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MDBs face being trapped between nationalist pressures and global crises

By Elliot Wilson and Virginia Furness

Multilateralism: old hat?

As the political and financial worlds come together in Washington DC this weekend, never has the role of multilateral development banks (MDBs) been more in question.

They stand at a crossroads, torn by conflicting demands on their time, energy and resources. On the one hand, it is crucial for them to work together to tackle issues like global growth and climate change. On the other, they are under pressure from populists and governments pursuing their own nationalist and isolationist policy agendas.

Werner Hoyer, president of the European Investment Bank (EIB), the world's largest MDB, said the premise of development banks — multilateralism itself — was itself under threat. Pointing to US president Donald Trump's decision to withdraw 1,000 American troops from Syria with no prior warning, was "one of the most terrible pieces of news you can hear".

Pax Americana was, he said, "extremely useful to peace and

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Saudi flexes lending muscles as bilateral cheques pose challenge to new IMF boss

By Owen Sanderson, Lewis McLellan and Rashmi Kumar

Georgieva: rivals

New IMF boss Kristalina Georgieva must grapple with the revival of government-to-government lending, with Saudi Arabia and the UAE joining the cast of major creditors that stand outside the Paris Club. Big cheques from bilateral lenders can help the

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20 central banks working on scheme which could make stablecoins redundant

By Owen Sanderson

Around 20 central banks are working with a start-up launched by Worldpay founder Nick Ogden, which could revolutionise cross-border payments — and make initiatives for global stablecoins, such as Facebook's Libra, redundant.

RTGS.global aims to link together the existing wholesale payments infrastructure run by central banks within their borders, to settle cross-border payments in real time, and vastly cut down on the costs and burden of the correspondent banking system. RTGS refers to "real time gross settlement", the generic name for central bank wholesale payments infrastructure.

This would achieve many of the goals of global stablecoins, such as Facebook-backed Libra, without disrupting existing infrastructure, taking transactions out of central bank control, and raising the compliance burden.

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20 central banks

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"We all get excited about stablecoins and Libra, but the vast majority of people only understand their own fiat currency and don't need anything else," said Ogden. "A lot of these developments have occurred because of the inability of the world's banks to mobilise themselves to create a real time global payments network."

Ogden is working with around 20 commercial banks, one in each relevant jurisdiction, and has been given the go-ahead by the central banks and regulators supervising them, though official institutions typically stop short of giving full endorsements to specific start-ups.

The system works by locking liquidity for the value of a cross-border transaction on the balance sheet of a bank at each end, releasing the lock when the transaction is confirmed. Central banks will have direct access to the flow of transactions, meaning they should be able to see bank liquidity positions in real time.

"Every single central and commercial bank we've seen has got the idea in about two minutes," said Ogden. "We've had 100% green lights for the pilot, though of course they want to be aware of any issues and risks as they come up."

Some central banks, according to Ogden, are already discussing giving the company access to their wholesale settlement systems directly, rather than only through banks. Rtgs.global intends to pilot transactions in the first half of next year, running live money transactions in the second half, and go to market thereafter.

"This would have a huge impact on the global currency system and on liquidity," said Ogden. "It's the single greatest improvement in commercial liquidity that banks could ever deliver."

Rtgs.global also avoids the potential for central bank stablecoins to actually harm liquidity in the system. Because most designs for these require 100% backing with central bank money, widespread adoption of these in a payments system is an existential threat to fractional reserve banking as we know it.

The company is owned by Ogden, along with Petr Kellner and John Risley, billionaires who also backed Ogden's ClearBank startup. It has refused requests to invest from commercial banks, as its role requires it to be a part of any potential bank resolution.

Sovereign green bonds proliferate, but Uruguay will go a different way

By Oliver West, Lewis McLellan and Jon Hay

Governments are moving enthusiastically into the green bond market, even as some seasoned issuers have moved away from the product. Uruguay has become the first sovereign issuer to say it is considering a 'second generation' structure.

"We think there is room for financial innovation in sovereign debt markets that takes a more comprehensive view of ESG, rather than just the 'E' part through green bonds," said Herman Kamil, Uruguay's head of sovereign debt management.

Poland was the first country to issue a green bond in 2016. Since then 10 others, from France to Fiji, have issued.

More are coming. Chile's dollar and euro deals in June attracted dozens of new investors and the euro notes were priced 5bp-10bp through its curve. Other Latin American treasuries have been seeking Chile's advice.

Mexico and Colombia may be the most likely followers. There are obstacles, though.

"We would like to issue green bonds, but we're committed to issuing benchmarks of between €1bn and €1.5bn and it's not feasible for us to source that many environmentally friendly assets to fund," said Marjan Divjak, director-general of Slovenia's debt management office. "However, Slovenia is committed to the Sustainable Development Goals and becoming an environmentally friendly country. Those policies are more important than the green bond market."

There is interest in north Africa. Morocco and Egypt have been exploring the idea for some time. "We're really interested in green bonds," said Marouane Abassi, governor of the Central Bank of Tunisia. "Tunisia faces huge problems of water scarcity, exacerbated by climate change. We need to be on the front line of this, taking advantage of the resources offered by the new financial pool."

Bangladesh is exploring the concept, but not ready to go yet. In Europe, Germany and Sweden have formal policies to issue green bonds next year, while finance ministers in Italy and Spain have said they will.

Yet some issuers are looking beyond the product. In September, Enel, the Italian power firm, issued 'sustainability-linked bonds'. The proceeds are not earmarked for green spending, but Enel will pay a step-up coupon if it fails to increase its renewable generation share to 55% by the end of 2021.

Enel believes these bonds are better at drawing investors' attention to its sustainability strategy. It has issued three green bonds in the past but will not sell any more, or even normal bonds — just sustainability-linked ones. Some investors are disappointed, but most like the new product.

Kamil: room for financial innovation

There is logic to this: green bonds do not protect investors from the risk or reputational taint of anything the issuer does, even outside its green bond asset pool. An ESG approach considers the whole organisation.

Uruguay is leaning this way. Banks and multilateral banks have pitched it green bonds, and it is considering that as an option in the next two years.

Uruguay now tops JP Morgan's ESG-adjusted EMBI index.

"We need to think about if there is room for an ESG-linked bond, how you could cater to investor demand for impact investing, how to align incentives between borrowers and investors, and how you would design ESG indicators," said Kamil.

Saudi

Continued from page 1

IMF's funds go further, but can obscure countries' true debt position.

Major financings such as the $20bn of support Saudi Arabia pledged for Pakistan earlier this year, and the joint $3bn package with UAE to support Sudan through its likely restructuring, have shown that the middle eastern Kingdom is now a cornerstone lender for countries seeking funds — provided they line up with the Saudi state politically.

When Pakistan applied for its 23rd IMF programme this summer, it already owed $23bn of outstanding debt to countries outside the Paris Club, mainly China.

"Our relationship to China is an important relationship, China has been of tremendous help at times when we needed help and not many friends were around, but we don't have any favourites," said Pakistan central bank governor Reza Baqir, speaking at the IIF conference in Washington. "We want more friends, we want our other friends who were previously more active and are now less so to come back, we don't want to discourage anyone."

FINANCING SHORTFALL

In Pakistan's case, bilateral commitments helped unlock the Fund's intervention, rather than competing with it. Willingness to roll over their existing loans, plus $6bn commitments from Saudi Arabia and China during the first year of the programme, helped convince the Fund to lend.

