in Qatar was more than 1% and growth in private sector increased by more than 6%. Given the various reforms and initiatives being introduced in the country, along with key projects in line with the FIFA World Cup, demand for loans is expected to be stable over the years.

What effects has the embargo had on Qatar's economy and on banks? While resilience has been demonstrated, are there any lasting negative impacts to highlight?

Amid the embargo, Qatar has emerged strong and has brought various reforms to transform itself into a self-reliant economy. Some of these reforms include a landmark residency bill, relaxing entry visa requirements for citizens of 80 countries and enhancing food security. Qatar will also raise LNG production by 30% to 100mtpa within five to seven years after lifting a moratorium on gas development earlier in 2017. Qatar has been ranked 25th in 'the Global Competitiveness Report 2017-18. Furthermore, the banks have filled the liquidity gap by tapping international markets and temporary support from its sovereign wealth fund. The country is well positioned to grow by 2.6% in 2018.

Q&A: Adel Mustafawi, Group CEO, Masraf Al Rayan

How do you see banking conditions in Qatar this year? What are the main challenges and opportunities?

Banking conditions in Qatar are strong and resilient. The financial sector is strong because banks are well capitalized and have also reported a combined 7.8% net profit growth in the first half of 2018, despite the country is being placed under an economic blockade. The sector has also shown a great deal of resiliency in the face of economic blockade by replacing all the regional deposits from neighbouring countries with more stable and geographically diversified sources of funding. In the words of H.E. the Governor of Qatar Central Bank, the country has now returned to "business as usual."

First-half profit was up 4.5% while assets grew almost 8%. What are the main contributors to this performance?

During this period, financing increased by QAR 4.8bn which is mostly to government and government-related entities, resulting of which profitability has also improved. Secondly, there is significant increase in FX during the period.

How important is it for Masraf Al Rayan to give support to infrastructure projects and other schemes of national value?

Masraf Al Rayan (MAR) bestows a great deal of importance upon its relationship with the State of Qatar entities, as the bank dedicates close to a 60% of its financing book for the government sector. As one of the foremost banks in Qatar, it is incumbent upon MAR to support the government complete the infrastructure projects on time, which would help the country to meet its international sporting obligation in 2022, maintain economic growth and realize Qatar Vision 2030.

What new products and services is your bank launching?

Masraf Al Rayan is keen to create a flexible and agile product portfolio adapted to customer segment, conduct customer segmentation using a dedicated group that



**Adel Mustafawi, Group CEO,
Masraf Al Rayan**

supports strategy development across and provide its retail customers competitive products and services using recent technologies to meet local and regional competition. We have developed a range of credit cards for all segments, from Platinum to Signature and Infiniti. We have also launched a prepaid Card "Eqtisadi card" in collaboration with ministry of Economy & Commerce.

While MAR market share for cards usage reached 8.36% for credit card at year end, VISA July summary report states a remarkable YoY growth in MAR cards as follows: POS Transaction has grown by 91%, 123% for X border POS transaction and 96% in terms of E-Comm transactions.

In addition to existing customer segments, Premier Banking has been added as a new segment, targeting a range of defined customers by either their high salaries or minimum deposit maintained.

How do you see deposit growth holding up this year, and how is liquidity looking in 2018-2019?

The deposit growth picture in 2018 is much better than that of 2017. This picture has largely been helped by three key factors: (1) Higher oil prices have helped the local market to receive more and more liquidity by the day; (2) The country's trade surplus jumped by 43% in July, y/y, according to the official statistics, despite the economic blockade, and this is another major factor that is helping Qatar to thrive; and (3) the credit rating agencies have restored investor confidence on

the Qatari economy, in the aftermath of the blockade, by removing their negative outlook views on the sovereign ratings. As a result, local banks have been able to receive foreign deposits, issue debt, get capital financing through club deals, and contract bilateral loans from their global counterparties. They have also been able to diversify their sources of funding in this exercise. Therefore, the deposit growth picture in the local market will, by our estimation, get brighter in 2018-2019.

Will Masraf Al Rayan be looking to the overseas market?

Masraf Al Rayan is already operating in the overseas markets. We have a full-fledged Islamic bank in the UK (Al Rayan Bank, UK), whose operations have been successful. Now we intend to expand that model to continental Europe.

The proposed merger with Barwa and IBQ did not succeed, but would you consider any new acquisitions? Is there still scope for more consolidation?

