

Global Markets

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Fiscal splurge may arrive too late in Europe, say economists

By Tyler Davies and Elliot Wilson

Calls for the EU's biggest surplus-generating member states to unleash a fiscal stimulus to boost growth while interest rates have fallen into negative territory have reached fever pitch as policymakers and bankers gather in Washington this week.

But leading economists are warning that Europe's governments have failed to act quickly enough in the face of an economic slowdown.

Angel Ubide, head of economic research at investor Citadel, said yesterday that the lack of fiscal stimulus was making monetary policy "very difficult". "We are in



Lagarde: expected to lean on political levers

ia situation where inflation is too low, growth is too low, and so

what you need to have is an expansionary fiscal policy," he said.

The IMF slashed its estimates for growth in the eurozone earlier this week, with Germany, the engine of the bloc, faltering. The next batch of GDP data, released in November, is expected to show that Germany slipped into a technical recession in the third quarter of 2019.

"The ECB has been calling for pre-emptive action to avoid recession," Anatoli

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Exclusive

EU Bank to rival China as it pledges to meet Africa's development challenge

By Elliot Wilson and Toby Fildes

The European Investment Bank is intensifying its operations in Africa, as the world's largest multilateral development lender seeks to build infrastructure, boost growth and foster innovation on the promising but poverty-stricken continent.

In an exclusive interview with *GlobalMarkets*, EIB president Werner Hoyer said the Luxembourg-

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Fed pitches liquidity rule tweak to ease repo stress

By Owen Sanderson

US Federal Reserve representatives have floated a tweak to liquidity rules in a closed door meeting with representatives of major investment banks, *GlobalMarkets* understands, in a shift aimed at preventing a repeat of September's alarming repo spike.

The central bank resisted calls for a wider relaxation of liquidity and capital rules, which some bank representatives had

blamed for causing the repo market disruptions in September. JP Morgan boss Jamie Dimon said on the bank's most recent earnings call that it would have deployed cash into the market but could not dip into its reserves for regulatory reasons.

"It's up to regulators to decide if they want to recalibrate the kind of liquidity they expect us to keep in that account," Dimon said.

The Fed representatives pro-

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Dimon: ball is in the regulator's court



FINAL WORD

Felipe Larraín

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Fed

Continued from page 1

posed creating a standing repo facility which could be counted as part of banks' regulatory liquidity limits, in the most attractive category of liquid asset. At a stroke this would improve banks' regulatory liquidity limits, even if the facility was never used.

Basel III instituted rules that banks must have enough liquid assets to cover 30 days of outflows — clients drawing down loans and counterparties refusing to roll funding. But the exact design of the rule, and particularly which assets and facilities count as “highly liquid”, can have a huge impact on the functioning of markets.

'CENTRAL BANKING 101'

Many market participants blamed the Fed for allowing the spike in repo rates in the first place. The US central bank had not used open market operations as a main plank of its monetary policy for more than a decade and had been attempting to shrink the size of excess reserves held with it.

“This is what the Fed was created for,” Nathan Sheets, chief economist at asset manager PGIM and a former Fed employee, told *GlobalMarkets*. “It's central banking 101, ensuring there's sufficient liquidity for markets to function. It's the *raison d'être* of the Fed.”

Tobias Adrian, head of the IMF's monetary and capital markets department, told *GlobalMarkets*: “The Fed wants as small a balance sheet as possible, but it might have to be bigger than it previously thought in order to allow it to keep running monetary policy effectively.”

Following the repo spike on September 16, the Fed authorised a new \$75bn open market operation, and on October 8, Fed chair Jerome Powell said it would buy T-bills, with the aim of expanding the reserves available in the market.

“The question of why they didn't have an operation ready to go that morning so we didn't see the spike at all is a big question which I still don't think we've seen the answer to,” said Sheets.

'It's our moment': Ethiopia reforming to become African gateway

Exclusive

By Lewis McLellan and Toby Fildes

In an exclusive interview with *GlobalMarkets*, Ahmed Shide, Ethiopia's finance minister, said Ethiopia can become a gateway to Africa through an ambitious programme of reforms and infrastructure investment.

Ethiopia has an unusual competitive advantage compared to many of its neighbours — access to large export markets, including Europe, the US, Japan and Russia without tariffs.

This, according to Shide, gives Ethiopia the opportunity to do something that several other sovereigns in the region have aspired to: become Africa's gateway.

Ethiopia's infrastructure spending has hitherto come directly from the government's budget, funded by concessional lending from international financing institutions, or development partners including China and Saudi Arabia.

Shide added that loans from China had helped finance the Djibouti railway, which is an important “maritime gateway for Ethiopian products”.

Shide is not overly concerned about Ethiopia's debt level — 61.8% of GDP, 33.3% external. “Our debt to GDP ratio is not a big problem. We're more concerned about our export to debt service ratio,” said Shide. “That's why we need to invest in infrastructure to boost exports.”

Ethiopia is also beginning to open up industries formerly dominated by state

monopolies to free market competition. Ethio-Telecom and Sugar Corporation are both being assessed in preparation for privatisation.

SOURCES OF FUNDING

With other African neighbours struggling under the weight of Chinese debt, the sources of funding for the investments are just as important as the results. “We're mindful of the threat of a debt trap, but we won't fall into the same problem,” said Shide.

“Our overall debt is not that high, and 60% of it is in the form of concessional loans. Our concern more is the ratio of exports to debt service, which we will improve through our reforms.”

He added: “Directly funding such projects from our budget created good assets, but it causes concerns about debt sustainability. From now on, we intend to use a mix of public and private capital, channelling private investment into infrastructure.”

Clothing chain Uniqlo is moving some of its manufacturing operations to Ethiopia, which should increase its textile exports. Volkswagen is also considering making a similar move, *GlobalMarkets* understands.

Emmanuel Aubert, senior vice president at Lazard said: “There is good debt and bad debt. Some economies borrow to finance current expenditure. In Ethiopia's case, it's for capital expenditure and infrastructure investment, which is much more sustainable.”

Shide added that Ethiopia's debt is not used to finance currency expenditure or “white elephants”, but for infrastructure



Shide: will avoid debt trap

investments “that will grow in value and generate long term income for the economy.”

Although Ethiopia appears to be doing what is needed internally to promote growth and economic development, external conditions are hardly ideal for an outsider to break on to the scene.

EXPORT MARKETS

With economic growth and global demand slowing, there is a risk of commodity price shocks and businesses batten down the hatches.

“We understand the challenges of the global environment, and the impact of slowing demand,” said Shide. “But we have some unique competitive advantages: we have a large population and a lot to offer. We have a lot of land. We have access to a lot of export markets, free from duty or quotas.”

Ethiopia's prime minister Abiy Ahmed was last week awarded the Nobel peace prize.

Splurge

Continued from page 1

toli Annenkov, a senior European economist at Société Générale, told *GlobalMarkets*. “But we have seen from the German politicians that they are not going to be reactive. It feels like things need to get an awful lot worse before we get to that kind of reaction.”

Elwin de Groot, chief international economist at Rabobank, said that member states were slowly starting to take note, pointing out that the Dutch government was positioning itself to deliver a modicum of fiscal stimulus through its latest budget.

LAGARDE TAKES OVER

When she takes over as president of the

European Central Bank next month, Christine Lagarde is expected to lean on political levers to influence growth in the eurozone.

“[The ECB's] mandate will shift to being more proactive on fiscal policies, and on working more proactively with eurozone governments,” said Paul Sheard, a senior fellow at the Mossavar-Rahmani centre for business development at Harvard Kennedy School.

But some experts warned that a spending splurge might not be enough on its own to give the eurozone an economic boost. “There is an issue of fiscal capacity in many member states,” said Debora Revoltella, a director in the economics department at the European Investment Bank. “Some countries have fiscal capacity, others lack it.”

She told *GlobalMarkets* that Europe could become more dynamic by carving

“We are in a situation where inflation is too low, growth is too low, and so what you need to have is an expansionary fiscal policy”

—Angel Ubide, head of economic research, Citadel

out certain types of investment from government expenditure. “You can do two things: you can have fiscal stimulus and a bigger deficit, or you can keep your debt and change the composition of your expenditures,” Revoltella said.

“I think many countries should think about rebalancing their expenditures. This should be the driver of policy, to tackle investment needs in innovation, digitalisation, smart infrastructure and other areas of innovation.”

OUT OF THE WOODS

Seen and heard in the corridors of the Annual Meetings

• **/ Keep him out:** The view of Donald Trump's third and temporary residence is partially concealed this week behind a low-slung white scaffold, on the front of which is stencilled 'White House Fence Replacement Project'. What we don't yet know is who is paying for it. Our money is on either Mexico or Turkey. Any guesses?

• **/ Bananaland:** Talking of America's first orange president, two cheery ladies were spotted near the Treasury building clutching a pink banner emblazoned with the words 'Women for Trump'. Asked what exactly they were in favour of, one replied: "Well, he's got nice teeth". Only when they'd continued onward did *OOTW* spot they'd been chatting outside a branch of Banana Republic — ironic given the US national debt is set to top \$23 trillion.

• **/ Hit snooze:** Another riveting IMF panel hit snooze-factor 10 on Thursday. The Indian finance minister bumbled in 45 minutes late, then sat down on the stage next to one of his senior staffers — who proceeded to nod off, head slumped magnificently on to his chest. Rousing himself to check if anyone was observing his golden slumbers (we all were) he would then drift off again, into sleep's warm embrace.

• **/ Crashing out:** Columbia University professor Adam Tooze was in a feisty mood yesterday at the IIF. When an audience member asked for his recipe for a stronger Europe, his reply was a big, crashy no-deal Brexit. "It's the only thing that will knock the German car industry for six." Presumably Tooze drives a Lada.

• **/ 2019: Corridors of uncertainty:** When *OOTW* was trying to find the designated room in the World Bank building to meet an African finance minister and his team, we must have used every single lift and walked down every single corridor in what felt like an enormous, tortuous circle. We then, purely by chance, bumped into the African delegation, also wandering around in confusion. Finally together, we set out on an odyssey that included several elevators (standard-issue and service-variety) a delivery entrance, a food storage area, and finally a meeting room that must have been originally decorated by the Stasi, filled with plates of half-eaten breakfast.

AIB aims high with 20% growth per year in sight

Exclusive

By Rashmi Kumar

The Asian Infrastructure Investment Bank has set itself an ambitious target of growing by 20% per year and scaling up its lending to the private sector to as much as 45% within the next five years, its vice-president and chief investment officer told *GlobalMarkets* in an exclusive interview.

The Beijing-based multilateral development bank, which has grown from 57 founding members three years ago to 100 members today, has approved 50 projects worth \$9.64bn in 18 countries since its inception. But it wants to do a lot more.

"We are planning to scale up our operation and plan to grow at least 20% per year," DJ Pandian said. "It is a little ambitious, but the demand is quite high, and the infrastructure gap is increasing day by day. And most of the demand for infrastructure is in Asian countries. And unless we step up, we may not be able to contribute significantly."

The bank is not limiting itself to just guaranteeing and funding its member countries. It is also hoping to boost lend-



DJ Pandian: scaling up private lending

ing to the private sector from around 30% to 40%-45% in the next five years, and have an equal split between sovereign and non-sovereign lending in the next 10 years, said Pandian.

When the AIIB was set up in January 2016, it led to some fear that the Asia-led group would pose a serious threat to the functioning of other multilaterals such as the World Bank. But Pandian dismissed that as a "perception without having much knowledge", pointing out that the bank has a robust governance system in place, with even the biggest shareholder having just one seat on the board.

Indian FM sets out measures to fuel economic rebound

By Rashmi Kumar

India's Ministry of Finance is making big efforts to revive the country's stagnating economy, with measures to front-load infrastructure spending and boost consumption. But experts warn that it will take many more tough reforms to get India back to its heyday of strong growth.

After slowing in the first two quarters of the fiscal year, which began in April, growth is projected to slump to 6% in 2019, according to the World Bank, from 6.8% last fiscal year.

A combination of corporate and regulatory uncertainty, weak income growth, especially in rural industries, a fall in consumption and immense pressure on the financial sector have all taken their toll on the world's largest democracy.

The estimated GDP growth for the quarter to June shook the Ministry of Finance, coming in at just 5.5%.

The government has not been sitting still, however.

"To boost consumption, we have said that public expenditure for infrastructure will be clearly front-loaded," said Nirmala Sitharaman, India's minister

of finance. "We said in the budget that about 100 lakh crores [\$1.4tr] will be spent over the next five years, but this year itself, we are willing to spend a proportionate amount.

"Similarly, to increase money in the hands of people so consumption can increase, I've also requested all the public sector banks, together with their partners, to reach out to the villages and all the districts and extend every kind of credit they could want," she added.

FINANCIAL FOCUS

While the government has taken some steps towards jumpstarting its ailing economy, it is not nearly enough, according to Ranil Salgado, India mission chief at the International Monetary Fund. He said the priority for the government was to improve the financial sector.

India's banks and non-bank financial companies have faced great turmoil in the past year, triggered by defaults among the non-banks, fraud and governance issues at state-owned banks, and hefty non-performing loans.

WILLINGNESS TO ADAPT

The AIIB, whose objective is to invest in sustainable infrastructure, raised \$2.5bn from a global bond in May, placing itself among the very top supranational names in the capital markets.

Although the dollar is its currency of operation, Pandian said demand from its client countries had led it to provide local currency loans in five currencies — the Indonesian rupiah, Indian rupee, Thai baht, China's renminbi and the Russian rouble.

"We can adopt either a swap or a hedging mechanism, and if the demand goes up, then perhaps part of our borrowing may be in the local currency, which we can then lend," he added.

What it will not do is take capital increase for granted — the way its Western peers have done. Jin Liqun, president of AIIB, said he did not want the bank to be dependent on concessional funding, but instead be able to achieve reasonable profit.

"We should be willing to change and willing to adapt," he added. "We have worked out our approach purely based on experience of the MDBs over the last several decades or half a century and many private companies."



Sitharaman: accelerating spending

Salgado told *GlobalMarkets* that the government had recognised the issues and was trying to resolve concerns about rising bad assets and the way public sector banks are run.

"The government has tried some things, but we think even more is needed to improve operational efficiencies, to improve risk management on how the public sector banks lend loans, and to make sure those are done on a purely commercial basis," he said. "The government also needs to make sure to remain under control of its own finances. We are focused on not just the central government deficit, but also focused on overall public sector borrowing, which is higher than household borrowing."

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Success is a journey

Ukraine's central bank pledges to stand firm on Privatbank

By Lewis McLellan and Oliver West

Ukraine's central bank governor has insisted that the government will fight any moves by oligarch Ihor Kolomoisky to regain control of Privatbank. The issue has become one of the top concerns for the International Monetary Fund and other investors in Ukraine.

Privatbank, which had been owned by Kolomoisky and his business partner Gennadiy Bogolyubov, was nationalised in 2016 at the behest of the IMF because of a \$5.5bn hole in its balance sheet.

Since then, the businessmen have been fighting to get the bank restored to them or to obtain compensation, through a legal battle in jurisdictions around the world, including London, New York, Switzerland and Cyprus.

In the latest skirmish, a London court ruled in favour of the National Bank of Ukraine (the central bank) and Privatbank. That allowed Privatbank to pursue a \$3bn claim against its former owners. However, the pair have launched appeals, which will be heard next week.

Kolomoisky and Bogolyubov are accused of a fraud that led to the balance sheet hole. They deny this and claim the bank was nationalised illegally.

Yakiv Smolii, the NBU governor, told *GlobalMarkets* that the 2016 nationalisation was legal. "Current legislation does not permit for the possibility of returning the bank to its previous owner," he said.

In the Ukrainian courts, a verdict is expected on October 24. A preliminary hearing scheduled for October 17 was delayed, apparently to allow Ukraine's negotiations with the IMF in Washington to be conducted uninterrupted.

The proceedings in Kiev are an appeal against a decision in favour of Kolomoisky in April. Smolii said the NBU would appeal to the supreme court if it lost.

However, the issue has taken on deeper significance since the election of Volodymyr Zelensky as president in April.

Zelensky had been an actor on a television show broadcast on a station owned by Kolomoisky. Observers fear the links between the two could make it easier for Kolomoisky to prevail in the Privatbank battle.

Graham Stock, head of EM sovereign research at BlueBay, said the IMF's trust in the Ukraine government had been shaken. "We believe that any assistance for Kolomoisky would be a serious problem for the Fund and other donors in



Smolii: NBU will fight Kolomoisky

Ukraine," he said. "The nationalisation of Privatbank was a key step forward in the anti-corruption movement, and any unwind of that would be very serious. It's the number one issue for the Fund in Ukraine at the moment."

An emerging market-focused investor said: "Frankly, I expect the NBU to lose the appeal. The worry is that the courts in Ukraine are not sufficiently independent. There has been a longstanding problem of corruption there, and it seems that Kolomoisky has some kind of relationship with President Zelensky."

In September, Zelensky met Kolomoisky and Ukrainian prime minister Oleksiy Honcharuk alarmed investors by announcing he was seeking a "compromise" with Kolomoisky over Privatbank.

Pension funds key to unlocking Africa's infrastructure funding

By Oliver West and Virginia Furness

Ghana's minister of finance has called on global pension funds to help meet Africa's vast infrastructure need, easing the funding burden which has seen several African countries load up on unsustainable levels of expensive dollar debt.

The African Development Bank estimates that Africa's infrastructure needs are between \$130bn and \$170bn a year. However, financing for African infrastructure currently falls short by between \$68bn and \$108bn per year.

"The question we need to confront is how do we get appropriate financing to be able to do that," Ghana's minister of finance Ken Ofori-Atta told *GlobalMarkets*. "The debt burden that comes with infrastructure financing is too heavy."

Part of this funding will come from development banks such as the World Bank, European Investment Bank and IFC, and from China, but officials are urging for action from one of the world's largest sources of private capital.

"There needs to be a sit-down with global pension funds to make infrastructure an asset class, which now it isn't, which would be able to give certain accommodation," Ofori-Atta said.

Private investment in Africa stood at just \$8bn, out of a global spend of \$90bn in 2019, according to World Bank data.

Makhtar Diop, vice president of infrastructure at the World Bank said: "There are trillions of dollars sitting in pension funds in Japan, if we manage to collectively solve that part of the puzzle, we will be able to make the huge jump we need. Plus, the rate of return is very good."

Pension funds have been particularly reticent in part because of a lack of understanding of the macro risk in African markets, according to Bryan Carter, BNP Paribas Asset Management's head of emerging market fixed income.

Many are focussed on investing in countries without macro risk, and are uncomfortable taking on local currency funding risk, he added. However he said that infrastructure was becoming a bigger focus for funds looking for yield. "It's still a new market, but yes I would say the interest is there," he said.

Still the cost of infrastructure financing in Africa is, in many cases, prohibitively expensive, but with African default rates low, experts are urging for a programme of education for investors.

Mexico calls for 'game-changing' ratification of Nafta 2.0

By Oliver West

The new US-Mexico-Canada trade agreement will be "game-changing" if the US Congress approves it quickly, according to the Mexican finance minister.

The trade agreement, which replaces the existing Nafta, was signed on October 1, 2018. Mexico's Congress approved it on October 1 this year, and the Canadian parliament is expected to do so as soon as the US gives the green light.

"A real game-changer would be if [the deal] is ratified within the next six weeks," said Arturo Herrera, finance minister since the resignation of Carlos Urzúa in July, at the IIF meeting in Washington this week. "Given the worldwide uncertainty, a very clear path for the North American region would be a way for investments to be focussed here, while the rest of the world is in a wait-and-see position."

Herrera warned that global trade tensions were having a big impact in Mexico, highlighting volatility in the

peso and oil prices when US president Donald Trump slapped tariffs on Chinese imports.

"These trade tensions are not a fact of life and go against a long term trend of economies opening, agreements being reached, and multilateral organisations [being] used as a way to reach consensus," he said.

Trump's renegotiation of Nafta alarmed its neighbours, but the Mexican government has taken the approach that an update was necessary.

"A lot has happened in the economy in the last 20 years," said Herrera. "The digital economy, in particular, is very different to what it used to be, and we and the business community feel pretty comfortable about [the renegotiation]."

Mexico has officials attending the US Congress to clarify doubts and smooth the process. But investors fear the minister may be disappointed.

"I am not expecting the deal to be ratified soon, as I don't see much getting



Herrera: we feel "comfortable" about USMCA

through Congress in the US in the current environment," Jan Dehn, global head of research at Ashmore Group, told *GlobalMarkets*. "It is hard to see Nancy Pelosi [speaker of the House of Representatives] passing any of Trump's projects."

After impeachment proceedings were launched at Trump in September, the president claimed this could derail ratification of USMCA.

Research firm Capital Economics warned then that the "risk of the deal being caught up in US domestic politics is probably rising" as the 2020 election approaches, even though Trump's opponents played down the fears.

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Investors put little hope in Venezuela regime change as PDVSA teeters

By Oliver West

The team behind Venezuela's US-backed opposition leader Juan Guaidó is growing increasingly optimistic that he will be able to implement his detailed economic recovery plan, a close adviser has told *GlobalMarkets*.