Alamine Ousmane Mey, minister of economy, planning and regional development for Cameroon, said: "The fact is that we need financing beyond the help offered by multilaterals. If there is a financing shortfall for Agenda 2030, 90% of the world's poor will be in Africa, which would be a development disaster. The IMF offers important resources, but its role is to create the conditions that allow us to borrow money from other sources and fund development."

Russia is also said to be boosting bilateral lending efforts. It is running the first Russia-Africa economic forum next week, chaired by Russian president Vladimir Putin and Egyptian president Abdel-Fattah el-Sisi. The programme includes a session on "sovereignty and traditional values as crucial elements of a development strategy", suggesting a hands-off approach.

China has been the main focus of concerns about bilateralism, thanks to the large volume of lending provided under the Belt and Road Initiative, and through its state-owned banks and corporates. Economist Ken Rogoff said it had poured money into Africa and parts of Asia "like we haven't seen since the US after World War Two".

Antoinette Sayeh of the Center for Global Development and a former director in the IMF's African department and former Liberian minister of finance, defended China's lending. "Non-concessional borrowing can bring debt vulnerability but, if well managed, it brings development objectives," she said. "There's often a knee-jerk reaction to blame China for debt surprises, but China is also deeply concerned with debt sustainability in its loans. The Mozambique debt surprise, for example, was nothing to do with China."

Meanwhile, some believe the BRI project has slowed recently. Shaun Roache, Chief Asia Pacific Economist at S&P, said: "Government to government lending is maybe less of an issue now than it was two years ago when the BRI was really peaking."

OUT OF THE WOODS

Seen and heard in the corridors of the Annual Meetings

• / **No tagine for you!:** Friday was supposed to be Moroccan day at the canteen abutting the IMF press centre in HQ1. But the culinary celebration fell a little flat, when *Out of the Woods* discovered that not only was there no tagine (which is a little bit like leaving warm beer off the menu in a British pub), but that the Cacciatora chicken was stone cold.

• / **Lost in transition:** Wandering the fourth floor of the World Bank building in search of a delegation from Indonesia's finance ministry, *OOTW* found himself asking who designed this building — and the IMF's concrete temple next door. MC Escher, Antoni Gaudí, Hunter S. Thompson? A cleaning lady directed us to the wrong room — then admitted she still got lost after 40 years working there.

• / **Americano economics:** Washington's commuters are being targeted by a poster campaign featuring a pyramid of coffee cups that resembles Maslow's hierarchy of needs. Its point is that the average salary in Bangladesh, a so-called middle-income county, is just $2.73, enough to buy a single mug of coffee, while in the US the equivalent figure is $172, comprising 36 steaming cups of joe. Given delegates' struggle to stay awake this week, perhaps more coffee is indeed the answer.

• / **Wag the dog**: Let's face it, it's hard to humanise something as unwieldy as a multilateral. But the World Bank is trying its darnedest to parade its cuddly side by promoting its newest social media star. Tammy, a golden retriever, is a little under two years old, can sniff out a bomb and very possibly a biscuit from 50 paces, and is already quite the darling of 1850 I Street. Oh, if we all had a tail to wag!

• / **Who are you?:** Despite the debate about the nature of gender and identity – timely to some, interminable to others — it still came as a shock to *OOTW* to find he'd been gender-reassigned. Born male (he'd always assumed) he arrived at an IDB breakout session to be handed a name-tag bearing the decidedly feminine name of 'Olivia'. What the heck though — one X chromosome or two, the difference is negligible when you're on the trail of a scoop.

EM monetary ammo no magic wand

By Oliver West, Thierry Ogier

As developed market central bankers run out of monetary ammunition, some Latin American central bankers and EM analysts see plenty of space for easing policy within the region.

"In Latin America, and indeed most emerging markets there is space for real monetary stimulus, and emerging markets will continue to outperform developed markets," Jan Dehn, head of global research at Ashmore, told *GlobalMarkets*. "Interest rates minus inflation in EM is just where it was 10 years ago, and inflation is at an all-time low, so for EM it's as if QE had never happened.

"This is not the only reason I'm optimistic, but policymakers in EM absolutely have more room to cut."

"Nearly every central bank in major emerging market economies lowered its policy rate in the third quarter," said Tatiana Lysenko, lead economist for emerging markets at S&P Global, on Friday.

"Looser monetary policy by the Fed and ECB, generally favourable inflation dynamics, and weak growth suggest that we will see further cuts over the next months," she said.

Julio Velarde, Peru's central bank governor, told *GlobalMarkets* that further rate cuts would be "dependent on data", though he noted that the market had been expecting a reduction to 2% this year, and the bank has so far only cut to 2.5%.

In August, Mexico began to cut rates for the first time in five years and some analysts expect 150bp of cuts by the end of next year.

Capital Economics is forecasting Latin American economies to grow just 0.7% overall in 2019, even when it excludes crisis-hit Venezuela. Yet the research firm expects the pace of GDP expansion to increase to 1.5% in 2020 and 2% in 2021, and said this week that the reason Colombia could "miss out" on the recovery is that it will not be entering an easing cycle.

But monetary policy alone will not push the region back to high growth rates.

Roberto Campos Neto, governor of Brazil's central bank, told *GlobalMarkets* that the world was facing a "low growth global scenario with low inflation". Yet though this "has an influence on the local scenario, it is not the main factor,"he said.

Brazil's central bank is focussing on three factors: the global environment,

Velarde: rate cuts depend on the data

local conditions and progress on the government's reform agenda — with a comprehensive social security reform nearly fully approved.

It is these reforms have made investors extremely bullish on Brazil, and Dehn at Ashmore said that Brazil was "on the cusp of a major cyclical upswing".

More emerging markets nations should follow this example if they really want to take advantage of the easing cycle.

"While easier financial conditions should support a pick-up in activity, this alone isn't likely to meaningfully boost investment if confidence remains low," said Lysenko.

Saudi Aramco IPO still on but delay leaves buyers cold

By Sam Kerr

Global investors remain in the dark about what valuation Saudi Crown Prince Mohammed Bin Salman (MBS) and the Saudi government are seeking for Aramco, the national oil company, following another delay to the jumbo IPO. Many are unconvinced by the $2tr figure that has been widely touted and fed up with the continued speculation and lack of detail.

"We don't know whether we are going to care about the deal itself until we see some hard numbers. We are sceptical about a valuation of $1.5tr, or even $2tr," said an equity capital markets investor at a large global asset manager. "It is one of these huge things that everyone is talking about all the time, but all the speculation is very frustrating. Whether it comes this week, next week or next year is not that consequential, but we can't get excited about it because until the deal launches we don't know whether we are going to be interested in buying it."

Reports in the Middle East have said Aramco wants to release its third quarter results before launching the IPO, so that it can assuage investors' concerns over the damage caused by a drone attack on two of its oil processing facilities in September.

ALARM

Several sources close to the deal have expressed concern that the attack could alarm international investors. They hope Aramco's vast profits will persuade buyers that the IPO does not warrant a heavy political risk discount.

If Aramco can prove that the attacks did not have a material economic impact, then investors might increase their valuations.

But IPO sellers globally are facing difficulties and many market participants sense that Aramco, regardless of the attacks, might struggle to achieve the $2tr valuation so keenly desired by

MBS: wants a $2 trillion valuation

MBS. Sources suspect that Aramco may also have had market reasons for delaying the launch of the deal.