MAR's twin growth strategic objectives have, since inception, been to grow both organically and through M&A. Organically, we have already established our franchise name in the local market with 17 branches in key strategic locations of the country. We are also always open to an acquisition idea, if the price is right. And, with the country of 2.7 million and 18 banks, there is scope for consolidation in the future.

How do you view the Islamic banking market developing in the next few years?

Islamic banks play an important and integral part in the progress and the development of the local Qatari economy. Together, the local Islamic banks command between 25-27% of the total banking assets in the country and these banks fully contribute to the economic story of Qatar. The trend is one only way: up. Islamic Finance is no longer a niche market. Instead, it is the fastest growing sector in the financial services industry in many parts of the world, including Qatar. And it is expected to remain so in the foreseeable future.

Q&A with Khalid Al-Subeai, Group CEO, Barwa Bank Group

The Bank reported strong profit growth in the first half of 2018. What is behind this performance, and are you confident it can be sustained?

Absolutely, Barwa Bank Group has recorded a net profit of QAR 418.5m, an increase of 7.6% compared to the same period in 2017. The Group has succeeded in achieving strong and steady results for the first six months of the year by taking advantage of the extensive customer base that it has built over past years. This also reflects the management's ability to adapt to current market conditions by working with dynamism and flexibility, coupled with the robust economic performance of our home country, Qatar.

Our business model and the diversity of our income sources, along with the variety of innovative products which suit all our customer segments, have enabled the customers to increase its financing revenues by 9.5%, exceeding QAR 517m. Commission revenues exceeded QAR 55m, representing an increase of 41%.

In addition, the Group's total assets have increased by 9.5% to more than QAR 48.8bn. This was supported by a significant 6.6% rise in customer deposits, which reached QAR 31.5bn. We are confident of delivering on our responsibilities by working hard to strengthen our position across the Islamic banking sector in Qatar, as well as exerting greater efforts to support the national economy in achieving the Qatar National Vision for 2030.

Where do Barwa's strengths lie? What are your core areas of growth?

We remain committed to meeting our customers' expectations, therefore customer satisfaction and product innovation are essential components of our brand DNA. We believe that this is our strength and we strive to be customer-centric.



***Khalid Al-Subeai, Group CEO,
Barwa Bank Group***

Regarding growth, given our diversified business model – which covers banking, consumer finance, investment banking and leasing services – we are uniquely positioned to meet our customers' requirements. This includes everything from ensuring that their day-to-day banking requirements are being met to offering investment and wealth management solutions. The number of new clients is increasing on a monthly basis and that is a positive sign of our continued growth and allows us to invest more in our products and services.

Another strength we are proud of is the talented and diverse workforce we have at Barwa Bank Group, who have contributed tremendously to our growth story.

How do you view the Qatari economy's performance and future prospects?

We are quite bullish on the Qatari economy, it is expected to grow 2.6% this year, as per IMF estimates. The banking sector, and Barwa Bank in particular, had a good financial performance in 2017. New sectors have opened up, such as agribusiness, light industries and basic commodities. The wheel is definitely moving faster in terms of our strategy to diversify

away from the hydrocarbons sector. This is in addition to the projects and services that are required and currently being executed as part of preparations for the World Cup in 2022.

Qatar's natural gas expansion drove GDP growth of between 10% and 27% annually from the 2000s until 2012. Since the end of the gas expansions in 2012, Qatar has remained resilient and diversified its economy with hydrocarbon compromising one third of GDP in 2017 vs. more than half in 2014. This resilience has allowed the banking market to outgrow GDP growth, growing over 25x since 2002, making Qatar the fastest growing banking market in the GCC over the last decade.

We at Barwa Bank continue to support public and private sectors diversification initiatives, as we firmly believe that Qatar has a solid and robust economy. We also look forward to providing continued support to foreign companies based in Qatar and to entities looking to do business in the state.

Are you confident that the domestic market will offer you sufficient growth and lending opportunities?

Going forward, the economy is without a doubt being supported by higher oil and gas prices in 2018, as well as by the government's infrastructure investment push in the run-up to the 2022 World Cup.

Backed by buoyant investment sentiments and the government's continuous thrust on steering growth, we will keep our eyes on expansion plans across the Qatari market, given the significant opportunities the market provides. Furthermore, we will spare no effort to gain the largest possible share of financing opportunities for infrastructure projects and provide all support to contribute to the growth of the country's economy and in backing the Qatar National Vision 2030.

Resilient banks chart a course for growth

Qatari lenders are confident about the future and remain among the region's most efficient financial institutions

Qatar's 18 domestic banks have consistently shown their resilience in the past year, and many have shown that even in the face of the blockade, they can remain profitable and build assets.