Some 60 nations and several multilateral bodies have recognised Guaidó as Venezuela's interim president, although President Nicolás Maduro still holds power.

Alejandro Grisanti — whom Guaidó has named director of state oil giant PDVSA's board and restructuring adviser — said there was a "shared vision" for turning the economy around.

"It took us three years, but for the first time we have a consensus — including private chambers, politicians, economists, academics and the international community — on the diagnosis of what has happened and what is needed to solve it," Grisanti told *GlobalMarkets*. "This consensus makes our [recovery] plan more robust and makes me particularly optimistic."

Despite US sanctions and a humanitarian crisis that has driven some 4.5 million Venezuelans to emigrate, observers say there is little prospect Maduro will leave power.

Meanwhile, PDVSA is set to default on the only Venezuelan bond not already in default.

"Regime change in Venezuela is today as far away as it has ever been," said Graham Stock, head of emerging market sovereign research at BlueBay Asset Management.

The sanctions have also hurt bondholders. Earlier this year the US Treasury barred US persons from buying Venezuelan debt, even in secondary markets. The minimal trading that does occur — mostly US long-only funds selling to European private banks, *GlobalMarkets* understands — has recently been at eight or nine cents on the dollar.

"The regime change movement is somewhat stuck in the mud, and bond prices tell you that people are giving up," said Daniel Osorio, president of Andean Capital Advisors, which advises institutional asset managers on Latin American politics and economics.

Guaidó's position may be weakened by PDVSA's imminent default. Its board is not expected to make a \$913m bond payment due on October 28. That would theoretically allow creditors to seize the collateral: 50.1% of the company's US refinery, Citgo.

Free trade zone raises hope of speeding African growth

By Thierry Ogier and Virginia Furness

The new pan-African free trade zone will help the continent boost economic growth, which is expected to remain stuck below 3% for the fourth consecutive year, Albert Zeufack, vice-president of the World Bank for Africa, has told *GlobalMarkets*.

All African countries bar one — Eritrea — have thrown their weight behind the African Continental Free Trade Area Agreement (AfCFTA), which commits countries to remove tariffs on 90% of goods and boost intra-regional trade. Such trade currently accounts for less than 20% of African exports.

The World Bank has revised down its growth forecast for this year by 0.2 percentage points to 2.6%. But regional trade could become an engine of growth if AfCFTA is implemented in the coming years. "The success of the African Continental Free Trade Agreement would certainly contribute to higher growth in Africa," said Zeufack.

He said the success of the AfCFTA also hinged on Africans' capacity to

integrate value chains. "That's how jobs will be created — when companies can actually manufacture some African products," he said.

The African Union, which has sponsored the project, also intends to promote a mentality change. For historic reasons, a former Portuguese colony would have zero tariffs on exports to Portugal, a former British colony on those to the UK, explained Joy Kenewendo, Botswana's minister of investment, trade and industry.

"It became like foreign countries within a continent, and we are just breaking down those walls," she said. "Some of it is historical and you find that the trade infrastructure has been more outward-looking than inwards-looking."

Richard Randriamandrato, finance minister of Madagascar, said: "This is a new chapter in history, we have to commit ourselves to it and get involved."

Nevertheless, African countries will need to reduce non-tariff barriers, according to IMF officials. "If it is solely a matter of decreasing tariffs, it will have a positive effect, but it will not be as much



Zeufack: new zone will lead to job creation

of a game changer if a set of complementary policies are not implemented," said Reda Cherif, a senior economist in the Africa department of the IMF.

Those policies include measures to improve the business environment. The huge infrastructure gap is a clear handicap.

"The quality of infrastructure on the continent has been a hurdle for trade. There are countries with pretty good infrastructure, in north Africa and in South Africa, or less so," said Cherif.

Such contrasts have prompted concerns that there will be winners and losers if the AfCFTA is implemented. IMF officials have denied this. "All countries win on aggregate," said Reda. "Some industries may close. But other industries will do much better and will start exporting more."

CEE states keep their eyes on EU accession prize

By Elliot Wilson

States across eastern and southern Europe are preparing the ground to apply to join the EU even as Britain enters the final stages this week of its three-year attempt to leave the trading bloc.

Five countries including Turkey, Albania and Serbia are "recognised" candidates for EU membership, while Bosnia and Herzegovina and Kosovo are potential members. Georgia, Ukraine and Moldova are signatories to the Eastern Partnership, a talking shop that prepares poorer and more fragile countries for future candidacy.

Yakiv Smolii, governor of the National Bank of Ukraine said that his country's "goal was to enter the European family — to be perceived as being European".

Moldova's finance minister Natalia Gavrilita said her country was "not going to give up [its] objective" of joining the single market, adding: "EU accession means higher prosperity and more individual freedom and human rights."

But some observers fear none of these states will ever become full members of the big club. The European Commission, Germany and France have little appetite

for expansion — there are no plans to enlarge the EU before 2025 — and most would-be candidates will struggle to meet the increasingly stringent entry criteria.

Sylvain Broyer, chief economist for EMEA at S&P Global Ratings, said: "It has become more difficult for non-EU countries to join the EU."

Marjan Divjak, a senior adviser to the finance ministry of EU member Slovenia, said while he would "like to see the doors open" to new candidates, the criteria for candidacy were not going to be easy to meet. He urged Brussels to relax its entry rules for poorer and weaker sovereigns "to ensure they are appropriate for the present situation".

HONEST PARTNER

Experts urged the European Union to be honest with its would-be partners and offer them a firm pathway to membership. "The EU has to decide if it wants to get bigger or deeper. It can't have its cake and eat it," said Paul Sheard, a senior fellow at the Mossavar-Rahmani centre for business development at Harvard Kennedy School. Albania, Serbia and Montenegro were



Divjak: urged the European commission to relax entry rules

moving "at a snail's pace" toward membership, while Turkey's application was "in limbo, if not in effect dead", he said.

This matters, because many of the states on Europe's accession list were once part of the Soviet Union and Russia's cultural and political pull endures. Alexandru Fala, research head at Expert Group, a Moldovan consultancy, noted the schism in his country's society, where people are either Europhiles or Russophiles.

"I don't know which direction we will go, whether in the European or the Eurasian direction," he says. "The answer depends on whether Moldova joins the EU." But he believes it will take another 20 or even 30 years before that happens. By then, the country may not want to be part of the club.

Costa Rica seen as weak spot in Central America ahead of bond plans

By Thierry Ogier

Costa Rica is planning to come to the international bond market for the first time, seeking to issue up to \$4.5bn over three years. But investors see its economy as a point of vulnerability in Central America, weakened by the US economic slowdown and grappling with fiscal fragility and uncertainties about its implementation of reforms.

Costa Rica approved a fiscal reform late last year to curb public spending. Officials have pledged to cut the primary fiscal deficit, which is now more than 2%, to zero, and then achieve a primary fiscal surplus by 2023. "We will see the full effect of the reform in 2020," Rodrigo Cubero, president of the Central Bank of Costa Rica, told *GlobalMarkets*.

"When markets start seeing the turnaround in the primary balance, they will also give us confidence. Spreads on the Costa Rican debt have already been narrowing, but clearly this trend needs to continue," he said. "We do have strong macroeconomic pillars, but the weak link was the fiscal side. So, restoring fiscal sustainability was critical to restore

confidence. The fiscal reform will do the trick, but we have to make sure we implement it strictly."

However, investors are less convinced. "Costa Rica is among the Central American countries we are most worried about, and we really think that they have to tackle the fiscal situation," said JD Bütifoker, head of emerging markets at Voya Investment. "If the growth outlook is weaker than expected, the government will have to cut spending more than expected, with all the uncertainties related to the ability of the government to cut public wages."

The central bank expects 2.6% economic growth this year, but some investors are sceptical. Other economists predict another weak year, at 2.2%.

"The fiscal reform is very difficult to implement because it directly reduces some of the [growth] benefits of powerful elements of the public sector," said Joydeep Mukherji, director of Latin American sovereign ratings at S&P Global. "It is going to be a challenge to meet the targets that are established in the fiscal reform."



Cubero: "fiscal reform will do the trick"

The fiscal deficit, and its impact on Costa Rica's debt dynamics and debt trajectory, was the biggest risk for the country, he added. "Costa Rica has not tapped the international bond markets (because it needs a two thirds majority in Congress to approve it). As a result, it had to roll over a lot of short term debt domestically and that has been spiralling," Mukherji said.

Costa Rica planned to issue up to \$4.5bn of bonds over three years, Bütifoker said, adding: "That would really alleviate the pressure on short term yields and the domestic bond market — but that depends on Congress approval."

CEOs huddle to unlock climate investment

By Jon Hay

The CEOs of Allianz, Bank of America, Citigroup, ICBC, Pimco and UBS are among 30 heads of big companies, especially financial firms, that have pledged to work together over the next two years to tackle the blockages that stop trillions of dollars of private investment flowing to poor countries.

The group, dubbed the Global Investors in Sustainable Development Alliance, is part of the UN's strategy for financing the Sustainable Development Goals. It was announced in April by António Guterres, the UN secretary-general. The launch was originally scheduled for the UN General Assembly in September but Guterres delayed it so he would have more time to spend with the CEOs.

"Even though we are starting with 30 members the goal is to grow it quickly," said Scott Mather, who heads Pimco's global sustainable investing work. "Already the firms have about \$16tr of assets. These are people we think can get at some of the market problems."

The UN says \$2.6tr is needed a year, just in developing countries, mainly for health, education, climate action and infrastruc-



Guterres: we need to solve climate barriers

ture. Its research indicates there is no shortage of private money that could be invested in sustainable development. "However, a combination of factors, including the policy environment, incentive structures and institutional conditions, tend to discourage the kind of long term commitment that is needed," the UN said.

"Especially from the largest institutional investors, we hear that there are great business opportunities in emerging markets, but they can't be accessed very easily," said Mather. "Sometimes you need an enabling regime in the country, or currency convertibility is a barrier. Sometimes there's a data problem or you need better disclosure."

The GISD aims to find solutions to these policy and institutional obstacles. It will have working groups on: increasing the supply of long term investment for sustainable development; realising SDG opportunities in developing countries; and enhancing the impact of private investment.

"The prospects are pretty huge," said Steve Waygood, chief responsible investment officer at Aviva Investors, another member. "As it is the US, it doesn't do regulation. What it does is convening and production of norms. The potential for the institutions around the table to think through what new forms of best practice could be, and then to lead by example, definitely exists."

Oliver Bäte, CEO of Allianz, and Leila Fourie, CEO of the Johannesburg Stock Exchange, are co-chairs.

"The beauty of it is it doesn't have to be a consensus agreement," said Waygood. "It can be the best ideas from the best brains in the world on sustainable finance."

Reforming barriers in the Basel III, Solvency II EU directives, and in stock market listing rules should be on the agenda, he said.

World Bank optimistic of \$80bn for IDA as big donors cough up

By Phil Thornton

The arm of the World Bank that works with the poorest countries, the International Development Association, is on track to secure at least \$80bn of financing for its next three-year round of investment, which begins in July next year, the official in charge of the negotiations has told *Global Markets*.

Akihiko Nishio, vice-president of development finance at the World Bank, said: "Judging by discussions with donors and client countries, we are on course to hit somewhere between the base case and the medium high, so somewhere between \$80bn and \$82bn."

If the negotiations succeed in pulling in \$80bn for the IDA19 replenishment, this will be as much money in real terms as the previous IDA18 round. Nishio said traditional donors such as the UK and US, which had been the largest and second largest donors to IDA18, had been supportive. "I am seeing a remarkable show of support from most donors, [although] I would not say all," he said.

IDA19 will include an allocation of \$2.5bn to IDA's private sector window (PSW), the same as for IDA18.

Launched in July 2018, the PSW is intended to attract private capital into fragile states. Nishio said that IDA has only committed \$700m from 2018's \$2.5bn.

However, that \$700m of investments has been accompanied by another \$1.6bn supplied by the International Finance Corp, the Bank's arm that works with the private sector, and its Multilateral Insurance Guarantee Agency. PSW has leveraged a further \$1.7bn from other investors including from the private sector. That means the \$700m of PSW money has helped mobilise a total of \$4bn of investment.

Nishio said he doubted IDA could allocate all the \$2.5bn before the deadline of June 2020 because of the time and effort needed to get the innovative facility up and running, although he believed it would commit 90%, or about \$2.25bn.

There is a large pipeline of projects waiting for review. "The pace of delivery has accelerated significantly," he said. "Each PSW project comes to my desk, so I can sense how rapid the number has been and it's been pretty incredible."

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Waiting for Malpass to reveal his true colours

Six months into the job, David Malpass has had an easy ride. But life is about to get harder for the new World Bank chief as he goes into his first annual meetings

By Phil Thornton

In the Sherlock Holmes story, Silver Blaze, the famous detective solves a murder mystery by observing the curious incident of the dog in the night-time. The fact that the dog did not bark reveals that the pet knew the house burglar.

Six months ago, emerging market policymakers, aid agencies and World Bank employees were braced for David Malpass, the newly appointed head of the multilateral to follow the lead of his effective appointee, US President Donald Trump, and get his teeth into the bank.

But as ministers and central bankers gather in Washington, D.C. for Malpass's first annual meeting as president of the bank, they are aware there has been little bark and not much of the bite they had been fearing. Perhaps he was not the attack dog they had feared.

"We were right to be concerned when Mr Malpass was appointed because there was

evidence he might be more active in areas such as climate change and the environment," says Paul Cadario, a distinguished fellow at Munk School of Global Affairs and Public Policy at University of Toronto, who worked at the bank for 37 years. "He is not quite as awful as everyone was concerned he would be, given who nominated him."

Malpass took an early stand on climate change, indicating there would not be a reversal of the bank's strategy to help poor countries address climate change by investing in projects to adapt to and mitigate its impacts.

He also ruled out any plans to mirror Trump's policies to boost the coal industry by funding fossil-fuel energy plants. "The World Bank board and the governors have established a policy on that. I don't expect a change in that policy."

SO FAR, SO... QUIET

Given that Trump has called climate change a "hoax", withdrawn the US from the Paris

accord signed by all other countries, and in 2012 accused the bank of being "ineffective" by tying poverty to climate change, Malpass' quiet acceptance of the bank's position is significant.

Another area where observers had feared that Malpass would be an enforcer of the Trump agenda is China, with Malpass perhaps coming under pressure to allow the bank to be used as a weapon in the unfolding trade war.

After a meeting with Chinese premier Li Keqiang in June, Malpass praised China for its economic growth and development that had helped to lift a large number of people out of poverty. Malpass said he looked forward to co-operation with China in multiple fields on bilateral and global scales to achieve mutually beneficial and win-win co-operation and promote global development.

The third area of inaction that has been strongly supported — particularly by bank staff — is the lack of a major reorganisation of the institution that incoming presidents tend to order.

His predecessor Jim Yong Kim embarked on a shift from a focus on country-by-country issues to the creation of 19 global practices on issues ranging from agriculture to water that cut across national boundaries and pre-existing managerial responsibilities.

Masood Ahmed, president of the Center for Global Development (CGD) thinktank, says that the first six months of Malpass's presidency had not been like that of Kim who "set the bar" for reorganisation.

"He is low key in his engagement with people," Ahmed says. "He's willing to learn,

Stepping up

David Malpass introduced by president Donald Trump at the White House and in Ethiopia in May.

and he's quite interested in rolling up his sleeves and sitting down. What I gather from talking to people who work inside the institution, they're all like, 'you know, he is much easier to work with'."

ANOTHER CAPITAL INCREASE?

In terms of what he has done, Malpass impressed observers with his decision to make Africa his first overseas visit as president, travelling to Ethiopia and Madagascar to visit bank-funded projects before going to Mozambique where he took a tour of the areas worst affected by cyclone Idai.

Following the trip, the bank mobilised more than half a billion dollars in new resources to help people in Mozambique, Malawi, and Zimbabwe.

But the blank section in his record so far is what his agenda will be for his five-year term. "He doesn't have the big vision thing and there is not much vision among senior people at the bank," Cadario says.

This has allowed interested parties to fill in the blanks. For Amar Battacharya, the former director of the Group of 24 countries and now a senior fellow at the Brookings Institution, Malpass has an opportunity to change the whole narrative around development economies.

He identifies a "once in history moment" for the bank and other development institutions to scale up their investment to meet the challenges of the UN's sustainable development goals (SDGs) and what he calls the "existential threats to the planet".

"The World Bank may no longer play a dominant role, but nevertheless, [it has] a quite central role and has to be part of that challenge," he says. "The world needs to invest more in the next 20 years than we would normally do in a century because of the need to restructure the existing capital stock, and the huge structural changes that are now underway in emerging markets and developing countries, particularly around shipping, urbanisation and connectivity."

Battacharya warns that such a programme will necessitate Malpass going back to the Bank's shareholders for a further capital injection, just a couple of years after he helped negotiate a deal while he was at the US Treasury. That will see the capital of the International Bank for Reconstruction and Development (IBRD), that lends to middle income countries, raised by \$61.1bn from \$268.9bn to \$329.0bn. The capital of the International Finance Corporation, which encourages private sector investment, will be raised by \$5.5bn.

Although all member countries have approved the move, it needs the US to pass a law enacting the increase and the legislation is currently stuck on the Hill.

The Treasury needs to send the plan to Congress where it is likely to receive a hostile reception from the Democrat-controlled Committee on Financial Services.

"The bank has critics along the left and right of the political classes in the United States and that will have to be dealt with because the capital increase is needed particularly if there is going to be a global recession," Cadario says. "It would allow the bank to respond if access to credit is somewhat reduced."

'OWN GOAL'

However, the capital increase comes in exchange for a shift in focus for the IBRD away from lending to middle-income countries such as China, India and Brazil and more towards poorer countries by using income-based country lending allocation targets and differentiated loan pricing i.e. higher for richer countries.

Although that fits with a Trumpian view of the world, outside observers believe Malpass will have to revisit it. Ahmed at CGD points out that most of the decisions on infrastructure investments over the next two decades to tackle climate change will be in middle income countries.

"For the World Bank to sit out those decisions rather than being a player and trying to influence them through active engagement and through financing of the right kinds of project choices seems to me to be a sort of own goal of historic proportions," he says.

Particularly at a time when Chinese-funded development institutions such as the Asian Infrastructure Investment Bank (AIIB) and the New Development bank are investing in traditional infrastructure such as rail lines and ports, the World Bank should focus on looking at how the global public goods dimension is fed into the middle income relationship, Ahmed believes. "They should certainly not

think of this as pulling back in a numerical sense," he says. "I just don't see the logic of it."

Of course, this debate over the role that the World Bank should play in global development, which has been rumbling on for some 15 years, is no closer to being resolved.

It will continue to engage with the IDA countries and particularly with countries affected by fragility, conflict, or violence that lenders such as China are less keen to lend to. "But the bank needs some customers other than those," Cadario says. "Does the bank get pushed into being lender of last resort for countries that others don't want to touch? Is that a sustainable business model?"

On the eve of the meetings, Malpass gave a strong indication he will focus on countries rather than dealing with what economists call global public goods such as climate change mitigation, financial stability, security, and public health — Jim Kim's agenda.

"Structural reforms are needed country by country in order to allow growth to really pick up," he said at the Peterson Institute for International Economics. "What can developing countries do? Well-designed structural reforms are urgently needed to unlock barriers to growth and build the foundations for future prosperity."

This may disappoint observers such as Ahmed who believe that development priorities need to move towards a regional and global agenda. "I would say that the opportunity for the World Bank is to say how it is going to ensure that the development community is able to contribute to and be part of that agenda."

Battacharya is optimistic, saying he believes Malpass has signalled he does understand the climate agenda and its importance now. "But whether he has fully internalised the scale and urgency of the challenge and the need — whether he recognises that we can't wait till 2021 and 2022 — that I don't know." **GM**

“what they say



"Has he fully internalised the scale and urgency of the challenge and the need — whether he recognises that we can't wait till 2021 and 2022 — that I don't know."—Ricardo Zemella, ING



"He doesn't have the big vision thing and there is not much vision among senior people at the bank"
—Paul Cadario, Munk School, Toronto University



"For the World Bank to sit out those [climate change] decisions rather than being a player and trying to influence them through active engagement and through financing of the right kinds of project choices seems to me to be a sort of own goal of historic proportions"
—Masood Ahmed, the Center for Global Development

Brazil back on the dancefloor

Top policymakers have vowed to mend and open up the economy of the Latin American giant.

GlobalMarkets speaks to economy minister Paulo Guedes and central bank governor Robert Campos Neto

Exclusive GM interviews



By Thierry Ogier

“Brazil is getting out of rehab while the world is getting in it. We are going to recover our own internal dynamics”

—Paulo Guedes, economy minister, Brazil

Mending the Brazilian economy following the destabilising corruption scandal at Petrobras and years of recession followed by anaemic growth is a tall order.

Trying to create a new momentum in the midst of a global slowdown looks even more challenging.

But Paulo Guedes, the financial investor whom president Jair Bolsonaro picked to be his economy minister, is confident that his mix of structural reforms and liberal policies will put the economy back on track.