"Unless you had to list now I don't know why you would. We've seen in Europe this week that the market was difficult, with a number of IPOs pulled," the asset manager added.

A source close to the transaction confirmed that the timeline had been delayed but was still confident the deal would go ahead eventually, adding: "ultimately the deal is fine".

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Success is a journey

Make debt climate-resilient, says Barbados PM after restructuring agreement

By Oliver West

Barbados' prime minister Mia Mottley told *GlobalMarkets* that she hoped more nations vulnerable to climate change would take steps to make their debt more resilient after the Caribbean nation included a "natural disaster" clause in a restructuring agreement with international bondholders.

The external creditor committee, which together holds more than half of Barbados' US dollar debt, and the government yesterday announced an agreement to exchange bonds maturing between 2019 and 2035 for one new bond maturing in October 2029.

The "natural disaster clause" will enable the government to capitalise interest and defer principal maturities on the new bonds for two years in the event that Barbados is adversely affected by an earthquake, tropical cyclone or floods. Its Caribbean Catastrophe Risk Insurance Facility (CCRIF) coverage will determine whether there has been an event.

"When a small island faces a climate catastrophe, this can bring a real risk of default," Mottley told *GlobalMarkets*. "Rather than being seen as an extra risk for creditors, this clause gives them greater certainty.

"It makes the debt more resilient to future climate events, and small island states, especially, need to protect themselves as much as possible."

Barbados will approach the Caribbean Development Bank and Inter-American Development Bank to show its work, said the PM.

Around 80% of Barbados' total debt now has this clause, and the government's bond will be the only one in the JP Morgan Emerging Market Bond Index to have the clause.

A small portion of Grenada's debt — product of a 2015 restructuring also led by Barbados' advisor, White Oak Advisory— has a similar clause.

"We small island nations are not major contributors to the climate crisis, but we are at the forefront when it comes to feeling the effects," the prime minister told *GlobalMarkets*.

Eaton Vance, Greylock, Teachers Advisors and the Guyana Bank for Trade and Industry were the core members of the committee.

With a domestic debt restructuring completed last year, Barbados' debt to GDP ratio has now fallen from 176% of GDP when Mottley took office in May 2018 to 114%.

'All about the execution now' — destabilised Brazil heads out on the PR trail

By Thierry Ogier

Brazilian officials yesterday launched a campaign to convince investors that the largest Latin American economy was back on track in spite of disappointing economic figures and domestic political turmoil.

Roberto Campos Neto, the governor of the Central Bank of Brazil, said that a recovery was being driven by 2% growth in the private sector while the share of the public sector in economic activity was falling. "Economic growth is a bit slower than expected, but it is better in qualitative terms," he said.

Most of the efforts by President Bolsonaro's government have so far focused on a wide-ranging pension reform, whose approval is due to be completed early next week. GDP is expected to be around 1% in 2019 for the third consecutive year. "We hit a fiscal wall and we understand we have to do things differently," he insisted.

But severe political infighting within Bolsonaro's political party has created an atmosphere of instability, which led the economy minister Paulo Guedes to cancel his trip to Washington to secure the approval of the pension reform, which is intended to contain the public deficit.

Independent analysts said that at over 90%, the debt-to-GDP ratio would remain too high for comfort for too long. "It does require execution. This is the key," said Joydeep Mukherji, director of sovereigns at S&P Global.

"Mr Guedes and his team probably have the most ambitious set of structural reforms in any emerging market today. Nobody has a package as big as this one. But it is all about execution now."

Campos Neto: pension reforms

PRIVATE CAPITAL

Campos Neto highlighted reforms that were underway or had been delivered. "First, we tackled the fiscal issue, including the pension reform, debt servicing — we are back to the 2012 level when the stock of debt was much lower — and trade opening," he said.

"We are improving the exchange rate regime and moving towards convertibility, and simplifying business operations, which is the so-called economic freedom law. We have been delivering what we promised."

He said that his message that Brazil had to be "reinvented" with private capital was going down well with investors. "We have had various waves of growth in the past, but the injection of public cash eventually turned out to be inefficient," he said.

Marcos Troyjo, deputy economy minister, who is in charge of foreign trade, said the government's priority was to open up and seek integration in the global economy, reduce bureaucracy and move towards a more business-friendly environment to allow local companies to import and export.

Turkey exudes confidence but investors fear fresh sanctions threat

By Lewis McLellan

Investors were on a knife edge last night as the government insisted that it had avoided the risk of US sanctions while independent analysts warned the measures moving through Congress could have devastating consequences.

Turkish assets enjoyed a strong rally after Turkey agreed to withdraw troops from northeast Syria, easing tensions with the Trump administration. "Following the agreement between Turkey and the US, we do not expect any sanctions to be imposed," Bülent Aksu, Turkey's deputy finance minister told *GlobalMarkets* yesterday. The US has repealed the sanctions it imposed this week by executive order.

But while Aksu was confident, some investors were still worried. A bill proposed by US senator Lindsey Graham that includes sanctions on Turkish sovereign debt is still making its way through the Senate. If imposed, investors say the consequences for the Turkish economy would be severe.

Aksu said he was confident the congressional sanctions bill would not be passed. "The proposed sanctions by the Senate need to go all the way through legislation process, and we do not expect to see them enacted, as the US Government is committed to stop the existing sanctions and to not implement new ones," he said. "So, we are not worried about any sanction on our sovereign borrowing."

Although Turkey is confident in the US executive branch's support, discontent is clearly fermenting in Congress. Two US senators, Jim Risch and Bob Menendez, will introduce "new comprehensive legislation in response to Turkey's military incursion into northern Syria and attack on America's partners in northeast Syria, including the Kurds".

The aims of the bill include a "report on potential Turkish war crimes during the Syrian incursion".

HALKBANK SANCTION THREAT

An emerging markets focused investor said: "While the pressure is off Turkey for now, US Congress clearly poses a threat. While Trump is friendly, his position has been weakened by impeachment proceedings, and he cannot afford to expend political capital on protecting Turkey indefinitely."

Asku: sanctions threat has past

Turkey has also reiterated that the suspension of military activity in Syria is a "pause" rather than a ceasefire. If hostilities resume, the US/Turkey diplomatic relationship could worsen rapidly.

The news of Turkey's withdrawal from Syria prompted a 1% strengthening of the lira and a 3.5% bump in Turkish stocks. However, while Turkey's deal with the US precludes further executive sanctions over its military action in Syria, potential sanctions could still be imposed over Halkbank, a Turkish bank accused of circumventing US sanctions on Iran. One emerging market investor said: "The Halkbank case is far from over, and could be seriously damaging to Turkey."

Aksu believes the investigation so far has not been conducted satisfactorily, accusing the US Attorney's office of failing to take into account the evidence provided by Halkbank and refusing to interview key witnesses proposed by the bank.

IMF's carbon tax call 'not close to what's needed'

By Jon Hay

Putting a price on carbon, especially through taxation, is gaining increasing attention as a way to steer the economy towards cleaner technology. Ursula von der Leyen, the incoming European Commission president, supports it. The IMF plugged it hard by making carbon taxes the centrepiece of its Fiscal Monitor report, released this week.

But campaigners and experts say that while any price on carbon is helpful, the $75 level recommended by the IMF is far too low to change behaviour enough.

"Even if countries do everything they have committed to under the Paris Agreement, there would be global warming of 3C," said Paolo Mauro, deputy director in the fiscal affairs department at the IMF. "Our role is to be truth tellers — it's falling short of what's necessary. By giving a number for a global carbon tax, it is essentially a way of conveying to governments that more action is necessary."