Much of that can be attributed to the strong support shown by the Qatar Central Bank (QCB). Outflows of non-resident deposits from banks totalled about \$13bn at year-end 2017, but liquidity injections by QCB and public-sector deposits to support the banks more than compensated for that at \$40bn.

According to ratings agency Moody's, government deposits accounted for 38% of total deposits in the system as of March 2018, up from 26% just before the beginning of the regional dispute, offsetting foreign funding outflows.

QCB Governor Sheikh Abdullah Bin Saud Al-Thani says foreign currency deposits by government institutions, which supported liquidity in the

banking system, has been largely stable during 2018. On the other hand, non-residents deposits are steadily returning.

Looking forward, Qatari lenders see renewed opportunities for growth. For example, the government remains committed to large infrastructure projects in the build-up to 2022 FIFA World Cup, and rising oil prices translate into stronger economic activity – and therefore more credit requirements.

"Qatar's economic foundations remain strong, with stable triple A credit ratings, large sovereign reserves, and an economy demonstrating sustained GDP growth," says Joseph Abraham, Group CEO of Commercial Bank of Qatar. "As banks' activities closely follow the performance of the nation, the banking sector is benefitting from Qatar's growing economy," says Joseph Abraham, Group CEO of Commercial Bank. "As banks' activities closely follow the performance of the nation, the banking sector is benefitting from Qatar's growing economy."



Q&A with Al Khaliji Commercial Bank CEO, Fahad al-Khalifa

How is Al Khaliji maintaining strong asset quality and good capital buffers?

Our business strategy has remained consistent and focused on our domestic market in Qatar. The local economy continues to grow and Qatar's sovereign rating of AA- reflects the inherent strength of the country. This focus on Qatar, has allowed us to grow our business across the wholesale and private banking franchises whilst preserving strong asset quality.

The quality of our portfolio remains strong as we deal primarily with the government and its related entities in addition to supporting the strongest private sector names. In recent years we have also been heavily involved in financing key aspects of the government's infrastructure program, which also involves lending to the private sector where the paymaster is the government -- thereby providing a strong covenant.

Our invitation-only Personal Banking franchise means that we are clear on the strength of our clients before they are onboarded. Our focus is on HNW and UHNW individuals and the emphasis on this high-end segment reduces the credit risk.



We remain a highly capitalized bank with a CAR 16.7%. This high level of capital allows the bank to support our growth plans, and we will continue to ensure we are adequately capitalized.

How has the bank's recent performance been in terms of profit? What are the bank's main growth lines?

In 2017, Al Khaliji generated increased profits of QAR 551 million, improved the net interest margin, strengthened its funding base and delivered greater cost efficiency. Our solid results reflect our Qatar-centric strategy and the close alignment of our business teams with our valued client base. We are

a specialist bank built to service a small number of preferred clients primarily local Corporates including Government and GREs, the Private and Premium Personal segments and entrepreneurs in the private sector through the Al Dhameen program. We will continue to support and build scale in these core segments.

Al Khaliji reported a growing and consistent set of results for the first half of 2018, as we carefully navigated and capitalized on opportunities in the domestic economy during 2018. The results are reflective of our focus on growing operating income, efficiently managing our cost base and deploying our balance sheet in line with our risk appetite. With these efforts, we are pleased to report a half-yearly net profit of QAR 335 million, which is 5% higher year on year. In line with our strategic objective of delivering long-term sustainable revenues, we have been selective in growing our balance sheet, despite our interest-bearing assets being lower than at the same period last year; our overall yield on those assets has improved. In addition to that, growth in non-interest income has led us to report higher operating income year on year.

Liquidity and assets positions have been strengthened under guidance from the QCB. The central bank introduced new loan-to-deposit requirement of 100% that came into effect in January 2018.

As the IMF noted in its May 2018 Article IV assessment of Qatar, even under severe shock scenarios, Qatari banks meet the relevant regulatory standards. QCB's stress tests for December 2017 suggest that the banking system is resilient to severe shocks.

That leaves Qatari bankers in confident mood. Ali Ahmed Al-Kuwari, QNB Group CEO, sees healthy loan growth of 10% in 2018 and 2019, reflecting higher credit demand in both the public and the private sectors.

"Government policies targeted to strengthen the private sector and on-going infrastructure projects will support credit demand," says Al-Kuwari. "QNB is committed to invest in Qatar's future and it continues today with significant financing support deployed on major projects that aid the continued diversification drive. We remain focused on four primary areas: utilities, transport, 2022 FIFA World Cup infrastructure, and real estate."