“Brazil is getting out of rehab while the world is getting in it. We are going to recover our own internal dynamics,” Guedes pledges in an exclusive interview to *Global Markets*.

“It is a shame we have to operate against a background of global slowdown, but we will keep on seeking higher grounds of global trade,” he adds. Brazil, which has a very closed economy, is now determined to open up — and this is a positive message to the world, in spite of the rising tide of protectionism and de-globalisation, he reckons. “Globalisation used to be a win-win combination. Now due to a synchronised economic slowdown, there is no win-win anymore and trade wars have come to the surface,” says Guedes. “The US and China were like Siamese twins, they used to dance cheek to cheek for years, but they have started to fall out with each other. However, we in Brazil want to dance with both of them. We will actually dance with

all of them: the Americans, the Chinese, the Europeans, the Argentines... before we have not been dancing at all in the past 20 years while everybody was dancing.”

Guedes has vowed to globalise Brazil’s economy and integrate it in global value chains. “We have done more in eight months than previous governments have done in decades,” he says, in a reference to the free trade deal between Mercosur and the European Union. The approval of the pension reform, the cornerstone of his strategy to curb the fiscal deficit, is expected to be completed in the senate this month. “We approved a reform which paves the way to twice as much savings as what the previous government had planned,” he says. The pension overhaul is expected to lead to a cut of some \$220bn in public expenditures over 10 years. This, in turn, will help rein in the budget deficit.

GUEDES’ AGENDA

Guedes, a staunch critic of “social democrats” who have raised taxes and increased public spending over the past 20 years, now says: “I’d rather do the right thing!” And he is adamant that policies are already moving in the right direction. Tax reform, which will simplify a nightmarish and costly system for companies, is next. Other measures to boost “economic freedom”, according to the government, have been voted in (including measures to open businesses and cut red tape). Guedes has also vowed to implement a “fast track” privatisation of state-owned

companies, including sanitation companies and the electricity holding company Eletrobras. He is also a staunch defender of the privatisation of the oil giant Petrobras, in spite of President Bolsonaro’s reluctance. Meanwhile, Guedes is also preparing to grant the central bank its formal independence (it currently has an autonomous status).

So far, though, Brazil’s growth performance has been disappointing. GDP, which expanded by a mere 1% in 2017 and 2018 following two years of a deep recession, may only grow 0.8% this year, according to official forecasts. “In addition to the challenging international environment, Brazil cannot count on any fiscal stimulus,” notes José Carlos Faria, head of Latin America economic research at BNP Paribas in São Paulo, which has forecast an even poorer performance for the Brazilian economy, expecting economic growth at just 0.5% in 2019.

PERESTROÏKA WANTED

The return to sustainable economic growth, warns Guedes, may take several years due to the damage that has been inflicted on the economy. He argues that momentum has been lost after decades of state intervention and uncontrolled public expenditure. “This is what excess of public spending does. The lack of control of public spending has corrupted the Brazilian democracy and has led to stagnation. Growth has been destroyed along several decades,” adds Guedes, who often says that Brazil had its “glasnost” when the country returned to

Team Brazil

Roberto de Oliveira Campos Neto, president of the central bank and economy minister Paulo Guedes

“*The net effect of the slowdown in the global economy and the easing of global financial conditions on the Brazilian economy seems to be positive*”

“Reforms should mitigate the risk of episodes of large risk premium increases, as witnessed in 2018”

—Robert Campos Neto, governor of the central bank of Brazil

democracy in the 1980s, but it has yet to achieve its “perestroika”.

“We succeeded in transforming a politically closed regime in a politically open regime. But we failed to transform a state controlled economy into a market-driven economy. This was our failure,” he says.

The 70-year-old minister is ready to rise to the challenge.

STRUCTURAL ISSUES

But why is economic growth structurally low? “Brazil is like a harpooned whale,” he says. “Now, you have to remove the harpoons. Take one out (the whale will move a little bit), take two out... This is what we are doing: open the economy, simplify tax, control public expenditures instead of blowing the budget. Growth will come!” he insists.

There have already been some encouraging signs from the financial markets. “We have the lowest inflation rate and the lowest interest rates in the past 30 years,” he says. “We have been tapping the debt markets with long term maturities. The Brazil risk is now back at the level it used to be when Brazil was investment grade. We have issued 10 year sovereign bonds. The corporate credit market has also issued long term loans, which did not use to happen anymore.”

Public debt servicing costs have been falling since the beginning of the year. And they are likely to fall further if Guedes manages to push his reform agenda forward. Investors may indeed need a bit more patience to see Guedes’ policy pay off. **GM**

Robert Campos Neto, governor of the central bank of Brazil, tells *GlobalMarkets* how Brazil is dealing with global uncertainties



What is the impact of the trade war between the US and China and how can Brazil position itself to prevent any collateral damage?

There is still great uncertainty about what the final outcome of the trade dispute between the USA and China will look like — how much tariffs will rise, which products will be affected, how global supply chains will adapt. It is also unclear how long it will take for some kind of deal to be reached.

Another important element we should closely monitor is the dynamics of investments. Until recently there was a view that changes in global value chains and trade disputes would affect investments more strongly in some countries and less in others, depending on the degree of openness of their economies. However, subdued investments have been observed worldwide, which means that investors in all economies

are waiting for uncertainties to dissipate before putting their investment plans into practice.

The dispute may affect the Brazilian economy through multiple channels. Higher bilateral tariffs may increase demand for Brazilian exports, but a further slowdown in global growth may compensate this direct effect.

Apart from the trade channel, the immediate impact of the trade dispute seems to be a response by some central banks in advanced economies towards a more accommodative monetary policy stance, which is partially compensated by higher volatility and risk aversion.

Brazil has strong fundamentals, such as a robust balance of payments and international reserves that amount to approximately 20% of GDP. But the Banco Central do Brasil (BCB) has repeatedly emphasised the importance of the continuation of the process of reforms and adjustments, especially

those that contribute to the sustainability of fiscal policy. These reforms should, to some extent, mitigate the risk of episodes of large risk premium increases, as witnessed in 2018.

There has already been a slowdown in global trade and there is also a threat of recession on the horizon. What is the impact of all this on the Brazilian economy?

When analysing the effects of the current global scenario on our economy we have to contrast the strengths of two forces: the trade channels and the financial linkages. The Brazilian economy is relatively closed to international trade. Therefore, the impacts of global activity on the Brazilian economy through trade is usually low. In contrast, the financial channels are more important: they operate rapidly and with stronger effects.

Therefore, the net effect of the slowdown in the global economy and the easing of global financial conditions on the Brazilian economy seems to be positive.

However, geopolitical problems and the trade tensions may contribute to lower growth in important commercial partners and an even lower global growth, which would increase the impact of global activity on the Brazilian economy through trade channels. Uncertainty and lack of confidence generated by the trade disputes may also compro-

mise capital inflows.

Would you say such an environment is benign or challenging?

We believe the global outlook is benign for emerging markets. Central banks of several economies — some major economies included — have provided additional monetary stimuli, which contributed to easing global financial conditions.

Nonetheless, it is important to notice that, although negative rates have been a positive experience in stimulating growth and sustaining inflation, the space for monetary policy interventions in those economies is being reduced, and now it seems to be time for the fiscal policy to take charge, as recently stated by the president of the ECB, Mario Draghi.

On the other hand, most emerging market economies, as it is the case for Brazil, face a different situation and the monetary policy is still effective while space for fiscal actions is reduced.

Therefore, as the risks associated with a slowdown in global growth remain, economic policy and geopolitical uncertainties — notably trade disputes and geopolitical tensions — may contribute to even lower global growth. Given the risks still present in the external scenario, it is important for Brazil to continue advancing its agenda of reforms and adjustments. —T.O.

Read the full version of the interview on: www.globalcapital.com/globalmarkets

EIB 2019: PARIS ALIGNMENT

Spearheading alignment with the Paris Agreement

With its push to embrace its role as the European Union’s climate bank, the European Investment Bank is set to play a key part in the alliance of multilateral development banks committed to fight climate change

There were mixed verdicts on what was achieved at last month’s UN Climate Action Summit. But few are challenging the extraordinary momentum that propelled more than 100 world leaders to join campaigners, civil society groups and the world’s private and public financiers to make their collective pledges in New York in the battle against global warming.

Among those to join the gathering were the world’s multilateral development banks. The MDBs confirmed their collective effort with an announcement on how they would optimise the impact of their climate finance through partnerships with private investors and other financial institutions.

Emma Navarro, the EIB’s vice president responsible for climate and environmental policy and who was in New York, says: “The role of the world’s multilateral development banks is absolutely crucial here.

“In terms of climate finance, we have committed to at least \$175bn of climate financing by 2025 — \$40bn of that will be mobilised

from private sector investors. But in addition, the EIB and our partner MDBs have announced that we will also establish a common framework by COP25 with principles to help our clients deliver on the long term goals of the Paris Agreement.

“Just as it is clear that no one institution can do it alone, it is also abundantly obvious that the public and private sector need to work hand in hand. Longer term planning, building and strengthening partnerships that improve support for our clients is crucial.

“Without that long-term vision it is hard for public or private entities to take the necessary transformative climate action. Our approach is designed to help our clients to put in place long-term, holistic strategies to accelerate the transition to low carbon and climate-resilient development which is required.”

Climate finance and engagement with clients are key parts of MDB Paris Alignment, agreed last December at COP24. This was a notable milestone on the journey towards alignment with the Paris goals. Describing the



Werner Hoyer, president of the EIB: “We aim for climate in everything we do”

global development agenda as being at a “pivotal point”, this joint declaration announced a framework that the world’s nine leading MDBs would use for their joint approach on Paris Alignment, broken down into six areas, or so-called building blocks.

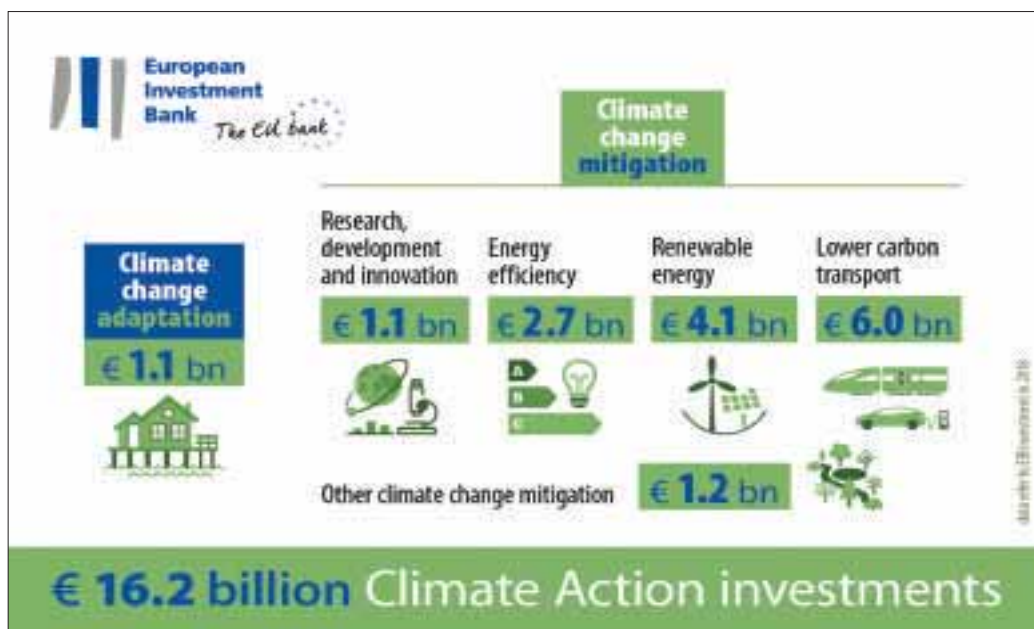
But the EIB is setting itself even more ambitious goals.

As President Hoyer announced at the summit in New York, the EU bank, which is owned by the 28 EU member states, stands on the verge of a radical push to embrace its role as the European Union’s climate bank.

From the General Assembly hall he said, “The incoming President of the European Commission Ursula von der Leyen said she wanted the EIB to be the climate bank. We have been a climate bank for 30 years. We were a driving force behind the multilateral development banks’ commitment in Paris four years ago.

“There, we pledged that more than 25% of EIB activities are in precisely defined climate action. We delivered on that, we are now at 30% and we are proposing to our shareholders to increase that share for climate and environmental goals to 50% by 2025.

“This is extremely ambitious, but we are not stopping there — we need to look at the other 50%. So we will also align all the EIB Group’s financing activities with the goals of the Paris Agreement. That means projects that are not directly linked to climate must not contradict our climate ambitions. We aim for climate in everything we do.”



CLIMATE PIONEER

Hoyer and his team believe that by setting more ambitious timelines than other MDBs and IFIs, the EIB Group will be fully aligned with the Paris goals by the end of 2020.

One reason for that confidence is that well ahead of the Paris Agreement, which was ratified in 2016, EIB had established its credentials as a pioneer in the battle against the harmful impact of global warming.

Nancy Saich, the EIB's chief expert on climate change, says: "Our approach even before Paris laid out clearly, via our 2015 Climate Strategy, that our lending policies should be underpinned by EU policies and also support a pathway to a low carbon world, based on the very latest scientific knowledge and on best practice.

"Putting this low-carbon approach together with the other commitments we made in 2015, which included risk screening to enhance the resilience of all our projects, show we are in a strong place to leap forward to higher climate ambition."

Another factor behind the Bank's confidence is the work undertaken over the last three years on climate resilience, culminating earlier this year in the launch of the EIB's new climate risk assessment tool which screens all new investment projects for their physical climate risk.

WHAT IS ALIGNMENT?

But it is clear that alignment on climate change still signifies different things to different people. This in turn means that there is still work to be done if MDBs and other international financial institutions (IFIs) are to conform to Article 2.1c of the Paris Agreement. This breaks new ground by calling for all finance flows to be "consistent with a pathway towards low greenhouse gas emissions and climate-resilient development".

In many cases financial institutions originating or intermediating these flows need to go much further to address the challenge of climate change than individual governments have indicated through their nationally determined contributions (NDCs).

These are defined by the UN as "efforts by each country to reduce national emissions and adapt to the impacts of climate change." But as the United Nations Development Programme/UN Framework Convention on Climate Change (UNDP/UNFCCC) cautioned in a report published last month¹, existing NDCs set the world on track for a rise in emissions of about 10.7% above 2016's levels by 2030. This, adds the report, is "starkly at odds with the UN Secretary General's calls for deep cuts".

NDCs are generally at their weakest in developing economies where, according to the UNDP/UNFCCC analysis, the most critical factor

limiting raised ambition in this regard is "access to or availability of finance". The UNDP/UNFCCC reports that global climate-related finance flows still fall "well short of the needs for a cleaner and more sustainable future," adding that many developing nations say their NDCs are conditional on finance.

BLUEPRINT FOR ACTION

The EIB's Climate Strategy — currently under mid-term review — pledges to act as a pioneer in the international capital market by developing "innovative climate financing solutions, addressing market failure and seizing opportunities to attract private finance".

The strategy also pledges to "build on the solid success of our Climate Awareness Bonds to spur further sustainable growth of the green bond market".

The EIB has spearheaded the development of this market, issuing close to €26bn in green bonds — focussed entirely on climate change mitigation actions — in 13 currencies since the launch of its ground-breaking inaugural transaction in July 2007.

But as Hoyer acknowledged last month, plenty needs to be done if this relatively new instrument is to fulfil its potential. Although the market for green and sustainable bonds has recently broken through the \$800bn mark, Hoyer conceded that this progress "pales" in the context of a global fixed income market of around \$100tr. "Saying that there is room for improvement is a clear understatement," he added.

A key theme addressed by the MDBs' joint declaration is reporting and transparency, both on the greenhouse gas emissions of the projects they support and on the progress they are making towards alignment with the Paris goals. "We will further develop tools and methods for characterizing, monitoring and reporting on the results of our Paris-alignment activities," the declaration says.

And in New York last month, the MDBs also announced a transparency framework for this reporting. EIB is very keen to see this work develop as they have been at the forefront of IFIs assessing and publishing global greenhouse gas (GHG) emissions data from investment projects.

"It's vital we assess and report not only on estimated savings of greenhouse gas



Emma Navarro, EIB vice president: "We have committed to at least \$175bn of climate financing by 2025 — \$40bn of that will be mobilised from private sector investors"

emissions, but also the amount of GHG emissions going into the atmosphere," says Saich. "These 'absolute' emissions are what is actually changing the climate — and yet most institutions still aren't reporting that."

But there is one area not explicitly mentioned in the MDB's declaration. This is the commitment to the concept of a 'Just Transition'. Navarro believes this is fundamental. "We believe that the six building blocks in the MDBs' declaration give us what we need to guarantee alignment with the Paris goals which we at the EIB aim to achieve by 2020. But we do see support for the Just Transition as being a vital part of MDB support for long-term strategies.

"It is essential that decarbonisation is complemented by initiatives promoting job creation and new economic activities in the regions and communities most affected by climate action."

"Without this support, we would risk inciting further unrest against measures to protect our climate, such as the *gilets jaunes* movement we have seen in France. This is why we are already supporting our partners in vulnerable regions to address the social impact of decarbonisation."

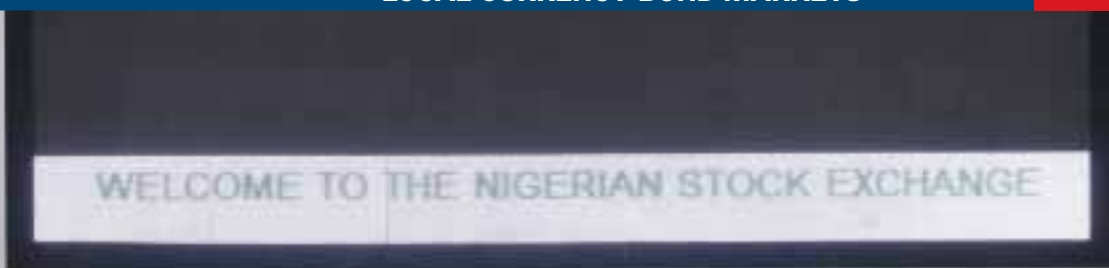
Aligning all the financing activities to the Paris Agreement in an organisation signing around €73bn of investments a year is an eye-watering task. Not least with a deadline of just over a year from now. But this is work that has been underway for some time in Luxembourg where the EIB is headquartered.

The Paris Agreement itself says that all financial flows have to be aligned with its temperature and resilience goals: no MDB can avoid that, and certainly not the biggest global multilateral. ●

¹ *The Heat is on: Taking Stock of Global Climate Ambition* – UNDP & UNFCCC, September 2019



Morocco: The Ouarzazate solar power complex supported by the EIB



Unlocking the global investor base for local EM bond markets

Jingdong Hua, the World Bank's treasurer, has got a plan to get the world's largest investors involved in local currency bonds markets

By Lewis McLellan

“
When I left China in 1990, there was no real bond market. Today, it's over \$13tr. Africa as a continent is similar in size to China. Could that be another \$13tr of investible assets?”

— Jingdong Hua, treasurer of the World Bank

Multilateral development banks with big annual funding programmes to fill must constantly search for innovative ways to unlock new sources of cash. Local currency bond markets are an important niche for these borrowers — but they remain just that, a niche. However, some treasurers are hoping to change that.

Funding outside the core markets of dollars, euros and sterling has traditionally meant compromising on size. And with volatile global markets, it often feels to treasurers and funding heads as though there are only scant windows available in which they can issue to meet their ambitious annual funding targets.

Local currency bond markets will never be able to compete for scale with the almost infinite appetites of core markets. And, even if a supranational could raise a full benchmark-sized bond in a local currency, it might not be the most prudent move. Supnationals must be careful not to flood the local market, soaking up too much cash that could otherwise be invested in local issuers. A triple-A credit printing the equivalent of \$500m in a local currency could easily swamp the market and leave little appetite for the nation's sovereign bonds.

With limited size and liquidity available, some investors are put off from participating. But Jingdong Hua, treasurer of the World Bank, thinks he has a solution. He wants to offer big investors exposure to the performance offered in small size by local currency markets.

When Hua worked as the treasurer of the International Financing Corporation (IFC), he was part of the team that developed the Managed Co-lending Portfolio Programme (MCP) — a syndicated loan platform that offered global investors exposure to a variety of emerging market loans products.

The product raised \$8bn from eight investors, including \$3bn from the People's Bank of China. The scale of investments involved would normally rule out exposure to the size of instruments available from emerging markets borrowers. “Trillion dollar investors simply don't want to play in really small sizes,” says Hua. “The MCP is a way of solving that problem. Investors don't need to look at individual project risk, but at the portfolio level.”

Hua believes the same thing can work in the bond market. He envisages issuing a whole series of local currency bonds, in perhaps 50 different currencies, then constructing a basket product providing exposure to the performance of the whole series of bonds as a single product.

The World Bank's triple-A rating gives investors the confidence that they will get their capital back and, while investing in a single niche currency leaves investors' exposed to the vicissitudes of a small and vulnerable economy, with a basket of 50 assets, that risk is diffused through the portfolio.