The IMF is calling for large emitters such as the US, China and India to agree on a carbon price floor. "It has to be way higher than the current average carbon price globally, which is $2," said Mauro.

The IMF has calculated that a global tax rising to $75 a tonne of CO_2 by 2030 would bring about the decarbonisation necessary to keep global warming below 2C.

However, a $75 tax would add only 7% to the cost of a return flight between London and Washington: likely not enough to deter someone from flying.

The Intergovernmental Panel on Climate Change has estimated $135 to $5,500 could be needed.

Sweden has had a carbon tax since 1991, now $127/tonne. "Sweden's carbon emissions fell by 25% and its GDP rose by 75% over this period," said Mauro.

This decarbonisation is too slow to avoid global warming. Rolf Lindahl, a climate campaigner at Greenpeace Sweden, said the carbon tax was "the very minimum that you need to have as a bottom floor for climate action. We have had a tax for a long time and are still far from reaching our emissions goals. The level would have needed to be much higher."

Mauro: 'our role is to be truth tellers'

He argued an international drive for a gradually rising carbon tax could be "a lengthy distraction from the real climate action and solutions we desperately need".

Charles Komanoff, director of the Carbon Tax Center, a US NGO, said a $75 tax was "not enough or close to what's needed. What my country and every country needs is a co-ordinated investment programme to rebuild the economy, society, cities and infrastructure" in a green way.

Helen Mountford, vice-president at the World Resources Institute, said the IMF was "rightly advertising how important putting a price on carbon is. However, it can only be part of a broader package of policies."

Estonia rejects new EU agency to fight financial crime

By Tyler Davies

Estonia's finance minister Martin Helme has rejected calls to establish a new EU agency to fight financial crime, arguing that the best approach for combatting money laundering was through local institutions and more effective international co-operation.

Helme's view conflicts with the stance of some other EU member states, including France and Italy, who want to approach the issue of financial crime at a regional level.

Recent changes to EU rules have already handed the European Banking Authority more enforcement powers to counter money laundering and the financing of terrorism, but many expect that the bloc will move towards setting up a new anti-money laundering (AML) agency.

Nicolas Véron, a senior fellow at the Peterson Institute for International Economics, said that this was one of his criteria for success for the incoming European Commission. "It is a low-hanging fruit and has to be reaped," he said.

But Helme told *GlobalMarkets* that a new EU AML authority could not be "more effective in fighting this sort of crime than your local institutions".

"Yes, the local institutions can be asleep at the wheel too, but at least when they wake up, they react quickly as the Estonian authorities did," he said. "The answer is not in my view to pool even more decision-making power and control over banking into supranational institutions. The answer is more effective co-operation and quick information-sharing, which could be institutionalised."

Helme continued: "The risks in Estonia are different to the risks in Greece or Iceland or Germany or France. They are very different. You have to have flexibility, and you have to have local knowledge to see where the problems are."

DANSKE BANK

Estonia has been at the heart of a big money laundering scandal, which has shaken Europe over the last couple of years. Danske Bank stands out as the case with the highest profile. It is involved in various investigations over allegations that it processed about €200bn of suspicious payments through its Estonian branch between 2007 and 2015.

Helme: local knowledge is essential

"Estonia's economy and reputation has taken a very large hit from all of this," said Helme. "It is sometimes underestimated how badly it has damaged these things."

Earlier this week in Washington, in collaboration with the Institute of International Finance, Deloitte published a white paper examining the global framework for fighting financial crime.

Deloitte and the IIF recommended improvements around technology, information sharing and public and private sector co-operation.

Lebanon on the brink of economic collapse as Beirut burns

By Virginia Furness

Protestors took to the streets of Beirut for the second day on Friday with onlookers warning that radical reform or a last-minute rescue package was needed to save the country from default.

"The situation in Lebanon calls for a strong signal that will bring confidence back, that requires a comprehensive reform agenda," Jihad Adzour, former minister of finance of Lebanon and director of the Middle East and Central Asia Department at the IMF.

Lebanon is running out of time, and money, to save itself from default. With one of the highest debt to GDP percentages in the world at 140% and enormous twin deficits, Lebanon needs to raise $2bn this year to stave off default.

Several Lebanese nationals at the Annual Meetings urged Lebanon's government to work with the IMF on a programme, but said the resistance to liberalising the Lebanese pound, which has been pegged to the dollar since the 1990s, meant that the government is unwilling to go ahead.

The IMF and the Lebanese authorities have been talking and a mission visited Lebanon a few weeks ago, Adzour told *GlobalMarkets*. "The Lebanese authorities are getting our technical assistance and policy support but the Lebanese authorities did not approach the fund for a programme."

De-pegging, or fixing the Lebanese pound at a lower rate to the dollar would be a painful but necessary step, said BlueBay's Ash.

Government attempts to raise revenues by imposing a new fee on WhatsApp calls prompted the large scale protests, and calls for the government to resign. Lebanese dollar bonds dropped, pushing up the cost of funding even more.

"Even the optimists wouldn't say they have longer than a year, and it is rapidly narrowing," said Tim Ash, senior strategist at BlueBay Asset Management. "There needs to be massive belt tightening, massive austerity and no one wants to do it."

The country has been on the brink before, but has relied on loans from its Middle Eastern neighbours, as well as support from its banking system which is bolstered by remittances from a wealthy diaspora.

World Bank warns of deglobalisation threat to poverty targets

By Phil Thornton

The backlash against global trade liberalisation triggered by growing anger at rising inequality threatens to lead to a period of sustained deglobalisation that would impede the World Bank from hitting its goals of eradicating poverty and reducing inequality, according to its chief economist.

Penny Goldberg, an acknowledged expert on trade and development, said that globalisation had contributed to lifting millions of people out of poverty and was not to blame for the increase in inequality that had fuelled the backlash.

"The statement that globalisation has increased inequality is not justified," she said, speaking in London on the eve of the bank's annual meetings. "If you look at the evidence, there are many cases where globalisation reduced inequality."

However, she acknowledged there was "strong evidence" that the effects of globalisation had been felt unevenly between countries, within countries, between formal and informal workers and between firms and consumers.

"It really matters what dimension of inequality you focus on," Goldberg said. "The current backlash in my view is very closely tied to regional inequality."

How to defuse the rising trade tensions and tit-for-tat imposition of tariffs by China and the United States is set to dominate this week's meetings.

Goldberg said the expansion of world trade seen in the first two decades of this century was driven by trade policy rather than cuts in tariffs or the decline in the costs of transport and ICT. She said the steep falls tariffs and costs were seen in the 1980s and 1990s.

She pointed to a sharp drop in regional trade agreements, the paralysis of the World Trade Organisation due to the US' refusal to appoint judges to the appellate court and the limited opening of services and agricultural markets in developed economies as examples of policy failures.

Neil Shearing, group chief economist at Capital Economics thinktank, echoed her claim, saying history showed it was policy rather than technology that caused globalisation to roll back. "A more malign form of policy-driven de-globalisation — where cross-border trade and capital flows fall as a share of GDP — is looking increasingly likely," he said.

Banks sign responsibility code but remain deep in fossil fuels

By Jon Hay

Investors have hailed the new ethics code for banks, the UN Principles for Responsible Banking, as an important advance in making banks more sustainable. But they want to see the fine words lead to action — above all, real decarbonisation.