Governor Sheikh Abdullah notes that private

sector loans have been growing at a steady rate, in a sign of the non-oil sector's underlying health. "The y-o-y growth in private credit at end-June 2018 stood at over 10% while that of public sector credit was almost half at just over 5%. There is no crowding out of private credit. Moreover, with the current thrust towards promotion of SMEs and diversification of the economy, the share of private credit should rise," he says.

Qatari banks are doubling down on improving efficiency levels, for example by raising long-term funding at cheaper rates. A report issued by consultants KPMG found that listed banks in Qatar enjoy some of the lowest cost-to-income ratios in the region, with Qatari institutions making up five of the top six banks in in terms of cost to income, as at end-2017.

According to Bassel Gamal, Group CEO of QIB Group, most banks' focus in the future will be to "manage the increasing funding cost (following the Fed's recent interest rate increases), look for efficiencies across the entire organization and make sure to target high quality assets as they keep on growing their portfolios".

Qatari lenders are increasingly looking

beyond their domestic market, with overseas opportunities emerging as means of ensuring continued growth.

For example, Commercial Bank's growth has been supplemented by its Turkish subsidiary Alternatif Bank's strong top-line performance in the first half of 2018, which has been revitalised by a recent change in leadership and a rebranding exercise, according to Abraham.

QNB meanwhile aims to strengthen its presence in markets where it has already entered. "We plan to continue to strengthen our contribution from our previous acquisitions in Egypt and Turkey. In both these markets, we see further growth potential along with a pickup in economic growth," says Al-Kuwari.

QNB is specifically targeting the ASEAN economies – export-oriented economies that exceeded global economic growth in the last two decades. Growth in these markets is expected to continue. "In 2017, we opened our first branch in India," says Al-Kuwari. "The Indian economy is the seventh largest in the world and one of the fastest growing major economies. It has expanding trade and population ties with Qatar, the Middle East, Africa and Southeast Asia more broadly."

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What's happening Friday, October 12

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9.00am - 10.30am
Annual Meetings Plenary

9.00am - 5.30pm
Civil Society Policy Forum
Location: BICC, Rooms Jakarta A&B, Bandung and Surabaya

11.00am - 12.30pm
Investors4Impact: **Investing for positive impact: what is needed to scale up**
Speakers: **Jim Yong Kim**, President, World Bank Group; **Axel Weber**, Chairman, UBS
Location: BICC, WE-2-Nusantara 1 & 2

11.30am - 12.45pm
Seminar: **Leveraging policies for sustainable development goals**
Opening remarks: **Tao Zhang**, Deputy Managing Director, IMF
Moderator: **Rachelle Akuffo**, Business Anchor, CGTN America
Speakers: **Masood Ahmed**, President, Center for Global Development; **Belay Begashaw**, Director General, Sustainable Development Goals Center for Africa; **Winnie Byanyima**, Executive

Director, Oxfam International; **Jeffrey Sachs**, Director, Center for Sustainable Development, Columbia University
Location: BICC, WE-1-Auditorium

11.45am - 12.15pm
Postcard series: **Modernizing Monetary policy frameworks**
Speakers: **Diwa Guinigundo**, Deputy Governor, Bangko Sentral ng Pilipinas; **Pham Thanh Ha**, Director General, State Bank of Vietnam; **Natan Epstein**, Deputy Director, IMF-Singapore Regional Training Institute
Location: BICC, WE-2-Medan Room

2.30pm - 4.00pm
Seminar: **Disrupting development: how digital platforms and innovation are changing the future of developing nations**
Opening remarks: **Jim Yong Kim**, President, World Bank Group; **Jack Ma**, Co-founder and Executive Chairman, Alibaba Group
Moderator: **Karishma Vaswani**, Asia Business

Correspondent, BBC
Panelists: **Penny Mordaunt**, Secretary of State for International Development and Minister for Women and Equalities, UK; **Heng Swee Keat**, Finance Minister, Singapore; **Mats Granryd**, Director General, GSMA; **Nandan Nilekani**, Co-founder and Non-Executive Chairman, Infosys; **Nicolas Mialhe**, Co-founder and President, The Future Society – Harvard Kennedy School
Location: BICC, WE-1-Auditorium

