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Sri Mulyani Indrawati

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Hoyer: need to work together

By Elliot Wilson, Rashmi Kumar and Owen Sanderson

Leading figures from the development and financial communities have slammed a lack of joined-up thinking on world affairs and called for a fresh approach to multilateralism, which they warned was in unprecedented danger.

Multilateral vision 'under threat' like never before

Werner Hoyer, president of the European Investment Bank, the EU's not-for-profit development lender, warned that multilateralism was "more under threat" than ever before. "I would never say I'm a fundamentalist, but on this issue I am, as we are cutting our own legs out from underneath us if we don't combat" a drift toward isolationism and protectionism, he

told *GlobalMarkets*

The key figure in the push for less global co-ordination on issues ranging from infrastructure to tackling climate change is of course Donald Trump, and Hoyer alluded to the impact of the most isolationist US president for 85 years.

"The reasons why multilateralism is under threat is more

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Disaster wake-up call: Indonesia sets the stage for cat bonds

By Rashmi Kumar and Jaspar Cox

The terrible earthquake and tsunami that hit Indonesia's Sulawesi island last month has served as a wake-up call for the country's ministry of finance, which is now looking at issuing catastrophe bonds.

"Indonesia has tended to be more reactive and less proactive. But now we've received a wake-up call to be more proactive," Luky Alfirman, director general at the finance ministry, told *GlobalMarkets*.

Indonesia, infamous for its location on the Ring

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RMB devaluation to trigger next EM crisis

By Jackie Horne and Rashmi Kumar

Risks of a full-blown emerging market debt crisis are being fuelled by Sino-US trade tensions and currency volatility led by a weaker renminbi and a stronger dollar, leading economists and fund managers have warned.

Raghuram Rajan, former Reserve Bank of India governor, told *GlobalMarkets* that it was "not quite the perfect storm yet, but it's getting quite stormy out there". He said the likelihood of

a deeper crisis would depend on how macroeconomic vulnerabilities interacted with countries' leverage positions that had built up over the past decade.

Hung Tran, executive director of the Institute of International Finance, said China was the country most likely to test those limits. "International investors are keenly aware of the next shoe that could drop: a weakening of China's growth and the RMB by more than the soft landing the authorities are trying to engineer," he said.

A sharp depreciation of the RMB



Hung Tran: balanced approach

would put significant new pressure on EM currencies that many economists already considered

Continued on back page

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OUT OF THE WOODS

Seen and heard in the corridors of the Annual Meetings

• **/ Greedy guzzlers** There's something awry at this Bretton Woods conference — look hard and you'll spot it. Yes, it's the incongruity of listening to panellists, from finance ministers to investment bankers, applaud one another for their climate-warrior chops and ability to issue spanning new green bonds, only to load into giant black SUVs and make the one-kilometre drive back to their air conditioned hotel rooms and evening soirées. Practice what you preach, people.

• **/ Drink and be merry** Anyone fearing for our future as a species after listening to one of the IMF/World Bank doomsday-scenario panels could simply pop along to the café on the ground floor in the convention centre, where waiters are happy to urge you in the direction of a nice tasty-fresh Bintang beer at eight in the morning. That's certainly something you don't get in the District of Columbia.

• **/ Kitchen confidential** *Out of the Woods* was intrigued to spot Andrew Bailey, a former deputy governor of the Bank of England and now head of the UK's Financial Conduct Authority, trying to sneak out through the kitchens, despite the best efforts of abundant Indonesian door-handlers to dissuade him. With the UK about to strike out on its own after Brexit, we are left to wonder what he's cooking up.

• **/ Batik bros** Yes, those lovely, lively Indonesian print shirts are all the rage, spreading like a virus through this year's Annual Meetings, as ever more participants swap sweaty suits for the bright, tangy Indonesian dress. World Bank president Jim Yong Kim donned a fetching red number when he presented his new fintech agenda on Thursday. Yet to get with the programme: Bank of England governor Mark 'Dawdler' Carney and a certain Ms Christine 'Laggard' Lagarde.

• **/ Stimulus sustenance** Taking to the stage yesterday, the host of this year's conference, Indonesian president Joko Widodo, chose to ignore the naysayers and naybobs and focus on improving our happiness index. Highlights from his keynote speech included this ripper of a number: 'Spend some of your tourism dollars to try to find out what makes Indonesian people happy.' *Out of the Woods* followed his lead, and took his team out for an expensive slap-up Japanese meal.

• **/ I'm only sleeping** Did the room move for you (II). When *OOTW* squeezed into the conference hall yesterday morning, he expected everyone to be talking about the previous night's mild but moving seismic temblor. But reaction was mixed. Plenty of delegates were shaken from their hotel beds but others didn't feel anything at all. Paraguay's central bank chief José Cantero was sleeping so tight after his 30-hour trip to Bali that he did not even notice Thursday morning's earthquake.

IMF warns Argentina bailout needs to be \$75bn — not \$57bn

By Thierry Ogier

The size of the IMF's recent \$57.1bn rescue package for Argentina — the biggest non-precautionary loan ever from the Fund — may have looked impressive but it is not large enough, according to Robin Brooks, the chief economist of the International Institute of Finance (IIF).

"The programme needs to be bigger," he told *GlobalMarkets* in an interview. His comments came as Argentina is seeking official approval for its revamped agreement from the IMF board. "What Argentina really needs is \$75bn for three years," he said.

The latest crisis in Argentina was triggered by a combination of twin deficits and a currency crisis. Argentina's financing needs are estimated at around \$25bn per year by the IIF. Without capital flight, the figure would go down to some \$15bn, according to Brooks. But capital flight is "inevitable" he said.

Argentina's policy response to the crisis was a classic mix of fiscal tightening (the government intends to eliminate the primary budget deficit as early as next year), monetary policy tightening including sharp interest rates, and a

reserve requirement increase.

"(IMF president) Christine Lagarde has made this [programme] a clear priority for the institution. There's a lot of political goodwill to make this programme work," Brooks said. Nevertheless, the political context and the potential political risks cannot be ignored. Pushing for a tough fiscal adjustment that would plunge the country into a deep recession in an election period might be very risky, he said.

Conservative president Mauricio Macri will seek re-election in October next year. "The reason we argued for a bigger programme is so that you can do a softer fiscal adjustment to help the current government win the election. This is the key," Brooks said.

The alternative to Macri's policies could be a very unorthodox populist government, he argued, which might jeopardise the implementation of the current programme.

"If you have a market-unfriendly populist win the election next year, anything can happen," Brooks said. "Then the whole political sustainability of the programme could be in question.

"I have talked a lot to the IMF mission to upsizing the programme. There is still a good amount of time before the elections, so there



Brooks: talked to the IMF about increasing the programme

is an opportunity to make this work."

WEAK SENTIMENT

Nevertheless, other market analysts have said the current agreement stands on its feet. "I think it is generous enough, large enough and it is front-loaded enough," said Alberto Ramos, Latin America chief economist at Goldman Sachs. "They have access to \$36bn between now and the end of next year.

"But there is also a problem of weak sentiment. The locals [the Argentines] when they see episodes like this, volatility in the FX market... their inner fears come to the fore and they become hyper-defensive. You have to convince them this [programme] is going to work," he said.

Supply chain countries braced for hit from Sino-US trade war

By Jackie Horne and Thierry Ogier

Countries are counting the cost of being caught up in the escalating Sino-US tariff and trade war as companies try to reconfigure their supply chains to appease both sides.

Ilan Goldfajn, governor of the Brazilian central bank, told *GlobalMarkets* that even countries and companies that might benefit in the short-term would feel pain in the medium-term.

"While some of our commodity exporters may sell more to China, I don't think we'll benefit from the trade war in the medium term," he said. "At the end of the day, everybody gets hurt because trade disputes slow growth."

Citi's global chief economist, Catherine Mann, quantified this as an 0.8 percentage point reduction in China's GDP, which would, in turn, reduce global growth by 0.3 percentage points as it percolated through global supply chains. "On the baseline of about 3.3% growth, that's a material risk to the global economy," she told *GlobalMarkets*.

Piyush Gupta, CEO of DBS Group, said

companies would accelerate an existing trend of shifting new investments from China to cheaper, neighbouring countries.

He also forecasts that many companies would simply pass on additional costs to consumers given they cannot build a factory overnight and that tariffs would only add a couple of dollars to the price of an average smartphone.

REVERSE OFFSHORING

But he sees a measurable change in the way companies re-constitute their supply chains over the next few years, he told *GlobalMarkets*. "The Taiwanese and South Koreans may also reverse their strategy of offshoring to China and partially return to their home markets again."

Gupta said per capita incomes in China and Taiwan were converging, making the cost/benefit argument of moving production to China far less compelling than it was at the turn of the century.

As a result, he said that while Sino-US bilateral trade would be affected by the tariff war, there was unlikely to be much change in overall Asian-US trade volumes.



Goldfajn: 'everybody gets hurt because trade disputes slow growth'

He said he was less concerned about the impact on the real economy than about market and consumer psychology.

"It's creating negative feedback loops, which is putting pressure on stock and bond markets," he said.

For Citi's Mann the disruption to global supply chains is symptomatic of how global integration has stalled. She argues it was key to reviving productivity: the main economic tool governments have to help their citizens to live better lives.

"Many governments either fail or do not even take up the task," she concluded. "Shrinking the pie does not make redistribution easier."

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Success is a journey

IMF warns on regulation 'roll back'

By Phil Thornton

The International Monetary Fund has issued a veiled warning to politicians in the United States not to roll back banking regulations that could limit the chances of a repeat of the global financial crisis.

In a study published on the eve of this week's meetings, analysts at the Fund said that regulatory and supervisory structures put in place during the months before the onset of the crisis may have played a pre-emptive role in influencing subsequent damage.

Specifically, they said stronger restrictions in 2006 on banks' ability to underwrite, broker, and deal in securities, to offer mutual fund products, and to engage in insurance underwriting, real estate investment, development, and management were associated with a lower probability of a banking crisis during 2007–08.

"Stronger banking regulation — proxied by restrictions on certain aspects of bank activity — appears to have played a preventive role by lowering the probability of a banking crisis in 2007–08," it said in its world economic outlook report. "The finding is relevant for ongoing

debates on rolling back the regulatory standards adopted following the crisis."

There was an intense focus on tightening financial regulation after of the crash, started by the leaders of the G20 nations that set up the Financial Stability Board to assess vulnerabilities affecting the financial system, and identify and oversee action needed to address them.

Since then reforms have included extensive multilateral efforts to strengthen financial regulatory standards aimed at expanding the breadth of regulatory coverage, containing the build-up of systemic risk, strengthening resilience to shocks, and developing resolution frameworks.

TRUMP'S ROLLBACK

However in May, US President Donald Trump signed the biggest rollback of bank regulations since the global financial crisis into law with a piece of legislation backed by both Congressional Republicans and Democrats.

It lifted the threshold to \$250bn from \$50bn under which banks are deemed too important to the financial system to fail. Those institutions also would not have to be put through stress tests or draw up so-



Warren: rollback is "extraordinarily dangerous"

called living wills, which were signed to help banks plan for financial disaster.

Leading liberal Democratic senator Elizabeth Warren warned at the time that it would encourage more risk taking, saying raising the threshold was "extraordinarily dangerous". She has pointed out that Countrywide, which originated a large volume of subprime mortgages in the run-up to the crisis, had about \$200bn in assets when it collapsed.

This IMF is likely to use this week's meetings to warn that gaps remain across a range of areas, from macroprudential frameworks and systemic risk monitoring to data and cross-border co-operation.

Definition of impact gets closer as bodies join IMP

By Jon Hay

Investors and banks increasingly like to claim they are having a positive "impact" on society or the environment. So far, there is little agreement on what that should mean, or how to compare impacts. Nine international bodies, including the UN Development Programme, International Finance Corp and OECD, have joined a network led by an offshoot of Bridges Fund Management to tackle this troublesome issue.

The Impact Management Project started as work by Bridges, a London-based impact investment firm, to evaluate its activities. It has grown into a global initiative, to which over 2,000 practitioners have contributed.

"We are at a very exciting point in the evolution of impact investing, where there is a lot more interest coming from a variety of corners of the market," said Kelly McCarthy, director at the Global Impact Investing Network in New York. "Of course we want to scale, but can we do so with integrity? That is the real crux of all this."

Impact investing originally meant very bespoke transactions, designed to achieve specific social outcomes and a financial return. This market, monitored by the GIIN, has grown to about

INVESTOR'S CONTRIBUTION	ACT TO AVOID HARM	BENEFIT STAKEHOLDERS	CONTRIBUTE TO SOLUTIONS
Signal that impact matters Engage actively Grow new/undersupplied capital markets Provide flexible capital	Ethical bond fund	Positively screened / best-in-class ESG fund	Sovereign-backed bonds funding vaccines for underserved people
Signal that impact matters Engage actively Grow new/undersupplied capital markets Provide flexible capital	Shareholder activist fund	Positively screened / best-in-class ESG fund using deep shareholder engagement	Public/private equity fund engaging with businesses educating underserved people

A section of Impact Management Project's matrix that maps investor's contribution (left column) vs assets' impact (top bar, increasing towards right)

\$230bn of investments outstanding, mostly private debt and equity deals, with an average size of \$3m.

Now, many mainstream funds that buy listed shares and bonds are striving to show positive 'impact'. A third meaning is that all investments have an impact on the world, which some argue investors should consider.

The IMP is designed to bring all these strands together, creating a common language in which investors can discuss impact. "Impact will always be in the eye of the beholder," said Olivia Prentice, COO of the IMP, based in New York. "What we can all have is different preferences and goals. Before IMP there was no way of expressing those in a widely understood way."

The IMP has come up with a framework

for describing impact, with five dimensions: what outcomes the enterprise contributes to; who experiences them and how underserved they were before; how much benefit they gained; whether the outcomes were better than what would have occurred otherwise; and the risk that the impact will underperform.

It also has a matrix which sorts investments according to their ambition: avoid harm; benefit stakeholders; and the most ambitious, contribute to solutions.

The next stage is for the big global standard-setting organisations in the IMP network to help develop common metrics to compare investments.

With the IMP, "the conversation is taking a step up in terms of consistency", said McCarthy. "We absolutely need to go there."

IFC adds sustainable twist to financing EM corporates

By Owen Sanderson

The International Finance Corporation (IFC) has signed a deal with Demica, which runs a supply chain finance platform, allowing banks to buy invoices from the suppliers to multinationals. IFC takes the credit risk of a clutch of top-rated multinationals, while their emerging market suppliers get paid faster — meaning they don't have to finance hard currency invoice exposure themselves.

Given the cost of raising hard currency finance for some EM firms, a switch to invoice finance could save them between 200bp-300bp, according to Matt Wreford, CEO of Demica.

The IFC's extensive network of local offices is expected to help with setting up know-your-client and anti-money laundering procedures, which have become increasingly challenging for private sector banks.

It is also planning a sustainable finance twist on the basic supply chain model — with the sustainability rating for the supplier feeding into the cost of the financing. Suppliers which improve their environmental credentials will be eligible for a lower cost of funds.

The plan is to scale up the financing to \$9.8bn annually by 2022 — though, as the financing typically has a 60 day term, this implies outstandings of around \$1.6bn. IFC will initially fund all of the invoice purchases itself, but is eventually likely to syndicate exposures to private sector banks.

Banks are already involved in financing invoices from developed market suppliers to multinationals, but the idea is that IFC will take the emerging market exposures.

"Since the crisis, we've seen a significant retraction in the footprint of most banks," said Wreford. "All the banks are going regional, at the same time as multinational supply chains are getting ever more global, and that's opening up huge gaps in supply chain financing."

Wreford argues that the programme is unlikely to cannibalise existing private sector supply chain finance.

"It's much more likely to grow the market," he said. "There's still low penetration, certainly less than 10% of the addressable market. It's more likely to stimulate absolute growth than be a fight over a few suppliers."

IFC is also taking a stake in Demica, with a participation in its \$25m second round financing, alongside Wyelands Capital and existing investors in the company.