The six principles, launched last month in New York, are modelled on the Principles for Responsible Investment, founded in 2006, which have some 2,000 signatories. The banking principles have started strongly, with 130 banks owning $49tr of assets. Most large international banks have joined — exceptions include HSBC and UniCredit.

"I'm very supportive of the principles," said Lauren Compere, director of shareholder engagement at Boston Common Asset Management. "It's a step further than banks just looking at risk on their balance sheets. The banks at the table are looking not just at the risks to their business but at risk and opportunity to people and planet."

Compared with the six simple PRI principles, which total only 80 words, the PRB creed is more than twice as long.

In one important regard, the PRB is more explicit. The first principle is: "We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks."

Val Smith, chief sustainability officer at Citigroup, described them as ambitious. "We don't know if it's possible — it's certainly a global effort — but it makes sense to put ourselves out there and report on how we are making progress, report our impacts."

Citi, headed by Mike Corbat, is the only signatory among the big six US banks.

Adherents will move to integrate environmental, social and governance considerations into their decision making, disclose their climate risks as recommended by the Task Force on Climate-Related Financial Disclosures and help clients transition to lower carbon.

But observers are wary. Banks such as Citi are striving to understand and manage their climate risks better. But Citi was the third largest bank for financing fossil fuels in 2018, with $43bn, according to an annual study by NGOs led by Rainforest Action Network.

Corbat: striving to manage climate risks better

A paper by the World Resources Institute compared these figures with banks' sustainable finance commitments. Citi pledged in 2014 to raise $100bn of environmental financing in the next 10 years. After five years it had done $95bn. But even $20bn a year is less than half its fossil fuel financing.

"Banks are actually financing fossil fuel expansion," said Compere. "This stuff needs to stay in the ground."

Levloan underwriting limits could cut global risks

By Owen Sanderson

Underwriting limits could tackle rising risks posed by corporate debt, according to the IMF's Tobias Adrian, head of the monetary and capital markets department. The US leveraged lending limits were an effective policy tool — but have not been enforced since 2017, while corporate leverage levels have climbed.

High corporate debt levels were a big focus for the IMF's financial stability assessment this year, as lower interest rates have encouraged companies to pile up new debt. The IMF suggested in its report that countries "may also consider developing prudential tools for highly leveraged firms".

The US already has such a tool in the shape of leveraged lending guidance originally promoted by the Federal Reserve and the OCC. But since a decision in 2017 by the general audit office, this guidance has barely been enforced — and credit standards have weakened.

"Corporates are readjusting their optimal liability structure — with much lower rates, you probably should have higher leverage," said Adrian. "And there's a degree to which that's fine, but a danger that it goes too far, and we would like to see some limits on how far that can go. The US used to have supervisory guidance on the leveraged loan market, and it's still in place, but it's not enforced."

He continued: "To the extent that loans are staying on balance sheet, you can limit leverage directly, but even if they're sold to insurance companies and so on, you can put a limit to leverage at the underwriting stage. That would be a pretty good proposal."

VULNERABLE

The IMF argues that the riskiness of corporate debt has increased substantially in advanced economies, with more speculative grade credit, weaker lender protections, and more optimistic leverage calculations. This, the Fund argues, makes economies more vulnerable to a downturn.

But Adrian argued that reforms since the crisis have meant corporate weakness are less likely to spill over and endanger banks.

Adrian: riskiness of corporate debt has increased

"In Q4 2018, when there was a massive selloff, we didn't see distress in any major financial institution, so I think the system is far more resilient," said Adrian. "There might be a sharp adjustment and some surprises but we don't see that being associated with a systemic crisis like in 2008. We might see losses spread around the world through market-based finance, but we don't expect as much run risk or disorderly liquidation of financial intermediaries."

The Fund's previous financial stability report in April focused on the potential risks posed by corporates rated just above speculative grade — some of which, if downgraded, are large enough to swamp the high yield markets.

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No honeymoon for Georgieva as recession fears intensify

Kristalina Georgieva takes over the reins at the International Monetary Fund with high praise from her boss at the World Bank. But she arrives as the financial watchdog faces an array of risks including a deep global recession

By Phil Thornton

Not for the first time, the new head of the International Monetary Fund has taken up the reins of the global financial watchdog in the wake of the unexpected departure of their predecessor.

In fact, one must go back just over 40 years to find a managing director of the IMF who quietly stepped down as their term of office came to an end as Dutchman H. Johannes Witteveen did in 1978.

Jacques de Larosière, Michel Camdessus, Horst Köhler and Rodrigo de Rato all quit early either to take a new job or for personal reasons while Dominque Strauss Kahn was forced out in 2011 over allegations of sexual assault, paving the way for Christine Lagarde's sudden appointment.

It was Lagarde's nomination as president of the European Central Bank this year that created the vacancy which enabled Kristalina Georgieva to become the first managing director to be appointed from an emerging or developing economy.

Even before the 66-year-old Bulgarian's appointment was confirmed earlier this month, the IMF took the unusual step of agreeing to amend the rule that had previously prohibited the appointment of a candidate aged 65 or over as managing director, and had also prohibited them serving past their 70th birthday. If she serves two terms, she will retire aged 76.

Although she was unopposed — her appointment was subject to a vote by the IMF's executive board, but she garnered overwhelming support early on — Georgieva will face no shortage of challenges over her five-year term.

RECESSION RISK

She takes over the reins as the IMF faces a cocktail of challenges both immediate

and further out on the horizon. The short-term risks lie in the IMF's role as lender of last resort amid the current turbulence in the global economy, the threat of a trade war and the recent valuations on capital markets.

"The single most important thing facing the IMF in the next few years is going to be to help the leading economies of the world manage what is almost certainly going to be a slowdown — maybe even a recession," says Masood Ahmed, a former director of the IMF's Middle East and Central Asia Department who now heads up the Centre for Global Development (CGD) thinktank.

Many commentators fear any slowdown will be even worse than the 2008 global financial crisis that saw central banks cut rates, governments in both the West and Asia unleash extra spending and the IMF re-armed with $1tr of new capital.

But a decade on and none of those tools is available again. Central banks are either at, or close to the zero lower-bound for interest rates and those that are not, such as the US Federal Reserve, are cutting. Governments with large surpluses such as Germany seem reluctant to open their financial war chests.

Ted Truman, senior non-resident fellow at the Peterson Institute for International Economics (PIIE), and a former assistant secretary at the US Treasury, says there would probably be continued European resistance to using Keynesian expansionary fiscal policy. "The question is what will Kristalina do about that," he says.

"She will have a challenge to demonstrate that she is managing director of the fund for the world as a whole and not just for Europe. She is smart politically so will look for opportunities to declare her independence."

Ahmed says Georgieva will need to play the same role her predecessor Strauss-Kahn did ahead of the 2010 G20 summit (before his fall from grace) by holding the ring for the major economies to come up with a crisis-control strategy.

"There are going to be a whole range of ideas, some good, some bad, some crazy," he says. "The IMF should be the place where these ideas are all brought together and discussed and from which national leaders can draw knowledge, experience and comfort about how they should deal with what is going to be a little bit of uncharted territory."

On top of that are concerns over a trade war. Last month the fund published a new index of trade uncertainty developed with Stanford University and which showed tit-for-tat tariffs imposed by China and the US had sent uncertainty to levels 10-fold higher than in 2008 (*see graph*). IMF chief economist Gita Gopinath said last month that could potentially cut the level of global GDP by 0.8% in 2020.