3.30pm - 5.00pm
Seminar: **Implementing the SDGs in a changing world: localization, inclusiveness and investing for impact**
Speakers: **Mahmoud Mohieldin**, Senior Vice-President, World Bank Group; **Bambang Brodjonegoro**, Minister of National Development Planning, Indonesia; **António Guterres**, UN Secretary-General; **Shaolin Yang**, Managing Director and Chief Administrative Officer, World Bank Group; **Nora Lustig**, Samuel Z Stone Professor of Latin American Economics, Tulane

University and Director, Commitment to Equity Institute, Tulane University; **Caren Grown**, Senior Director for Gender, World Bank Group; **Matthew McGuire**, Partner, TPG Growth and The Rise Fund
Location: BICC, WE-2-Nusantara 1 & 2

4.00pm - 5.30pm
Seminar: **Investing in a climate-adapted world**
Speakers: **Kristalina Georgieva**, CEO, World Bank; **Hilda Heine**, President, Marshall Islands and President, Climate Vulnerable Forum, V20 Chair; **Rosine Sori-Coulibaly**, Minister of Finance, Burkina Faso; **Petteri Taalas**, Secretary-General, World Meteorological Organization; **Matthew Rycroft**, Permanent Secretary, DFID, UK; **Norbert Barthle**, Parliamentary State Secretary, BMZ, Germany
Moderator: **Tian Wei**, Anchor and Host, *World Insight with Tian Wei*, China Global Television Network (CGTN)
Location: BICC, WE-1-Mangupura Hall

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OfNote

4.15pm - 6.45pmEuro50 Group & Centre for
International Governance
Innovation Roundtable &
Cocktail Reception

Topic: Attacks of tariffs: what about currencies?

4.15pm - 4.30pm Registration**4.30pm - 4.35pm**Welcome remarks: **Edmond Alphandéry**,
Chairman of the Euro 50 Group**4.35pm - 4.55pm**Guest Speaker: **Andrew Baukol**, Principal Deputy Assistant Secre-
tary for International Monetary Policy of the US Department of the
Treasury**4.55pm - 5.45pm**Discussion panel: **Laurence Boone**, Chief Economist, OECD; **Arnab
Das**, Global Market Strategist, Invesco; **Javier Guzmán Calafell**,
Deputy Governor, Banco de México; **Takahide Kiuchi**, Executive
Economist, the Nomura Research Institute; Former Member of the
Policy Board, Bank of Japan; **Ma Jun**, Special Advisor to the Gover-
nor of the People's Bank of China; **Daniel Mminele**, Deputy Governor,
South African Reserve Bank (tbc); **Beat Siegenthaler**, Global Macro
Advisor, UBS Investment Bank**5.45pm - 6.35pm** Q&A**6.35pm - 6.45pm**Concluding remarks: **Robert Fay**, Director for Global Economy at CIGI

Location: Balai Ulu Room at The Laguna, Nusa Dua, Bali



Extra Curricular

7.30am - 8.30pm**Institute of International Finance (IIF)
2018 Annual Membership Meeting**

Location: Grand Hyatt Nusa Dua, Bali



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THE final word

We'll overcome our debt problems by accident

By Steve Keen

I am one of the handful of economists which gives the lie to the cliché that “no one saw it coming”. I did foresee the 2008 crisis. I focus on something that most other economists deliberately ignore: the level and rate of change of private debt. They worry about government debt but believe that private debt is unimportant because they assume that private lending simply transfers spending power from the saver to the borrower. As Ben Bernanke put it, private lending is a “pure redistribution” which “should have no significant macroeconomic effects”.

I disagreed, because I asserted that bank lending creates new money, and — since no one borrows for the sheer pleasure of being in debt — the increase in bank debt (which I call credit) increases demand. The same process works in reverse: a wholesale reduction in private debt destroys money, and demand along with it.

In 2006, I knew that a crisis was imminent, because US private debt had virtually trebled as a share of GDP over its immediate post-World War Two level (it was also almost three times as large as government debt). On some metrics, credit had reached over 20% of GDP. The rate of growth of debt had to stop, and when it did, credit could go from adding to demand to subtracting from it — just as had happened in 1930. At a time when the OECD was telling its member countries that “our central forecast remains indeed quite benign”, I was expecting and warning of the biggest economic crisis since the Great Depression.

We now know who was right. Credit went from boosting demand to cutting it by just as much. Private debt peaked at 170% of GDP and started to fall, while only then did government debt rise, from 60% to



“
*Once we finally realise
the scale of the threat
climate change poses
to human existence on
this planet, no expense
will be spared in
fighting it*

100% of GDP (*type: myf.red/g/lk5V into your browser to see the Federal Reserve data on this*). As credit turned from positive to negative, unemployment skyrocketed, and it only started to fall as credit started to rise again (*see: myf.red/g/lk6g*).