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CZK 495,000,000

Schuldschein loan due 2023/2025/2028

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


EUR 200,000,000

7.000% Senior Bonds due 2025

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City of Bucharest

RON 555,000,000

5.6% Unsecured Bonds due 2028

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Apr 2018 Romania



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Feb 2018 Belarus



USD 300,000,000

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Feb 2018 Russia



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African states seek IMF help as Chinese debts soar

By Elliot Wilson

Frontier African states deeply in hock to China and unable to repay their debts to the Asian powerhouse are turning to the IMF in search of advice, financial aid and structural support.

Once a pariah across much of sub-Saharan Africa, the Fund is engaged in talks with the Republic of the Congo in a desperate attempt to manage its eye-watering debts. Government debt as a share of GDP was 119% in 2017, according to IMF data. The country owes creditors including Export-Import Bank of China, while sources at the IMF say mainland corporates owe more than \$9bn.

"We are working with them on ways to manage their debt," one Fund official told *GlobalMarkets*. "It's at an unsustainable level." Congo has held talks with the African Development Bank and the World Bank as it seeks new ways to repay China while keeping its tiny economy from bankruptcy.

None of this is easy. The IMF, insiders say, is struggling to determine exactly how much the tiny state owes to China, in part

because it does not know itself. "It's not like it owes some big amount 'to Beijing,'" says one insider. "It owes money to many different" Chinese commercial development banks and state-run corporations.

China's increasingly zealous lending is causing rising concern across a long-troubled continent. It lent \$143bn to regional countries between 2000 and the end of 2017, according to Johns Hopkins University-funded China Africa Research Initiative, and in September, president Xi Jinping said China would lend another \$60bn in aid and loans to needy nation states.

In September, in an attempt to push back against criticism of what is seen by many as predatory lending, Xi promised to forgive some African debt. But in Angola, a country whose debt to China hit \$21.5bn at the end of 2017, or more than half its external debt, is simply doubling down with Beijing, with the African state securing a new \$2bn loan from China Development Bank on Wednesday.

RESPONSIBLE LENDER

China's attitude is causing widespread



Xi: 2018 Beijing Summit of the Forum of China-Africa Cooperation (FOCAC)

and rising resentment. "Yes, it is the responsibility of African countries to know their borrowing limits, but China needs to be a responsible lender," says Mamadou Ndiaye, chairman of the regional council for public saving at the West African Monetary Union in Cote d'Ivoire.

"It's also up to Beijing to know who they are lending to, and what its limits are. African countries ask China for more money every day, but China needs to learn when to say 'no.'" China is still not part of the Paris Club, a multilateral framework for official sovereign creditors and it is being urged to join by Bretton Woods institutions, among others.

Carney, Lagarde warn over fintech as China P2P fears grow

By Owen Sanderson

Mark Carney has intervened in the debate over the level of supervision of the fast-growing fintech sector, cautioning against the use of a "light touch" approach that some have blamed for contributing to the global financial crisis.

The Bank of England governor's comment at the launch of a new fintech agenda sponsored by the World Bank and the International Monetary Fund in Bali on Thursday came as China continues to grapple with the fallout from rampant unregulated lending through its peer-to-peer sector.

Carney, who is chair of the Financial Stability Board also said: "We don't do light touch regulation but in the [UK's] Financial Conduct Authority's [regulatory] 'sandbox' we do proportionate regulation for firms early on, and give them proportionate access to advisers to help with it."

According to figures published by the Basel Committee last month, there was \$240bn of fintech credit in China — out of \$283bn globally. Fintech credit per capita was 70% above that of the US. In less than two months over the summer,

150 P2P lending platforms in China collapsed, and protestors tried to march on the Chinese regulators.

NOT LIGHT, NOT HEAVY

The issue was not addressed directly in the agenda, a document released by the World Bank and IMF on Thursday, which sought to balance the possible benefits of fintech by including improving access to financial services in emerging markets with any possible risks.

The only hint was an acknowledgment that "implications for other financial safety net arrangements might need to be considered... this could include analysis of the nature of deposit insurance... and issues relating to crisis management and resolution."

The agenda aims to give regulators a platform for co-operation on issues such as preventing money laundering, and to harmonise their approach to issues over data, paving the way for fintechs to scale up beyond national borders.

IMF managing director Christine Lagarde echoed Carney's concerns, saying that the agenda's recommendations were



Lagarde: 'Is a market place really a market place or is it actually taking deposits and acting like a bank'

"not prescriptive, not either light or heavy", but added: "It should be a strong agenda for all countries to ask themselves whether they're addressing the issues or restricting innovation.

"Supervisors and regulators should be encouraged to see if, for example, a market place is really a market place or if it is actually taking deposits and acting like a bank."

The agenda also acknowledged risks for traditional monetary policy from fintech platforms, particularly when they are involved in credit creation. "In many countries, monetary policy is transmitted by changing the marginal price of liquidity — central bank reserves — available to large commercial banks," said the report.

Hong Kong urged to use green bonds to tackle 'embarrassing' conditions

By Rashmi Kumar

Hong Kong needs to move faster to join in the \$440bn green bond market to help it fund environmental improvements, one of the leading figures in the fast-growing asset class has told *GlobalMarkets*.

The city has been dallying with the idea of selling a green bond for a year. The issuance is understood to be awaiting approval from the legislature, and is widely expected to hit the market by the end of the year.

Sean Kidney, chief executive of Climate Bonds Initiative, said that was not nearly enough. "The trouble for the Hong Kong government is that they don't really need the money," he told *GlobalMarkets* during the Tri Hata Karana Forum on Sustainable Financing in Bali.

"But Hong Kong could do anything with the money it's already got in the bloody bank. It has trillions of Hong Kong dollars sitting in bonds and a huge current account surplus. It could finance a proper waste water system. It is an outrage that a rich city like Hong Kong is still pouring sewage into the river where people swim."

Kidney said the environmental situation in Hong Kong "remains an embarrassment" and that proper sewage systems should be the "norm" for the city. He added that pollution levels were far worse in Hong Kong than across the border in Shenzhen.

Hong Kong's green financing programme could help with improving living conditions. The city's 2018-2019 budget announcement included plans to issue green bonds of up to HK\$100bn linked to financing green infrastructure projects.

The hope is that Hong Kong uses its own green bond to invest in a sewage plant, according to Kidney, although details are still limited. "That would be a signal they are really getting their shit together."

Would this mean Hong Kong could yet meet its ambitions of being Asia's regional green hub, and a link to China?

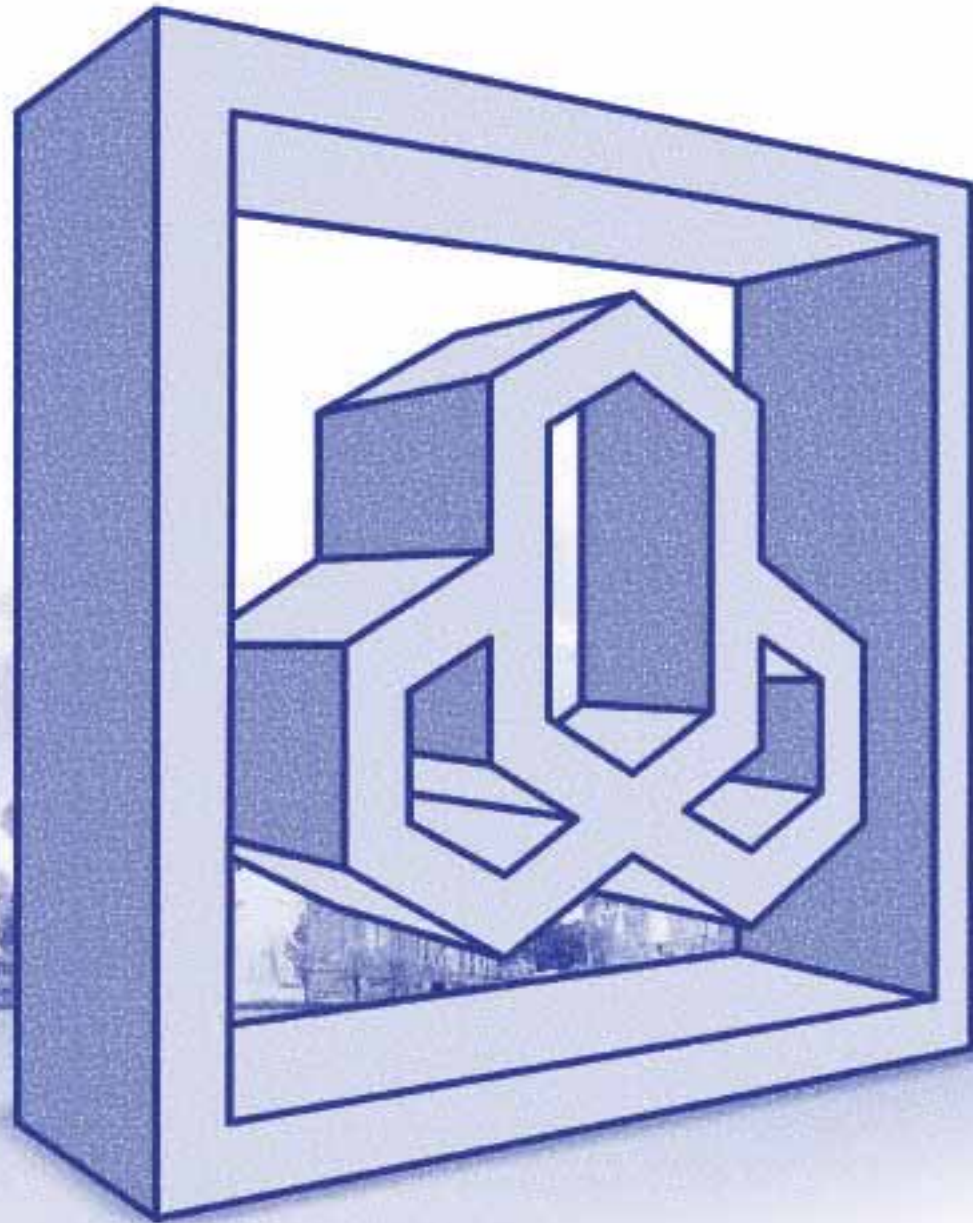
The one big advantage Hong Kong has is that it is already a renminbi hub, and as the RMB goes green, Hong Kong will likely be able to leverage that to become a green hub.

"There are already green bond funds setting up shop in Hong Kong to invest in Bond Connect to access China's domestic market," said Kidney. "RMB issuance internationally is there, but light. But green is a nice spearhead for change in China."

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Fragile state: World Bank poverty target rests on weakest economies

If the World Bank is to hit Jim Yong Kim's target to end extreme poverty, it will have to find a solution for the 2 billion people living in fragile states

By Phil Thornton

In the quarter century from 1990 to 2015 more than 1.1bn people were pulled out of poverty. While almost half of this was down to the Chinese government's economic revolution that pushed 500m people above the basic poverty level of \$1.25 a day, it is still hailed as a victory for the development finance industry.

While this still leaves 14.5% of the population in poverty, it is huge progress compared with 1949 when US President Harry S Truman lamented that more than half the people in the world were living in "conditions approaching misery".

Yet as senior World Bank executives and development ministers from around the world gather in Bali, they will be aware that they have a long way to go to achieve the Bank's goal of reducing extreme poverty in the world to less than 3% by 2030.

Having picked the low hanging fruit, they

need to help the 2 billion people, or more than a quarter of the world's population, who live in countries where development outcomes are affected by fragility, conflict and high levels of violence.

Yet the Bank's own forecasts show that the share of the extreme poor living in conflict-affected situations is expected to rise to more than 60% by 2030. "To succeed in achieving our twin goals, eradicating poverty and boosting shared prosperity by 2030, we must succeed in fragile states," says Franck Bousquet, senior director of the World Bank Fragility, Conflict & Violence Group (FCV).

"For us it is a no brainer that the top priority is really the whole support for fragile states."

Bousquet and Bank president Jim Yong Kim will arrive in Bali carrying a box's worth of independent reports warning the Bank and its sister organisation, the International Monetary Fund, that it needs to

embark on a radical overhaul of policies to tackle fragile states.

The OECD warned that more than 80% of the world's poor could be living in fragile contexts by 2030 and said governments and agencies needed to spend more in aid and in a smarter way. And the United States Institute of Peace said the international community was facing a challenge of equal immensity to the impact of the Second World War on Europe that led to the Marshall Plan.

ADMISSION OF FAILURE

One of the most significant was a joint report by the Commission on State Fragility, Growth and Development co-chaired by former British prime minister David Cameron and Donald Kaberuka, former president of the African Development Bank, which said that after decades of aid many of these countries are as poor as they ever were — some even poorer. It said that some of the things that developed countries, non-governmental organisations and donors had done had "arguably" made matters worse.

One thing that everyone agrees on is that there is a need for a new approach to supporting fragile states. Adnan Khan, re-

On the ground

World Bank president Kim Yong Kim with UN secretary general António Guterres and Rohingya refugees in July



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Fragile state champion
World Bank CEO Kristalina
Georgieva

search director of the International Growth Centre at the LSE, which hosted the commission, said: “We must start with an admission of failure. It is rare to see such a huge gap between what has been fixed and what needs to be fixed. We need to be honest: if the current strategies are not working, we should not go back to them.”

Masood Ahmed, president of the Center for Global Development (CGDev) think tank and a former IMF director, says that the international financial community has not been able to make the progress people would expect.

He says there are good reasons for this. For one, fragile states are inherently much harder to engage with. Allied to this is the tendency of big institutions to talk to each other rather than to the other actors on the ground. “The international community does not have any framework for co-ordination among the range of actors that are engaged in different ways in a fragile state context.”

Ahmed also says that institutions find it hard not to apply the processes that work in more stable countries, which is especially hard for large institutions that are structured around having a uniform approach.

The commission’s report had harsh words for all actors in the development space but was blunt about the Bank: “The World Bank needs both a strategy for fragile states and an organisational structure for delivery of a strategy.”

It castigated the Bank for not having a distinctive organisation-wide strategy on fragile states, saying its approach to those countries was no different to that for other developing countries it works with.

It focused on a lack of senior managers to formulate an economic strategy. “The core

of the problem is that the Bank has not devoted sufficiently senior economic expertise to the formulation of a distinctive strategy,” it said. “Developing a strategy can only be done with the credibility to change country strategies if led by a vice-president or managing director.”

Bousquet says the World Bank welcomes the report and has backed its recommendations on areas such as partnerships and engaging the private sector but adds that the Bank sees FCV as a critical development challenge.

But Bousquet rejects the commission’s accusation that FCV is only a “theme” within the Bank, saying that its strategic approach is backed directly by Kim and by the Bank’s CEO, Kristalina Georgieva, whom he describes as a “champion” for the issue of fragile states. “For the first time this is a global thing and is a group that is a cross-cutting area that goes across all practices.”

He points to the doubling of finance for fragile states to \$14bn from \$7bn over the three years of the IDA18 financing round. “This is significant, but it is not only a question of doubling the financing it is the fact that we do things differently,” he says. “The whole focus of the bank on fragile states is completely changing.”

The Bank now targets the specific challenges faced by fragile states such as forced displacement where the Bank has also made available \$2bn for countries hosting large numbers of refugees, and eight countries such as Pakistan and Uganda have so far qualified. On top of this is \$1.4bn of financing for Jordan and Lebanon to promote job creation and boost public services to offset the refugee crisis they face.

Bousquet says that any proposed country partnership framework for a fragile state going to the board for approval must now include a risk resilience assessment. These look at the root cause of fragility such as regional imbalance, youth not finding jobs, gender or lack of equitable provision of services to different ethnic groups.

“We can analyse the grievances that need to be addressed so we can truly make sure that when we double the financing we are focusing on the root cause of fragility,” he says.

PAINFUL CHANGES

Ahmed at CGDev says he is less worried about the need to produce a “grand integrated” strategy than the requirement that the Bank should focus on working with the tried and tested ingredients for working in fragile states.

He says this includes limiting the operation in fragile states to the elements that really matter and not overloading them

with policy requirements that are desirable but not essential. He says board members have sometimes become uneasy about signing off on operations just because they do not have the usual social and environmental assessments which would be standard for a non-fragile state.

Another ingredient is to engage more with other agencies and to take on board lessons from other successes such as the French-led Sahel Alliance that is working with five Francophone African countries.