CAPITAL RESOURCES

Whether or when a major global economic slowdown comes to pass, Georgieva will have an even more immediate issue to oversee — the crisis in Argentina. "Even then once they've dealt with Argentina, this is not going to be the last emerging market crisis that she's going to face in the next two to three years," Ahmed says.

Georgieva will also have to develop her own strategy and reaction function in the case of a country bail-out. Lagarde was criticised for the way that the IMF joined with the European Commission and the eurozone's central bank to formulate a rescue plan for Greece. Ten years after the start of the crisis and with Greece still owing about €9.4bn to the IMF, the fund is still assessing the lessons to be learned (*see below*).

> *"Kristalina is hardly my number two but has been my partner and friend. She has very strong economic and financial skills, so she is a loss to the World Bank but a gain to the world"*
>
> *—David Malpass, president, World Bank*

IMF shy of starring role as 10th anniversary of Greek crisis looms

Staff at the IMF's European department took part in a sweepstake for which actor would play their boss, Poul Thomsen, in the film version of the book Adults in the Room by former Greek finance minister Yanis Varoufakis.

"They were guessing who it would be, and they are all people who specialise in playing games," Thomsen says. "I haven't seen the film but people like me were written out of the script."

As the 10th anniversary of the Greek financial crisis approaches, the IMF will be glad if its part as a member of the Troika that organised the €320bn bailout along with the European Commission and the European Central Bank becomes a footnote in the history books.

The IMF only joined in with its European partners after a heated debate within the fund and initially provided €30bn of the first €110bn bailout in 2010 that included €30bn in spending cuts and tax increases.

In 2012, after a change in government and rising fears of a default that would crash Greece out of the euro, the IMF joined with eurozone finance ministers in agreeing a second €130bn bailout that included a 53.5% write down of private creditors and a commitment to further austerity.

Thomsen, who was the IMF's mission chief for Greece and now director of the European Department, acknowledges the pain Greeks suffered. "Greece had to go through a sharp internal devaluation that took a toll on growth," he says. "We assumed that [in terms of] GDP per capita, it would take Greece 10 years to return to pre-crisis levels. That was a worst-case scenario, but the outcome has been much worse — 10 years after the crisis GDP per capita is 22% below pre-crisis levels."

Despite that, Thomsen defends the decision to join the bailout. "We are an institution that deals with sovereign risk to ensure that these things don't spread and destabilise the whole system," he says.

"I know people objected but no one could seriously expect the IMF to sit on the side-lines when the mother of all sovereign crises popped up inside a currency union of advanced countries."

He places the blame for the length of the crisis on the lack of domestic political support for the fiscal reforms that were needed to deal with a state pension scheme that was as generous as Germany's, and with a system of exemptions from personal income tax that meant the burden fell on a narrow tax base.

The result was that austerity measures needed to cut the debt pile fell on the areas of the economy that were crucial for delivering future economic growth. He acknowledges the IMF underestimated the short-term effects of government spending cuts or tax hikes on economic activity but says: "That might have contributed to the deepening crisis by taking a toll on confidence, but the root cause of this crisis lies much deeper. Contrary to other countries hit by a crisis, there was a fundamental lack of political support for the programme from the outset."

Although he defends the IMF's decisions, he says that a repeat exercise will not be needed for the eurozone because of the financial firewalls that the Commission and ECB have put in place.

Yannis Stournaras and Poul Thomsen

Looking ahead, Thomsen says Greece has achieved considerable economic stability, a modest recovery is on the way, unemployment has declined, real wages are beginning to recover, sovereign yields are lower and capital market access is being restored. "Greece has got the breathing space it needs to undertake some of these more fundamental structural reforms." —*P.T.*

© REUTERS/Yorgos Karahalis

> *'There are going to be a whole range of ideas, some good, some bad, some crazy. The IMF should be the place where these ideas are all brought together'*
>
> *—Masood Ahmed, president, Center for Global Development*

If the fund wants to act as lender of last resort, it will need to have the resources at hand — it is already lending $56bn to Argentina or 13 times the Latin American economy's quota with the fund.

Georgieva arrives as the long-running debate about replenishing the IMF's capital resources comes to a head. Fund members are meant to strike a deal by the end of 2019 to ensure it has adequate financial resources for the next decade.

This should take place through a review of the quotas, which are the primary source of IMF financial resources and broadly reflect the size of members' economies. In 2016 the board of governors said the current review should be completed no later than the 2019 annual meetings.

However, US Treasury Secretary Steven Mnuchin has indicated the US will instead seek to have the quota review wound up, probably to avoid giving China greater voting rights in the IMF. "I know that a number of emerging market countries are unhappy that there will be no overall quota increase and no redistribution of voting rights," says Truman.

The likely outcome is a deal to replace some or all of the $357bn of members' bilateral commitments to lend to the IMF and/or to augment the $247bn multilateral New Arrangements to Borrow (NABs). This will supply the fund with capital but leave quotas and voting rights frozen at 2010 levels.

These NABs are payments from 38 members to supplement the fund's resources and that come up for a five-yearly renewal in 2022. The outcome of that depends on the United States' agreement to renew and possibly extend its commitments. However, this decision is unlikely to be taken until after the 2020 election.

Nevertheless, Truman says even if recession hits before then, Georgieva will be able to draw on the existing NABs and bilateral promises. "In a crunch the fund is always able to pick up resources," he says. "My guess is that this time the Chinas of this world in particular will step up and that will strengthen their case for increasing their quota down the road."

However, he points out that the continued failure to resolve the issue of power and voting rights within the fund is "troublesome" and will undermine the IMF's legitimacy among emerging economies. "In the short run it doesn't matter but in the long run it's pretty serious."

CLIMATE FOR CHANGE

As well as dealing with short term crises and governance reform, observers at the annual meetings will want to know what imprint Georgieva wants to leave on the fund.

Both at the World Bank where she was CEO until August and as European Commissioner for international co-operation, humanitarian aid, and crisis response from 2010 to 2014, Georgieva focused on the need to protect poorer countries from the impacts of climate change and conflict.

In the statement she made to the fund's executive board ahead of her interview she said she wanted to see whether tools such as credit lines could be deployed in a wider range of countries. "In my view we should explore if and under what conditions the fund could step up this type of financial support," she said.

She also told the board the IMF needed to develop more "differentiated approaches" to both lending and capacity-building in lower income countries that fitted with their specific needs and circumstances.

The fund has been accused in the past of applying one-size-fits-all rescue programmes that critics have said ignore the needs of less developed countries and Georgieva's comment implies she will bring lessons from the World Bank.

Amar Battacharya, a former director of the Group of 24 countries that represents developing economies, says Georgieva needs to find a much stronger role for the fund on climate.

"While the climate crisis may not appear to be within the one-year horizon, it is the most macro significant crisis that the world faces," he says. "The IMF needs to ensure that it is doing its part in ensuring that the financial system shifts, that the investment shifts in order to be able to respond more to the low carbon imperative, but also the climate resilience imperative.

"So, a much stronger, greater role for the fund on the climate agenda I think is called for. And I think you will see that from her."

But Ahmed at CGD fears that the IMF is "behind the curve" in terms of trying to think about how climate will impact the work that the IMF does in macroeconomic management. "This is because it's part of slightly blinkered thinking that climate is somebody else's issue," he says.