And, while the dollar has gone from strength to strength against many emerging market currencies this year, even a depreciation across the whole portfolio will not necessarily spell disaster for investors.

As with many of World Bank's local

currency bonds, the basket could carry a far more generous yield than investors would receive on World Bank core currency bonds. While this yield is meant to compensate investors for lending in a currency that could depreciate, Hua feels it is a risk worth taking. “You might buy a five year World Bank local currency bond with an 800bp pick-up over our dollar curve. Even if the currency depreciates by 40% over the life of the bond, you'd still get the same return as if you'd bought a dollar bond, as there is no credit risk with World Bank's triple-A ratings,” Hua points out.

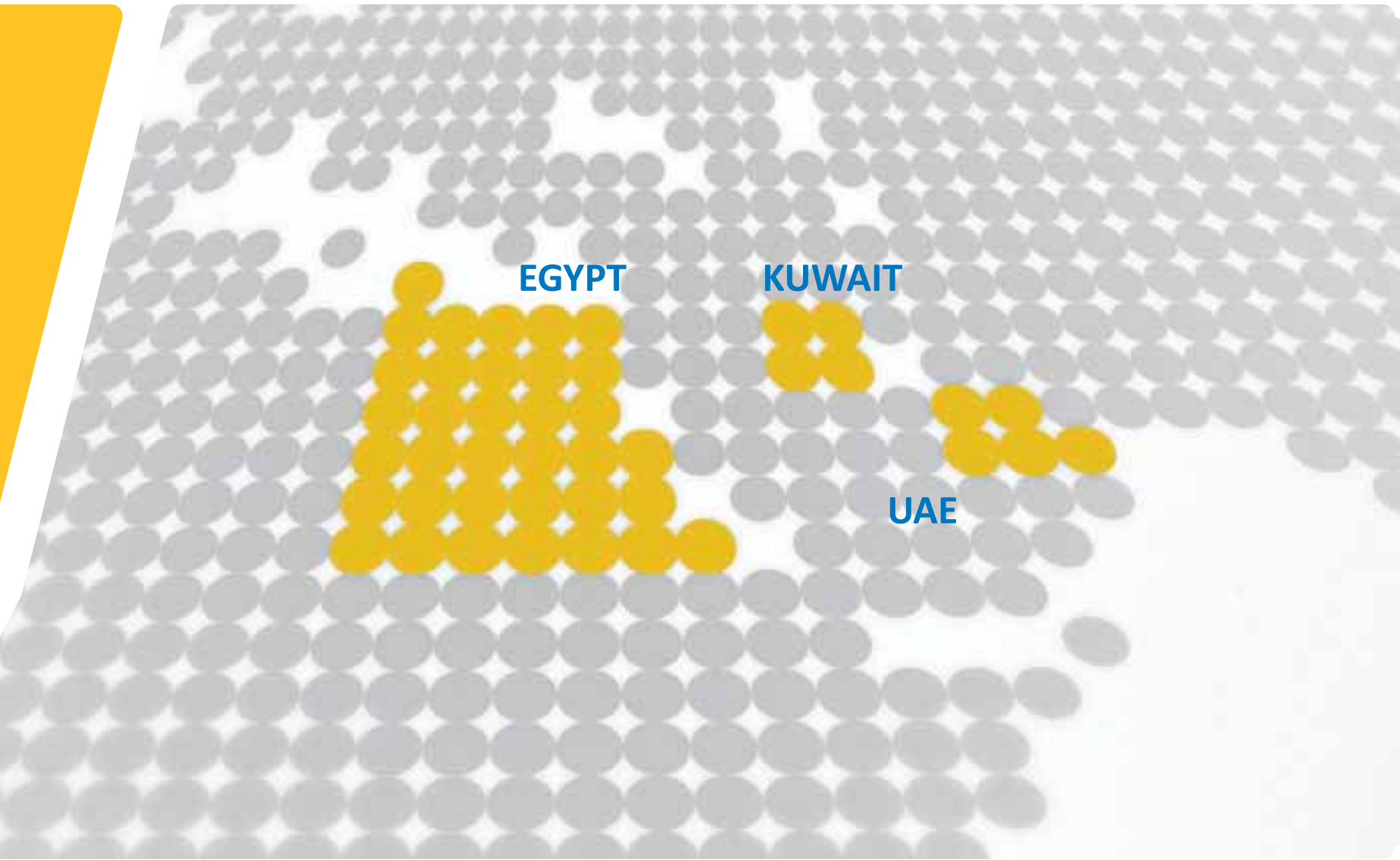
The concept, if successful, would unlock funding from the bulge bracket investment funds, offering them exposure to World Bank local currency bonds. Many such funds are constrained by their mandate from venturing outside core currencies, or would simply be put off by the size and illiquidity of such products on an individual basis.

With rates creeping down ever lower in developed markets, investors may soon be forced to look at opportunities outside core markets.

GLOBAL RETAIL BONDS?

At the other end of the spectrum are retail investors. Individual savings are a resource almost completely untapped by multilateral development bank bonds.

Hua envisions global retail bonds: bonds available to retail investors all over the world in any one of a hundred or so currencies. The world, as Hua points out, is full of diasporas. Many people in the developed world whose families hail from developing nations



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Man with a plan
World Bank treasurer
Jingdong Hua

would jump at the chance to finance development projects in their 'home' currency.

Millennials as a generation care deeply about development finance — their savings are growing and, as yet, almost untapped. The equivalent of a thousand dollars from a few million millennials around the globe could form a huge part of the World Bank's funding needs, should the idea become a reality.

This idea is something of a dream project for Hua. By his own admission, bringing it to reality would require fundamental changes to market infrastructure, not to mention the regulatory

approvals required.

But the rewards for the World Bank of creating such a tool would be superb. While core markets are at present unmatched for the ease with which they provide high volumes of funding, the clients of multilateral development banks want to receive funds in currencies they can use.

That leaves supranationals with two options. Firstly, they can borrow money in core markets and then use the FX or cross-currency basis swap markets to obtain a cash-flow in the target currency, which they can lend to their clients. Or secondly, they can raise the money directly in the local currency, in which case the cost of funds does not matter, because the funds are on-lent at a spread.

TRICKY METHODS

Neither method is entirely simple. Relying on the swap market to find local currency funds can be tricky. "It can be difficult to find quotes in the swap market when you need them," says Nathalie De Weert, head of funding — public markets, at the European Investment Bank (EIB). "Getting the swap of the right tenor when you need it could be a challenge when the swap market isn't deep enough. In that case, having access to the local market for issuance is an advantage. That's the reason why we have developed benchmark issuance in Polish zloty, a currency in which EIB has a lending activity."

Isabelle Laurent, head of funding at the EBRD, agrees: "We don't take currency risk in our loans, so we have to borrow in the currency or hedge. The latter is not always possible."

Under such circumstances, supranationals traditionally turn to the local market.

However, Hua's global retail bond idea could provide a huge source of funding denominated in the currencies in which it would be lent.

The approach is an extension of the classic supranational approach to local currency markets: enticing international investors to buy high quality multilateral development bank paper in a local currency. "Many low income countries, particularly in sub-Saharan Africa, have limited domestic savings," says Hua. "Banks take the savings and buy government treasury paper when its coupon rate is double digits, so there's little lending to the private sector. We don't want to come in and make that worse. We like to issue on the local market eventually, but the first step is to bring in international investors."

International investors enticed into local currency supranational paper often go on to participate in the local markets themselves.

MATURITY MISMATCH

Another potential problem when sourcing local bonds is the mismatch in appetite for maturity. Loans from development banks tend to be long term. Development projects require long term investment and those buying local currency bonds, whether domestic or international investors, typically prefer to invest on a short term basis.

Building up a curve requires sustained engagement over a long period. The IFC's Masala bond programme is a typical example. "We had to start somewhere," says Jingdong Hua, referring to his time as IFC treasurer. "It took several years to create, but now that market has bonds from three years all the way out to 15 years."

The EIB's relationship with the Polish zloty market is another example where a supranational has raised funds for local lending but, by doing so, has kickstarted a local capital market, which now contributes to Polish economic development.

Much of the funding conducted by supranationals outside of their core markets is not lent on in the currency, but is swapped back to their home currency. At certain times, issuers will be able to swap local currency funding back into dollars or euros inside their curves but at other times, the balance will have shifted and that door will be closed.

"When we look at the higher middle income countries — Brazil, Mexico, India, Chile et cetera — these have pretty robust capital markets," says Hua. "It's useful for us to issue there because it offers a different source of funds, and it's helpful for the market to have a range of top quality credits."

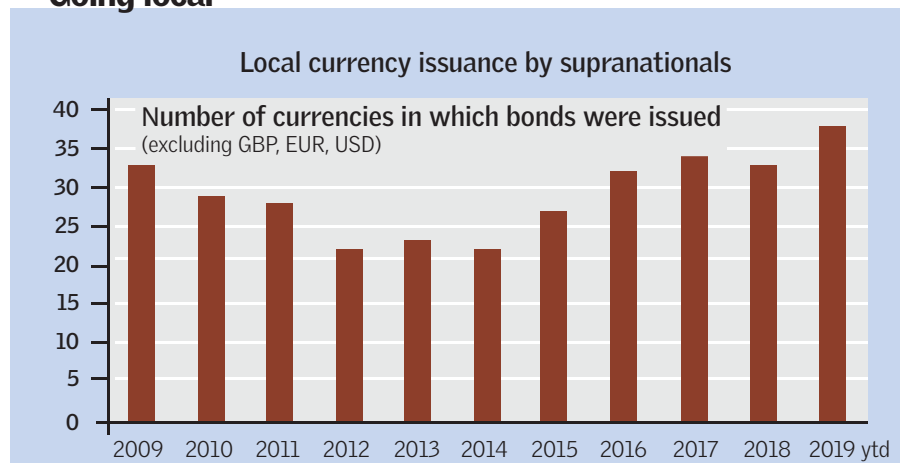
Local currency funding is valuable beyond its use as a means for issuers to get hold of cheap dollars. Hua calls that kind of funding "a nice to have", but says that it doesn't "fundamentally change anything in the market".

Hua would like supranationals to take a more ambitious approach to their local currency funding. Of course, swapping proceeds back to core currency inside a funding curve will always be an attractive option.

But borrowing money in the currency in which it will be lent offers the chance not just to save on funding costs but to make borrowing as well as lending part of the development effort.

"For investors above a certain size — the global asset owners with trillions under management — generating alpha ahead of the market is essentially impossible," says Hua. "Their opportunity to really generate large scale returns can only come from the world systematically developing. When I left China in 1990, there was no real bond market. Today, it's over \$13tr. Africa as a continent is similar in size to China. Could that be another \$13tr of investible assets? It behoves international investors to be looking for these opportunities and for ways to bring them about." **GM**

Going local



“Getting the swap of the right tenor when you need it could be a challenge when the swap market isn't deep enough. In that case, having access to the local market for issuance is an advantage”

—Nathalie De Weert, head of funding, public markets, European Investment Bank



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QATAR: A new era of growth

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Forging a new path for growth

Qatar's economy is in expansion mode, with diversification and investment underpinned by the government's ambitious Vision 2030 strategy.

Qatar's economy is charting an ambitious growth course, building on the positive momentum of the past two years when its inner resilience was reaffirmed under a diplomatic and trade embargo imposed in 2017 by some regional states.

Economic prospects look healthy in 2019. Qatar's Planning and Statistics Authority is anticipating real GDP growth averaging 2.8% between 2018 and 2020, amid rising spending on major projects – expected to rise by 15% this year. Economic growth has also been given a boost by the government's 2018-2022 National Development Strategy, which envisages a greater role for the private sector.

Meanwhile, foreign capital inflows have returned to the pre-2017 levels, while Qatari banking liquidity has improved. Official reserves suggest the position returned to pre-embargo levels; foreign exchange reserves rose to reach \$38.9 billion in August 2019.

The public finances have also recovered since 2017. The country's budget remains firmly in surplus territory, expected to reach QR 4.35 billion (\$1.19 billion) in 2019, despite some substantial spending commitments.

The ongoing realignment of Qatar's trading relationships since 2017, with Turkey and Iran figuring more prominently in its commercial routes, has helped the country to overcome some of the punitive measures imposed on it.

The IMF, in its Article IV assessment of Qatar's economy released in June 2019, noted that GDP growth could reach 2.6% this year, a rise on 1.5% in 2018, thanks to an underlying recovering in the hydrocarbon output and still robust growth of the non-hydrocarbon sector.

The projected non-hydrocarbon growth for 2019 reflects the lingering multiplier effects



of sustained increases in capital expenditures in the last few years, the gradual pace of fiscal consolidation, ample liquidity, and increased private sector activity, notes the Fund.

Medium-term growth will be supported by increased gas production from the Barzan natural gas field, a planned increase in liquefied natural gas (LNG) production capacity by 40% to 110 million tonnes a year with the addition of four LNG trains by 2024. The Barzan gas production facility, valued at \$10bn, is to be commissioned in 2020, and will boost gas production by 2 billion cubic feet a day.

The government's fiscal policy is regarded by the IMF as an appropriate monetary anchor, and sound financial regulation and supervision frameworks and considerable buffers continue to underpin strong macroeconomic performance. Increased gas production, a slower pace of fiscal consolidation, infrastructure programmes and adequate credit growth will underpin growth over the medium

term.

Going forward, Qatar's private sector is poised to take a more prominent role in building out the country's most vibrant non-oil sectors, such as manufacturing and services.

Foreign investment is being promoted through a strategy in which allowing 100% foreign ownership figures strongly. The country has two major free zones offering a range of investment incentives, along with a well-regarded legal system.

The fruits of its pro-foreign investment approach are already being felt. Qatar's inward foreign investments grew by 6.6% in the first quarter of 2019, according to a joint study by Qatar's Planning Ministry and the Central Bank. Total foreign investments in Qatar had amounted to QR 722.6 billion (\$199.7 billion) at the end of the first quarter of 2019.

The focus on economic diversification is a major feature of the government policy, explains Sheikh Abdullah Bin Saud al-Thani, the

Central Bank Governor.

"Various policy measures have been taken in Qatar to promote economic diversification," he says. "Through several economic and structural reform measures government continued its efforts to develop the non-hydrocarbon sector. These measures include among others, improvement in the investment environment; encouraging of local manufacturing industries; expansion of new air and sea routes; visa-free entry; investing in human resource development, fiscal reforms through expenditure rationalisation, etc. In the long run, manufacturing, construction and developments in services sector industries like transportation, public services and banking services, etc., would provide sustainable growth in non-hydrocarbon sector."

Some of Qatar's financial institutions are contributing strongly to this effort. To promote the diversification of economy, Qatar Development Bank is providing direct and indirect financing to mandated sectors such as (agriculture, industries, health, tourism and education), including small and medium enterprises. It also supports them in enhancing technical skills and developing capabilities.

Sheikh Abdullah also notes that steps have been taken to strengthen the resilience of financial institutions and markets. All these would underpin higher economic growth on sustained basis.

Healthier public finances should also lead to a reduction in public debt. The government was prompted to approach the debt markets in 2018, taking advantage of low interest rates. This enabled it to raise about \$24bn, however debt levels are on course to fall from 53% of GDP in 2018 to 41% in 2021.

Leading bankers in Qatar see the government playing a constructive role in helping develop the economy. They suggest that this is creating opportunities for the banks too. Mr. Abdulla Mubarak Al-Khalifa, Acting Group Chief Executive Officer of QNB, stressed that the bank's strong results were achieved in part by aligning itself with the domestic measures undertaken.

"Domestically, our primary focus in 2019 was on the utilities, transport and food security sectors as well as 2022 FIFA World Cup Qatar™ infrastructure projects. We have also continued to support the SME sector, helping fuel growth in the economy. Internationally, we continue to witness underlying growth in our core markets of Turkey and Egypt as well as within our growing international network in



Asia, Africa and Europe," says Al-Khalifa.

The banking sector has been a beneficiary of efforts by the government to support the economy, as well as insulate it from the negative effects of the embargo.

Qatari bank leaders attribute the positive macro-economic climate to the country's non-hydrocarbon diversification model and prudent fiscal management. "The country is currently witnessing mega infrastructure projects culminating towards the FIFA world cup in 2022," says Raghavan Seetharaman, CEO of Doha Bank. "The financial sector has a key role to play in achieving the Qatar National Vision 2030 owing to high level of capitalization and by providing world class banking services and products. Measures taken by the Qatar Central Bank and the government have led to a robust growth in the financial industry. Qatar's financial sector will therefore be an enabler for Qatar's economic transformation."

Commercial Bank Group CEO Joseph Abraham says that Qatar's economy remains in good shape, and the government continues to invest heavily in strengthening the country's knowledge-based economy to secure the nation's long-term future.

"Qatar has maintained its position as the world's biggest gas exporter, and a budget surplus is expected to flow back into the economy with oil prices above the government's conservative assumed price. As in other parts of the region, the real estate sector has

weakened but good lending opportunities continue for Qatari banks in infrastructure development related to the World Cup in 2022 and energy projects as normal," he says.

"Since the economic blockade was imposed in 2017, self-sufficiency projects relating to food security, manufacturing and logistics, have been deemed a higher priority by the government, creating new opportunities for lenders and accelerating economic diversification," says Abraham.

Other Qatari bank chiefs see positive momentum building. "Qatar's economy is sailing through its post-blockade recovery and entering a transformative era. We're moving from sustenance to sustainability in the lead up to the World Cup 2022 and in line with the National Vision 2030. On the back of the blockade in the past couple of years, industries were expanded in the local economy away from the hydrocarbon sector, directed toward trade logistics, food supply, commodities and agricultural businesses, among many others," says Khalid al-Subeai, GCEO at Barwa Bank.

Fahad al Khalifa, GCEO of Al Khaliji Bank, is another prominent Qatari banker who is confident about Qatar's macroeconomic outlook. "These exciting times hold massive potential for country. Qatar's transformation, as outlined in its National Vision 2030, is well advanced and an entirely new domestic, self-sustainable economy powered by local businesses and entrepreneurs is shaping up," he says.

There is, says Al-Khalifa, unprecedented entrepreneurial and investment activity in the local market. "Robust industries, in services, trade logistics, food supply, commodities and agriculture were born on the back of this transformation. Furthermore, preparatory works for the FIFA World Cup 2022, as well as mammoth infrastructural developments in the country, promise to not only recoup but also, grow sectors that were impacted by the geopolitical developments of recent years," he says.

"There have been many positive reforms to policy making under the visionary leadership of H.H. The Emir Sheikh Tamim Bin Hamad Al Thani to develop a global open economy," says Al-Khalifa. "The country has forged new trade alliances, is promoting public-private partnerships, relaxing the regulations on foreign direct investment, enhancing ownership rights and easing visa requirements. We are extremely confident in the macro-economic outlook and future of Qatar."

Building a stronger and more diverse Qatar



With metrics improving and GDP growth reviving, Qatar Central Bank Governor Sheikh Abdullah bin Saud al-Thani is confident that the country has emerged stronger and fitter from the recent turbulent conditions.

Sheikh Abdullah is not one to dwell on the past. But the experienced Qatar Central Bank (QCB) Governor can be excused for a sense of satisfaction in helping steer the Qatari economy through some choppy waters over the past two years.

"Recent experience has demonstrated the strong ability of Qatar to withstand stressful conditions," he says. "Unlike some other countries, there is internal stability in Qatar. Moreover, the Government and financial sector regulators have not only strengthened the resilience of the economy in general and the financial sector in particular, they also stand ready to proactively take corrective and supportive policy measures, whenever required."

The economic blockade had posed one of the major challenges to the Qatari economy during the last two years. However, the experience so far has suggested that the economic blockade had no significant economic impact. "Given the surprise nature, there were temporary disturbances, but mostly confined to the second half of 2017. Through relocation/realignment of trading routes/partners, setting up of domestic production facilities in the SME (small and medium-sized enterprise) - sector and other economic diversification measures undertaken, the Qatari economy, in fact, came out stronger and more diversified," says Sheikh Abdullah.

There are several ways in which financial stability and the resilience of the financial sector has been strengthened. On the real economy front, the demand prospects for Qatari natural gas from Qatar remain bright. Moreover, the thrust towards diversification of the economy, human capital development and ecological protection should ensure sustainable and healthy growth of the economy.

The figures appear to bear out this positive message. Total official reserves have increased by 10.05% by end July 2019 from the pre blockade position. At the end of May 2017, reserves stood at QR 128 billion (\$35 billion). These reserves

were used for management of liquidity following the blockade but have now fully recovered and are ruling at higher levels. At end July 2019, reserves have increased to QR 140.9 billion (\$38.7 billion).

Rather than look back, however, Sheikh Abdullah prefers to look forward. He says the economic outlook remains positive for 2019 and expects improvement in many macroeconomic indicators, especially fiscal and current account balances.

"With the complete normalisation of capital flows and strengthened macroeconomic conditions, the negative impacts of the economic blockade have diminished completely in 2019," he says. "Even the risk of tightening global financial conditions, which we were earlier concerned about, have subsided with major central banks in advanced economies turning to a more dovish monetary policy stance."