“The role that the high level management can play is in recognising, disseminating and validating some of the successes that are out there and ensuring that when staff get pushback from adopting the streamlined approach that needs to be applied they have the support at the top level,” he says.

Bousquet echoes that point, saying that the Bank is increasingly working with other actors on the ground, describing partnerships as one of the most important elements of work in fragile states. “Partnership is the most important item on the policy agenda,” he says. “In the FCV spectrum it is a must because if you are not in partnership with UNHCR on refugees you are clearly not being effective from a development perspective.”

Bousquet is also keen to highlight the Bank’s focus on what he calls a “pivot to prevention”, highlighting a joint report the Bank did in March with the United Nations that showed that every dollar invested in preventative measures saved \$16 down the road.

“This is only one part of the equation as the important thing is whether you can save lives,” he says. “The whole point of this report is that for the first time there is a business case for prevention.” He points to the country partnership framework agreed for Niger in July that looks at the root causes of fragility such as youth unemployment, job creation, gender and managing natural resources that are so often a source of tension between groups. “This is making sure that before it is too late we are supporting the countries from a development perspective.”

Ahmed says that he is glad there has been a boxload of reports pointing out the critical need to address better the needs of fragile states ahead of the annual meetings. “What I would like to see come out of Bali is a recognition from the leadership of these institutions that they have taken on board the message and that they are committed in following through,” he says.

“The nature of the problems that have been identified merit changes that will be sometimes painful and sometimes marking a departure from established ways of doing business which are hard to shake off in institutions with strong cultures.” **GM**



“For us it is a no brainer that the top priority is really the whole support for fragile states”

—Franck Bousquet, World Bank FCV

“We must start with an admission of failure. It is rare to see such a huge gap between what has been fixed and what needs to be fixed”

—Adnan Khan, LSE



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GlobalMarkets Awards 2018

Sri Mulyani Indrawati, Indonesia

Ravi Menon, Singapore

Arun Jaitley, India

Urjit Patel, India

**Mohammed bin Abdullah Al-Jadaan,
Saudi Arabia**

Abdellatif Jouahri, Morocco

Peter Kažimír, Slovakia

Boris Vujčić, Croatia

Ken Ofori-Atta, Ghana

Godwin Emefiele, Nigeria

Danilo Ángel Astori Saragosa, Uruguay

Ilan Goldfajn, Brazil

Keith Mitchell, Grenada

Timothy Antoine, Eastern Caribbean Central Bank



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'Credible' and 'effective' ... describe her perfectly

Finance Minister of the Year, East Asia Pacific

SRI MULYANI INDRAWATI, INDONESIA

Minister further consolidates reputation second time around

WHEN SRI MULYANI INDRAWATI became finance minister for the second time in July 2016, economists and investors had high expectations. She has done all they could have asked for.

Indrawati developed a stellar reputation during her first stint as finance minister between 2005 and 2010 during the administration of Susilo Bambang Yudhoyono. She was lauded both for her anti-corruption credentials and her clear policy knowledge. When she stepped down the World Bank was quick to snap her up as a managing director.

But her greatest challenges arguably came on her return to the job. Indonesia's sprawling economy offered huge potential but provided serious headaches for the finance ministry. Tax collection has long been a problem in the country, but the government had also struggled to spend the money it did raise.

Indrawati has tried to address both issues. Tax collection was around 91% of the target last year, a big jump from the 83% hit over the previous two years. This was helped by an amnesty bill that helped bring foreign

wealth back onshore.

Government spending meanwhile grew at its fastest rate in three years during 2017, hitting 21.1% of GDP. But just as important, 'the disbursement of capital expenditures' went from 73% in 2016 to 97% in 2017, the highest level in six years.

Indrawati can also take some credit for a reduction of poverty, something she has pinpointed as a goal. The poverty rate fell 0.6% between September 2016 and September 2017, the largest year on year decline in five years.

BALANCING ACT

Indrawati now faces a difficult balancing act, helping push infrastructure investment in the country while keeping the government's finances in check. The clear need for infrastructure investment means that a shrinking fiscal deficit, a strong sign for most finance ministers, could actually be seen as a blot against the government's record.

The World Bank estimates the deficit fell to minus 2.4% last year, although newer unaudited government figures put it around 2.6%. In any case, that is below what the government wants. Indonesia has a 3% maximum fiscal deficit and has previously targeted around 2.9%. The infrastructure need is such that the government should not be short of projects to spend on.

This is hardly a major argument against Indrawati's record, however. When Moody's upgraded Indonesia to Baa2 in April, it said the decision was in part because of "an increasingly credible and effective policy framework". That is a tacit admission of Indrawati's key strengths — 'credible' and 'effective' are both words that describe her perfectly.



Singapore ... undoubtedly punches above its weight

Central Bank Governor of the Year, East Asia Pacific

RAVI MENON, SINGAPORE

Finance initiatives impress the markets

HOW SHOULD ONE JUDGE a central bank like the Monetary Authority of Singapore? The MAS operates a currency peg, meaning that its major monetary policy tool is to adjust the fixing. But the central bank also has oversight over financial regulation.

Luckily, it doesn't matter whether you consider monetary policy moves or financial regulation: the MAS has impressed with both over the last year.

In April, the MAS adjusted the currency fixing for the first time in six years. It manages the Singapore dollar against a

trade-weighted basket, allowing the currency to trade within a certain range. Although the MAS did not change that range in April, it did increase the slope — allowing more appreciation of the currency.

That was a smart move, reflecting upward pressure in the foreign exchange market. But monetary policy was not the main reason Ravi Menon, managing director of the MAS, won this award. More impressive was the stellar work he has done to make Singapore a financial centre.

JOB GENERATION

The MAS has committed to creating 3,000 new jobs in financial services and 1,000 in fintech. It has offered a subsidy for credit ratings, the Asian Bond Grant Programme, which has helped bond volumes rise 22% in two years. It has a similar subsidy for green bond issuers, which has pushed volumes to S\$2bn. It has also launched a 'regulatory sandbox', encouraging innovation in fintech.

Menon and his team have mixed long term initiatives, like the Financial Industry Transformation Map, with more immediate moves. The changes announced this year include a stock trading link with Malaysia, a multi-agency project to develop the use of artificial intelligence in the financial system, a memorandum of understanding with India on fintech co-operation, the expansion of its FinTech Festival and launch of a programme called Careers Connect, designed to keep bankers in the city state world class.

These initiatives are all reasonably modest when taken in isolation, but together they add up to something larger. This points to the style of the MAS since Menon took over in 2011: the regulator has been chipping away at any weaknesses in its financial system, improving liquidity and adding incentives for banks, corporations and individuals.

Singapore is a tiny island that undoubtedly punches above its weight. Its greatest resource is not precious metals or oil — it is people, particularly those working in the financial system. Under Menon, the MAS has made the most of that resource, making quiet developments that too often get overlooked amid the bluster of policy announcements from larger economies. He is undoubtedly a deserving winner of this award.

Finance Minister of the Year, South Asia

ARUN JAITLEY, INDIA

Successful policy combines tax cutting with simplified tax filing

INDIA'S FINANCE MINISTER ARUN JAITLEY won this award last year with an eye-catching policy move that revolutionised tax collection in the country. This year he impressed *GlobalMarkets* with a quieter, more detail-oriented approach.

When the finance ministry launched the goods and services tax (GST) in July 2017, he replaced a confusing system that caused headaches for local businesses and scuppered trading between different states. This year Jaitley has built on that signature policy move.

The government has continued to cut consumption taxes, unveiling reductions on washing machines, shoes and a variety of other goods in July. That was a blow to revenue collection in the country but it was at least partly compensated for by impressive economic growth and tax reforms elsewhere.

For one thing the finance ministry has made tax filing easier for small businesses, addressing one of the major hurdles in India's economy — all that red tape. Jaitley and his team have now simplified tax filing for small businesses with revenue of less than Rp50m (\$686.5k), more than 90% of the registered tax base.

TAX COLLECTION GAINS

This should ensure that much of the revenue lost from lower taxes will be offset by improved collection, an attractive trade-off for all concerned. India has budgeted gross tax revenue growth of 16.7% for the fiscal year ending March 31, 2019, according to Moody's.

India's economy is on a tear, growing by 8.25% in the first quarter of fiscal 2018, according to the Asian Development Bank. This has helped push up

Central Bank Governor of the Year, South Asia

URJIT PATEL, INDIA

RBI fights inflation and corruption

THE RESERVE BANK OF INDIA HAS TWO CRUCIAL JOBS: deciding monetary policy and regulating the banking system. Urjit Patel, governor of the central bank, has managed both expertly this year.

When Patel took over the RBI in September 2016 the contrast with his predecessor, Raghuram Rajan, was stark. Rajan, referred to as a "rock star" by some parts of the Indian media, was flamboyant. Patel was quieter, appearing a man better suited to analysis than action. In office, he has challenged that assumption.

First, he has not hesitated to raise interest rates. The RBI is fighting rising inflation in the country after consumer prices rose above the central bank's 4% target (a target that, incidentally, was suggested by Patel when he was deputy governor). The central bank has hiked rates twice this year, by 25bp each time in June and August.

It seems likely that Patel will need one or two more rate hikes to tame inflation but his rapid action earlier this year shows he is the man for the job. In a September speech, he quoted ancient scribe Publilius Syrus: "He is most free from danger who, even when safe, is on his guard." Investors should have little doubt that Patel will be on guard against inflation.

CLEANING UP

Patel has also impressed *GlobalMarkets* with his dogged determination to clean up the banking system. Indian banks were marred by controversy last year when Bank of Baroda got caught up in a scandal surrounding South Africa's Gupta family. But the greater risk to the system was hazy rules around the recognition of non-performing loans.

The RBI has moved to address this. In February, the central bank-cum-regulator



A more detail oriented approach

inflation causing a headache for Urjit Patel, *GlobalMarkets*' central bank governor of the year in South Asia. But it has also put the lie to fears that the government was being reckless with the launch of the consumption tax, let alone its demonetization policy.

Jaitley's landmark policy moves may be behind him but over the last year he has shown a careful approach that will steer India well in the years to come.



He ticks three important boxes

forced banks to hold more capital against non-performing loans, unveiling a set of new rules concerning how banks should recognise non-performing loans as well as increasing the capital they need to hold against them.

Patel, despite his reputation for quiet reflection, has also rather loudly defended the interests of emerging market economies. In an opinion piece for *The Financial Times* he urged the Federal Reserve to slow its balance sheet reduction, pointing to the "double whammy" of reduced liquidity from the US central bank's asset runoffs and the increased issuance of Treasuries to fund tax cuts.

In this sense, he ticks three important boxes: active monetary policy, prudent banking reforms and a new found willingness to use his voice on the global stage. There is little more a central banker could do to deserve this award.

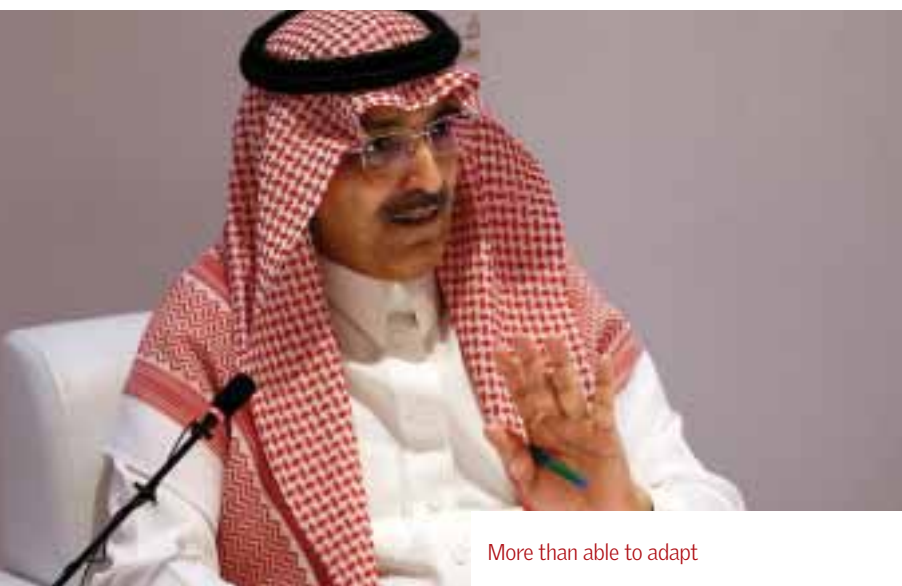
Finance Minister of the Year, Middle East & North Africa

MOHAMMED BIN ABDULLAH AL-JADAAN, SAUDI ARABIA

Kingdom sets ambitious goals for Vision 2030

SAUDI ARABIA'S VISION 2030 IS SOVEREIGN DEVELOPMENT ON STEROIDS, a supremely ambitious plan to speed up the diversification and liberalisation of a largely closed economy.

At the heart of the vast project are several equally serious and committed



More than able to adapt

individuals, most notably Mohammed bin Salman and finance minister Mohammed bin Abdullah Al-Jadaan, a key ally of the Crown Prince and a vociferous proponent of Vision 2030. Al-Jadaan has all the right credentials.

Before his appointment as finance minister in November 2016, the trained lawyer was chairman of the Capital Markets Authority where he eased rules to attract more global institutional money into the country.

UNAFRAID

Saudi Arabia has not shied away from setting out some ambitious targets. By 2030, it aims to increase the private sector's contribution to economic output to 65% of GDP, from 40% at present, and to boost inward FDI from 3.8% of GDP to 5.7%. In April 2018, the country said it aimed to raise up to \$11bn in non-oil revenues by 2020 from a privatisation process that will include 14 public-private partnerships worth up to SR28bn (\$7.5bn). The programme also aims to corporatize the ports sector and privatise several power and desalination plants.

Al-Jadaan has proven more than able to adapt to a changing financial climate. The eagerly awaited IPO of oil major Saudi Aramco, originally slated to raise up to \$100bn, has been shelved, with the kingdom focusing on other ways to raise cash to meet its Vision 2030 goals and to diversify an economy projected by the IMF to grow by 1.7% in 2018 and 1.9% in 2019. In August, PIF, the national sovereign wealth fund, borrowed \$11bn from banks while the kingdom is mulling the potential sale of a \$70bn stake in conglomerate Sabic, the Middle East's largest publicly traded corporation, to Aramco.



At the heart of a good story

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

ABDELLATIF JOUAHRI, MOROCCO

Growth allied to stability give IMF confidence

MOROCCO'S STRENGTH IS OFTEN OVERLOOKED. Investors looking to see an economy projected by the central bank to expand by 3.5% this year and 3.1% in 2019 as well as a narrowing current account deficit, rising foreign exchange reserves and a low rate of unemployment.

It has not suffered a recession since the global financial crisis and its best days appear still to be ahead of it, with the IMF tipping the economy to be growing at closer to 5% a year by 2023.

At the heart of the growth-and-stability story is the veteran financial policymaker Abdellatif Jouahri, now well into in his 16th year as governor of Bank Al-Maghrib.

On the central bank chief's agenda are keeping inflation at or below its current rate of around 2%, expanding the private sector, boosting social inclusion and sucking in more long term foreign direct investment.

In September 2018, Bank Al-Maghrib kept its benchmark interest rate unchanged at 2.25% saying borrowing costs were consistent with growth prospects and inflation targets.

TWIN AIMS

The North African nation has two main stated aims. The first is to transform itself into the region's leading business hub in large part by investing in physical infrastructure, industrial innovation and skills training. And the second is to allow the dirham to fully float. The latter is a much longer term aim: Jouahri reckons the process may take up to 15 years. But Morocco has already taken its first step, allowing its currency from January 2018 to trade 2.5% on a daily basis above or below the official peg. The move is designed to give the economy more protection from external shocks, raise competitiveness and boost exports and tourism revenues.

Finance Minister of the Year, Central & Eastern Europe

PETER KAŽIMÍR, SLOVAKIA

Investors demonstrate enthusiasm for calm market growth

SINCE BECOMING FINANCE MINISTER IN 2012, the widely respected Peter Kažimír has stabilised the central European state, improving its finances and helping to position it as one of the region's more strategically ambitious economies.

During his tenure, the Slovak Republic's budget deficit has been trimmed from 4.3% of GDP in 2012 to 0.83% in 2017, according to government data, while it is projected by the IMF to post a small current account surplus in 2019.