The crisis is now in the rear view mirror, but it has left a legacy of excessive private debt: it is still over 150% of GDP. Another US crisis like 2008 is unlikely, because that requires a high level of credit as well as high debt. But excess private debt will act as a ball and chain around any economic recovery, as it has for Japan ever since its virtually identical crisis in 1990.

A sustained recovery will only

occur if that level of private debt is reduced. I have a proposal for how this could be done deliberately, via policies that I describe as a “modern debt jubilee”. But I expect that we’ll reduce it the same way we did back in the 1930s and 1940s: by accident. Private debt more than halved as a percentage of GDP during the war, not by deliberate policy, but as a side effect of fighting the existential threat posed by Nazi Germany and Imperial Japan. The combination of rationing and huge government spending gave the private sector little to do with its money but pay down debt. What we now call the golden age of capitalism from 1946 till 1966 followed.

This time, the existential threat will come from climate change. Once we finally realise the scale of the threat it poses to human existence on this planet, no expense will be spared in fighting it. Just as no one in 1940 objected to the UK’s budget deficit hitting 40% of GDP — because the perceived alternative was losing the war — no one will object that we should not burden future generations with excessive government deficits today because, unless we act decisively, there will be no future generations.

That last accidental private debt reduction ushered in the golden age of capitalism. We need a new golden age of both capitalism and the ecology. Whether we achieve them is a moot point today, just as who would win World War II was a moot point in 1939. **GM**

*Steve Keen is a Distinguished Research Fellow and Honorary Professor at UCL, and the author of *Debunking Economics & Can We Avoid Another Financial Crisis?*. You can help crowdfund his development of realistic economics with as little as \$1 a month at www.patreon.com/Prof-SteveKeen.*

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Only China has money for cat bonds, says Philippines minister

By Elliot Wilson

A senior Philippines government official has called publicly on China to do more to promote the production, sale and distribution of catastrophe bonds, in a region painfully prone to natural and climate-related calamities.

Benjamin Diokno, secretary of budget and management of the Philippines, said China should be the clear regional and global leader in this fast-growing corner of the debt market. "If China wants to lead on this, they can," he told *GlobalMarkets*. "They have the Belt & Road initiative, and that costs them a lot of money. They can fund these kinds of bonds — and they should."

"Most countries are hard-up. Who has got the money? Not the US, which is heavily indebted. Of all the countries in the world, China has the greatest amount available" to invest in and support this kind of debt market instrument. "They have a lot of money."

MORE TALK, MORE ACTION

Key to promoting the sector, he said, was

more talk and more action. "People have to continue to talk at events like [the IMF/World Bank conference in Bali]. And we have to come up with a far bigger sum of money in preparation for combating future disasters."

Pointing to the recent super-typhoon that crashed into the Philippines coastline, and the disastrous earthquake and tsunami that left more than 2,000 dead in Indonesia, he said there was a glaring need for regional governments and development banks to continue to communicate "in preparation for the next 'big one'".

Diokno was full of praise for the World Bank, which has promised to pay the Philippines almost \$500m to help it recover from last month's typhoon. Earlier this year, the Washington-based multilateral printed \$1.36bn worth of parametric earthquake catastrophe bonds to support developing states in Latin America. Indonesia is eyeing the sale of catastrophe bonds as it looks for new ways to plan financially for the cost of mitigating against, and rebuilding after, natural and climate-related disasters.

"[The World Bank is] coming up with



Diokno: praised World Bank for its help after recent typhoon

many instruments, and they move quickly. They are helping us to draw down financial aid in the event of national emergencies without much fuss," Diokno said. "But we need more help like this and more bonds. Even the IMF should be ready to issue this kind of print, and the Asian Development Bank should be another. They have a lot of money too."

According to industry data provider Artemis, \$11bn worth of new catastrophe bonds and related insurance-linked securities were printed in the first seven months of 2018, against \$10.64bn in the whole of 2017.

Blackstone banks on MENA as MDBs scale up Islamic finance

By Owen Sanderson

Private equity giant Blackstone announced this week that it was launching Zarou, an energy development company focused on the Middle East and North Africa, hiring a team from UK development institution CDC to run the new project.

Meanwhile, the World Bank and Islamic Development Bank (IsDB) are planning to scale up infrastructure investment in the region, tapping into pools of shariah-compliant funds.