Recent GDP figures underscore a steady improvement underway. During Q1-2019, real GDP growth increased to 0.9% at annual basis from 0.3% in Q4- 2018.

The growth momentum is expected to pick up during 2019, especially during the second half of the year.

"There are several factors for the likely improvement in the growth outlook," says Sheikh Abdullah. "First, energy prices are likely to remain at an elevated level, which will further improve the external and fiscal balances. Second, the contribution of the hydrocarbon sector to GDP growth will turn positive from negative, particularly with the Barzan gas field slated to come on steam towards the end of 2019. Third, the non-hydrocarbon sector will be the inherent driver of overall GDP growth, benefiting from economic diversification measures taken up the Government."

In particular, manufacturing and services products (transport, public services and banking activities) are expected sustain the growth of non-hydrocarbon sector. Overall, the Governor expects real GDP growth to improve substantially during 2019.



Governor Sheikh Abdullah bin Saud al-Thani

So what is the Central Bank doing to ensure a stable and strong financial environment?

Maintenance of financial stability has always been a top priority for QCB, says the Governor. "We have been very proactive in adoption of international standards. We are at par with advanced economies in implementation of Basel III and Islamic Financial Services Board (IFSB) standards. In addition, we are continuously monitoring various developments on daily, weekly, monthly and quarterly basis."

Based on the findings, suitable and timely policy actions are being taken up. "We have been continuously strengthening our on-site and off-site supervision. Various Early Warning Indicators are being regularly monitored and the system is being developed," says Sheikh Abdullah.

Stress tests for various risks and scenarios are being undertaken on monthly, quarterly, half-yearly and ad hoc bases to evaluate the resilience of the banks and need for policy measures, if any. QCB also publishes a comprehensive analysis of the macro-financial stability on annual basis in the Financial Stability Reviews (FSR). The FSRs through transparent and rigorous anal-

ysis enhances the confidence of consumers of the financial services, multilateral institutions, rating institutions and others.

There is a legislative mandate for inter-regulatory coordination to strengthen financial stability. The Financial Stability and Risk Control Committee (FSC) has been formed with members from the QCB, Qatar Financial Markets Authority (QFMA) and Qatar Financial Centre Regulatory Authority (QFCRA). They regularly monitor and suggest policy measures pertaining to regulation, supervision and inter-regulatory co-ordination for maintenance of financial stability across different segments of the financial sector.

Supervision is a key focus for QCB. Banks started implementation of IFRS 9 with effect from January 1, 2018.

"In the initial stage of implementation, some banks faced some problems for coverage of the Expected Credit Losses (ECL)," says Sheikh Abdullah. "The ECL was covered through the Risk Reserve maintained by the Banks. Risk Reserve is maintained by banks at 2.5% of the total direct credit facilities after deduction of specific provisions, suspended interest and deferred profits for Islamic banks with the exception of credit facilities to sovereign and credit facilities granted against cash collaterals. The Required Reserves helped banks cover the ECL requirement on first implementation of IFRS 9. After covering the ECL requirement through the Risk Reserve, banks are currently required to build-up Risk Reserve at 2.5% of the total credit facilities as earlier."

The impact of implementation of IFRS 9 on banks were not significant, says Sheikh Abdullah, especially on the Domestically Systemic Important Banks (DSIBs), as their capital adequacy ratio was much above the minimum requirement mandated by QCB. Some small banks were affected, but no bank's capital adequacy ratio fell below the minimum requirement mandated by QCB.

Maintaining the asset quality while continue credit to productive sectors of the economy was one of the challenges during the stressful conditions.

And, notes the Governor, during those stressful conditions, there was no impact on the high quality of assets of banks in Qatar, with the NPL ratio continuously ruling significantly below 2 percent.

Deposits have grown from the pre-blockade levels. Sheikh Abdullah says it is particularly noteworthy that non-resident deposits that had declined in the immediate aftermath of the blockade have now fully recovered and are ruling above the pre-blockade levels.

"This not only indicates total recovery of deposits, it also points towards restoration of

confidence of outside investors in the fundamentals of the economy," he says. "Since, the sources of deposits are more diversified and include U.S. and various European and Asian countries, the risks from such deposits are also much less compared to the earlier composition of non-resident deposits."

Having demonstrated their resilience, is it now time for Qatar's banks to become more ambitious in their lending approaches?

Domestic credit has been continuously growing and was not affected by stressful conditions. "Given the thrust on diversification of the economy and promotion of private enterprises, we expect the banks to become more ambitious in their lending and play a greater role in the economic development of Qatar," says Sheikh Abdullah.

QCB is now actively framing a new approach to develop the country's financial technology (fintech) sector, an area that ratings agency Standard & Poor's recently said Qatar was best placed to adopt in the region.

"QCB has been working on fintech for some time now. QCB's role as a regulator in this sector definitely pushes us to be at the forefront for financial technological development," says Sheikh Abdullah.

Recent progress has been backed up by sound economic policies that are able to withstand changes and the current regional geopolitical context that played against Qatar. Furthermore, says Sheikh Abdullah, Qatar has proved its capability to maintain a secure and resilient technological infrastructure, as shown by its stability despite the increased waves of cyber-attacks it is facing.

QCB is actively playing a key role in the development of the sector, through enacting regulations that will allow for a sustainable development of Fintech. "QCB understands that there is a real growing need to process an ever-increasing amount of data whilst always delivering new streamlined experiences to consumers and users of financial services in Qatar. These advancements require further technological developments and capabilities in the country," he says.

A dedicated FinTech section will oversee such developments by introducing a regulatory sandbox. QCB will also rely on leveraging the existing and constantly developing technological ecosystem of Qatar to support successful fintech growth.

Fintech has been used as a digital transformation tool for financial services with a long-term development worldwide. Indeed, Qatar has also incorporated it alongside the Qatar National Vision 2030 to aid it in achieving national goals.

The National Vision involves tracking the progress with five year plans to ensure the programme's successful completion. "The financial sector is an important sector that is heavily involved in this vision. Especially with the necessary transformation that fintech is bringing, it will create opportunities in line with the long-term goals of the Qatar National Vision 2030," says Sheikh Abdullah.

One of the main pillars of the QNV 2030 is the economic development. Fintech has a direct hand in helping develop this aspect of the vision in a number of ways, says the QCB Governor. It will bring diversity across the sector in terms of delivering efficient services. It will also support emerging enterprises of different sizes in Qatar. Perhaps most importantly, fintech will develop new financial instruments that will support the wider inclusion of people in financial services.

The second pillar of the QNV 2030 is human development. In this regard, Fintech is important as it helps introduce and create new sets of skills required from the local workforce, enhancing and diversifying the talent in Qatar.

This will also lead to an increase in number of technologically-skilled workforce members and create a competitive labour market.

What about the future? What are the main challenges and opportunities confronting Qatar's economy and financial sector?

Over the medium to longer-term, as identified in the QNV 2030, there are five challenges that require a proper balance in the path to development, says Sheikh Abdullah.

They are:

- modernisation and preservation of traditions;
- the needs of present and future generations
- managing of growth and uncontrolled expansion
- the size and the quality of the expatriate labour force and the selected path of development
- economic growth, social development and environmental management.

Economic diversification provides opportunities for creating social and physical infrastructure that will help in achieving sustainable growth and generating employment opportunities in Qatar.

"Since 2017, many new companies have registered for various business activities, and manufacturing sector has emerged as the key drivers of growth. In terms of food security, Qatar has largely become self reliant especially in case of dairy products. Domestic food supply has improved substantially and has been one important factor for benign food prices since the second half of 2018," says Sheikh Abdullah.

Q&A – Abdulla Mubarak Al Khalifa

Acting Chief Executive Officer QNB Group

How is QNB's performance shaping up in 2019?

What is driving profits and growth?

The first half of 2019 presented a good momentum of growth in the private sector in both Qatar and Egypt. The expectation for the rest of the year is to continue on a similar trajectory with profitability and efficiency ratios to be maintained close to current levels.

QNB's strategy is to pursue sustainable, profitable growth. We continue to experience strong growth in all our three core markets Qatar, Turkey and Egypt as well as from the rest of international network. The strength of our capital allowed us to grow our balance sheet in a controlled way and capitalise on opportunities across our network. Furthermore, our strong credit rating and a stable long-term outlook with the leading credit rating agencies enabled us to access capital markets for funding our growth plans.

In Q2 2019, total assets grew by 5% to QAR887 billion – the bank's highest ever. What explains this achievement?

The growth in assets was driven by a 5% growth in loans and advances, which reached to QAR 634 billion, equivalent to USD 174.3 billion. In Q2 2019, the bulk of the growth in lending came from Qatar and Egypt, particularly the private sector. Moreover, asset quality remains high with non-performing loans (NPLs) steady at 1.9% which one of lowest in region and for peers for similar size. Profitability remains solid with returns on equity (ROE) close to 21% and efficiency ratio improving to 25.6%. QNB continues to be well capitalized with the capital adequacy ratio (CAR) at 18.4%, well above QCB and Basel III guidelines. We continue to maintain our top tier credit rating by leading international agencies, which is a testament to our financial strength.

QNB has achieved these results thanks to executing on our strategy of maintaining our leading position in Qatar and accelerating international growth. Domestically, our primary focus in 2018 was on the utilities, transport and food security sectors as well as 2022 FIFA World Cup® infrastructure projects. We have also continued to support the SME sector, helping fuel growth in the economy. Internationally, we continue to witness underlying growth in our core markets of Turkey, and Egypt as well as from rest of our international footprint across Asia, Africa and Europe. Profit contribution from international network was at 35% as end of Q2 2019.

We still believe that this performance will continue, allowing us to reach a growth of 6% to 8% in 2019 even with the repayment of some of the government loans.

Customer deposits seem to be growing in line with loans and advances. Did the devaluation of the lira have any significant impact on the group?

The devaluation of the Turkish Lira and the consequent economic slowdown came as a surprise. However,

despite these headwinds, QNB Finansbank increased its deposits by 25% in local currency terms and -1% in US dollar terms year-on-year in Q2 2019. QNB Finansbank's loans and deposits are roughly around 10% of the Group's, thus limiting the impact on the overall Group figures.

The impact of the devaluation of the Lira was mitigated by the robust asset quality of the QNB Finansbank retail, SME and corporate portfolios. The retail and SME portfolios are predominantly denominated in local currency, thus limiting any asset quality issues due to the devaluation. The corporate portfolio has foreign currency loans, however these are to businesses which primarily generate cash flows in foreign currencies. We also have project finance lending in foreign currency, which is repayable through foreign currency flows. Total foreign currency loans represent 30% of the overall loan portfolio at QNB Finansbank.

QNB's cost to income ratio has moved down below 26%, and is considered among the region's best ratios. Why have cost controls been so important to the bank?

QNB's focus is on continuous improvement. Our drive for operational efficiency is yielding cost-savings in addition to sustainable revenue-generating income streams. We target efficiency enhancement by leveraging technology and streamlining our processes to ensure better customer experience. Over the last several years, we have been focusing on channel migration to improve proximity and customer experience. This initiative is already bearing fruit, with fewer than 5% of retail transactions taking place in our branches in Qatar in 2018. Moreover, internet and mobile application penetration has grown to 73% as more customers opt to carry out their banking online and on the go. We have also extended our digital touchpoints. More than a third of our branches in Qatar now have the capability to process cheques electronically through ATMs and this will continue to grow in 2019.

In addition, we continue to execute upon the programme initiated in 2018 to identify additional levers to generate revenue and cost synergies across the Group.

Where do you see appetite for loans headed? Which are the most exciting future growth areas for you?

Looking into 2020 and beyond, the growth prospects are favourable and likely to provide tailwinds to our growth trajectory.

We will continue to invest in our flourishing domestic business to maintain our market-leading position. QNB Group is committed to invest in Qatar's future and it continues today with significant financing support deployed on major projects, in addition to its overall small-and medium-sized enterprise (SME) value proposition with sector specific lending programmes. We have partnerships and alliances with various government



Abdulla Mubarak Al Khalifa Acting Chief Executive Officer QNB Group

and private sector associations to accelerate entrepreneurship in the private sector. These initiatives have led to substantial growth this year in the SME business across a range of sectors, from manufacturing and food, all the way through to education and health.

In the retail banking, our focus and investment remains on digital development and innovation. This year we enhanced almost every touch point to deliver an even stronger customer experience, supported by our range of outstanding products and service.

International organic expansion continues to be one of the key pillars of QNB Group's strategy. Through expansion, QNB aims to diversify its earnings and risk.

We aim to continue to scaling up our international business to increase their contribution, particularly in our core markets of Egypt and Turkey, where we see further growth potential. We plan to strengthen our presence in Asia by establishing a branch in Hong Kong, one of the world's global financial hubs and a gateway to China and Far East Asia, as we have obtained the regularity approvals from Hong Kong Monetary Authority recently.

How do you view opportunities for M&A? Is this a major focus for your bank?

International expansion is one of the cornerstones of QNB Group's strategy to achieve its vision of becoming one of the leading banks in MEASEA. As we pursue growth, we remain committed to prudent controlled expansion. The new markets of relevance would be considered from the following perspectives: the macroeconomic outlook, banking sector attractiveness (penetration and growth potential), the ability to follow QNB's existing customers, balancing QNB's risk appetite and regulatory requirements for market entry. We will consider the potential of acquisitions on a purely opportunistic basis if suitable targets are available in our target markets.

Q&A – Joseph Abraham, GCEO Commercial Bank - Qatar

What stands out for Commercial Bank's financial performance in 2019?

Commercial Bank continues to show positive financial results in 2019 due to the strong execution of our five-year strategic plan.

Net profit is up and we have strengthened our capital, with CET1 (Common Equity Tier 1) within our 11-11.5% minimum range. We continue to reshape and diversify our loan book, with the strategic intent of decreasing our concentration in real estate and increasing our share of high-quality government and public sector loans.

We have now provisioned the majority of legacy exposures and we continue to de-risk legacy assets with significant single name concentrations. We continue to focus on productivity enhancements through digitization of operational processes and reduce our cost to income ratio down to closer in line with the market.

H1 net profits were up 9%. What are the drivers for this performance?

Net profit is the sum result of all the actions we are taking to implement our five-year strategic plan. Consolidated operating profit was QAR 1.29 billion (\$350 million) at H1 2019, a 7% year-on-year increase and consolidated net profit was QAR 934 million (\$256.6 million) in H1 2019, representing a 9% year-on-year increase.

Key financial highlights for the Group for H1 2019 compared to the same period in 2018

- Net profit of QAR 934 million, up by 9.2%
- Operating profit of QAR 1,295 million, up by 6.8%
- Cost to income ratio of 29.9%, reduced from 33.9%
- Net provisions QAR 428 million, down by 1.7%, NPL ratio reduced from 5.4% to 4.9% and coverage improved from 84.2% to 96.2%
- Total assets of QAR 141.3 billion, up by 1%
- CET1 improved from 9.7% to 11.0% and total CAR improved from 14.5% to 16.3%
- Customer loans and advances of QAR 84.8 billion, down by 2.7%. Growth in domestic loans excluding Government temporary overdraft repayment and de-risking.
- Loan deposit ratio 110.3%, down from 116.1%
- Best Cash Management Bank in Qatar award for the third year in a row, and Best Transaction Banking service in Qatar from "The Asian Banker"
- Best Retail Bank in Qatar award for the third year in a row and "Financial Technology Innovation Award 2019" for the 60 Seconds Online Remittance service and digital innovations

The increase in consolidated operating profit was driven by careful management of operating expenses and positive contributions from fees and other income. Operating expenses decreased 11.1% in H1 2019 compared with the same period last year, a result of careful cost control and savings from our insourcing programme.

How is the bank's five-year strategic plan progressing?

We are on track to deliver our five-year plan, which is now in its third year of implementation, and the market is beginning to recognise the value of our strategy and its disciplined execution. This year we won a "Financial Innovation Technology Award" for our first-to-market 60 seconds digital remittance service which credits beneficiary accounts in seven countries in less than a minute and expedites remittances to more than 20 additional countries within 15 minutes or the same day.

The award reflects our investment in innovation and technology through our wholly-owned subsidiary, Commercial Bank Innovation Services (CBIS). It demonstrates that we can develop truly world-class technology in-house in Qatar, that beats major international banks.

Previously our technology and operations were outsourced to India but we have brought this function back in-house via CBIS to take control of innovation. Our strategic focus on transaction banking is gaining momentum and CBIS is key to our competitive advantage here by deploying the latest technologies that are shaping the future such as robotics, machine learning, artificial intelligence and blockchain. CBIS has enabled us to apply new processes to our banking operations, improve creativity, adapt quickly, and deliver innovative digital products and services to our customers such as 60 seconds digital remittances, e-gifts, an upgraded mobile banking application, a new trade portal, and remote cheque scanning.

Why is transaction banking such a strong focus for you?

The future of banking is moving more and more towards transactions. Lending to customers requires you to retain a lot of capital and comply with a number of regulatory ratios. Capital adequacy requirements are there for good reason, but transactions offer a relatively risk-free alternative to lending as they generate fee income that is not based on assets. Customers will always need to transact, driving long-term revenues regardless if good lending opportunities are plentiful or not.

Transaction banking is therefore a core part of our five-year strategic plan because it offers a way to grow sustainably.



"We are on track to deliver our five-year plan, which is now in its third year of implementation, and the market is beginning to recognise the value of our strategy and its disciplined execution"

**Joseph Abraham, GCEO
Commercial Bank - Qatar**

In terms of management of operating expenses, what achievements have been made here – and what ambitions do you have to keep a handle on costs?

We have reduced our operating expenses considerably since 2016 and moved our cost to income ratio down from 45.7% in 2016 to 29.9% in H1 2019. Our approach to managing costs is not through large-scale redundancies but rather investing in digitization and automation to create leaner and more effective internal processes to cut out waste and inefficiencies.

We have reinvested these savings in new digital products and processes, new branches and new staff facilities.

Is further capital market issuance being planned?

Fundraising is a constant process of renewal and further capital market issuances are planned as part of our normal course of business.

Q&A – Masraf al-Rayan Group CEO Adel Mustafawi

How is profitability and revenue performance holding up for Masraf al-Rayan this year?

Masraf Al Rayan (MAR) operating income has increased 4.8% for the period ended June 30, 2019 as compared to same period last year. We are expecting consistent growth in coming months to achieve overall profitability of the bank for the year 2019.

What impact have market conditions had on the bank, and how has the government and the Central Bank helped ensure stability?

There has not been any negative impact on our bank, induced by the ongoing blockade because the government has taken, through its central bank and the sovereign wealth fund, wise decisions from the beginning, in order to make ample liquidity available for the banking sector. This has helped to ensure stability in the system, while individual banks have been carrying out their own day-to-day operations. MAR grew its total assets by 5.4%, in year-to-date terms. MAR has experienced the best of times, even at the height of the blockade, because it is an integral part of the country's economy.

Are market conditions for debt raising increasingly favorable, and will more issuance be forthcoming?

Having an updated Sukuk programme, we remain open to sukuk funding exercise on an opportunistic basis. We believe that Q1 2019 offered an amazing market across asset classes and debt capital markets witnessed

multiple favourable issuance windows. The Qatari market in particular crossed a significant milestone since we have seen Qatari issuers return to the public market for the first time since the blockade, albeit with great success.

Looking ahead, we believe lower underlying rates will push debt market investors to drift towards strong emerging market (EM) paper offering a pick up. On the other hand, EM investors remain mindful of the downside economic risk and will also stick to the EM issuers with solid fundamentals. The combination of both trends should offer attractive entry points for Qatari issuers on a fixed-rate basis in the coming months.

Higher credit ratings of the banks in Qatar, as well as the low risk environment in which they operate, should also attract for them cheap funding through debt capital markets.

What other moves is Masraf al-Rayan undertaking to diversify its funding sources?

Masraf Al Rayan's funding strategy relies on three pillars: deposits, bilateral financing through a strong and growing network of financial institutions and Sukuk financing. We have seen positive developments in each segment over the past 12 months: We have seen international deposits returning after the blockade; we signed our debut \$500 million 3-year syndicated Murabaha facility in October 2018; we issued a debut private placement in November 2018 (\$190 million 5-year). Each pillar is accessed on an opportunistic basis and we have recently increased the



**Masraf al-Rayan
Group CEO Adel Mustafawi**

size of our Sukuk programme from \$1-2 billion to give us more flexibility in the future.

Do you have plans for growth – whether organic or inorganic – in Qatar and overseas markets?

MAR has always plans to grow locally and internationally depending on regional and global situations. Currently, we do not have any concrete agenda but we are looking at various options to expand into the European markets, as well as in some Asian countries.

How is the bank adapting to international capital and liquidity requirements?

All Qatari banks are following Basel-III guidelines under the umbrella of Qatar Central Bank (QCB). MAR has strong capital position – the best in the Qatari market. Regarding liquidity requirements, MAR is complying with international ratios and working on various long-term solutions to diversity its liquidity position.

Are you confident that demand for Sharia-compliant banking services will continue to grow?