IMF CONFIDENCE

On Kažimír's watch, it has become one of the region's best performing economies, projected by the IMF to grow at north of 4% in both 2018 and 2019. A long term focus on greater industrial innovation and building a skilled workforce is attracting serious investment by global manufacturers such as Jaguar Land Rover, whose factory in the western city of Nitra is fitted out to produce up to 150,000 vehicles a year. That's helping to boost salaries with per-capita income, based on purchasing power parity, now the second highest in Central and Eastern Europe after Slovenia.

Public debt as a share of economic output was 51.6% in 2017, below the regional average, with Kažimír keen to nudge that ratio below the 50% mark. Unemployment has fallen during his tenure by a little over six percentage points, tumbling from 14% in 2012 to 8.3% in 2017.

The allure of a growing market that has so far avoided any of the turbulence that often disturbs and torments emerging markets was underlined in June 2018 when the republic sold €1.5bn (\$1.77bn) worth of 10 year and 50 year bonds from

Central Bank Governor of the Year, Central & Eastern Europe

BORIS VUJČIĆ, CROATIA

Focus is on the exchange rate; the economy is doing well

Boris Vujčić's value to a successful but smallish economy in a region struggling in the face of another round of emerging market turbulence was underlined in July 2018 when he was backed to lead Croatia's central bank for a second, six year term.

EUROZONE GOAL

Under the aegis of the 54 year old, the Hrvatska Narodna Banka (HNB) has focused four square on its exchange rate, with the aim of entering the European common currency's 'waiting room' by 2020 by keeping the kuna anchored to the euro. In the longer term the aim is to gain an invitation from Brussels to become a fully paid-up member of the euro area. "Entry into the eurozone is the natural next step and we believe that Croatia will soon become a good candidate for the ERM-2," Vujčić said shortly after securing a second term at the HNB.

Croatia's economy is ticking along nicely too, with economic output tipped by the IMF to expand by 2.8% this year and by 2.6% in 2019. Inflation remains low as it does throughout much of the CEE region while the country is set to post a 3%-plus current account surplus for the second year in a row in 2018.

There are a few bumps in the road ahead. A few lenders were shaken by the unravelling of Agrokor, the country's largest corporation, in 2017 — though by and large the banking sector is in good shape. Of greater import is the need to cut public debt, which stood at 78% of GDP at the end of 2017, above the 60% threshold required for ERM-2 entry. But Croatia is on the right fiscal path, analysts and economists say, with foreign currency reserves hitting an all-time high of €16.5bn (\$19.4bn) in June. "Vujčić is doing a tough job well and is doing so unrecognised," says the chief economist of a CEE-focused bank.

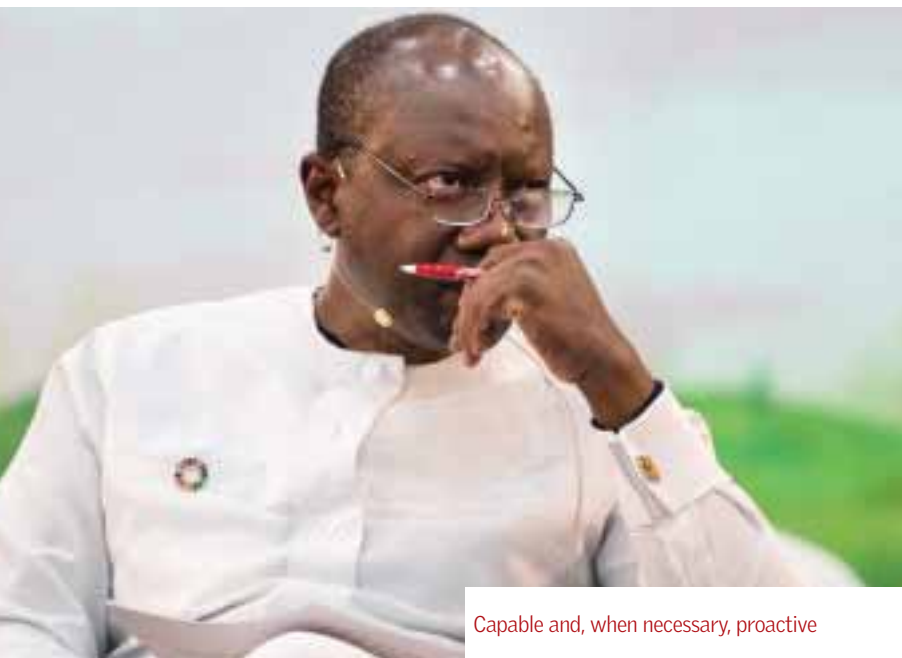


Widely respected

a combined book of more than €5bn, with the ultra-long maturity helping to pique interest from insurers and pension funds. "Kažimír continues to do a tough job well," noted the chief economist at a leading regional lender.



Doing a tough job well



Capable and, when necessary, proactive

THE PAST FEW YEARS have been a wake-up call for Ghana, long seen as one of sub-Saharan Africa's brightest hopes. By 2015, two decades of strong and inclusive growth had been undermined by soaring public debt and widening twin deficits. Some negative factors were external by nature but others, including irresponsible state borrowing, were all of its own making.

When the IMF approved a \$918m bailout in April 2015, it said "large fiscal and external imbalances" had put Ghana's medium term prospects

Finance Minister of the Year, Sub-Saharan Africa

KEN OFORI-ATTA, GHANA

Ghana seeks to restore its reputation

at risk. And the nation's finances were worse than anyone feared — even the Washington-based multilateral. When President Nana Akufo-Addo came to power in January 2017, his team found a previously undeclared \$1.6bn hole in the state's finances.

GOOD MOVE

One of the president's first and best moves was to appoint Ken Ofori-Atta, a wily financier who worked at Morgan Stanley and Salomon Brothers before setting up Databank, widely seen as one of Ghana's best investment banks.

Ofori-Atta set out to shore up the nation's finances and restore its tattered reputation among global investors. In May 2018, Ghana sold \$2bn worth of 10 year and 30 year Eurobonds, with total books passing the \$5.5bn mark. The government said \$750m would be allotted to its 2018 budget, with the rest used to refinance debt. Ghana printed a total of \$200m in local currency bonds in June and July; and in September, it secured a boost to its finances and reputation when Standard & Poor's raised its credit rating a single notch to B from B-, its first upgrade in nearly a decade. In the future Ghana aims to raise \$10bn by issuing a 100 year bond to broaden its manufacturing base and wean itself off international aid.

Despite being in office for less than two years, Ofori-Atta has proven both capable and, when necessary, proactive, promising in July 2018 to introduce an additional tax band for higher earners, and to build a new development bank that would act as a guarantee system to support farmers.



A readiness to stay the course

Central Bank Governor of the Year, Sub-Saharan Africa

GODWIN EMEFIELE, NIGERIA

Governor finds long term solutions

SUCCEEDING A RESPECTED and dynamic leader of any powerful institution is never easy but Godwin Emefiele has done a fine job since taking the reins from his predecessor Muhammadu Sanusi in 2014.

From a personal perspective his original appointment could hardly have come at a worse time. Economic output increased 6.3% on an annualised basis the year of his appointment. The next year it grew by just 2.7%; in 2016, the economy fell into recession, assailed by soaring inflation and slumping oil prices.

But rather than panic Emefiele sought long term solutions rather than quick fixes. He kept rates high with the aim of taming inflation, which peaked at 18.7% in January 2017. His overwhelming priority has been to maintain a strong naira with the aim of boosting growth — economic output is projected by the IMF to expand by around 2% through 2023 — while reducing inflation into the single digits, promoting economic stability, boosting investor confidence and promoting inward capital flows.

THE MULTILATERAL VIEW

That single-minded ambition has irked some global policymakers, particularly at the IMF and the World Bank, both of which have urged Emefiele and President Muhammadu Buhari to allow the currency to devalue and to lower the benchmark rate, which has held steady at 14% for nearly two years.

Yet analysts have praised Emefiele's determination to keep the currency stable and strong and prices low. Razia Khan, chief economist for Africa and the Middle East at Standard Chartered, said foreign exchange stability was of "paramount" importance to the west African state. Emefiele's readiness to stay the course gained further credence when inflation ticked up in September 2018 for the second month in a row having bottomed out in July at 11.14%. If anything, the mood within the central bank following the latest Monetary Policy Committee meeting in September was inclined toward seeing interest rates rise not fall if prices continue to head north.

Finance Minister of the Year, Latin America

DANILO ÁNGEL ASTORI SARAGOSA, URUGUAY

The figure of stability behind Latin America's consistent outperformer

DANILO ÁNGEL ASTORI SARAGOSA HAS BEEN FINANCE MINISTER, then vice-president, and now finance minister again under the Uruguay's left-leaning Frente Amplio (Broad Front) coalition since it began to govern in March 2005, playing a major part in 14 consecutive years of growth.

Analysts have long considered Astori a crucial stabilising and moderate figure in the Frente Amplio as it has succeeded where so many Latin American countries have failed, pushing social programmes and progressive policies at home while retaining the approval of international financial markets.

Key to striking this balance, the minister told *GlobalMarkets*, was having achieved the unprecedented growth streak at the same time as reducing poverty from 40% to 8%.

"We are always seeking inclusive growth," said Astori. "GDP expansion must go hand in hand with an improvement in the population's living standards."

This is grounded in sound economic policy. Astori reiterated that macroeconomic order had been an "essential" part of policy, meaning "consistency and coherence" between fiscal, exchange rate, monetary and income policy.

Growth recovered from 0.4% in 2015 to 2.7% in 2017, while the fiscal deficit shrank from 3.9% of GDP in 2016 to 3.5% in 2017 thanks to what Fitch called "tax-focused adjustment measures".

Still, Astori recognised that the deficit, which Itaú forecasts to increase slightly in 2018, was an important challenge. "We are taking fundamental steps to correct the deficit through public spending because we understand we cannot keep increasing the tax burden on the population," said Astori.

He highlighted that this included improving the "quality of spending".

Central Bank Governor of the Year, Latin America

ILAN GOLDFAJN, BRAZIL

A cool head when the heat is on

WHEN A MAJOR TRUCKERS' STRIKE IN BRAZIL PARALYSED THE COUNTRY for 10 days in the second half of May inflation spiked.

Having spent nearly a year below the central bank's target range of 3%-6%, annual inflation jumped to 4.39% in June, thanks to month-to-month price increases of 1.26%. Yet the central bank hardly flinched, leaving the benchmark Selic rate unchanged at 6.5%.

Doing this "without provoking a major reaction in the real and local currency bond yields" was notable, says Edward Glossop, Latin America economist at Capital Economics.

"Previously, the central bank would not have had the credibility with the markets to be able to look through such an event. The market believes they have inflation under control."

Graham Stock, head of emerging market sovereign research at BlueBay Asset Management, describes Goldfajn's approach as "calm orthodoxy", saying it has worked very well in a country going through a difficult time and that has historically had high volatility in inflation.

"In his second year in office, Goldfajn has continued his good work, increasing the focus on the medium term inflation outlook and looking through the short-term volatility in the exchange rate," says Stock.

THE RIGHT COURSE

The central bank's position was soon proven right: monthly inflation swiftly fell to negative 0.09% by August. Annual inflation, having hit its highest level in 16 months at 4.48% in July, fell back to 4.19% in August.

"The truckers' strike was certainly an important shock, but inflation in the future was more important, so we waited to see what happened," Governor Goldfajn told *GlobalMarkets*. "In the end, inflation went up but then came back down

Uruguay's recent performance has also impressed economists with its resilience to the severe economic troubles in Argentina and Brazil, two of its major trading partners.

This is a result of the government's strategy of "decoupling" from its neighbours said Astori. "We depend far less on Argentina and Brazil than we used to in terms of trade and commerce," said the minister. "We have links with 140 countries, with China at the top and the USA becoming important."

Astori also said that efforts to attract more productive investments — including tax stimulus — had been a very important part of recent success, with priority given to job-creating industries.

In November 2017, Finnish company UPM and the government signed an agreement for pulp mill investment close to the central city of Paso de los Toros. This is expected to bring in €2bn of investment — the largest ever single investment in Uruguay.

"I think we will see investment continue to recover, alongside job creation," said Astori. The government has also made efforts to improve financial inclusion, with a new law giving all workers the right to be paid into a free bank account and bringing more of the population into the financial system.

"There has been a transformation that has strengthened the use of electronic payments, improving conditions for both individuals and SMEs," he said.



A crucial stabilising and moderate figure

again, and there was no lasting effect.

"You need to have the persistence and resilience not to overreact to nervousness."

That Brazil's central bank has the luxury to look through the short term is testament to the commitment to inflation-targeting that Goldfajn has shown since taking a hawkish stance soon after taking office in May 2016.

Inflation had peaked at 10.67% in 2015 and had been above, or within 20bp of, the top end of the target range since 2009; in 2017 it ended at 2.95%.

Not only that, but this year the bank was able to again announce a reduction in the inflation target. Having been stuck at 4.5% plus or minus 1.5% since 2005, last year the bank had been able to slash the target to 4.25% in 2019 and 4% in 2020. In June it added another lower target: 3.75% for 2021.

Despite what the governor describes as a recent "wave of pressure" in the form of an appreciating dollar, and with Brazil shrouded in political uncertainty amid presidential elections, it feels like little will ruffle the governor's approach.

"We will just have to see what the impact of the recent shock and elections will be on future expectations," he says.



Calm orthodoxy



Finance Minister of the Year, Caribbean

DR KEITH MITCHELL, GRENADA

Post-IMF fiscal resilience rebuilds confidence

BACK IN DECEMBER 2013, after nearly eight years of consistent engagement with the IMF had failed to put Grenada on the road to recovery and after a debt-to-GDP ratio of 108% had necessitated a major restructuring, the fund was frank in its assessment.

“Performance under the fund-supported programmes was weak and most objectives were not met,” said the IMF.

Five years later, the turnaround has been remarkable. Not only did Grenada show impressive results under its next IMF programme — successfully completed in May 2017 — but in the year and a bit since then it has continued on the right track.

The turnaround has been remarkable

Prime minister and finance minister Dr Keith Mitchell, who had announced the restructuring within a month of taking office for the second time in February 2013, has overseen a consistent reduction in debt levels to below 71% of GDP by the end of 2017. The IMF forecasts it will be below 53% by 2021. The primary surplus continues to increase, up to 5.75% of GDP last year.

Dr Mitchell says that communication with all segments of the island nation’s population of just over 100,000 has been key. The IMF programme had the buy-in of the public, having involved trade unions, business leaders, NGOs and the church.

“We made clear that the future of the country was at stake, and that the sacrifice would benefit us all in the future,” Dr Mitchell told *GlobalMarkets*.

Perhaps the toughest test, however, was maintaining discipline once the programme was over.

“Grenada’s fiscal performance has continued to be strong even after the end of the programme,” said Nathalie Marshik, managing director, head of sovereign research at Oppenheimer & Co. “This is pretty impressive, especially when you consider there are political pressures to spend when you come out of such a difficult IMF programme.”

A fiscal responsibility act and the new Fiscal Responsibility Oversight Committee, which reports to parliament rather than the executive branch, are crucial. But Dr Mitchell says that the key lies in ensuring people continue to understand that the rules implemented under the programme are simply good policy and management.

“We were spending too much money on public service salaries instead of productive activities,” he said.

Striking the magic combination of strong GDP growth — above expectations at 4.5% in 2017 — alongside the belt-tightening helps, especially because it is “not just growth but job-related growth”, according to the prime minister.

“Moving from 40% unemployment to 23% in five years under a structural adjustment programme gives confidence in what we are doing at all levels,” he said. “The message has been strong: we must keep helping people to understand that the reason we are seeing growth and jobs — and thus better quality of life — is because of measures like the fiscal responsibility rule.”



Central Bank Governor of the Year, Caribbean

TIMOTHY ANTOINE, EASTERN CARIBBEAN

A resourceful leader and progressive voice

TIMOTHY ANTOINE HAS an atypical central banker’s job. Firstly, serving the needs of eight different economies — he became governor of the Eastern Caribbean Central Bank (ECCB) in February 2016 — requires a poise and judgement that economists say he has in abundance.