Zarou will focus on thermal and renewable power opportunities as well as oil and gas midstream and water assets in the region. It will primarily target Egypt, Jordan, Morocco, the UAE and other Gulf countries, with an opportunistic approach elsewhere.

The equity funds will come from existing private equity funds (rather than Blackstone's infrastructure mandate), as with its investment in Fisterra Energy, which develops energy assets in Mexico and Latin America.

The firm has been evaluating the opportunity since 2014, *GlobalMarkets* understands, and sees attractive power supply and demand dynamics.

Much of the market is now dominated by existing state-owned sponsors and MDB funds, but Zarou thinks its team will still be able to identify opportunities that hit its return targets.

The IsDB, for example, has two private equity funds dedicated to infrastructure in its member states and is now raising a third.

State-owned sponsors are developing some of the largest regional projects — Morocco's \$9bn Ouarzazate thermosolar project, one of the world's largest, is sponsored by state-controlled Masen, and funded mostly by a consortium of development banks, including EIB, KfW, and AfDB.

Jordan's Baynouna solar PV project is sponsored by an Abu Dhabi state company, and financed by IFC, Dutch development bank FMO, and the Opec Fund for International Development, among others.

Zarou, *GlobalMarkets* understands, will consider MDBs as partners and potential sources of debt finance for its investments.

SHARIAH FOCUS

The World Bank and IsDB are also turning their attention to delivering shariah-compliant infrastructure investment in MENA,



Ouarzazate thermosolar project, Morocco

and in other IsDB member countries. This will allow projects to attract funding from Islamic-only banks, and direct funds to sponsors with strict Islamic criteria.

Infrastructure and project finance are particularly suitable for issuance in Islamic format, because of the formal prohibition on lending at interest — making money from money. Sukuk are backed by assets and are structured to have a "profit rate" instead of a coupon like a conventional bond.

As infrastructure projects are already backed by real assets producing real cash-flows, lending against infrastructure can easily be made shariah-compliant.

Indonesia, as the world's most populous Muslim nation, is particularly likely to benefit. Speaking in Bali on Wednesday, Indonesian Finance Minister Sri Mulyani Indrawati heralded an "infrastructure renaissance" which the government was launching, aimed at accelerating investment in the country's infrastructure.

IFC bid to rule out 'impact washing'

By Phil Thornton

The International Finance Corporation, the private sector arm of the World Bank, will today unveil new principles aimed at preventing unscrupulous companies using the impact investment label to conceal projects with negative effects.

The IFC is determined to give asset managers who want their investments to deliver environmental and social benefits confidence that the projects branded as having positive development impacts live up to their name.

Chief executive Philippe Le Houérou will set out nine "operating principles for impact management" developed in consultation with other development banks, investors and banks that it will put out for consultation before being finalised at the spring meetings of the World Bank Group in April 2019. They will include defining the impacts, setting targets, monitoring performance, managing impact and financial returns at the portfolio level, taking impact into account on exiting an investment and obtaining independent verification.

"The idea was that we see more and more impact investing but we don't have a definition of impact," he told *GlobalMarkets*, pointing to a similar push 10 years ago to lay down generally accepted standards for green bonds. "The question then was how do you avoid 'green washing' and now how do you avoid 'impact washing'."

Although impact is generally seen as delivering specific and measurable environmental and social benefits, there is no precise definition, which allows some project managers to claim other more nebulous positive benefits.

"Now we have a way to measure it and we have put a lot of effort into quantifying that so [we want to] try to bring into the tent all the goodwill that there is out in the market," he said. He added that basic principles would help stimulate activity in impact investment as happened with green bonds that have come from zero in 2007 to a forecast \$300bn next year.

However, CSOs are likely find criticisms in the document. Gerbrand Haverkamp, executive director of the World Benchmarking Alliance, told *GlobalMarkets*' sister paper *GlobalCapital* last week that impact investment alone would not ensure the world hit the Sustainable Development Goals. "All investment has an impact, for better or worse, but there are different stages of how deliberate you can be about making sure that's a positive impact," he said.

GM PICTURE OF THE DAY



Trade wars

Continued from cover

at the list of US demands it's not just limited to China's trade policy, but the way it manages its economy," he told *GlobalMarkets*.

He believes the Sino-US dispute is a very different animal to the one that led to the re-configuration of the North American Free Trade Agreement (Nafta). Then the US negotiators typically played good cop with the Canadians and Mexicans, while the US president bad cop.

"I don't think the US is playing a tactical game with China to gain more leverage," Coulton continued. "I think distrust of China's trade tactics runs quite deep within the current administration and they're looking for some quite significant concessions."