Reuter's Islamic Finance Development Report released in 2018 shows that the global Islamic finance industry grew by 11%, y/y, to reach \$2.4 trillion in assets in 2017, up from \$200bn in 2003. In the banking sector, Islamic banks outperformed conventional banks over the decade, according to the IMF. The industry is expected to continue with its current upward growth. Sharia-compliant assets are, for example, projected to reach \$3.8 trillion by 2023, averaging annual growth of 10%, according to Reuters data.

Masraf Al Rayan was incorporated as Qatari Shareholding Company under the Qatar Commercial Company law, on 4th January 2006, and licensed by Qatar Central Bank. As per its Articles of Association; the Bank is engaged in banking, financing and investing activities in conformity with the Principles of Islamic Shari'a. Headquartered in Doha, with a paid-up capital of QAR 7.5 Bn (USD 2.1 Bn), it was launched on October 2006.

Financial Statement for the first half of 2019 :

- Total assets reached QAR 102,543 million compared to QAR 100,455 million as of 30 June 2019, a growth of 2.1%
- Financing activities increased to QAR 74,800 million compared to QAR 73,088 million as of 30 June 2019, a growth of 2.3%
- Investments reached QAR 20,496 million compared to QAR 19,902 million as of 30 June 2019, a growth of 3.0%
- Customer deposits increased to QAR 64,412 million compared to QAR 62,701 million as of 30 June 2019, a growth of 2.7%

- Shareholders' equity reached QAR 12,859 million compared to QAR 12,267 million as of 30 June 2019, a growth of 4.8%

Financial Highlights

- Return on average assets continues to be one of the highest in the market at 2.16%
- Return on average shareholders' equity reached 16.50%
- Earnings per share amounted to QAR 0.144 compared to QAR 0.142 for the period ended 30 June 2019
- Book value per share reached QAR 1.71 compared to QAR 1.64 as of 30 June 2019
- Capital adequacy ratio reached 19.45%, in line with Basel III standards and Qatar Central Bank requirements, compared to 18.75% as of 30 June 2019
- Operational efficiency ratio (cost to income ratio) is 23.47%
- Non-performing financing (NPF) ratio is kept at a low level of 0.74%, reflecting the strong performance of our credit risk management as well as prudent policies and procedures

Q&A – Dr. R. Seetharaman, CEO, Doha Bank

Please comment on Doha Bank's strong financial performance.

Inaugurated in 1979, Doha Bank has posted consistent growth over the last decade, with its total assets expanding by a compound annual growth rate (CAGR) of around 7%. Today, it is the third largest conventional bank in Qatar with a market share of 6.9% of assets at the end of June 2019, offering a range of domestic and international banking services to its commercial, corporate, institutional and retail customers.

This well-diversified customer base is serviced through four business groups – Wholesale Banking, Retail Banking, International Banking and Treasury & Investments, all of which work closely with one another to generate cross-selling opportunities across the group. In line with its mission as a leading one-stop provider of financial services, the bank has undertaken a range of joint initiatives between the four business groups in order to leverage cross-selling of multiple products to customers.

Doha Bank's consistent expansion over recent years is due to a range of drivers, with diversification of the bank's lending, customer base and funding sources at the core. The various diversification strategies employed by the bank include but are not limited to geographical, deposit and business segment diversification.

How are Doha Bank's core revenue streams looking?

Doha Bank's core revenue streams comprises of interest, fee incomes and investment gains. Through initiatives such as changing the asset allocation model, periodic re-pricing of its portfolio, and managing low cost deposits, the Bank continues to maintain its leadership position in Net Interest Margin. In line with its innovation strategy, the Bank launched Qatar's first Exchange Traded Fund (QETF) as a tool for investment, which generated a total return of 20% in 2018, outperforming most exchange traded funds (ETFs) in the world.

With a footprint in 17 countries, 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. The bank regards selective overseas expansion as a key contributor to further growth. Expansion to strategic locations enables the bank to facilitate and optimize cross-border trade between countries such as Qatar, Kuwait, India and other key regional and global economies. Furthermore, the extensive global network allows the bank to garner liquidity through its international relationships at optimal cost.

What are the main elements of Doha Bank's strategy for enhancing efficiencies going forward?

Due to competition from new entrants, narrowing profit margins and tighter regulatory requirements, the bank perceives innovation as the key to growth through alternate channels. The Bank will further improve its efficiency by leveraging on strong distribution channels to expand loan book, generate incremental revenues and improve efficiency. The Bank will continue with its digitisation program to increase the overall efficiency. In line with banking industry trends, areas of focus include collaboration with Fintechs, adoption of cutting edge technology, consolidating mobile and online applications, upgrading security features, and developing call centres, which make use of sophisticated voice recognition technology.

What are some of the key initiatives launched by Doha Bank in recent years?

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.

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, 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.

What are the main challenges facing Doha Bank? And what are the key opportunities?

The main challenges facing Doha Bank relate to asset quality in GCC branches. Regarding asset quality, at the end of June 2019, the bank's NPL ratio stood at 5.83%. The bank is closely monitoring these accounts with a special focus on regularising them and consolidating its position to avert any one-off shocks. With regards to liquidity, at end-June 2019, the bank's loan-to-deposit ratio stood at 109.5%, compared to the system-wide average of 117.7%. However, Doha Bank was able to garner liquidity through its international relationships and also at a minimal cost. The bank will continue procuring cost-effective liquidity, through its international network of branches and representative offices, and bring it to acceptable levels.

The underlying opportunities arise from cross-



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

selling, lending to the government and in the services sectors. The bank has undertaken various joint efforts to ensure cross-selling more than one product to the customer to ensure that the bank becomes the one-stop shop financial service provider by providing comprehensive financial solutions to the customer covering all their relevant financial services requirements.

What are your expectations for asset growth this year?

As the bank has been adopting selective asset growth model by keeping the optimum mix of lending portfolio and local sovereign fixed income book, the bank expects a loan growth of about 5.7% for full-year 2019.

What financing plans does Doha Bank have?

The bank will continue to maintain the diversified deposit mix and funding base to minimise concentration risk and enhance the lower cost deposit base. At the same time, it will look into opportunities for sourcing cheaper funding from the international market by leveraging its international footprint.

Do you have any thoughts about M&A activity? Is this on Doha Bank's agenda?

Historically, the bank's growth model has been an organic one. The bank has established six overseas branches in Kuwait, UAE and India as well as representative offices in 14 countries. The international network aims to facilitate and optimise cross-border trade transactions between Qatar, Kuwait, India and other overseas countries. However, given a right opportunity with strategic value and synergy, the bank can explore this area as well.

Q&A - Khalid al-Subeai, Group Chief Executive Officer (GCEO) at Barwa Bank

Barwa Bank has posted regular double-digit profit increases in recent years. What explains this strong performance?

To say that the past few years have marked a record performance for our group is to understate our enormous transformation, anchored by Qatar's tremendous economic prosperity and growth story

In the fiscal year ending in December 31, 2018, we recorded a net profit of QAR 765 million – our highest ever – and crossed the QAR 44 billion mark in total assets, backed by over QAR 26 billion in customer deposits. Our income from financing and investing activities also exceeded QAR 2 billion, a 4.6% increase over the previous year.

With the government as our largest shareholder, our duty has been and remains to build and deliver on this momentum to meet the market's changing dynamics and Qatar's growing banking needs.

Beyond this momentum, the consistency of our double-digit profit figures in the last decade has confirmed our growth strategy. Focally, investments driving our bottom line have centred on the streamlining and efficient integration of our operations, as much as they have on diversifying our revenue streams through growth in customer segments. Our growth strategy has translated strongly in our financial performance, and successfully culminated with our landmark merger with International Bank of Qatar (IBQ) this year.

How will the bank change in light of the merger with International Bank of Qatar (IBQ)? What benefits will be derived from this tie-up?

We expect the merger with International Bank of Qatar to bolster Barwa Bank Group's strong financial position, profitability and solidify our domestic franchise in Qatar, particularly as the market gears up for the World Cup 2022 and makes steadfast progress on our National Vision 2030. Our strong capitalization, larger scale and liquidity will allow the combined entity to play a key role in the local economy and equally into large scale project financing.

The merger with IBQ is built on a firm belief that was a partnership built on the synergy and complementarity of our growth vision, human capital, technological infrastructure and products & services.

Guided by the Qatar National Vision 2030, powered by our QAR 80 billion balance sheet post-merger and QAR 12 billion shareholder equity base, and complemented by a strong client base of more than 80,000 customers; we are now able to capitalise on our solid financial position, longstanding expertise, robust infrastructure and cutting-edge technology.

The Bank's drive for service excellence and expansion into untapped customer products and services is continuously evolving along with customers and shareholders' growing needs and expectations.

We now have the scale to grow our client base geographically and contribute significantly to asset and trade financing, and ultimately, establish a trusted name in the global financial and Islamic banking sectors.

How significant is the merger for Qatar's banking sector?

It is fair to say that this merger is a national and regional milestone, it is the first amongst the Qatar banking sector after obtaining the required approvals from shareholders, authorities and the Qatar Central Bank, I can say that it is an achievement for All involved.

This merger attracted a great deal of attention, in light of the transitional period that GCC economies and banking sectors are experiencing. International credit rating agencies and observers hold this merger to great expectations, further enhancing Barwa Banks market share in the sector, making it the 3rd largest Islamic bank in Qatar and 6th largest bank in Qatar.

What new products and services are under preparation at Barwa Bank?

To put it simply, we're eyeing a full digital transformation in the next five years, rather than a suite of products and services. And we are pouring the bulk of our investments, resources and infrastructure into digital innovation, be it at a consumer-facing or at an operational efficiency level – both of which weigh equal importance for our business. This transformation will be, of course, catalysed by our merger with IBQ, which we know will be of great value to our group's portfolio, particularly in the private banking and wealth management segments.

This year, we created a new chief digital officer role in our management team, and launched our mobile banking app, which we are constantly upgrading toward an Omni-channel banking experience for our customers.

Fintech is central to the future of our Group. We are exploring and heavily investing into technologies that will power, seamless, borderless and secure transactions for our customers. Our corporate internet banking experience has been a success case on this front, featuring sophisticated access controls, and enabling cross-border transactions.

What is your view of Qatar's economy? Are



"To say that the past few years have marked a record performance for our group is to understate our enormous transformation"

Khalid al-Subeai, Group Chief Executive Officer (GCEO) at Barwa Bank

you anticipating more funding opportunities in coming years from the domestic market?

Qatar's economy is sailing through its post-blockade recovery and entering a transformative era. We're moving from sustenance to sustainability in the lead up to the World Cup 2022 and in line with the National Vision 2030.

On the back of the blockade in the past couple of years, industries were expanded in the local economy away from the hydrocarbon sector, and directed toward trade logistics, food supply, commodities and agricultural businesses, among many others.

Needless to say, the mega infrastructural developments and expenditure associated with the World Cup 2022, the integrated railway network, the 5G network rollout, and the planned new free zones across Qatar will add tremendous growth prospects to all sectors.

In addition to the decision to expand the State of Qatar's LNG production from 77 million to 110 million tonnes over the next 5 years, which will ensure accelerated growth in the economy, contracting, energy and banking sectors, amongst others.

The local market has plenty of room to grow and attract funding and foreign direct investments in the medium-to-long term. We're building an entirely new economy with much broader horizons.

Q&A – Fahad al-Khalifa, GCEO, Al Khaliji Bank

Al Khaliji bank showed double-digit profit increases last year. What are the main drivers of the bank's performance?

Al Khaliji's guiding principle is to focus on generating safe stable revenues. We achieve this by investing in our human capital, with particular focus on developing our Qatari talent, and building long-term mutually beneficial relationships with our valued client base. By virtue of being a relatively small bank we have an exceptionally nimble approach. This affords us first mover advantage with our core Corporate and high net-worth (HNW) client segments and enables us to be their bank of choice.

You have focused on improved balance sheet management and lowering the cost of funding. How effective have these strategies been and what expectations do you have for 2019?

These strategies have been very effective and we can sum up our approach in recent times as "make more from less". We adhered to our guiding principle of targeting safe stable revenues. We de-risked the balance sheet, by divesting non-core overseas assets, and increased the NIM on our remaining book of business.

Our results so far demonstrate that our strategy is working. For H1 2019, while the overall balance sheet size has reduced year on year, our net interest margins and spreads have improved and profits are higher on H1 2018.

Al Khaliji funds itself from a variety of sources, and as the Qatari Riyal is pegged to the US Dollar, there are a number of external factors influencing the cost of funding for the bank. This makes it harder to predict future cost of funding in a volatile rates environment. However, this remains a key metric for us to control, in our drive to improve the bank's NIM and spreads. We

are confident we will continue to improve these for the remainder of 2019.

How important is the Qatar economy to your bank? Are you well positioned to benefit from improved economic performance?

We are of Qatar, it is our core market and accounts for almost 90% of our operating income. It goes without saying the performance of the local economy is key to us.

The bank is very well positioned to benefit from Qatar's strong economic performance. Historically, we have participated in many transactions to fund projects related to Government and GREs (Government Related Entities). This is a result of strong relationship management and customer service. Qatar had announced a surplus budget for 2019 and expects to award projects of QAR 48 billion this year. These will lend positively to the economy. In line with our strategic focus on the domestic market, we aim to support our clients in participating in these projects.

Are there any new business opportunities or new lines of business that Khaliji Bank is interested in pursuing?

Al Khaliji is first and foremost a local bank and offers a full suite of products and services to its Corporate and HNW client base. Our wholesale business caters to Government, GRE's and large local and international corporates and FIs. Our consumer business is focused on the Private and Premium segment for Qataris and ex-pat professionals. The bank's Treasury team supports these businesses offering foreign exchange services and related solutions. Therefore, we are present in all major lines of business and will continue to grow our customer base in the segments.

We see great opportunity locally in the spheres of



"The bank is very well positioned to benefit from Qatar's strong economic performance"

**Fahad al-Khalifa,
GCEO, Al Khaliji Bank**

education, health, sport and broader infrastructure buildout. We will expand our international business through support of government, and GRE, overseas investments where there is business case for al khaliji.

What about M&A? Are mergers on the bank's agenda?

As of now Al Khaliji is not envisioning a merger or acquisition. However, should the right opportunity arise, we will study and analyse it carefully and make our recommendations to the board of directors.

Do you expect non-performing loans to decline over the next year?

We have de-risked our balance sheet and ensure we target safe stable revenues. Credit quality is a primary driver and we continue to remain prudent in our approach to provisions.

Based on QCB data, provision coverage on NPLs has averaged 80% for the period 2015 to 2018. From January 2018, with the introduction of IFRS9, there is also a requirement to carry a percentage provision for all performing financial assets. Furthermore, banks have historically carried a risk reserve in their balance sheets as a regulatory requirement. These collectively provide a comfortable cover for any sudden deterioration in credit quality of exposures of the banking sector.

About Al Khaliji Bank

Al Khaliji is Qatar's pioneer "next generation bank", offering a full range of conventional banking products and services to premium, business, corporate and international customers in Qatar, UAE and France.

Headquartered in Doha, Al Khaliji is one of Qatar's leading banks and a member of the Qatar Exchange since 2007, with QR 58 billion in total assets and QR 30 billion in customer deposits as of 31 December 2017.

Al Khaliji France is Al Khaliji's subsidiary in Paris, France, with a network of branches in the UAE covering Abu Dhabi, Dubai, Sharjah, and Ras Al Khaima. This branch network offers customers and businesses local, regional and international banking services.

Al Khaliji products and level of service reflect the Bank's belief that to be a successful financial

institution, the Bank must meet the needs of both this generation and future generations of employees, customers, investors and business partners.

Al Khaliji was awarded with a positive Fitch Rating. With a Long Term Issuer Default Rating of 'A' and a Short Term Issuer Default Rating of 'F1', this facilitates streamlined access to resources all over the globe.

In addition, Al Khaliji also has a strong Long Term Deposit Rating of A3 awarded by Moody's.

Achieving financial objectives is critical to sustaining prosperity in any market, at Al Khaliji long-term sustainability is maintained by balancing the commitment to achieving results with the commitment towards the development of people and the community.

Qatar's resilient banks double-down on innovation

With deposits replenished, the country's lenders are gearing up for some bold new growth strategies.

Qatari banks have spent the past couple of years demonstrating their resilience. With liquidity conditions normalising, confidence returning to the market and broader macro-economic conditions looking brighter, lenders are giving fresh attention to expanding into new areas.

The stabilisation effect set in last year, when the country's reserves recovered after the blockade, and the outflows in foreign funding were reversed. These now comfortably exceed the levels seen in May 2017. International reserves and foreign currency liquidity reached \$50.4 billion at the end of the first quarter of 2019, compared to the May 2017 level of \$45.8 billion – the month before the embargo was imposed on Qatar. Crucially, non-resident deposits that had declined in the wake of the embargo are running well in excess. pre-blockade levels.

Qatari banks enjoy robust liquidity, with a liquid-asset-to-total-asset ratio of 29.7%.

Domestic credit grew in the double digits in 2018, while deposits are also recovering strongly. As a consequence, domestic banks are becoming more ambitious in their overall lending strategies. Diversification is not just being seen in the increasingly varied geographic make up of non-resident deposits, but in banks' decisions to actively widen their loan portfolios in tandem with the Qatari government's promotion of private enterprise as an engine of the economy.

The IMF, in its Article IV assessment of Qatar's economy released in June 2019, notes that Qatar's banking sector remains healthy, reflecting high asset quality and strong capitalisation. The Fund highlights the uptick in non-resident deposits (which increased by 23% in year-on-year terms by December 2018) and foreign bank funding (also up by 23%) which helped banks increase private sector credit by 13% by December 2018. Broader investor confidence is supported by more than \$300 billion in financial assets held by the Qatar Investment Authority, the country's sovereign wealth fund.

There is reason for optimism going forward,



as acknowledged by international ratings agencies. Qatari banks enjoy a stable outlook despite the ongoing blockade as the crisis-related pressures on commercial banks' funding have eased, Fitch Solutions noted in its 2019 report on Qatar.

Fitch said that investors were assured by the Qatari authorities' demonstrated willingness and ability to support the local economy, most notably through placing large amounts of foreign currency deposits with local banks to mitigate funding pressures over the second half of 2017 and the first half of 2018.

Qatar has repeatedly demonstrated its ability to raise money on the international debt capital market at low yields, even when it has no direct need to do so. In March 2019, it raised \$12bn in bonds, with demand reaching \$50bn – taking advantage of opportune market conditions. With a healthy fiscal surplus, the country has not had to resort to the bond market out of necessity, but out of choice.

Meanwhile, private sector credit demand is poised to stay healthy as the Qatari economy revives. About three-quarters of Qatar's banking system's balance sheet growth is attributed to rising domestic credit activity.

Banks will have to continue to keep a close

watch on their loan exposures, including to areas such as the real estate sector where some market challenges have emerged. However, the banking sector's loan quality remains strong by regional comparison, with the non-performing loan (NPL) ratio averaging below 2%.

The Qatar authorities are committed to bolstering regulatory and supervisory frameworks. All Qatari lenders comply with IFRS 9 reporting standards, which came into effect at the start of 2018. The banks maintain a risk reserve at 2.5% of total direct credit facilities, and IFRS 9 implementation did not have a substantial impact on banks activities, since their capital adequacy ratios were already above the minimum levels set out by the Qatar Central Bank. The IMF notes that the country's Financial Stability and Risk Control Committee is fully operational and has been meeting regularly to assess financial stability and inter-regulatory co-ordination.

The Qatari authorities are continuing to enhance the liquidity management framework. The IMF notes with favour that Qatar Central Bank has developed an analytical framework to help guide the conduct and implementation of liquidity forecasting.

Under Qatar's Second Strategic Plan for



the financial sector, covering 2017-2022, the authorities are focusing more on deepening domestic financial markets with a view to promoting savings, offering borrowing and investment opportunities, and achieving greater financial inclusion, particularly for women and small and

medium enterprises (SMEs).

Fresh attention is being given to the benefits of new technology. Under the Second Strategic Plan, FinTech is envisaged to play a key role as the main tool for achieving the country's long-term development goals for the financial sector. The Qatar Central Bank has been working on a FinTech strategy for some time, and has prepared regulations that would foster innovation in financial technology. A dedicated FinTech section will oversee such developments by introducing a regulatory sandbox – using Qatar's technological ecosystem of Qatar to support a successful growth of FinTech.

The strategy envisages FinTech playing a key role in forging new financial instruments that will both improve financial inclusiveness in Qatar, and skills too. FinTech could for example play a role in increasing lending to Qatar's SME sector.

FinTech gained further traction in October last year, with a joint initiative between the Qatar Financial Centre (QFC) and B-Hive, a European collaborative innovation FinTech platform based in Belgium, to develop the country's FinTech sector. The two will work closely to discuss the latest trends in disrup-

tive technologies, legislation and other data, as well as the organisation of global activities to further promote the industry in both countries. The agreement will also see the QFC and B-Hive contribute to the growth of FinTech-related communities by engaging with start-up support institutions as well as financial institutions and regulators.