Secondly, given the Eastern Caribbean dollar’s peg to the US dollar, the ECCB has limited room for manoeuvre on monetary policy.

This makes good fiscal management in member countries critical; economists praise the governor’s leadership in encouraging regional collaboration on this issue.

Poise and judgement that economists say he has in abundance.

“One of our bank’s strategic priorities is to be the advisor of choice on fiscal and debt sustainability issues for the countries we serve,” Antoine told *GlobalMarkets*. “We have encouraged the adoption of fiscal resilience frameworks, which are vital to embedding fiscal discipline and pursuing countercyclical policy in the face of shocks.”

Several metrics suggest the Eastern Caribbean Currency Union (ECCU) is performing well under Antoine’s leadership.

Average debt to GDP has dropped from 85% five years ago to 71%; the bank has a target of 60% by 2030. The Eastern Caribbean dollar, which has been pegged at EC\$2.70 to the US dollar since 1976, is 98% backed by foreign reserves — well above its legal requirement of 60%.

BANKING SECTOR TOUGHENS UP

The banking sector, too, is in better shape, with capital ratios improving, bank profitability increasing, and non-performing loans having fallen from an average of 18% to 11%.

“When I assumed office there were several troubled banks and financial stability was my top priority,” said Antoine. “We increased the staff in the bank supervision department from 20 to 30.

“The banking system is in better shape than it was three years ago, but risks remain — hence the rollout of our new risk-based supervisory framework”.

Governor Antoine has also made a big impression in backing of financial technology. He highlights that to really “bend the curve” on unemployment and further reduce poverty annual growth in Eastern Caribbean economies needs to be sustained around 5%; today average growth is 2%-2.5%.

“Our countries need to focus on growth and competitiveness and our responsibility is to maximise opportunities while minimising risks,” said Antoine. “This means being on the lookout for ways to raise our growth trajectory, and I believe fintech has the potential to help us in that regard.”

In March, the ECCB signed an MOU with Barbados-based fintech company Bitt Inc to conduct a blockchain pilot focusing on data management, compliance and transaction monitoring for anti-money laundering that may help to combat the loss of correspondent banking relationships — a critical issue across the Caribbean.

“We want to explore whether and to what extent blockchain can help solve this existential threat to our financial sector,” said Antoine. “We are duty-bound so to do.”

Fintech could also be used to broaden financial inclusion, support trade and reduce the use of cash.

“There could be benefits for the economy, competitiveness, and security,” concluded the governor.

Leaders in Middle East Banking and Finance



Bank Audi



Well-Diversified Growth



“The group’s extensive global network makes it the bank of choice to help international companies tap into Middle East markets”

**Nemeh Sabbagh, CEO,
Arab Bank Group**

Established in 1930, and with total assets of more than \$48bn at the end of 2017, Arab Bank has one of the largest global Arab banking networks with over 600 branches spanning five continents. Arab Bank is the largest listed company in Jordan, accounting for about 25% of the total capitalization of the Amman Stock Exchange.

Against the backdrop of a challenging regional and global economic environment, Arab Bank has continued to post steady growth across the MENA region in recent years. “The consistent and solid performance of the bank has been driven by its deep understanding of the MENA region, twinned with its prudent approach and its well-diversified income streams,” says Nemeh Sabbagh, Arab Bank Group’s CEO.

“In addition to sustaining growth year-on-year throughout this challenging period, the bank maintained the quality of its credit portfolio, with no increase in non-performing loans (NPLs) and a provision coverage ratio of 100%,” says Sabbagh.

A Well-Diversified International Presence

Much of the robustness and consistency of Arab Bank’s performance in recent years is a by-product of its well-diversified global footprint, with Jordan accounting for a little over 30% of the group’s total assets, the balance of which are in other Arab



countries (51%), Europe and America (14%) and Asia and the rest of the world (4%). Revenue generation is equally well-diversified, with Jordan contributing 29% of the total in 2017, with GCC accounting for 37%, North Africa 15%, Europe 6% and other MENA countries 11%.

“With close to nine decades of experience of operating in the MENA region, and with a presence across five continents, Arab Bank continues to be a primary gateway to and from the MENA region,” says Sabbagh. “The group’s extensive global network makes it the bank of choice to help international companies tap into Middle East markets. At the same time, it is ideally positioned to act as a primary enabler and supporter of local companies with international growth ambitions regionally and globally.”

Future expansion will be underpinned by strong liquidity, a healthy loan to deposit (LTD) ratio which reached 74.4% at the end of 2017, and a comfortable total capital adequacy ratio in excess of 15% which is well above domestic and international regulatory minimums.

A Regional Market Leader in Financing Vital Infrastructure Projects

Arab Bank continues to support key projects across the MENA region, providing diverse financing solutions ranging from corporate lending to more complex structured finance facilities. The Bank remains a primary lender in key strategic projects be it infrastructure or industrial projects, involving well-established multinational and local corporations. This is in addition to financing key commodities and general trade as well as supporting regional and international contractors involved in large scale government development projects.

“Regional accessibility is one of the key prerequisites for many corporations to expand their operational reach across geographies. Companies have evolved their multinational scope and look to Arab Bank

to provide the solutions necessary for their business,” says Sabbagh. Arab Bank recognizes cross-country business development opportunities and the synergies required to make it work. As such, the Bank represents a strategic entry point for major corporations involved in trade as well as projects in electricity,



power, water treatment and desalination, and road infrastructure across the MENA region.

A Forward-Looking Digital Strategy

Long-term growth at Arab Bank will be also buttressed by its next-generation digital strategy designed to allow its customers to manage all their transactions online in a near real time basis via the channel of their choice, be it internet, mobile, self-service kiosks or wearables. New solutions are continuously being added to enhance customer experience.

“The targeted digital architecture is based on an ‘Open Banking’ RESTful API layer for business connectivity,” Sabbagh explains. “As well as meaning faster time to market, this creates new opportunities to engage with the global fintech community for innovation and development. Structuring previously unstructured data together with exposable APIs, meanwhile, will open up opportunities for customer level differentiation and customization and improve the quality and security of the digital offering.”

“It is worth highlighting that next generation digital banking is not just about what will be delivered,” adds Sabbagh. “It is also about how it will be delivered. A fast-moving digital business environment requires a flexible and agile delivery approach supported by innovative technology.”

Company data

Total assets (End 2017)	\$48bn
Net profit (End 2017)	\$533m
Capital adequacy ratio (End 2017)	15.01%
Loan to deposit ratio (End 2017)	74.4%



Evenly-Distributed Growth



52% of GDP between 2011 and 2017, growing by 5.3% and 3.8% in 2016 and 2017 respectively. This, he adds, is expected to accelerate to 5% in 2018, providing a platform for QNB's continued growth in the domestic market. "The State of Qatar's significant capital outlay plans for development, coupled with its demonstrable support for the private sector, provide important tailwinds for future growth," says Al-Kuwari.

Specifically, Al-Kuwari notes that

QNB's focus in support of the economic diversification drive is in the four priority areas of utilities, transport, infrastructure for the 2022 FIFA World Cup, and real estate. "In addition to these core areas, we are supporting several private sector initiatives to make Qatar more self-sufficient in food production, logistics and manufacturing, which will also help safeguard longer-term economic sustainability," says Al-Kuwari.

An Extensive International Presence

Internationally, QNB's footprint now extends to 31 countries, with the bank's overseas operations accounting for 37% of total profits, and Al-Kuwari is upbeat about the prospects for continued growth across QNB's global franchise. "QNB's objective is to capture relevant market share and good risk adjusted-returns in markets that demonstrate strong macroeconomic and banking sector growth," he says.

There are two elements to this strategy. The first is based on strengthening QNB's operations in countries where the Bank already has a presence, and where economic growth suggests there is healthy growth potential. Examples in the MENA region are Egypt and Turkey, while among ASEAN economies, Al-Kuwari says that QNB is targeting fast-growing export-oriented countries such as Indonesia. "Over the last two decades, these economies have consistently outgrown the global economy, and we expect this growth

Originally established in 1964, QNB Group is now comfortably the leading bank in the MEA region by total assets, loans, deposits and profits. In the year to June 2018, assets rose by 10% to \$232.3bn, while loans increased by 9% to \$165.9bn and net profit expanded by 7% to \$1.95bn.

Ali Ahmed Al-Kuwari, QNB Group CEO, reports that growth in 2017 and the first half of 2018 was evenly distributed across the bank's three core markets of Qatar, Turkey and Egypt as well as its broader international network. "QNB's strategy is to pursue sustainable profitable growth throughout our operations," he says, adding that the strength of the Bank's recent results bear witness to the success of the strategy.

So too does QNB's asset quality, reflected in its NPL ratio which stood at 1.8% at the end of June 2018. "This reflects the high quality of the group's loan book and the effective management of credit risk," says Al-Kuwari. "Additionally, the strength of our recovery capacity helps reduce the net impairment charge on the QNB's loan book." The Bank's conservative provisioning policy, meanwhile, is reflected in its coverage ratio of 110% in the same reporting period.

Another yardstick of QNB's healthy financial profile is its efficiency ratio. This reached 27.2% at the end of June 2018, which is one of the best ratios among large financial institutions in the region.

A Market-Leading Franchise in Qatar

One of the cornerstones of this strategy, Al-Kuwari explains, is to maintain QNB's market-leading franchise in its domestic market, where the government's commitment to diversifying the economy away from hydrocarbons is already bearing fruit. As Al-Kuwari says, the share of non-hydrocarbons expanded from 40% to



"QNB's strategy is to pursue sustainable and profitable growth throughout our operations"

Ali Ahmed Al-Kuwari, QNB Group CEO

feature of QNB's international growth strategy is prudent and controlled expansion into new markets. In 2017, for example, it opened its first branch in India. "The Indian economy is the seventh largest in the world and one of the fastest growing major economies," says Al-Kuwari, adding that its expanding trade and population ties with Qatar, the Middle East, Africa and Southeast Asia also make India an attractive market for QNB.

Elsewhere in Asia, meanwhile, QNB plans to further strengthen its presence through the opening of a branch in Hong Kong, which is one of the world's main financial hubs and a gateway to the rapidly-growing Chinese market.

As to the further expansion of its international network, QNB will continue to monitor opportunities in countries offering the combination of a solid macroeconomic outlook, growth potential in the banking industry and the capacity to follow existing clients.

A Solid Capital Position

QNB is buttressed by a solid capital adequacy ratio of close to 16%. "We always strive to ensure the Group's CAR is higher than the regulatory minimum requirements of the Qatar Central Bank and Basel Committee," says Al-Kuwari. "To this end, we always maintain a very healthy liquidity buffer, both in local and major currencies, and remain opportunistic in the international markets with respect to our well-established and diverse wholesale funding platform consisting of deposits, structured deposits, Certificates of Deposit (CDs), and both public and private placement bond issuance under our Euro Medium-Term Note (EMTN) programme."

Company data

■ Total assets (End H1 2018)	\$232.3bn
■ Net profit (End H1 2018 v H1 2017)	\$1.95bn v \$1.83bn
■ Return on assets (End 2017):	1.7%
■ Return on equity (End 2017):	18.7%
■ Cost to Income ratio (End H1 2018 v H1 2017)	27.2% v 29.3%
■ Core Tier I ratio (End H1 2018)	12.6%



“NBK has always been regarded as being in a league of its own when it comes to asset quality”

Issam Al-Sager, NBK's Group CEO

Since it was established in 1952 as Kuwait's first local bank, National Bank of Kuwait (NBK) has maintained a dominant position in its domestic market, accounting for more than 30% of assets within the Kuwaiti banking system at the end of 2017.

In 2017, the bank enjoyed another strong year, with net operating income expanding by more than 10%, from \$2.47bn to \$2.73bn, while net profit attributable rose from \$978m to a record \$1.068bn. “We are very proud of these exceptional results, which have been driven mainly by our core banking activities,” says Issam Al-Sager, NBK's Group CEO.

A range of other growth indicators in 2017 also underscored NBK's position as a market leader in Kuwait and one of the top 10 financial institutions in the region. Assets grew by more than 7% to \$86.3bn, while total equity increased by 4.6% to \$9.5bn. Customer loans, advances and Islamic financing, meanwhile, advanced by a solid 6.5%, to just over \$48bn, while deposits were up by more than 9% to \$45.7bn. Customer deposits now account for more than 60% of the funding mix at NBK, which at the end of 2017 had a comfortable capital adequacy ratio (CAR) of 17.8%. “These indicators are all a testimony to NBK's stable funding, ample liquidity and reputation as a safe haven,” says Al-Sager.



Leadership on all Fronts

So too is NBK's position as the bank of choice among foreign companies operating in Kuwait, 75% of which are served by the bank, and its leadership in trade finance, where it enjoys a market share in excess of 30% in Kuwait.

Resilient Asset Quality

Asset quality remained strong in 2017. With the bank's NPL/gross loans ratio at 1.42%, it remains way below the regional average. The NPL coverage ratio, reached 287% at the end of 2017, which as Al-Sager says, reflects NBK's resilient approach to risk management. “NBK has always been regarded as being in a league of its own when it comes to asset quality, which has been maintained across all economic cycles and political crises,” he says. “Going forward, we don't foresee any major change in asset quality as our lending policies remain very conservative with rigid risk management practices at the core of our decision-making process. The operating environment in Kuwait is improving and corporate clients are enjoying better cash flow visibility, all of which points towards a stronger loan portfolio and stable asset quality.”

This confidence reflects Al-Sager's belief that there is no reason why NBK's leadership position in the domestic market should limit growth opportunities for the bank. Competition, he says, will always be a feature of the banking industry. However, by focusing on the twin strategic pillars of defending and growing its leadership position in Kuwait, and pursuing geographical, product and service diversification, Al-Sager is confident that NBK can withstand these competitive pressures.

In the domestic corporate market, Al-Sager says that NBK is fully committed to supporting the government's policy of promoting economic diversification through an ambitious capital spending programme. This initiative, which has already had a positive impact on non-oil GDP growth, is underscoring NBK's pre-eminence in Kuwait's booming project finance market. To consolidate this position, the bank has recently set up a dedicated unit as a new strategic business function within the Foreign Corporate Group, specializing in project financing, public-private partnerships (PPP) and syndicated facilities.

Elsewhere in the domestic market, Al-Sager explains that NBK will sharpen its value proposition in retail banking to drive new profitable customer acquisition by developing its distinctive smart banking model, and prioritizing digitization. “Our main objective on the retail



side is to maintain our leadership position and grow the bank's market share by focusing on sophisticated products and services,” he says.

A similar strategy underpins NBK's growth plans in wealth management, where the bank's professional expertise and integrity has established it as the preferred provider for generations of high net worth individuals (HNWIs). In investment banking, meanwhile, NBK continues to set new standards in asset management and brokerage.

Another promising growth area is the fast-growing Islamic financial services market in Kuwait. NBK's ownership of Boubyan Bank means that it has an unparalleled presence in both the conventional and the Shariah-compliant banking sectors. “This has allowed the bank to leverage off opportunities in each market,” says Al-Sager. “The size of Boubyan relative to other Islamic banks leaves significant room for repositioning the bank and acquiring market share.”

An expanding International Presence

NBK remains committed to exploring growth opportunities beyond Kuwait, with the GCC and Egypt important markets for the bank's expansion strategy. “For example, we are expanding in Saudi Arabia having recently received SAMA approval to open two new branches in Riyadh and Damman,” says Al-Sager. “We are also in the process of establishing our wealth management business in Saudi Arabia.”

Beyond NBK's hinterland in the MENA region, meanwhile, a significant recent milestone in the bank's global expansion has been the opening of a new branch in Shanghai. “This will service the financing requirements of Chinese contractors participating in Kuwait's infrastructure projects,” Al-Sager explains.

Company data

■ Total assets (End 1H 2018)	KD26,942mn
■ Net profit (2017 v 2016)	KD322m v KD295m
■ Return on assets (End 1H 2018 v 2017):	1.41 v 1.28%
■ Return on equity (End 1H 2018 v 2017):	12.3% v 10.8%
■ Cost to Income ratio (End 1H 2018 v 2017)	30.6% v 32.3%
■ Tier I ratio (End 1H 2018)	15.1%



Sustaining Core Earnings Momentum



Ahli United Bank: Formed in 2000 following the merger of United Bank of Kuwait (UBK) and Al-Ahli Commercial Bank (ACB), Ahli United Bank (AUB) has continued to build on its track record as one of the most successful financial institutions in the Middle East.