NEW TARIFFS

Coulton said that it would be harder for the two sides to make a breakthrough when they were not even talking to each other, something he noted had never happened when Nafta was being re-negotiated.

He also concludes that, "a world run by global strong men isn't one that's conducive to dealing with the world's macro, strategic or structural challenges in a coordinated way".

But a Strategic Economic Dialogue 2.0 is exactly what China and the US needs according to Gruenwald. He feared the US would not re-open the formal communication channels, which the Bush administration set up a decade ago with a very different Chinese president, Hu Jintao, who was keen to promote China's "peaceful rise".

Rather, he thinks the current administration may be waiting until the mid-terms are gone before it slaps a new round of tariffs on the kind of imported electronic goods and toys, which will hit US consumers directly in their wallets.

India

Continued from cover

tunities and reach its potential.

"It's not appropriate to write off India, but India needs to be doing more than beat its breast and say it's the largest and fastest growing economy in the world," he said. "That doesn't cut it. We

Indonesia

Continued from cover

enjoyed the perks of global trade over the past decade, had a "strong interest" in ensuring co-operation among countries to protect trade practices.

"Indonesia will stand ready to work with other countries to make sure the world is going to be a place for many countries to be able to do economic exchange, including free trade and investment, that will benefit people."

But she also admitted that a shift had taken place, putting the idea of multilateralism into much sharper focus. She said that multilateral institutions such as the International Monetary Fund and World Bank needed to work harder to make their added value clear to shareholders.

"Many technocrats need to work less exclusively and more inclusively, with less ivory tower mentality, but look at people in general and engage with them. As policymakers, we need to see policies that are credible and in people's best interest. In the past, it seemed like support for multilaterals will continue to exist and be strong, but that is no longer the case. Now is an important time for them."

need to actually show growth that's consistent with our potential, and that needs far more reform within India than what they are doing right now."

RETROGRADE POLICIES

Reza Siregar, the Institute of International Finance's head of India and ASEAN research, pointed to the example of rising non-performing loans and corporate governance issues facing India's state-owned banks, which had triggered a round of consolidation recently.

While Siregar said mergers and acquisitions between state-owned banks was a good start, merging weak banks with one another without further reforms was unhelpful. He told *GlobalMarkets* that regulators needed to first focus on regulating lending, before setting their sights on restructuring the cost structure in large public banks.

Siregar also pointed to divestments of state-owned assets, which had failed to take off despite attempts by India to sell companies, including high-profile indebted state carrier Air India. "When you are divesting any

"In India, the reforms needed to make its ambitions possible have simply not played out"

—Raghuram Rajan

company, you need to recognise how to categorise the assets. [The] Air India sale should have been direct as India has a captive market, but unless you're allowing the asset to be restructured and written off, then the cost of taking over is not attractive enough."

Rajan said that India needed to carry out far more ambitious reforms. Relative to expectations held out for India over the last eight to 10 years, the country had underperformed across the different political regimes, he said.

"This government has often touted 'Make in India' as its ambition so its intent has never been to become more internally focused," he said. "We are seeing some retrograde policies coming back in the world, but in India, the reforms needed to make its ambitions possible have simply not played out."

ECONOMIC STRENGTH

Indrawati said the Indonesia economy would remain resilient to the pressures on the Indonesian rupiah and can weather the storm wreaking emerging markets.

She set out what she said were clear examples of Indonesia's strength in turbulent times. First was the inflation number of around 2.2%, which has remained stable amid a steady depreciation of the local currency this year. Second was economic growth with Indonesia posting 5.17% in the first quarter and 5.27% in the second, with the momentum expected to continue for the rest of the financial year.

"This is still among the highest levels we have seen in the past four years," she said. "This, combined with the stability around inflation, shows that the Indonesian economy is quite resilient."

Indrawati also cited the example of Indonesia's deficit of 1% of GDP, and its positive primary balance of surplus. "This is in stark difference to our position in September last year when the deficit was more than 2% and our primary balance was in a very deep negative zone," she said. "Even on the fiscal side, we are doing a consolidation that is very ambitious, showing our resilience and our flexibility to respond to the changing global environment."



Indrawati: "Many technocrats need to work less exclusively and more inclusively"

That is unlikely to change, despite a number of geopolitical and macro headwinds buffeting emerging markets around the world. Trade tensions between the US and China, a strong US dollar putting pressure on emerging market currencies, and a US Federal Reserve that is on course with its rate hike strategy are all challenges facing Indonesia.