Qatari banks are also proving themselves to be innovators in their own product developments. Commercial Bank of Qatar, for example, has developed a 60 seconds digital remittance service which credits beneficiary accounts in over five countries in less than a minute. The bank previously outsourced its technology to India, but has brought it back in-house through the creation of wholly-owned subsidiary, Commercial Bank Innovation Services. This is now focusing on innovative digital products to its services, including upgraded mobile banking applications and remote cheque scanning.

The country's lenders have proven their resilience over the past couple of years; now is the time for banks to build on those strengths and fashion new ways of building their balance sheets and supporting the Qatar economy's ambitious diversification effort.

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everything is possible



Creating steadfast alliance makes us stronger

Driven by our aim to diversify revenues and seek new regional opportunities, our successful "Alliance" of banks with "Alternative Bank" and "National Bank of Oman" continues to reach new heights. The Alliance supports our endeavour to integrate our business strategies, exchange product know-how and human capital, which plays a vital role in increasing shareholders' value and group profitability.



When life brings choices, we can help you decide.

When it comes to financial matters, it's important to choose the right source of expertise. When you make your decision, we will make sure it is the right decision, made on the right time.



Investing in Egypt



Egypt enters new phase of growth

Egypt has reached a pivotal point in its new phase of economic development. For the fastest growing economy in the Middle East, and the biggest investment magnet in Africa, the task is to build on deep reforms to create a more business friendly environment, attract fresh investment and create meaningful jobs for the poorest Egyptians.

In terms of headline figures, the outlook is positive. The comprehensive reform programme has put the country on a more secure financial footing, underpinned by a currency devaluation in 2016, boosting growth and curbing inflation faster than many had envisaged.

Gross domestic product growth is already on the rise, up to 5.6% in the fiscal year 2018/19, compared with 5.3% in 2017/18 and 4.2% in 2016/17. Meanwhile, inflation decreased to 6.7% in August 2019, compared to 29.5% in 2017.

The official unemployment rate decreased to 7.5% in the second quarter 2019, compared to 9.9% in the same period of 2018. The state budget deficit decreased to 8.4% in 2018/19 from 9.7% in 2017/18.

Prime Minister Mostafa Madbouly said in September that the government expected the economy to be growing at an annual rate of 8% by 2022.

Madbouly said the government wants to "alter the face of private investment to spur growth", with measures to improve the business climate including "simplifying and lowering the cost of forming companies and expanding new investment zones".

"The results are remarkable, and they are reflected in almost all economic indicators," says Sahar Nasr, Egypt's Minister of Investment and International Co-operation.

But it's not just Egyptian ministers who are enthusing. The International Monetary Fund (IMF) agreed a \$12 billion loan for Egypt in 2016, when the economy was teetering following several years of political and social turbulence. On clearing the final \$2 billion disbursement from that loan in July 2019, IMF officials praised the progress made by the Egyptian authorities in their final review.

"The macroeconomic situation has improved markedly since 2016, supported by the authorities' strong ownership of their reform program and decisive upfront policy actions," David Lipton, Chairman of the IMF's Executive Board, said. "Critical macroeconomic reforms have been successful in correcting large external and

domestic imbalances, achieving macroeconomic stabilization and a recovery in growth and employment, and putting public debt on a clearly declining trajectory."

The IMF praised the country's fuel subsidy reform, saying this would help direct private investment into sustainable, job-creating industries, rather than those viable only because of subsidised fuel prices.

Sustaining reforms

Lipton said the outlook remained favourable, providing an opportunity to further advance structural reforms to support private-sector led growth and job creation. But sustained implementation of reforms covering competition policy, public procurement, industrial land allocation, and state-owned enterprises, would be essential.

"Deepening and broadening of effective reforms is critical to underpin the positive outlook for growth and unemployment," Lipton said.

The country's growth prospects and success in curbing inflation has piqued interest in high yielding Egyptian bonds, providing a valuable conduit to borrowing for the government. Finance minister Mohamed Maait said in September, Egypt planned to issue up to \$7 billion of international bonds in fiscal year 2019/20, having issued over \$6 billion-worth in the previous year.

Foreign direct investment in the economy has also been growing, albeit mainly concentrated in the oil and gas sector, which is resurgent following the discovery of the giant Zohr offshore gas field in 2015. The challenge now is to pull in more foreign and domestic private investment into other areas of the economy, where state spending has been the main driver of growth thus far.

Egypt is keen to attract investment to more labour-intensive sectors such as manufacturing and information technology, which offer prospects of higher paid, skilled work to a growing pool of young Egyptian job seekers, many of whom come from poor families, with limited access to education.

Empowering the poor

President Abdel Fattah al-Sisi knows that economic growth ultimately needs to reach down to the poorest in society. If Egyptians are to tolerate hardships, such as higher fuel and food prices, that have accompanied the reform programme. According to the state statistics agency, around one third of Egypt's 100 million population live below the national poverty line of around \$540 a year.

Ultimately, Egypt's long-term economic success is likely to depend on success in nurturing and mobilising its vast resources of human capital. To that end the government is working with the World Bank on a \$2 billion project in support of Egyptian education reform, which runs to 2023. Among other objectives, this aims to enrol 500,000 children Kindergartens, with 50% coming from poor districts, enable 2 million students to benefit from secondary school system reforms, improve teacher training and make digital learning resources more widely available.

The increasingly dynamic banking sector is also working to bringing the poorest Egyptians into the wider economic system through simpler access to more relevant banking and financial products (see Q&A with CIB chairman Hisham Ezz Al Arab).

Women's empowerment is another key plank of government policy in a country where conservative family values have tended to militate against women fulfilling their potential in the workforce. Over 20% of women are classified as unemployed, compared with fewer than 10% of men.

The Ministry of Investment and International Cooperation is also working on the introduction of legislative reforms and investment policies to economically empower women and attract investment from businesswomen. Meanwhile, local organisations working with international counterparts have embarked on media and awareness campaigns designed to shift attitudes and improve access to jobs for women.

Egypt is now moving on to the next phase in the radical overhaul of its economy, which requires rapid and all-inclusive expansion of the workforce and the strengthening of private industry across all sectors. Reviews of the country's reform programme have been positive, the economic forecasts are optimistic, and the government says it is determined to realise Egypt's huge economic potential.

Interview with H.E. Dr. Sahar Nasr Minister of Investment and International Co-operation

Since 2014, Egypt has adopted rigorous reform policies to enhance economic performance and address structural imbalances. How do you see the results after five years of implementation?

The results are remarkable, and they are reflected in almost all economic indicators. Economic growth has been robust and GDP continued to improve in FY 2018/19, recording 5.6% compared to 5.3% in FY 2017/18 and 4.2% in FY 2016/17. Meanwhile, inflation rates decreased to 6.7% in August 2019 compared to their highest level of 29.5% in 2017. The unemployment rate decreased to 7.5% in Q2 of 2019 compared to 9.9% in Q2 of 2018. In addition, the state budget deficit to GDP decreased to 8.4% in FY 2018/19 from 9.7% in FY 2017/18.

It is worth mentioning that these results were partially driven by a recovery in private sector investments; and are at the same time a cause for attracting further investments. The government reform policies aimed to foster a competitive, balanced and diversified economy to encourage private sector investments, innovation and knowledge. The reforms will also pave the way for attracting domestic and foreign investments, allowing more businesses expansions and enhancing access to finance.

What were the measures taken by the Ministry of Investment and International Cooperation to restore confidence in the Egyptian market and improve the investment climate?

The political leadership and the government realize that the private sector is the main engine for growth. Thus, the Ministry opted for creating a conducive environment for investment and endorsed a multifaceted investment strategy. The strategy targeted legislative reforms through issuing the investment law, the companies law, the bankruptcy law as well as registry law for

movable assets. It also targeted institutional development through a digital transformation scheme to streamline and simplify procedures, significantly curbing the time and number of steps for licensing, registering, and establishing a company. In addition, the strategy fostered a transparent system to improve access to reliable information about available investment opportunities and incentives through the launch of the first Investment Map.

These reforms were described by international institutions to be the widest in scope undertaken by the government in one year over the past decade, and the second largest to be carried out by an economy in the Middle East and North Africa (MENA) region in 2018. They resulted in restoring confidence of private sector and strengthened transparent and inclusive public-private dialogue.

To what extent do you think these measures were effective in improving the investment landscape in the country?

Indeed, they were very effective, and that was reflected in international economic reviews and reports. For example; the legislative and regulatory reforms as well as institutional development reduced red tape and bureaucracy, which improved Egypt's position in the Doing Business Report in 2019 by 8 places.

Also, private investments continued to increase from EGP 213.5 billion in FY 2016/17 to EGP 316 billion in FY 2017/18 and EGP 480 billion in FY 2018/19. Similarly, issued capital and company establishments increased by 25%, and 47 % respectively after the endorsement of the Investment Law No. 72 of 2017, during the period from June 2017 to August 2019 compared to the period from February 2015 to May 2017.

There is an international economic slowdown that resulted in a global crunch in



Sahar Nasr, Egypt's Minister of Investment and International Co-operation

Foreign Direct Investment (FDI). FDI flows to Egypt experienced a slight decline from US\$ 7.4 billion in 2017 to US\$ 6.8 billion in 2018. Do you find this alarming?

Numbers are sometimes tricky if you take them out of context. As you mentioned, there is a global concern that the international economy is experiencing a slowdown, and FDI has been considerably shrinking worldwide since 2015. Nonetheless, Egypt's share of global FDI increased since 2015 by almost 66%. Also, FDI flows have significantly increased from US\$ 2.2 billion in FY 2010/11 to US\$ 7.7 billion in FY 2017/2018. Some year-on-year fluctuations are normal as FDI flows are affected by many variables.

What matters more is FDI to capital formation ratio and stock to GDP ratio. As per 2018 figures, they reached 17% and 46.7% respectively, exceeding the world's average of 10% and 36.7%. In addition, it is estimated that FDI in Egypt is about 30% higher than

announced figures, as the currently applied methodology of measuring FDI does not take into account the expansion of companies and the retained earnings.

Do you expect FDI flows to pick up again soon? And why?

Actually, the Egyptian economy has demonstrated its resilience to economic shocks and proved to be competitive on the international front. Even with the shrinking international FDI flows, we have maintained our position as the number one destination for FDI in Africa according to the African Development Bank. Investment follow-up reports by UNCTAD over the past years show that Egypt is on the right track to attract more investments.

According to the World Investment Report 2019, Egypt continues leading African countries as the largest recipient of FDI in 2018 for the second consecutive year, receiving 15% of total inflows to the continent. Meanwhile, Egypt ranked second amongst Arab countries receiving FDIs in 2017 according to the 2018 World Investment Review (WIR), following the United Arab Emirates. The two countries' shares combined represented 62% the total FDI flows to the Arab region.

Public Investments are still a major contributor to the Egyptian economy. What are the main sectors that the government is keen on investing in?

We believe that the availability of efficient infrastructure and public services are requisites for spurring economic growth and attracting new investments. The government, therefore, invests in infrastructure upgrading in the areas of transportation, housing as well as utilities to promote connectivity, productivity and the overall living conditions.

We also invest heavily in human capital in determined efforts to achieve equality and inclusion of different social segments and across all governorates. Public investments thus target social services, especially health and education, to ensure equal opportunities and improve people's livelihood.

The discoveries of offshore gas reserves skewed FDI inflows to Egypt towards the oil and gas sector over the past three years. How does that influence your investment portfolio and promotion?

Egypt's economy is quite diversified, yet, energy is one of the priority sectors towards which we aim at attracting investments.

Egypt is becoming a regional energy hub for traditional as well as renewable energy. So with respect to oil and gas, more investments into petrochemical industries are underway with the expansions and new constructions of Egyptian refineries, liquefaction and export facilities to promote value-added production and boost profitability.

The country will also be exporting electricity to European Union as well as African countries through connecting the national electricity grid to neighboring countries. Meanwhile, Egypt enjoys prime location for renewable energy sources with potential market worth billions of dollars. This is reflected in the significant domestic and foreign investments in solar plants and wind farms. In fact, the largest solar power plant in the world is in Aswan with an initial investment of US\$ 651 million. So, as you see, we are becoming a regional energy hub, and we are welcoming more investments in energy as well as other priority sectors.

What are the other priority sectors towards which Egypt plans to attract FDI inflows in the future?

Our aim is to diversify our domestic and foreign investments, capitalizing on our success in repositioning Egypt as an attractive investment destination. We promote private investments in sectors that contribute to the country's development through job creation, value-added production, improving innovation, management and technology, and are export oriented.

We have special focus on infrastructure, transportation, information technology, and manufacturing. Meanwhile, we direct huge investments towards human capital which is a main priority for the political leadership, through revamping the education system and putting forth very prudent health insurance systems to target the underserved segments of the population.

What is the key message that you use for promoting investment in Egypt? Why would investors prefer Egypt to other destinations?

I think the key stimulus here is that Egypt has a huge market with a diversified investment potential; more than 100 million consumers; easy access to facilitate cross continent and regional trade; and more importantly, it has a young population who provide skilled workforce from high technology fields to handicrafts and vocational work. The cost of doing business is also very competitive compared to regional

average and to other emerging economies.

Current statistics show that the EU, the US and Gulf countries are amongst the largest sources of FDI in Egypt? Do you see the balance shifting in coming years? Could China and other Asian countries investments increase in Egypt?

Strengthening and expanding economic relations and ties with countries around the world, and diversifying the sources of investments are key for us. We have strong economic relations with the EU, UK, US and GCC and Arab countries, and we see indeed a positive rise in Chinese investments into the Egyptian market considering the political stability in Egypt, and the strong relationship between the two countries. During 2018, around 35% of foreign investments in the Suez Canal Zone came from Chinese companies.

We expect the next few years will witness further cooperation between Egypt and China as well as incoming investments from other countries. We are currently promoting investments and commercial exchange with countries of the south who enjoy strong potential and provide promising mutual economic relations. The year 2018 witnessed increases in FDI stocks from non-traditional sources, including; Mauritius and Russia by 80% and 22% respectively.

It is very good to see that the reforms improved macroeconomic indicators and investment landscape. Yet, there are concerns that their adverse effects negatively impacted the Egyptian people. How do you address that in the government?

I believe that more than ever before, there has been a transparent system of acknowledging and addressing the challenges by the political leadership. Improving the Egyptian people's lives is in fact the main objective of the reform program, and thus extensive consultations in different governorates were carried out, and the parliament has been very much engaged.

We therefore shifted the focus of the country's social protection system from generalized energy and food subsidies to human development targeted programs. We put in place specific schemes that target the most vulnerable; specifically, women, youth and the elderly. The social security network is now benefiting over 2 million families. Unemployment dropped to below 10.6% this quarter, and the financial inclusion policies managed to improve the outreach and coverage of financial services.

Q&A: Hisham Ezz Al Arab – Chairman and MD of CIB

Growing Egypt's largest bank

The size and strength of Commercial International Bank (CIB) have made it a bellwether company for Egypt's corporate sector as a whole.

The bank has been operating for more than 40 years, having started life as a joint venture bank between Chase Manhattan Bank and the National Bank of Egypt (NBE). Since then, after various ownership changes, CIB has risen to become Egypt's largest private sector bank in terms of revenue, net worth, total assets, and deposits. It also has the largest market capitalization in the Egyptian banking sector, and reports one of the lowest efficiency ratios among Egyptian private sector banks.

We asked CIB's chairman and managing director Hisham Ezz Al Arab about the prospects for the bank, the banking sector and the resurgent Egyptian economy.

Following some tough times for the Egyptian economy, how has CIB sought to strengthen over recent years?

The heart of banking is the relationships we cultivate with our customers, so we have focused on increasing the ease and convenience of banking for our clients. We have aimed to build a customer-centric, rather than product centric, institution by leveraging the power of big data – a concept we introduced to the Egyptian market in 2015 – to deliver targeted, tailored product and service offerings.

CIB is working to integrate data analytics and the wealth of information it possesses in the development of its offerings to clients. Detailed customer segmentation gives us an accurate and holistic view of our clients' financial behaviour, which allows us to effectively tailor products and services that address their needs. This strategy will accelerate the bank's transformation process into a fully customer-centric institution.

Our focus on digital banking has made it easier for our customers to perform financial transactions. Our efforts in building and investing heavily in the bank's digital platforms early on have paid off as CIB is now at the forefront of the Egyptian banking sector as a direct result of the simple, fast, and contextual experience it offers its customers.

Banking is no longer somewhere you go

but something you do, in part because of new global regulation. One example is the second Payment Services Directive (PSD2) mandating European banks to give third parties access to customer-permitted account and transaction data through Application Programming Interfaces (APIs). This also allows those third parties to initiate payment transactions on behalf of customers.

Customer evolution is redefining the interaction model for banks in a way could shift value. The best example of a "value shift" market is China, where big techs like Ant Financial and Tencent have made serious inroads into the consumer financial services market and traditional banks are clearly in catch-up mode.

CIB ranked top in both mobile wallet activity and mobile banking penetration in 2018. We are also the only bank to offer governmental and non-governmental bill payment services via an interactive voice recognition system, along with other solutions like credit card settlement. Moreover, our ATM network expanded significantly in 2018 to become the largest among private sector banks in Egypt.

Q: Where will the bank's growth come from?

I view CIB as a reflection of the economy, sort of a mirror to what is taking place in the market. I believe the retail market is poised

for growth in the short-term, especially with the recent increase in individuals' awareness regarding services offered by banks and their importance to the economy. As such, we've been concentrating our efforts in building a world-class consumer banking segment, dedicated to improving customer satisfaction and delivering a consistently positive experience.

One sector I feel is very attractive, and which has been thriving over the last couple of years, is financial services, mainly microfinance and nano-credit, as well as other payment platforms and fintech, such as the recently listed Fawry e-payment network. There are multiple success stories in Egypt for such companies and their growth trajectory looks very promising.

We also anticipate growth in corporate lending. Most corporations haven't been investing in capital expenditure, due to the macro-environment and muted purchasing power. However, as the economy has strengthened significantly in the past few years, consumption is recovering very quickly.

In my opinion, the current differential between Egypt and its peers gives room to cut Egypt's interest rates without risking the country's debt competitiveness. As a result, there's a huge pent-up capex demand from corporates across the board who have been waiting for the right interest rates to begin long-term borrowing. I believe there is a

still room for further interest rates cuts in 2019, although this might trigger a rotation out of treasury bills by foreign investors, these flows are expected to be reinvested in longer duration instruments, as Egypt's debt will still be well above its emerging market peers, when adjusted by the countries' credit default swaps. The Sharpe Ratio measure also puts Egypt in pole position in terms of risk-adjusted return.

Q: Only around 14 million out of the 60 million people in Egypt eligible for bank accounts actually have one. Why is that figure so low and what is CIB doing to change this?

Egypt's low banking penetration rate is due to several factors, predominantly the prevalence of a cash-dominated economy. There is still a huge part of the population operating in the grey economy, who only transact in cash.

CIB is working on raising the general awareness on the services that we provide in order to assist the government in its financial inclusion initiative. We are focusing on our digital platforms and our strategy in this regard rests with our commitment to technology.

This is where CIB has differentiated itself, particularly in our investment in digital platforms, versus traditional channels, which has led to the launch of many important channels such as the Smart Wallet and CIB Mobile Banking app. We are firm believers that these channels are the stepping-stone to bring in more people to the banking sector.

Q: How is CIB seeking to build further on the digital revolution in banking?

To further cement the bank's leadership position, CIB formulated its digital business strategy framework during 2018, which centres on four main pillars: enhancing the customer experience, increasing migration and automation ratios, optimizing costs, and generating revenue.

As an acknowledgement of the bank's extensive efforts in the digital field, CIB was chosen as a member of the Digital Economy Task Force (DETF) and the sole representative of Egypt's private sector. The DETF is a joint venture between the African Union and the European Union aimed at achieving cross-border integration and cooperation across Africa. It brings together stakeholders from government, civil society, financial institutions, and other stakeholders



"The results are remarkable, and they are reflected in almost all economic indicators"

**Hisham Ezz Al Arab
Chairman and MD, CIB**

to further reinforce the development of policies and recommendations, reinforce synergy between initiatives, and create coordination structures on national, regional and continental levels.

Q: What are CIB's international expansion plans?

We recently opened a representative office in Addis Ababa, Ethiopia as part of our African expansion plans. This is intended to strengthen our relationship with Ethiopian banks, gain market intelligence, and support our exporting clients. We are happy with the move to operate in one of the most attractive markets, in a region that registers one of the highest GDP growth rates. The Ethiopian rep office becomes the second of the same nature, after our rep office in Dubai, the UAE.

Q: Turning to the wider Egyptian banking sector, how robust is the industry now

The Egyptian banking sector is now perhaps

one of the strongest among emerging markets, in terms of efficiency and liquidity, and can be considered the strongest sector in the Egyptian economy. It's a sector grounded by solid fundamentals – high liquidity, and a strong deposit base – that have enabled it to weather the economic turmoil of the past eight years. As a result, banks have been the least affected by the most recent external shocks. The banking sector's strength can be attributed to the structural reforms that started in 2004 and are still being carried on to this day. As a result, it continues to be the lifeline of the Egyptian economy.