In 2017, net profits at AUB rose by 8.4% to \$618.7m, while assets expanded by more than 6%. "Our earnings growth in 2017 reflected a sustainable increase in core earnings, underpinned by a prudent risk-taking approach, effective asset and liability management with improved margins and better spreads," says Adel El-Labban, Group Chief Executive Officer and Managing Director. He adds that focused recovery efforts and effective remedial management, in addition to business-driven cost management and controls also contributed to the increase in net profits.

The bank's highly effective remediation process, together with its focus on top quality assets and a conservative risk framework, combined to ensure that AUB's non-performing loans (NPL) ratio continued to decline in 2017, from 2.3% to 1.9%.

El-Labban identifies two key drivers of asset growth in 2017. The first is the 4.8% expansion in AUB's loan portfolio resulting from diversified deployments in the trading, manufacturing and services sectors within the overall diversified risk framework. The second is the 7.8% rise in the non-trading investment portfolio, which has underpinned a broader allocation of liquidity on a sectoral and geographical basis.

A Diversified Business Model

International diversification gathered momentum in 2016, when AUB's fully-owned subsidiary, Ahli United Bank Limited (AUBL), began its operations in the Dubai International Finance Centre (DIFC). Today, AUBL offers a wide range of corporate and private banking, trade finance, treasury and cross-border financial products. The Dubai subsidiary's success is immediately evident in its results, says El-Labban. In only its second year of operations, AUBL posted a profit of \$3.3m, while

its asset base reached the \$500m mark in June 2018.

Elsewhere in the MENA region, AUB also continues to make notable progress against the backdrop of some economic and political headwinds. "Despite the difficult operating environment, AUB has been able to grow its business in all its key markets including in the GCC and Egypt, in a prudent and sustainable manner" says El-Labban. "AUB has benefited from its well-managed business model based on geographic diversification as it continues to focus on providing cross-border financing solutions to clients by optimizing the use of its pan-regional network."

El-Labban adds that AUB remains committed to further strengthening its position as a leading regional Middle Eastern bank by expanding into key Gulf economies such as Saudi Arabia and UAE (onshore), where the recent stabilization of oil prices is expected to support improved economic growth. "Banks in the GCC region are also expected to benefit from government expenditure on infrastructure and construction projects," says El-Labban.

AUB will also monitor opportunities well in secondary markets such as Turkey and Switzerland. In all cases, international expansion will be subject to justifiable value propositions, acceptable entry price levels and an appropriate regulatory and operating environment.

A Track Record of Innovation

Underpinning AUB's expansion throughout its network will be an ongoing commitment to technological innovation. "AUB has always been at the forefront when it comes to technology-driven banking innovation," says El-Labban. "For example, we are proud of having led the way in introducing internet banking and mobile banking platforms in Bahrain."

AUB continues to make progress on its digital transformation strategy. Its MyGlobal platform not only ensures seamless service delivery across multiple geographies, but now enables customers to access and transact on multiple accounts across the bank's operating markets through a single platform. This provides a global view of their accounts and statements of all their relationships with AUB's subsidiary and affiliate banks.

AUB's initiatives in encouraging electronic payment pro-



"AUB has been able to grow its business in all its key markets"

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

cessing is clearly bearing fruit. El-Labban reports that the total value of transactions through the B2B platform it has developed in-house exceeded \$5.4bn for the AUB Group in 2017. During the year, the total number of transactions crossed the one million mark.

Technological innovation is also being brought to bear in areas ranging from trade finance, where AUB launched a new online portal in June 2018, to real estate, where AUB Kuwait has established a tailored digital platform in partnership with local providers.

Growth in Sharia-Compliant

Banking AUB's Islamic banking franchise continues to post encouraging growth. Its Sharia-compliant window in Bahrain, Al-Hilal Islamic Banking Services, has seen a surge in retail Islamic assets, from \$55m in 2010 to \$255m in June 2018. Elsewhere in the GCC, meanwhile, AUB Kuwait is the largest Sharia-compliant franchise within the Group with local assets of \$12.2bn.

El-Labban says he is confident about the prospects for continued demand for AUB's Islamic banking services across the GCC as well as in the UK, where its Sharia-compliant mortgages have been popular.

Company data

■ Total assets (H1 2018)	\$34.4bn
■ Net profit (2017 v 2016)	\$618.7m v \$570.6m
■ Return on assets (H1 2018):	2.3%
■ Return on equity (H1 2018):	18.8%
■ Cost to Income ratio (H1 2018)	26.1%
■ Core Tier I ratio (H1 2018)	12.5%



“We believe that technology is a key driver of financial inclusion”

Hisham Ezz Al-Arab, Chairman, CIB

With more than 11,000 institutional and 1.25m retail customers, Commercial International Bank (CIB) is comfortably Egypt's largest and most successful private sector bank. In the first half of 2018, the bank continued to build on its impressive track record, posting an increase in year-on-year (yoy) revenues of 41% and an expansion in net profits of 31%.

Over the same period, assets and customer deposits expanded by 6%, while the ratio of NPLs to gross loans fell by 12%. The bank's capital adequacy ratio, meanwhile, reached 17.9% at the end of 2Q2018, which is well above minimum regulatory requirements and fully anticipates an increase in these requirements in 2019.

Robust Fundamentals

“The consistency of our results reflects the robust fundamentals of our conservative balance sheet management, together with our strategic focus on asset quality and targeted revenue growth,” says CIB's Chairman, Hisham Ezz Al-Arab. The bank's ability to sustain its strong performance in ever-changing markets, he adds, bears witness to CIB's flexibility in identifying and harnessing the key drivers of revenue growth, twinned with its focus on attracting and retaining the best talent in the industry. “We firmly believe that our dedicated and experienced staff is one of our most significant assets,” says Al-Arab.

Al-Arab is confident that several drivers of revenue growth will continue to underpin CIB's robust performance over the coming years. The first of these is the vibrant macroeconomic climate in Egypt, with the government's current four-year plan envisaging economic growth of 7% by the end of 2022 and a decline in unemployment to 8.5%. Growth prospects have been enhanced by a series of reforms aimed to address challenges such as the budget deficit, government debt and job creation. These far-reaching reforms, allied



Outperforming in an Ever-Changing Market

with a commitment to infrastructure investment and a relaxation in investment laws, will all support rising private sector local and foreign direct investment into Egypt over the next few years.

Promoting Increased Financial Inclusion

While these initiatives will all underpin rising demand for first-class banking services, so too will the government's commitment to broader financial inclusion in Egypt. “We believe that wider financial inclusion will benefit not just the banking sector, but also the economy as a whole,” Al-Arab says. He explains that the SME sector, which employs about 80% of Egypt's working population, will be the main engine of long-term growth and job creation. “This is why we have been focusing on tailoring products and services that cater to the unique needs of this segment,” he says. “For example, CIB was the first bank in Egypt to devote a full-scale department to business banking for SMEs since 2010, providing them with comprehensive, bespoke financial and non-financial services.”

SMEs as well as the banking sector, says Al-Arab, will also be beneficiaries of recent amendments to Egypt's capital markets law. These changes include a reduction in listing fees from 0.005% to 0.002%, which will increase the range of funding options accessible to smaller companies by making stock exchange listings more cost-effective.

CIB's support for the government's drive towards greater inclusion has also been reflected in its strategic focus on extending financial services to Egypt's extensive unbanked population in general, and to young people in particular. Al-Arab says that a pivotal element of CIB's support for greater penetration of banking services in Egypt is its commitment to continuous investment in innovation and digitalisation. “Because we believe that technology is a key driver of financial inclusion, we have been tailoring customer-centric digital products and providing multiple services digitally, which is the preferred channel for this vibrant segment,” he says.

“We believe that technology is a key driver of financial inclusion” - Hisham Ezz Al-Arab, Chairman, CIB

As an example, he points to the initiative of the CIB Smart Wallet, which replaces traditional payment methods with an advanced, cashless, secure and faster alternative. “We fully



embrace the concept of “banking on the go” to make transactions more accessible and convenient by allowing our clients to make money transfers through their mobile wallet and pay school fees through ATMs,” Al-Arab adds. “Given that Egypt has a mobile penetration rate of 110%, but only 10% of the population has access to financial services, we see huge growth opportunities in the secure and cost-effective delivery of these service via mobile phones.”

The digitalisation of retail banking products and services is part of the bank's broader commitment to harnessing technology as a means of efficiency enhancement and product development across the bank's entire client base. For example, CIB is working with emerging Egyptian FinTechs to accelerate innovation and the development of cashless banking, and supporting digital labs and other notable platforms in co-operation with partners such as the American University in Cairo (AUC).

Egypt's Number One Green Bank

CIB is also fully committed to meeting the highest environmental, social and environmental (ESG) standards. As well as implementing an energy efficiency project designed to reduce the bank's CO2 emissions and cut its paper use, CIB is an active member of the UNEP-FI Principles for Sustainable/Responsible Banking. The bank also supports the international community's 2030 Global Sustainable Development Agenda and its alignment with Egypt's own 2030 Vision.

Company data

■ Total assets (H1 2018)	EGP 312,179m
■ Net profit (2017 v 2016)	EGP 7,516m v EGP 6,009m
■ Return on assets (H1 2018):	2.92%
■ Return on equity (H1 2018):	31.1%
■ Cost to Income ratio (H1 2018 v H1 2017)	20.6% v 21.7%
■ Core Tier I ratio (H1 2018)	14.9%

Bank Audi

Continued Resilience and Flexibility



Originally established in 1830, Bank Audi has evolved in recent years into Lebanon's leading bank and a fully-fledged regional operator, with a well-diversified presence in 11 different countries through 10 banks and three financial companies. Today, the bank offers a full suite of commercial, corporate, retail, personal and private banking services, as well as ancillary products ranging from investment banking to factoring.

Against the backdrop of a challenging macroeconomic and regional geopolitical environment in its core markets, Bank Audi's recent results have once again been a testimony to the group's resilience and flexibility, as well as to the soundness of its integrated and diversified growth strategy. Consolidated net profits rose in the first half of 2018 to \$265m, a growth of 25% relative to the recurrent net profits in the same period in 2017.

Continued Expansion Across The Board

Samir Hanna, Bank Audi's Chairman and Group CEO, says that this continued expansion was driven mainly by the performance of its Lebanese operation. Significant contributions were also made by its wholly-owned subsidiary in Turkey, Odea Bank, which is now the country's ninth largest bank, as well as by Bank Audi Egypt, which now ranks seventh among private banks.

"This performance is attributable to an improvement in operating conditions and to the optimization of resources deployed in addition to the bank's conservative and balanced risk management policy," Hanna explains. "This resulted in the further strengthening of the group's financial profile and overall efficiency."

The long-term improvement in the group's asset quality is a product of its prudent approach to risk management. "With rising volatility across the region, we have adopted more vigilant risk management across all group entities with the aim of sustaining our asset quality," says Hanna.

Evidence of the success of this strategy, he adds,

is the trajectory of consolidated gross doubtful loans, which at \$624m at the end of June 2018 were at almost the same level as at the end of 2017. A slight increase in gross doubtful loans to 4.1% over the same period, he adds, was a reflection of the 11.4% contraction in gross loans, rather than a deterioration in asset quality.

In the first half of 2018, Bank Audi allocated 8.3% of consolidated net revenue to net loan loss provisions, with the coverage ratio of doubtful loans by specific provisions and real guarantees reaching 101% by the end of June 2018.

Hanna is upbeat about the opportunities that lie ahead for Bank Audi both in the domestic market and across the MENA region. In Lebanon, he is confident that the government's capital investment plan will create substantial opportunities for public-private partnerships (PPP) and in the broader project finance market, where Bank Audi has built up a strong track record.

"Bank Audi has already developed expertise in this area through its participation in financing port facilities projects in Egypt and electrical plants in Iraq," he says. "In Lebanon, meanwhile, the bank has played a notable role in the financing of wind energy projects in the northern part of the country."

Synergies Across Core Markets

The Bank Audi Group's demonstrable track record in its core Lebanese, Turkish and Egyptian markets, twinned with its pedigree in private banking, will ensure that it is well positioned to withstand headwinds generated by regional economic and political uncertainty.

"With respect to the current environment in Turkey, in 2017 the bank adopted a consolidation strategy which focused on a rebalancing of the loan and deposit portfolio in support of improved efficiency, profitability and asset quality," Hanna explains.

Forgoing costly deposits, choosing not to renew some maturing loans and rebalancing the loan portfolio towards local currency have all contributed to resilient results at Odea Bank, where net profits reached \$89m in 2017 and \$39m in the first half of 2018.

Encouraging results throughout the group in spite of the turbulent geopolitical backdrop in the region suggests that the bank's strategy on focusing on its core competencies while enhancing synergies across entities remains sound.



"We have adopted more vigilant risk management across all group entities with the aim of sustaining our asset quality"

Samir Hanna, Chairman and Group CEO, Bank Audi

"Being a pan-regional group implies maintaining a well-diversified portfolio of clients covering a wide range of industry sectors and countries, many of which have a regional dimension to their activities," says Hanna.

"This means we are strongly positioned to leverage our contacts across the group to build on our financial intermediation and trade finance capabilities in the Europe-MENAT corridors." Regional trade volumes of \$145bn bear witness to the dynamism of this sector.

An Extensive IT Transformation Journey

Another key component of Bank Audi's strategy going forward will be its continued commitment to providing customers with state-of-the-art services without jeopardizing their security or confidentiality. "In recent years, the group has enjoyed an extensive IT transformation journey aimed at improving customer experience, and going forward, Bank Audi will continuously assess new technologies as they emerge," says Hanna.

Company data

■ Total assets (End H1 2018)	\$44.9bn
■ Net profit (End H1 2018 v 2017)	\$265m v \$559m
■ Return on assets (End H1 2018 v 2017)	1.22% v 1.06%
■ Return on equity (End H1 2018 v 2017)	14.7% v 13.4%
■ Cost to Income ratio (End H1 2018 v 2017)	45.7% v 51.2%
■ Core Tier I ratio (End H1 2018)	11.1%



“Doha Bank has maintained its leadership in the innovation sphere by introducing many ‘First-in-Qatar’ products”

Dr. R. Seetharaman, CEO, Doha Bank

Originally established in 1979, Doha Bank is the third largest conventional bank in Qatar with a market share of aggregate assets of approximately 6.4% at the end of June 2018. Doha Bank operates the second largest domestic franchise in Qatar, with 27 local branches, 8 e-branches including pay offices, 1 active mobile unit and over 100 ATMs. Internationally, Doha Bank has one of the largest network of representative offices among all Qatari banks. In 2017, Doha Bank continued to post solid results, with net profits rising by 4% from QAR1,054m to QAR1,100m and total assets expanding by almost 3.5% from QAR90,365m to QAR93,495m.

Doha Bank’s CEO, Dr. R. Seetharaman, says that there were three main drivers of growth in 2017. The first was an increase in net interest income of 9.5%, supported by the re-pricing of the bank’s loan book. The second was an expansion in loans and advances of 1%, with most of the growth accounted for by the real estate and trading sectors. A third was an increase in investment securities of 19.1%, the lion’s share of which was contributed by growth in fixed income securities.

In recent years, Doha Bank has implemented a number of initiatives aimed at safeguarding and strengthening its leadership position across a range of markets. “On the retail front, for example, Doha Bank has maintained its leadership in the innovation sphere by introducing many “First-in-Qatar” products, services and channels to ensure that it stays ahead of the competition,” says Seetharaman.

Examples of recent launches include the Doha Bank ‘My Book Qatar’ app, biometric authentication in mobile banking, the Apple iWatch banking app, tablet banking, the Al Asriya ladies’ banking package,



Staying ahead of the competition

online money transfers via credit cards, mobile e-remittances for payroll card customers, gold bar sales and green banking. “Doha Bank will continue to prioritise customer-centricity by leveraging on big data, enhancing distribution channels and using cutting-edge technology to ensure that customers’ needs and lifestyle demands are engrained throughout the product offering,” says Seetharaman.



cial services, all of which are supported by Doha Bank. As Seetharaman says, a notable recent example of Doha Bank’s commitment to supporting the expansion of financial services and the opening the local capital market to overseas investors was the launch of the country’s first exchange-traded fund (the QETF), in partnership with Amwal.