"She personally has a long history of commitment on this issue and I think, and I very much hope, that her presence in the IMF will help to shift the organisation towards doing more on this agenda."

Georgieva has certainly indicated her commitment to the green agenda, telling the executive directors that as well as supporting sound monetary, fiscal and structural policies, her agenda will include issues such as inequalities, climate risks and rapid technological change.

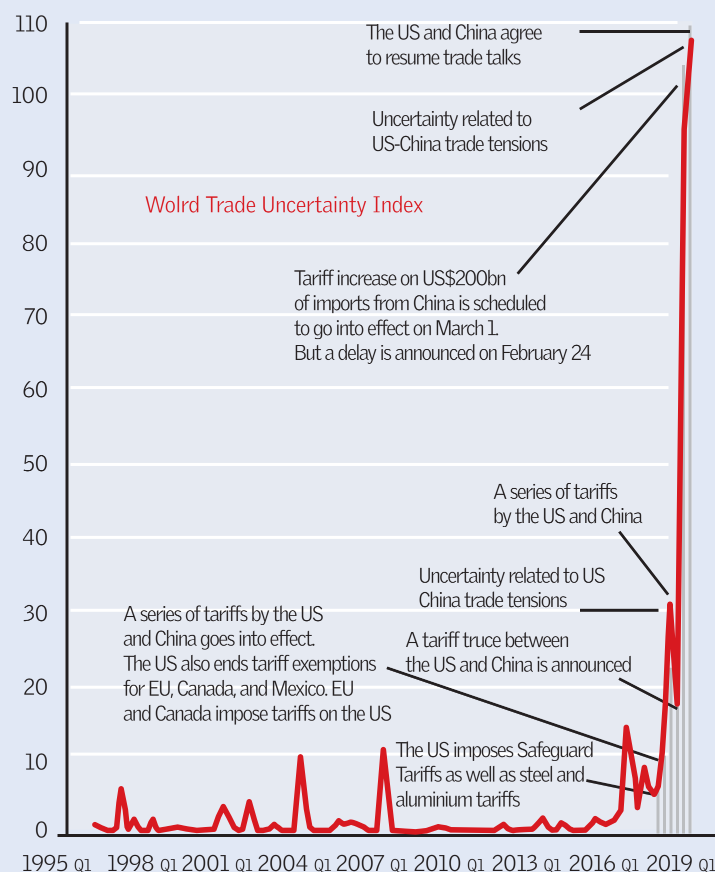
Truman at PIIE says Georgieva earned a great deal of respect for her work at the World Bank and will cross 19th Street to the IMF having brought a level of stability to her former institution.

He adds that her move will help relations between the two institutions that are sometimes a "bit prickly". "She will hit the ground running faster than Christine Lagarde did given that she came in after that embarrassing episode [with Strauss-Kahn]."

But the highest praise comes from her former boss, World Bank president David Malpass, who said on the eve of the confirmation of her appointment: "Kristalina is hardly my number two but has been my partner and friend. She has very strong economic and financial skills, so she is a loss to the World Bank but a gain to the world." GM

Spiking volatility

Trade uncertainty spikes after 20 years of calm



Source: World Uncertainty Index. Ahit, Bloom & Furceri (2018)

Fintech finally at the capital markets gates

After years of whitepapers, R&D and proofs of concept, the long prophesied new age of technology in primary debt capital markets is at long last about to arrive

By Lewis McLellan

Data. In the past few years, the concept has become central to almost every industry thanks, in no small part, to the EU's landmark GDPR legislation.

Concepts like data protection and data scientists are, by now, familiar concepts to most. More esoteric ideas like "data hygiene" and "the data exhaust" may become so as industries develop ways to monetise the data they produce.

The capital markets industry is no exception. The primary bond market has raised almost $5.5tr in 2019 for over 4,000 borrowers from around the world, from huge sovereign multi-billion-dollar benchmarks all the way down to private placements of a few million. The processes that power this industry have been incrementally improved for years, but in many cases, are due to be rebuilt from the ground up to the latest technological standards.

"The idea is to get pure exposure to the credit risk of the security you're purchasing. People don't want to take credit risk to a bank on somebody else's security"

—Michael Spitz, Main Incubator

ROBOTIC SYNDICATE BANKERS

Artificial intelligence or, as it is more properly called in its current form, "machine learning" is on track to turn dumb capital markets deal records into smart, monetisable data.

By feeding in 20 years of primary bond market data, machine learning models could soon make recommendations of the ideal timing, price, size and maturity for a particular issuer during any given market conditions.

"With data-driven models, we can predict with round 80%-90% accuracy, the make-up of an order book," says Michael Spitz, head of Main Incubator, Commerzbank's research and development branch.

Obviously, the system works best for frequent borrowers, on whom the most data are available.

For Spitz, the system is about levelling the playing field for banks such as his. "The fact is that the biggest banks have the most data and the most information on which to base the recommendations they make to issuers," says Spitz. "How do smaller banks with less information compete? They do it with better analytical tools."

STRUCTURING DATA

When it comes to streamlining the execution process, the appropriate buzz term is "data harmonisation" with a side helping of "data ownership".

Electronification of capital markets, even in the primary space, is by now an outmoded goal. Very few transactions require a physical paper trail anymore. The German government in September did away with its archaic requirement for securities transactions to exist in physical form.

But while emailing PDF files and Word documents to each other is already standard practice and allows the almost instant and purely digital transmission of information, the process is still manual and requires human intervention at every stage.

Lawyers for the banks produce bond documentation — a process which itself may require several iterations of re-entering the same data. Then the bonds are issued via an agent and custody bank, sent to a central securities depository, cleared and settled and allocated to investors. Each stage may involve the co-ordination of several different parties, all of which are using the same data. Or they should be, but by this point they may have been separately encoded a dozen or so times.

Avtar Sehra, founder of a UK-based primary bond market focused start-up called Nivaura, says: "As the terms of a new security pass to paying agents, securities depositories and custodians, the data is entered into multiple systems, often in a very manual way. Our solution addresses these inefficiencies by allowing the existing players to process structured data in digital form."

Nivaura's system is a platform to manage the formation of a bond, its settlement, and post-trade lifecycle. Each stage of the process integrates seamlessly with market participants' existing systems, meaning that it can provide efficiency savings and automation for any user, without relying on everyone in

Levelling the playing field
Michael Spitz, head of Main Incubator, Commerzbank's research and development branch. Daisy, head of barking

the chain using the same product.

At every stage, humans must manually take data from one source to another. Every time that happens, the potential for error is introduced. Removing that stage of the process removes the possibility of mistakes but, perhaps more importantly, frees bankers of a simple and manual task, and allows them to spend their time on processes that can add value to their clients.

That is always a more attractive spin than "allows banks to pay fewer people to do the same job", but either way, the result should be a reduction in costs, and an increase in efficiency.

This is a problem with more than one solution. Blockchain, perhaps the most hyped technological development of the past 10 years, is finally flexing its muscles and demonstrating some of the promised values. In a sense, data harmonisation is an ideal project for blockchain. It gives each participant access to the "golden source", the shared ledger that keeps track of ownership of assets.

R3, with its private blockchain system Corda, is among the largest and best-known service providers. Within capital markets, Agora, part of the R3 family, is aiming to build its own blockchain-based bond issuance platform.