Capitalization levels are not only adequate, but exceed Basel III requirements. Banks remain well funded thanks to their strong deposit bases. Liquidity is ample with the loan-to-deposit ratio standing at 47% in March 2019, according to central bank data – one of the lowest in emerging markets.

Additionally, asset quality showed steady improvement with aggregate non-performing loans (NPLs) as a percentage of gross loans standing at 4%, as of March 2019, down from 7% in 2015. NPLs were almost fully covered by provisions, as of September 2018, with 98% of such assets allotted for. Banks were also well capitalized, with the reported system-wide capital adequacy ratio (CAR) standing at 16.5% in March 2019, comfortably above the regulatory requirement of 11.9%.

Q: What more needs to be done to reform the sector?

The structural reforms implemented by the government 15 years ago successfully addressed the impediments to the sector's sustainable strength and growth. Among the most promising things is the formation of the National Payment Council, created by President Sisi in 2017, in part to encourage digital transactions. This will automatically make account openings significantly easier and pave the way for banks like CIB to fully capitalize on our technological capabilities by providing a simplified customer experience, as well as enabling greater financial inclusion.

Technological advancements are leading a revolutionary change in the banking industry the world over, with banking transactions no longer requiring bricks and mortar branches, but simply an internet connection and a smart phone. Hence, the importance of stable and affordable connectivity is paramount to the success of these initiatives.

Resilient banking sector primed for action

Egypt's banking system has undergone a transformation. Supported by strong economic growth and a root-and-branch reform programme put in place over the last two decades, the country's financial institutions are now pulling their weight, providing a vital lubricant for Egypt's economic success.

A sector whose progress was being dragged back by poor lending decisions and the weight of debt is now on a much surer footing and better able to play its crucial role in ensuring that the growing tide of investment in Egypt can find its way to private sector companies as rapidly and efficiently as possible.

"Egypt's banking system remains liquid, profitable, and well capitalized," the International Monetary Fund's Egypt loan review team said last year.

Bank loan growth is buoyant, while non-performing loans (NPLs) are at much more manageable levels than in the past, helped by the country's economic expansion, which has made many bank customers more solvent. This improved operating environment has produced positive assessments from international observers.

"Banks will continue to have good access to stable, deposit-based funding and hold large volumes of liquid assets, especially in local currency," Moody's Investor Service said, on maintaining its positive outlook for the Egyptian banking system in February.

The agency forecast then that increased public and private-sector investment, higher exports and a recovery in tourism would help support balance sheet growth of around 15% in 2019 and that banks would be able to maintain ample local currency funding, high liquidity, and strong and stable profitability.

Fitch Solutions has also sounded a positive note, forecasting in May that Egyptian banks would experience strong loan growth of 22.5% during 2019.

NPLs under control

The scale of the turnaround for the sector is underscored by a dramatic contraction in NPLs, which stood at 4.4% of total loans in September 2018, compared to 19% in 2007 and 11% in 2011. While part of that improvement can be attributed to historical NPL write-offs, it is also due to the effects of the banking reform programme and the commercially savvy approach by those now in

charge of Egypt's banks.

As with banks anywhere, their fortunes are still heavily dependent on wider economic fortunes of the domestic and global economies.

As Moody's put it: "NPL levels remain vulnerable to a future turn in the economic cycle due to large volumes of untested new loans and ongoing security risks. Egyptian banks' high exposure to government securities – at 32% of their assets as of October 2018 – also links their creditworthiness to the sovereigns."

While noting that foreign-currency funding and liquidity remains adequate, Moody's also noted that the sector could feel more pressure from global financial tightening, evident in a fall in banks' foreign assets.

Mobilising investment

With a leaner, fitter banking system now in place, perhaps the two greatest challenges now are to mobilise investment in the economy, beyond the buoyant hydrocarbons industry, on one hand, and to bring more Egyptian individuals into the banking system on the other.

In the corporate sector, lending to small and medium-sized enterprises (SMEs) is a priority, given that much of the country's future economic prosperity should be generated by today's up-and-coming private start-ups, rather than state-owned entities. Egyptian banks have signed a string of financing agreements with multilateral institutions, such as the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), to maximise the flow of funding to SMEs.

Bank lending makes up around a quarter of the EBRD's portfolio in Egypt. The EBRD has been in talks with the CBE over bringing new banking products to the Egyptian markets, using its relationships with 13 partner banks in Egypt. Products that target women's and youth businesses are among its priorities, along with SMEs and also FinTech.

FinTech, the economic segment where financial services and technology crossover, is one growth area that has wide-ranging potential in Egypt.

Sweeping reforms

Nevertheless, Egypt's extensive banking reform programme and sounder management has brought more resilience and strength to the sector. Hisham Ezz Al Arab, Chairman and Managing Director of the country's largest private bank, Commercial International Bank (CIB) says the declining NPL figures suggest the worst of the sector's problems with bad debts is now firmly behind it. "This can be directly attributed to the restructuring of the banking sector," he says. The first phase of those reforms, which focused on banking supervision reform, took place as long ago as 2004-08. This covered four main pillars – privatization and consolidation within the banking sector, getting NPLs under control, restructuring the financial and managerial aspects of state-owned banks, and upgrading banking supervision by the Central Bank of Egypt (CBE). "The first phase resulted in the establishment of a proactive and highly analytical bank supervision framework," says CIB's Al Arab.

The number of banks operating in Egypt fell from 57 in 2004 to 39 well-capitalized banks in 2008. The private sector-led regeneration of the system was kickstarted by the decision to sell 80% of then-publicly owned Alexandria Bank to the Italian Banking Group Intesa Sao Paulo in 2006.

The second phase, which took place in 2009-12, focused on reviewing and enforcing corporate governance regulations and best practices, targeting both the banking sector, as well as the CBE, and implementing the Basel II international banking standards. The regulations were then fine-tuned in a third phase.

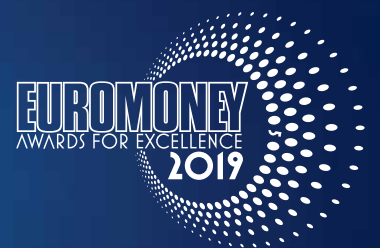
The fourth phase of the reform program targeted existing regulations on capital adequacy and Basel II, finalizing a data warehousing framework, and final regulations on leverage ratio, among other elements. From the first quarter of 2019, banks have been obligated to report financial statements in accordance with IFRS9, a new International Financial Reporting Standard.

CIB has been among the front runners in promoting the sector, and has established Cventures in 2018, which is Egypt's first Corporate Venture Capital firm that is primarily focused on investing in FinTech start-up companies, and next-generation financial services platforms, the company said.

Not only does a focus on FinTech offer attractive prospects for young entrepreneurs seeking profitable business opportunities, but the products created will reap dividends for the wider population, offering easier access to banking for the country's poorest communities and for the myriad small businesses currently operating outside the formal banking system.



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What's happening Friday, October 18

9.00am - 10.30am

Annual Meetings Plenary

10.45am - 5.30pm

Corruption challenge

10:45am - 11:20am

Session 1: **Shining a Light on Corruption**

12:00pm - 1:00pm

Session 2: **Enhancing Governance in Public Finance – The role of data and technology**

2:00pm - 3:00pm

Session 3: **Promoting Good Governance in Central Banks: The role of non-executive directors**

3:15pm - 4:15pm

Session 4: **Tackling Corruption: Financial Disclosure Systems for Public Officials**

4:30pm - 5:30pm

Session 5: **Fighting Money Laundering: The use of data for financial intelligence**

Location: IMF iLab (HQ1-2-701)

11.00am - 12.00pm

Seminar: **Private sector in fragile situations: getting the job done!**

Speakers: **Aksel Jakobsen**, State Secretary of International Development, Ministry of Foreign Affairs, Norway;

Abdirahman Duale Beyle, Minister of Finance, Somalia; **Aline Sara**, Founder and CEO NaTakallam; **Suprotik Basu**, Founder, Partner, and Head of Sustainability and Impact; Blue like an Orange

Sustainable Capital

Moderator: Lerato Mbele, Presenter, Africa Business Report, BBC World News WBG MC Building, Preston Auditorium

11.00am - 12.00pm

Jobs and economic transformation in emerging markets

Speakers: **Philippe Le Houérou**, CEO, International Finance Corporation; **Sahar Nasr**, Minister of Investment and International Cooperation, Egypt; **Reeta Roy**, President and CEO, Mastercard Foundation; **Nadeem Ahmed**, Chairman, Global Tea and Commodities LTD; **Adan Mohamed**, Cabinet Secretary, Ministry of East African Community and Regional Development, Kenya; **Peter Njonjo**, Co-Founder and CEO, Twiga Foods

Moderator: Nozipho Mbanjwa, Anchor, **Producer, CNBC Africa**

Location: WBG MC Building, Jim Wolfensohn Atrium

11.00am - 5.00pm

Big data, big stories

Location: IMF HQ1 Gallery

11:00am - 11:30am

Putting a Value on Marine Life

Speakers: **Ralph Chami**, Institute for Capacity Development, **Joe Roman**, University of Vermont

11:45am - 12:15am

Housing Markets — A Stich in Time

Could be a Lifeline

Speakers: **Tobias Adrian**, Financial Counsellor, IMF; **Boris Vujčić**, Governor, Central Bank of Croatia

12:30pm - 1:00pm

Global Growth, Lagging Sub-National Regions

Speakers: **Gita Gopinath**, Economic Counsellor, IMF; **Nadia Calvino**, Minister of Economy, Spain

4:00pm - 4:25pm

The Price to Stop Climate Change

Speaker: **Vitor Gaspar**, Director of Fiscal Affairs Department, IMF

Moderator: Justin Worland, *TIME*

4:30pm - 5:00pm

Putting a Value on Marine Life

Speakers: **Ralph Chami**, Institute for Capacity Development, IMF; **Joe Roman**, University of Vermont

Location: IMF HQ1 Gallery

1.00pm - 2.00pm

Seminar: **Making the case for reform**

Opening remarks: **David Lipton**, First Deputy MD, IMF

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

Speakers: **Alberto Alesina**, Professor of Political Economy, Harvard University; **Paschal Donohoe**, Minister of Finance, Ireland; **Felipe Larrain**, Finance Minister, Chile; **Lidia Pereira**, Member of the European Parliament; **Luca Visentini**, General

Secretary, European Trade Union Confederation

Location: IMF HQ1, Meetings Halls A&B

2.00pm - 2.30pm

International Platform on Sustainable Finance: A global approach for financing the green transition

Introductory remarks: **Valdis Dombrovskis**, Executive Vice-President of the European Commission

Keynote remarks: Kristalina Georgieva, Managing Director of the International Monetary Fund (tbc)

Key statements by the IPSF members: Ministers of Finance and Central Bank Governors

3.00pm - 4.00pm

Seminar: **Unleashing the potential of women entrepreneurs through finance and markets**

Speakers: **David Malpass**, President, World Bank Group; **Ciiru Waweru Wait-haka**, Co-Founder and CEO of FunKidz (Kenya); **Maheen Adamjee**, Founder of Dot & Line (Pakistan); **Ana Botin**, Executive Chairman, Santander Group; **Dina el-Shenoufy**, Chief Investment Officer, Flat6Labs VC Fund; **David Solomon**, CEO, Goldman Sachs

Moderator: Julie Gichuru

Location: WBG MC Building, Jim Wolfensohn Atrium

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Dress code: business attire/national dress
Please RSVP to: rsvp@globalcapital.com

ExtraCurricular

Institute of International Finance (IIF) 2019 Annual Membership Meeting Debt, Data, Defence of Markets and the Rise of the Intangible Economy

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

Amphitheater (Morning)

Host: Michael McKee

7.30am – 8.15am Registration

8.15am – 8.30am

Welcoming Remarks/President's Report

Tim Adams, President and CEO, IIF

8.30am – 9.00am

In Conversation Tim Adams, Raymond Dalio

9.00am – 10.00am

Views from the C-Suite: global outlook

Tim Adams (moderator), Ana Botin, Daniel

Pinto, Makoto Takashima, Jose Vinals,

Shemara Wikramanayake

10.00am – 11.00am

Views from the C-Suite: Europe

Howard Davies, Jean Lemierre, Kay Swinburne

(moderator), Andreas Treichl, Martin Zielke

11.00am – 12.00pm

View from the C-Suite: Asia

Xiaopeng Li, Clay Lowery (moderator),

Kanetsugu Mike, Vishakha Mulye, Bill Win-

ters, Yuqiang Xiao

12.00pm – 12.45pm

Views from the C-Suite: agenda for
seizing the digital era

Brad Carr (moderator), Piyush Gupta, Ralph

Hamers, Kati Suominen, Carlos Torres Vila

Atrium Hall

12.45pm – 2.15pm

Lunch: views from the C-Suite: US

Tim Adams (moderator), Jamie Dimon,

James Gorman

Amphitheater (Afternoon)

Host: Michael McKee

2.30pm – 3.15pm

Views from the C-Suite: emerging markets

Hakan Binbasgil, Abdul Farid Alias, Clay

Lowery (moderator), Juan Carlos Mora Uribe,

Rania Mahmoud Nashar, Sim Tshabalala

3.25pm – 4.10pm

Global outlook and top market risks

Pascal Blanque, Joachim Fels, Janet Henry,

Sergi Lanau (moderator), Rebecca Patterson

4.20pm – 5.05pm

US outlook

Beth Ann Bovino, Charlie Cook, Carroll Do-

herty, Tony Fratto (moderator), Douglas

Holtz-Eakin, James Hohmann

5.15pm – 6.00pm

EU post elections/Brexit

Jon Cunliffe, Jose Manuel Gonzalez-Paramo,

Jean Pisani-Ferry, Robert Priester (modera-

tor), Klaus Regling, Stephanie Yon-Courtin

Atrium Ballroom A (Afternoon)

Host: Dion Rabouin

2.30pm – 3.15pm

Globalization in transition: the rise of
data, services and intangible capital

Richard Baldwin, Christine Bliss, Carol Corrado,

Shawn Donnan, Susan Lund, Sherry Madera

3.25pm – 4.10pm

The world is better than you think

Michael Cohen, Bobby Duffy, Charles

Kenny, Megan McArdle, Steven Radelet

(moderator), Marian Tupy

4.20pm – 5.05pm

Trade trends and outlook

Charlene Barshefsky, Diouglas Bell, Karan Bhatia,

Chad Bown, Shawn Donnan, Stephen Vaughn

5.15m – 6.00pm

Capitalism's crisis of confidence

Anatole Kaletsky, Dambisa Moyo, Rainer

Zitelmann, Martin Wolf (moderator)

Atrium Ballroom B (Afternoon)

Host: Brad Carr

2.30pm – 3.15pm

Future of Money

Kjerstin Braathen, Christopher Brummer,

Christopher Giancarlo, Charlotte Hogg,

Timothy Lane, Mark Wetjen (moderator)

3.25pm – 4.10pm

Competition in the age of digital platforms

Ana Arsov (moderator), Timothy Jones,

Aiaz Kazi, David Scola, Huw van Steenis

4.20pm – 5.05pm

Machine learning in finance

Magnus Agustsson, Natalia Bailey, Nick Caf-

ferillo (moderator), Rob Hegarty, Tom Mutton

5.15pm – 6.00pm

Quantum computing

Michael Brett, Conan French (moderator),

Daniel Moore, Michele Mosca, William

Oliver, Denise Ruffner

Atrium Hub

6.00pm – 7.30pm Networking Reception

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EIB *Continued from page 1*

based multilateral's commitment to Africa has grown exponentially since the migration crisis peaked in Europe in 2015. "It was a wake-up call for Europe," he says. "Until then, development was a side issue."

No longer. Over the past 10 years, the EIB has supported €100bn worth of investments in Africa. The bank has €25.8bn worth of lending in Africa, now its biggest arena of activity outside the single market.

"We are boosting our additional investments in Africa to unknown dimensions," Hoyer said. "In Africa, it is time to think development, and to think big."

This was no mercy mission, he was quick to emphasise. "Africa's population is set to hit two billion people by mid-century, so it is in our own interests to help to support economic development."

Nor were EU countries simply there to fund projects that extract resources for external consumption. Hoyer outlined Europe's aim of fostering sticky growth that generated jobs and wealth — starkly contrasting its ambitions with China's neo-colonial smash-and-grab approach.

"Chinese firms roll in with huge amounts of money, cement and people. They are still arriving, and they create Chinese jobs, not African jobs, and Europeans are waking up [to that fact]. There are similar developments with Russia in the Middle East, and with Turkish projects in Islamic countries.

"This is a huge challenge for us, as these countries have autocratic regimes able to make decisions quickly and implement them fast. The imperial attitude of the Chinese in Africa, of Russians in the Middle East, or of the Americans with the International Development Finance Corporation [the US's increasingly assertive development finance institution] require a strategic response from Europe. We won the last Cold War due not just to having better values and democratic institutions, but also because we had great solutions." At present, Hoyer added, he would not bet on winning the next Cold War.

Turning to the future of the EIB, Hoyer was asked which of the three potential pathways outlined by the High Level Group of Wise Persons on the European Financial Architecture for Development in a landmark October 2019 report would be pursued by the development bank. He pointed to option three, which would see a new lender, the European Bank for Sustainable Development, built to house the EIB's non-EU activities, and owned by the EIB, European Union member states, and national development banks.

He poured cold water on the suggestion the EIB could work in harmony with the EBRD. "I don't see how we can have the Russians and Americans around the table," he said. Both countries are shareholders of the EBRD.

THE final word

Finance ministers must take decisive action on climate change

By Felipe Larraín

Climate change is much more than an environmental problem, it is one of the most important challenges humanity faces today, threatening the gains in global development achieved over several decades. Moreover, its effects stretch far beyond humanity, posing a looming threat over all species and ecosystems at large.

According to the World Bank, without urgent action, climate change could push an additional 100 million people into poverty by 2030. Moreover, as this phenomenon tends to exacerbate weather shocks, extreme natural disasters including floods, droughts, and storms add on to the currently annual estimated loss of \$520bn in annual consumption and more than \$300bn in asset losses. These costs are disproportionately borne by the most vulnerable in society. Climate change is also emerging as a driver of internal migration, with an estimated 17 million "internal climate migrants" by 2050 in Latin America alone. The cost of inaction is estimated at over \$20tr globally, while the benefits of action exceed \$26tr.

As finance minister I have witnessed the heavy toll that climate change can take on all sectors of the economy. Unprecedented heavy rains and floods in the dry desert of Chile earlier this year forced several firms to suspend their operations. Severe droughts throughout several regions of the country have had a significant negative impact on the agricultural sector, depressing employment prospects, and destroying local economies. Further south, algal blooms have diminished salmon production. Landslides have interrupted water supplies and hit local economies. Heat waves are creating occupational hazards for the construction and agricultural sectors.

COLLECTIVE ACTION

This requires a decisive will and action from finance ministers who have a key role in the design of domestic policies, especially in the realm of tax and spending matters. With this backdrop, representatives from 50 countries attended the launch of the Coalition of Finance Ministers for Climate Action in Washington on April 13, an initiative co-chaired by Chile and Finland, with the aim of strengthening collective action on this matter.

More specifically, the Coalition endorsed the Helsinki Principles, a set of six common principles that foster climate action, especially through the use of fiscal policy.



Failure to effectively act on this issue will have significant economic impacts and leave our economies further exposed to climate risks and natural disasters

Finance ministers can and must have a relevant role in developing and implementing a macro-fiscal framework that integrates climate change in all aspects of finance, planning, and budgeting. Failure to effectively act on this issue will have significant economic impacts and leave our economies further exposed to climate risks and natural disasters.

Since our inaugural meeting last spring, the Coalition's momentum continues to build, with membership growing from 22 to 43 currently, stretching across all continents. On the back of this drive, the Coalition will meet again during this week's IMF & World Bank annual meetings to discuss initiatives and policies that may be included in the Santiago Action Plan, a set of concrete actions that should have a tangible impact on climate change.

GREEN BONDS

In Chile, we have taken action on climate this year by becoming the first in the Americas to issue sovereign green bonds. In doing so, we have clearly demonstrated our strong commitment to climate action and the development of the green asset class, while at the same time further improving our financing conditions and diversifying our investor base.

Importantly, the private sector has followed our lead, with several Chilean firms also issuing green bonds. We are set to publish our national financial strategy on climate change, and are awaiting conclusions on a public-private working group on green finance. We are also evaluating incorporating ESG criteria in the investment policies of our sovereign wealth funds. And we can proudly say that installed capacity of our economy's energy matrix continues to rapidly transition towards non-conventional renewables, rising from 2% in 2013 up to about 33% today. Moreover, we have already set our firm commitment to become carbon neutral by 2050.

We look forward to further strengthening the Coalition in December as we meet during COP25 in Santiago, Chile. We call on all finance ministers of the world to join the Coalition and work ambitiously together to face climate change through shared responsibility and shared action.

Felipe Larraín is the Minister of Finance of Chile and Co-Chair of the Coalition of Finance Ministers for Climate Action

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