Capturing Opportunities Generated by Economic Diversification

While Doha Bank is confident of continued growth in its domestic retail franchise, it also believes that there are considerable opportunities in areas such as infrastructure and project finance in Qatar. These are widely expected to proliferate as the country accelerates its drive towards the diversification of its economy away from hydrocarbons.

“Given its stable capital adequacy ratio, Doha Bank is well positioned to capture opportunities arising from infrastructure investment in Qatar,” says Seetharaman. Specifically, he points to the potential arising from two landmark developments for the Qatari economy which will generate extensive opportunities for local banks.

The first of these is the 2022 FIFA World Cup, which will be hosted by Qatar and is forecast to attract about half a million visitors, which is the equivalent of approximately 20% of the local population. In Qatar’s 2018 budget, the funds allocated to the sports sector and projects related to the 2022 World Cup amount to QAR11.2bn.

The second transformative development for the economy is Qatar Vision 2030. An ambitious roadmap for the country’s future, this emphasises the expanding role of the private sector in support of diversification, focusing on areas such as the knowledge-based economy, tourism and finan-

An Extensive Global Footprint

Internationally, meanwhile, Seetharaman believes there is substantial scope for Doha Bank to leverage its extensive network to cultivate closer trade finance relations with companies doing business with countries where the bank has a presence. With a footprint in 17 countries, international assets already account for 13% of Doha Bank’s total assets, and Seetharaman says that the bank regards selective overseas expansion as a key contributor to further growth. “Expansion to strategic locations enables the bank to facilitate and optimise cross-border trade between countries such as Qatar, Kuwait, India and other key regional and global economies,” he says. “Furthermore, its extensive global network allows the bank to garner liquidity through its international relationships at optimal cost.”

A Comfortable Funding and Liquidity Profile

The strength of these international relationships has helped Doha Bank to build a well-diversified funding base which safeguards the bank against unexpected fluctuations. Its loan to deposit ratio of 112%, compared with a market ratio of 114%, ensures that deposits remain an important funding anchor. This is complemented by the bank’s continued access to international institutional term investors as well as EMTN, money market and repo funding. Doha Bank is able to repo its holdings of QAR14.4bn of State of Qatar (SOQ) bonds with the QCB at any time.

This broad range of funding options, twinned with its capital ratio of 16.63%, against a minimum requirement of 12.875%, means that Doha Bank is comfortable with its funding and liquidity profile.

While NPLs have been edging up at Doha Bank, reaching 4.3% at the end of June 2018, this increase has been concentrated in the contracting sector.

Company data

■ Total assets (H1 2018)	QAR 89,150m
■ Net profit (2017 v 2016)	QAR 1,110m v QAR 1,054m
■ Return on assets (H1 2018):	1.03%
■ Return on equity (H1 2018):	10%
■ Cost to Income ratio (H1 2018 v 2017)	36.6% v 37.4%
■ Core Tier I ratio (H1 2018)	15.46%



Enduring Caution



Since its establishment in 1951, BLOM Bank has cemented a reputation for resilience and conservatism that is unmatched in the banking systems of Lebanon and the broader MENA region. As Euromoney commented recently, “BLOM may operate in one of the world’s most turbulent markets, but its enduring caution enables it to withstand all that comes its way.”

The bank’s enduring conservatism was no bar to BLOM posting the highest net operating profit in the Lebanese banking sector in 2017. Saad Azhari, Chairman and General Manager, identifies three main reasons for this robust performance, which underpinned net profits last year of \$485.3m. First, the bank’s net interest margin (NIM) climbed from 2.35% to 2.39%, even though an increase in the reserve requirement in Egypt, which is BLOM Bank’s largest market outside Lebanon, put margins under pressure. Second, net credit losses fell from \$82.3m to \$12.7m. And third, BLOM’s cost to income ratio stood at 34.36%, the lowest level among Lebanon’s listed banks.

“I think this leadership position can be sustained into 2018 based on the continuation of these favourable factors,” says Azhari. “For example, we are expecting NIM in Egypt to pick up again this year, to levels reached in 2017 or even better.”

Azhari is also confident about the outlook for credit quality in 2018 and beyond. Non-performing loans (NPLs) improved to 3.1% in 2017, which factored in the write-off of a provisional \$110m project loan that was halted by an archaeological finding. “This is now being resolved, and the government will be providing the project owners with alternative land,” says Azhari. “In 2018, I expect our NPLs to remain stable or post a slight improvement.”

A Transformative Acquisition

Total assets continued to expand in 2017, rising by 10.25% to \$32.54bn. Loans, meanwhile, were up by 5.22% to \$7.54bn, with customer deposits growing by 7.38% to \$26.64bn. Much of this expansion has been driven by BLOM Bank’s acquisition in 2017 of HSBC Middle East – Lebanon, which has had a presence in the country since 1946. Widely regarded as a transformative acquisition, this helped retail lending at BLOM Bank rise by 10.3% to \$3.2bn at the end of 2017.

Looking to the longer term, as BLOM Bank announced at the time of the acquisition, absorbing HSBC’s Lebanese operations “falls under BLOM Bank’s strategy of expanding its customer base and diversifying its assets and sources of revenue. The transaction will help BLOM Bank expand its corporate and commercial businesses as well as its retail activities.”

A Brightening Economic Outlook

The economic prospects for Lebanon, which is BLOM Bank’s core market, are brightening, with Moody’s forecasting GDP growth of 2.5% in 2018 and 3% in 2019, compared with 1.9% in 2017. “This will be driven by greater economic policy co-ordination and our expectation that the government will resume long-delayed public investment projects,” the ratings agency commented in early July.

Azhari believes that this will turbocharge activity in the domestic market. “The capital investment programme (CIP), which will be funded from the \$11bn in loans and grants pledged at the CEDRE conference in April 2018, will be a great boost to the economy,” he says. “It will surely ignite a growth spurt in the economy which will benefit the bank, as well as the entire Lebanese banking system, through higher growth in loans, deposits and investments. It will also be a vote of confidence in the economy and as a result will stimulate more capital flows into the country, which in turn will be doubly beneficial to banks. This is why we are anxiously awaiting the formation of the new government to kick-start this process.”

Azhari is also confident about the outlook for retail banking in Lebanon. “As well as being driven by the acquisition of HSBC,



“The capital investment programme (CIP) will be a great boost to the economy”

Saad Azhari, Chairman and General Manager, BLOM Bank

bank’s dominance in car loans, where its market share reached 26.6%, and home loans, where BLOM Bank commanded a share of 14.7%.

Azhari adds, however, that all areas of the bank’s retail franchise have shown solid growth. “We intend to maintain our performance through an active policy of financial inclusion, aided by positive demographics and the prospects of economic growth,” he says.

A Solid Capital Position

BLOM Bank’s solid capital position suggests it is well-positioned for further growth. As Azhari says, its capital adequacy ratio (CAR) of 18.14% at the end of 2017 compared very well with the minimum of 14.5% required by the Banking Control Commission. “Note also that our primary liquidity stood at 81% at the end of 2017, which is a comfortable position,” he says.

Company data

■ Total assets (End H1 2018)	\$34.6bn
■ Net profit (End H1 2018 v 2017)	\$243.8m v \$485.3m
■ Return on assets (End H1 2018):	1.45%
■ Return on equity (End H1 2018):	15.81%
■ Cost to Income ratio (End H1 2018 v 2017)	36.53% v 34.36%
■ Core Tier I ratio (End H1 2018)	18.4%



“Pursuing non-organic growth through a merger or acquisition may be the best solution”

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

Kuwait Finance House (KFH), which was originally established in 1977 as the first Islamic bank in Kuwait, is recognised as being a pioneer in Islamic banking and a leading bank in the MENA region and beyond. As well as being a clear leader in Sharia-deposit banking in its home market of Kuwait, KFH runs Islamic banking franchises in Turkey, Malaysia, Bahrain, Germany and Saudi Arabia and is now the second largest Sharia-compliant bank in the world, measured by assets.

In the first half of 2018, KFH continued to post encouraging growth, with profits to shareholders expanding by 16.6% to KD95.22m. This increase was attributable chiefly to revenue from core banking business, which accounted for 91% of total profits in the first half of this year, compared with 83% in the same period in 2017.

Also underpinning this robust performance was an increase in net financing income of 31.8% to KD278m in the first half of 2018. Total operating income over the same period expanded by 13.6% to KD390m, while net operating income rose to KD236m, an increase of 17.7% compared to the same period in the previous year.

Efficiencies have also continued to improve at KFH. A striking illustration of this is the bank's cost to income ratio, which fell by 10% between 2014 and 2017, reaching 41.67% at the end of the second quarter of 2018. In Kuwait alone, the bank's cost to income ratio is just 33%, which is well below the industry average in both Islamic and conventional banking.

Mazin Al-Nahedh, KFH's CEO, says that the bank's solid recent performance has been underpinned by the "successful implementation of its strategy of focusing on its core banking business and



Focusing on its Core Business

the quality of its assets, while making continued progress in delivering superior customer service.”

Exploring Regional Growth Options

As it is comfortably the largest Islamic bank in Kuwait, KFH recognizes that if it is to continue to build on its market share it will need to explore new ways of harnessing growth opportunities both in the region and further afield. “Kuwait has more or less reached saturation point in terms of organic growth prospects,” says Al-Nahedh. “As a result, in considering how we can expand our operation, generate continued profitability and increase shareholder value in terms of earnings per share (EPS), we recognize that pursuing non-organic growth through a merger or acquisition may be the best solution.”

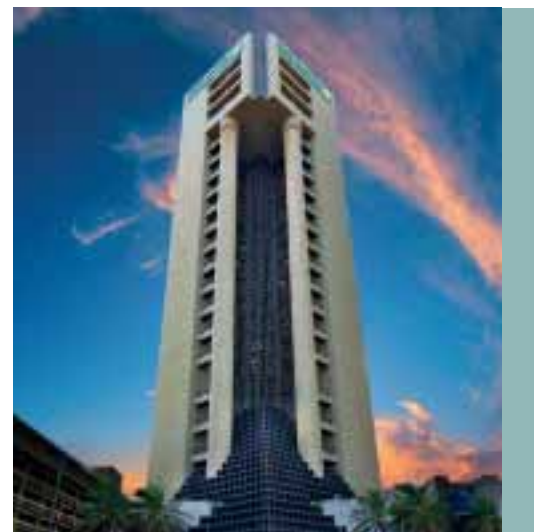
This explains why KFH is currently weighing up the potential of a merger with Ahli United Bank of Bahrain (AUB), which would create one of the largest Islamic banks in the Middle East. “This would enable the bank to play an active role in providing advanced Islamic banking services to its customers,” says Al-Nahedh. “It would also strengthen our capacity to finance mega projects, both in Kuwait and in other markets.”

This merger, Al-Nahedh adds, would give KFH a very strong presence in Bahrain, which would become a second home market for the bank, supporting its Kuwaiti operation. “A merger would also improve our access to other key markets where we have strong customer demand such as the UK and Egypt, where we anticipate further growth,” he adds.

An Extensive International Footprint

KFH has a well-diversified presence in several geographical regions, with some 400 branches in Turkey, 16 in Malaysia, 10 in Bahrain, five in Germany and one in Saudi Arabia.

The contribution to total net operating income made by its overseas subsidiaries amounted to about 37% in the first half of 2018, and Al-Na-



hedh reports that he is delighted with the integration that has been achieved among the banks within the group. “KFH group banks in Turkey, Malaysia, Bahrain and Germany have all continued to post outstandingly successful results in line with their targets, benefiting from the strengths of the individual markets in which they operate,” he says.

Using Technological Innovation To Enhance Customer Service

KFH's growth strategy has consistently been underpinned by a commitment to enhancing efficiencies and improving customer service. A recent example of KFH's leadership in digital technology and innovation was its decision to join the global corporate Blockchain network suitable for remittance services, RippleNet. “Our membership of RippleNet is an important reflection of KFH's commitment to keep abreast of the latest technological solutions in the banking industry,” says Al-Nahedh. “With RippleNet, KFH can further improve customer satisfaction by maximizing operational efficiency, improving security and enhancing transparency.”

A Comfortable Liquidity And Capital Position

The main source of KFH's funding is retail deposits, such as time deposits, which have been consistently sticky in recent years, according to Al-Nahedh. As at the end of March 2018, deposits stood at KD11.8bn, up 7.2% over the previous 12 months, accounting for more than 80% of the bank's overall funding mix. “KFH maintains a sufficiently high level of liquidity, which the bank is comfortable with,” says Al-Nahedh.

Company data

■ Total assets (End H1 2018 v End H1 2017)	2.7% increase
■ Net profit (End H1 2018 v H1 2017)	KD95.22m v KD81.64m
■ Return on assets (End H1 2018 v End 2017)	1.32% v 1.26%
■ Return on equity (End H1 2018 v End 2017)	10.6% v 10.15%
■ Cost to income ratio (End H1 2018 v End 2017)	39.5% v 41.6%
■ Capital adequacy ratio (End H1 2018)	171%

بنك فلسطين
BANK OF PALESTINE

Promoting wider Financial Inclusion



Established in 1960 to promote the broader penetration of financial services across the country, Bank of Palestine Group has been among the fastest-growing banks in the MENA region over the last three years, posting an increase in net profits from \$43.2m in 2015 to \$53m in 2016 and \$54m in 2017. Asset quality has also remained stable, with the bank's NPL ratio of 2.66% at the end of 2017 comparing favourably with regional peers.

Bank of Palestine Group's Chairman, Hashim Shawa, attributes the bank's expansion in recent years principally to its dynamic programme of financial inclusion, which he says has underpinned growth across all sectors of the economy. "Financial inclusion has naturally had a focus on SMEs, given their importance as an engine for the economy," says Shawa. "But it has also focused on corporates and increasingly on the retail sector."

Growth has also been supported by continued investment in the bank's digital channels as well as by upgrading its online platform for corporate and retail clients, targeting younger members of the community and making use of the advent of 3G technology in the West Bank.

Shawa is hopeful that Bank of Palestine Group can maintain its upward trajectory in net profits against the headwinds of political and economic constraints by adopting a conservative approach in order to cushion for future uncertainties. The bank today is satisfied with current market share; its focus is now centered on internal alignment while sustaining healthy indicators and figures through a lean efficiency mode with centralization of operations and enhancement of customer segmentation.

Supporting a Wider Customer Base

Short-term pressures on customers are, however, likely to be compensated for by Bank of Palestine Group's continued focus on advisory services dedicated to expanding financial inclusion for female and young customers, together with a com-

mitment to the growth of its corporate, retail and SME lending. At the same time, the bank aims to reduce its exposure to government-related exposure in retail and institutional lending. Overall, Bank of Palestine Group's healthy loan to deposit ratio of 70% provides a strong liquidity base for further lending.

Broader financial inclusion is pivotal to the bank's segmentation strategy that Shawa believes will underpin strong results over the next few quarters. "Our strategic focus will be on our retail business and customer relations management for corporates and international clients," he says. "This will be done hand in hand with continued investment in electronic banking channels and digitization, both at the bank and its Palpay subsidiary."

Continued Progress at Al Wasata Securities

Bank of Palestine Group's brokerage subsidiary, Al Wasata Securities, has continued to make good progress in recent years, increasing its market share in asset and wealth management, especially among high net worth individuals (HNWI) from the Palestinian diaspora community in the region. Al Wasata has recently signed an agreement with Mubasher brokerage in Dubai opening up new opportunities in online trading across MENA and regional markets for its clients.

Growth Prospects in Islamic Banking

Assets at Bank of Palestine Group's Sharia-compliant subsidiary, Arab Islamic Bank (AIB), grew by 31% in 2017. But as Shawa points out, Islamic banking still has a relatively modest 13% share of the total banking market in Palestine, compared with 25% across the region, suggesting that there is still plenty of scope for further expansion at AIB. A recent capital increase of \$100m will allow AIB to add to its existing network of 18 branches in the West Bank and Gaza, and to upgrade its digital channels targeting new segments of the population. Shawa adds that AIB is also extending its outreach in regional markets with a view to attracting more clients from the Palestinian diaspora.

An Expanding International Footprint

With the recent inauguration of a second representative office in Santiago de Chile, Bank of Palestine Group continues to work on connecting investors from the diaspora with the Gulf, using its representative presence in the Dubai International Financial Centre (DIFC). "The bank is also providing financial advice for investors from the diaspora keen on investing



"Financial inclusion has had a focus on SMEs, given their importance as an engine for the economy"

Bank of Palestine Group, Chairman Hashim Shawa

back at home and requiring a bridge and a financial conduit to Palestine," says Shawa. "It is also investigating opportunities for syndicated loans with international banks on behalf of Palestinians in markets where it maintains representative offices."

Another indication of Bank of Palestine Group's commitment to serving its customers internationally is the recent upgrading of its Diaspora Unit into a fully-fledged department. It is also exploring the potential of new diaspora markets in Europe, North America, the GCC and Jordan.

Strengthening the Capital Base

Bank of Palestine Group recently strengthened its platform for future growth when its 2017 Annual General Meeting approved an increase in the bank's capital to \$250m in the next few years. The general assembly mandated the board to raise this capital as it sees fit, be it through stock dividends, subordinated debt or special placements for an equity infusion into the bank. Bank of Palestine Group's capital adequacy ratio has now reached 14.52%, which management believes to be a comfortable level.

Company data

■ Total assets (End H1 2017)	\$4.5bn
■ Net profit (End H1 2018 v 2017)	\$54m v \$53m
■ Return on assets (End H1 2018 v 2017):	1.8%
■ Return on equity (End H1 2018 v 2017):	15.7%
■ Cost to Income ratio (End H1 2018 v 2017)	71.8% v 66.9%
■ Core Tier I ratio (End H1 2018)	11.87%

What's happening Saturday, October 13



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Seminar Pick

9.30am - 11.00am

The economics of the Belt and Road Initiative

Moderator: **Danny Leipziger**, Managing Director, Growth Dialogue, George Washington University

Speakers: **Zou Jiayi**, Vice Minister of Finance, China; **David Dollar**, Senior Fellow, Brookings Institution; **Hoe Ee Khor**, Chief Economist, Asean+3 Macroeconomic Research Office (AMRO); **Caroline Freund**, Director, Trade, Competition, Regional Integration and Investment, WBG
Location: BICC, WE-1-Auditorium



9.30am - 10.00am

Postcard series: **Building resilience to climate change**
Speaker: **Sili Epa Tuioti**, Minister of Finance, Samoa
Location: BICC, WE-2-Nusantara 3

9.30am - 11.00am

Seminar: **Inclusive urbanization amid global change**
Moderator: **Tian Wei**, host, *World Insights with Tian Wei*, CGTN
Opening Remarks: **Laura Tuck**, Vice President, Sustainable Development, World Bank; **Bambang Brodjonegoro**, Minister of National

Development Planning (BAP-PENAS), Republic of Indonesia
Speakers: **Ridwan Kamil**, Governor of West Java Province and Former Mayor of Bandung, Republic of Indonesia; **Sheela Patel**, Director, Society for the Promotion of Area Resource Centers (SPARC); **Stephanie von Friedeburg**, CEO International Finance Corporation; **Sangeeta Prasad**, CEO of Mahindra Lifespace Developers; **Jonathan Woetzel**, Senior Partner and Director of McKinsey Global Institute, McKinsey & Company
Location: BICC, WE-1-Mangupura

9.30am - 11.00am

State of the Africa region: Boosting the role of human capital

Location: BICC, WE-2-Nusantara 1 & 2

11.30am - 12.30pm

Seminar: **Mitigating famine risks**

Location: BICC, WE-1-Mangupura Hall

12.30pm - 2.00pm

Seminar: **Debt challenges ahead** With **Kristalina Georgieva**, CEO, World Bank
Location: BICC, WE-1-Auditorium

2.00pm - 3.00pm

The future of finance: charting new waters in the next decade

Moderator: **Linda Yueh**, Professor, London Business School
Speakers: **David Lipton**, First Deputy Managing Director, IMF; **Karnit Flug**, Governor, Bank of Israel; **Alicia Garcia-Herrero**, Senior Fellow, Bruegel; **Ryozo Himino**, Vice Commissioner for International Affairs, Financial Services Agency, Japan; **David Serra**, Founder and CEO, Algebris Investments
Location: BICC, WE-2-Nusantara 1 & 2

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Despite the challenges facing the German banking industry, there are bright spots, notably in serving the local and international needs of Mittelstand clients, and in the ability to provide more efficient and better service to retail and corporate clients through online channels. Germany's best bank, Commerzbank, is focusing on both these opportunities.



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EventPick

6.00pm - 8.00pm

Awards Ceremony and Reception

Central Bank Governors and Ministers of Finance of the Year

Hosts: *GlobalMarkets*. (rsvp@globalcapital.com). Sponsored by: De La Rue

Location: Ayoda Resort Bali, Jl. Pntai Mengiat, Nusa Dua, Bali 80363

Don't Miss

4.00pm - 5.00pm

Per Jacobsson panel:

Is there a new orthodoxy for monetary policy?Opening remarks: **David Lipton**, First Deputy Managing Director, IMFSpeakers: **Ravi Menon**, Managing Director, Monetary Authority ofSingapore; **Veerathai Santiprabhob**, Governor, Bank of Thailand;**Nor Shamsiah Mohd Yunus**, Governor, Bank Negara Malaysia;**Perry Warjiyo**, Governor, Bank Indonesia

Location: BICC WE-1-Auditorium



Extra Curricular

8.00am - 5.00pm**Institute of International
Finance (IIF)****2018 Annual Membership
Meeting**

Location: Grand Hyatt Nusa Dua, Bali

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THE final word

ASEAN has the spirit of perseverance

By Sri Mulyani Indrawati

Fifty years since its establishment, ASEAN (Association of Southeast Asian Nations) has made remarkable achievements in fostering regional stability and co-operation. These are important contributing factors for socioeconomic growth that have translated into impressive poverty reduction and a prosperity boost for hundreds of millions of people. Across its 10-member nations, ASEAN is now home to 636 million people, more than 400 million work force, around 300 million internet users, and an ever growing middle-class.

The ASEAN region has benefitted from regional stability, sound macroeconomic policies, and ongoing efforts to minimise trade barriers. However, the 10 economies that make up this regional grouping remain at different stages of progress. This is despite the fast-increasing exchanges of people, goods, technology and ideas between them. ASEAN needs to create a framework that can be seen by each member country to be a good platform for everybody to participate and make the same progress towards prosperity.

In the last two years, we have witnessed an increasing trend of protectionism and possible full-blown trade wars in other parts of the world. Beyond ASEAN, the threat of a full-blown trade war between the United States and China will have ramifications in this region and potentially damage the socioeconomic progress made to date. In 2015, when all nations collectively came up with the Sustainable Development Goals (SDGs), the world was very optimistic that poverty could be reduced to almost zero in our lifetime. But with the current environment, this kind of optimism is going to be very difficult to be sustained.

Indonesia and the region have been enjoying the benefit of international trade for many years. The threat of trade wars could potentially affect the socioeconomic achievements thus far. The ASEAN region will most likely bear losses from uncertainties arising from such trade policies. ASEAN also needs to capture the lessons learned from current developments in advanced economies and be cognisant of the plight of the “losers” arising from trade openness.

This region can still be making more progress, but be extremely mindful about the consequences for those who are left behind. Failure to address this aspect could potentially set ASEAN back. With social media, the feeling of exclusion from socioeconomic growth can be transmitted and become a sentiment that can damage the progress which is being made.



“*As ASEAN grows, all its people must prosper. A rising tide must lift all boats*”

TECHNOLOGICAL DISRUPTION

At the same time, the region needs to face and adapt to the emergence of technological disruption. This trend is creating opportunities and uncertainties on the social structures and disrupting jobs in the region. Technological advancements will further spur economic transformation, but at the same time have the potential to widen inequality. ASEAN must also be cognisant of the fate of the “losers” of economic transformation in its effort to promote more integration. Policymakers in the region need to think about effective safety nets that would allow them to catch up, equip them with the necessary skills to adapt to change, and enable them to enjoy the benefits from greater regional integration.

Thus, ASEAN will have to think about what kind of integration it wants and how it can be improved. Efforts to increase trade openness should not just be for the sake of reducing the obstacles on tariff or non-tariff barriers. Cross-border trade has bolstered economic growth in ASEAN and created new growth

potentials for our growing middle-income population.

ASEAN member states need to take more proactive roles in defining the trade architecture and advocating the rules-based system. Being part of the global supply chain, ASEAN should find ways to mitigate the potential consequences from disruptions arising from trade wars. At the same time, ASEAN economies should also strengthen their domestic growth engine, including consumption and investment. Furthermore, the investment climate for both domestic and foreign investors should be improved, especially in high-productivity sectors.

In light of technological advancements, ASEAN urgently needs to identify priorities and craft relevant policies, governance approaches, geopolitical relationships, and new strategy to open new pathways to prosperity and promote inclusive growth.

POVERTY REDUCTION

In Indonesia and across the region, policymakers are getting up to speed on what it takes to support the new economy, reap the benefits from technological advancements, increase intra-regional trade, boost prosperity across the board, and adapt to the current global economic landscape.

The good news is that ASEAN remains one of the drivers of global economic growth. The aggregate growth of ASEAN 5 (Indonesia, Malaysia, Thailand, Philippine and Vietnam) is expected to reach 5.3% and 5.4% in 2018 and 2019 respectively — better than the average global growth of 3.9% for that same period.

As ASEAN's largest economy, Indonesia can still maintain healthy fundamentals amidst this global economic challenges. This performance has been supported by record high investments in the last five years, increased trade volume compared to last year, and stable inflation. Our economy grew by 5.27% in the second quarter of this year. And for the first time in our history, the poverty rate was able to be brought down to a single digit at 9.82%.

We are not pretending that we know everything, but we learn from others. We listen, we engage and we communicate so we are able to adjust the policy in a positive way.

ASEAN has the spirit of perseverance and will keep our eyes on the ball towards the longer-term goal. As ASEAN grows, all its people must prosper. A rising tide must lift all boats.

Sri Mulyani Indrawati is the Finance Minister of Indonesia. She is also Co-Chair of the World Economic Forum on ASEAN and Chair of the World Bank Group's Development Committee.



GM PICTURE OF THE DAY

President of Indonesia Joko Widodo

Multilateralism

Continued from cover

and more [obvious]. And while we must give credit to those who criticise it, each multilateral institution is working well, and we need to work together to ensure we do not return to a unilateral or bilateral world, which would be a lose-lose for everyone.”

He added that better communication between development institutions, governments, the private sector and the wider public, was paramount, noting:

“We must tell our story better — there is no doubt about that”.

SHIFTING POWER DYNAMICS

It was a message echoed by Diwa Guinigundo, deputy governor of the Philippines central bank, who noted that while multilateralism was still “at the heart” of the international trading system, IFIs had not always been good at extolling that message. “They have to be more forthright in raising the issue that multilateralism continues to make sense in maximising the benefits of trade. It is something that [govern-

ments] can help them with.”

Raghuram Rajan, a former governor of the Reserve Bank of India and now a professor at Chicago Booth University, said multilateralism had suffered a setback and needed to be rethought in order to adapt to shifting global power dynamics. “Of course, the European Union will be part of that discussion, China will be too and eventually India will be a part of the discussion, alongside the US,” he said.

“But my sense is that we are reaching a point where the US will say it is no longer responsible for the system. In that environment others have to step up — not to tilt the power gap but to create a [new] system that acknowledges the reality of a multi-polar world.”

However, Alicia Garcia Herrero, chief economist for Asia Pacific at Natixis warned that the global system was “not ready for a new multilateralism system. The discussions now are more about patting the burnt area, but nobody is ready to rethink it. Europe is not ready to align to China and Europe, and China has never agreed on the type of multilateralism they would like to pursue. A new multilateralism will only happen after a massive problem forces countries to get out of their own comfort zones.”

Cat bonds

Continued from cover

of Fire where many volcanic eruptions and earthquakes take place, suffered a devastating earthquake and tsunami on September 28 that killed more than 2,000 people. The total economic damage is expected to approach or surpass \$1bn.

That has sparked the government into action to build fiscal resilience to such disasters. Indonesia’s finance minister Sri Mulyani Indrawati unveiled its National Disaster Risk Financing and Insurance Strategy on October 10.

But preparation for this programme kicked off at the start of the year when the ministry decided to put together a comprehensive strategy to deal with tragedies.

“This is what we need,” Alfirman said. “We need a disaster risk strategy where we design different kinds of risks and identify different layers of risks from low to medium and high risk, and also look at the frequency and likelihood of these risks. At a later stage, the different layers might have different strategies and different instruments to use.”

Catastrophe bonds are high up on the list of risk mitigation instruments. Alfirman classified them into two types. One

is a traditional cat bond either sold directly by the Indonesian ministry of finance or with the support of multilateral development agencies such as the World Bank.

The other is a catastrophe deferred drawdown option. This is similar to standby loans provided by multilateral development banks — effectively a kind of credit line — that is triggered in case of an emergency.

GRADUAL FASHION

But he warned that the plans were still in their nascent stages. “We are working on the regulatory aspects of catastrophe bonds right now,” he said. “It requires coordination with other ministries and agencies within the government.”

There is no clear timing as to when the cat bond plans will be implemented, but Alfirman said it would be done only in a gradual fashion. Nevertheless, the urgency to put such a plan in place does not escape him.

A low volume of catastrophe bonds covers perils in the Asia Pacific region, with Singapore having indicated it would like to become a hub for issuance of the instrument.

But in Indonesia, an archipelago consisting of more than 13,000 islands, the need to



Alfirman: disaster risk strategy

safeguard the budget from a big dent due to natural calamities is clear. Sean Kidney, chief executive of Climate Bonds Initiative, said: “If ever there is a country that needs cat bonds, it’s Indonesia.”

“Surrounded by many large and active subduction zones and some of the largest crustal faults, Indonesia is one of the most seismically active countries in the world,” Tabrez Ali, a scientist at AIR, told *GlobalMarkets*: “The devastation and major loss of life in Indonesia serve as a stark reminder that earthquakes can produce locally devastating tsunamis as well as landslides with relatively little warning.”

RMB

Continued from cover

undervalued. However, Tran told *GlobalMarkets* that “contagion with clear differentiation” meant the 2018 crisis had — so far — been less acute than it was in 2013 for stronger EM countries.

But weaker countries have been harder hit. Tran said Turkey’s and Argentina’s currencies had dropped roughly 35%-40% since March, double the average 20% EM drop between 2013 and 2016. Russia.

The second key risk is a stronger dollar should the Federal Reserve hike interest rates more sharply than markets expect. Tran said this could prompt carry trade investors to mitigate losses by unwinding positions. In this scenario, even countries that had worked hard to reduce their current account and fiscal deficits since 2013 could be vulnerable.

Adam McCabe, head of Asian Fixed Income at Standard Life Aberdeen, said investors needed to be cautious although he insisted it was important to determine what kind of foreign investors dominated a particular market. “In some local markets, strategic investors account for the majority of foreign ownership,” he told *GlobalMarkets*. “Provided policymakers continue to pursue a credible course, then many foreigners will stay the course.”

FOREIGN CURRENCY DEBT

McCabe said that EM foreign currency debt worried him more. Tran and Rajan both echoed that, highlighting how dollar strength and foreign investors’ retreat back to developed markets would make this far harder to refinance. “We’ve seen this many times before and I’ve warned about it in the past,” Rajan said. “Countries have to be prepared.”

Tran said governments needed to monitor corporate sector foreign currency borrowing since this was where the main problem lay. It accounted for 78% of the record high \$5.5tr foreign currency denominated EM debt load, he added. “They should discourage currency mismatches and put foreign exchange liquidity backstop facilities in place to help cushion the impact of weakening currencies on the outstanding debt burden,” he said.

But Tran said governments needed to take a balanced approach — cultivating domestic bond markets while at the same time making sure they built up a domestic institutional base to counter potential foreign outflows.