Corda is likely to end up as the dominant private blockchain protocol in financial markets. While bitcoin runs on a public blockchain, where anyone can access it and see what transactions have taken place, such a system was swiftly deemed unsuitable for privacy-obsessed financial markets. Corda marries the immutable record and distributed ledger technology of public blockchains with the privacy and supervisory control necessary for bond market operations.

Commerzbank's Main Incubator has been working hard on blockchain issuance protocols. The concept requires the creation of a "token", which is tradable on a distributed ledger that represents the legal ownership of a security. That can be done for the issuance of a new bond, or simply creating a digital version of an existing security.

This cuts down on the risk of mistakes simply by ensuring that only one copy need exist, shared between every participant.

Nivaura, on the other hand, while it is has helped to issue bonds on blockchain, has built its platform to function just as well with traditional settlement infrastructure. The core of its product is the automation of the onerous aspects of documentation and connecting different counterparties across the market.

What numerous fintechs, Nivaura included, are finding is that properly structured data, rather than a blockchain, are key to efficiency improvements.

However, Nivaura is certainly aware of the potential benefits blockchain can provide in settlement and has presided over the issuance of several blockchain bonds. Its platform has been developed to function just as effectively with a settlement process based on blockchain as with the traditional means.

In some respects, the question of whether or not a distributed system or a centralised system should win out as the default for primary bond markets rests on a philosophical question of data ownership: should the single data source be centralised or distributed. A matter of preference on which, as yet, no consensus has emerged.

Will banks prefer the surety of owning their own data, or will private blockchain data security standards come to be perceived as an industry standard?

Avtar Sehra, Nivaura's founder, says: "Market participants want to fully control their data — who has access to it, who can use it. To meet those expectations, we've built a multi-layered security infrastructure and an innovative set of user orchestration tools."

> "How do smaller banks with less information compete? They do it with better analytical tools"
> —Michael Spitz

NEXT STEPS

Although a blockchain enabled network may not initially appear to be a superior system for primary bond markets, some believe that if it becomes widely adopted, it could open up new opportunities to create value.

Bond.One is a US-based start-up building a blockchain-based network for primary bond issuance. John Mizzi, chief strategy officer, says: "What we've built today could work just as well on a centralised database, but the network effects once it's adopted at scale are fantastic. Everyone using the same source of data means a much more secure and efficient process."

These network effects will require new pieces of financial infrastructure to come into being. Commerzbank is also working on developing a cash solution for distributed ledgers that can facilitate the cash leg of securities transactions. With a bond on blockchain, as well as a digital cash substitute, settlement can be achieved instantly simply because the distributed ledger removes any need for clearing and settlement, since all participants' assets are known to the ledger.

DVP (delivery versus payment) protocols are at the heart of the developments. Spitz calls cash on ledger "programmable currency". In addition to instant settlement, programmable currency would allow the use of smart contracts to do more than just automate or instantly settle payments.

For example, a security could be structured wherein the coupon payment is affected by the fulfilment of certain conditions — Spitz imagines an ESG product wherein coupon payments are affected by carbon footprint reduction. The calculation could be programmed upfront and processed automatically on the payment date.

Of course, a bank's proprietary system, be it Commerzbank's programmable currency or JP Morgan coin, is unlikely to attain mass adoption. "The idea is to get pure exposure to the credit risk of the security you're purchasing," says Spitz. "People don't want to take credit risk to a bank on somebody else's security."

The next stage will be for this system to become a piece of market infrastructure provided by a central bank, or other public entity.

WHERE IS INNOVATION NEEDED?

The innovative potential of new technologies often comes from re-examining parts of capital markets infrastructure — clearing and settlement or custody, for example — that are often forgotten as less glamourous and lucrative activities. The way they work is often accepted as a bond market's law of nature.

It took new technologies to expose not only the costs and inefficiencies of these systems but their systemic risks as well.

"If you have a €5bn redemption approaching, and you pay that to a paying agent, and it's settled in two days, there's a credit risk," says Spitz. "With instant delivery versus payment, we can reduce that risk, processing payments without taking any exposure to the paying agent's credit."

But instant settlement will not be appropriate in every circumstance. Making a two-way market becomes much more difficult when settlement takes place instantly.

Short selling becomes much more difficult. If you have lent out a security that you wish to sell, the short position must be unwound. A two or three-day settlement process allows a grace period in which the trade can be executed before the shorted security is returned.

Without such a grace period, securities lending will be more unpopular and expensive, and liquidity will be adversely affected. GM

Debt Manager Central Bank Governor Finance Minister

GlobalMarkets

2019 Awards

Asia Pacific

Sonny Dominguez, Philippines
Perry Warjiyo, Indonesia
Luky Alfirman, Indonesia

CEE

Djamshid Kuchkarov, Uzbekistan
Yakiv Smolii, Ukraine
Bülent Aksu Bey, Turkey

Sub-Saharan Africa

Ken Ofori-Atta, Ghana
Patrick Njoroge, Kenya
Maryse Lokossou, Benin

MENA

Mohammed Maait, Egypt
Marouane Abassi, Tunisia
Khaled Abd El Rahman, Egypt

Latin America

Paulo Guedes, Brazil
Alejandro Díaz de León, Mexico
Andrés Pérez, Chile

Finance Minister of the Year, Asia Pacific

SONNY DOMINGUEZ, PHILIPPINES

Sure-footed finance minister keeps growth on track

Dominguez hasn't shied away from making tough decisions, or seeking solutions when barriers are erected

Since being appointed to the role of finance secretary of the Philippines in 2016, Sonny Dominguez has barely put a foot wrong.

Being a childhood friend of his boss, Philippines president Rodrigo Duterte, a man who admits he knows little about financial policy, surely helps. But Dominguez, a successful businessman in his own right and a two-time minister in the 1980s under former president Corazin Aquino, has certainly navigated some choppy waters.

His greatest achievement to date has been to balance the books while pursuing a "build-build-build" national infrastructure campaign that focuses on the kind of local projects — electrification of towns and villages, highways linking second-tier cities, the digging of irrigation ditches — that matter at a micro level to rural Filipinos who voted Duterte into office.

Dominguez has kept the growth rate strong — the IMF tips GDP to come in at 6.5% in 2019 and 6.6% in 2020 – while staying true to two of Duterte's key campaign pledges: keeping inflation under control, and ensuring the current account deficit continues to narrow, to a projected 1.8% in 2020.

For all of his easygoing charm and bonhomie, the finance secretary has never shied away from making tough decisions, or of seeking solutions when Duterte's many opponents erect barriers.

Taxes have risen on his watch, mainly targeting so-called "sin" products like cigarettes, while more middle-class citizens have been drawn into the tax net, boosting revenues.

He has proven willing to borrow externally where necessary: a $211m loan secured from Export-Import Bank of China in March will fund a long-awaited dam on the Kaliwa river, raising fears of the Philippines being enmeshed in China's so-called debt trap. Those warnings drew a tart response from Dominguez, who noted that China was set to account for 4.5% of total external debt by 2022, less than half the amount the country owes Japan.

These are interesting times in the country. Weighed down by a brutal drugs war and domestic political infighting, and struggling with his own health issues, Duterte is starting to look tired. Fortunately, he has excellent advisers, none of whom are more valuable to him, or better qualified, than Dominguez, a finance secretary who keeps his nose well out of politics, his head down, and simply goes about doing his job, quietly and effectively. — *Elliot Wilson*

Central Bank Governor of the Year, Asia Pacific

PERRY WARJIYO, INDONESIA

Experienced public servant in the right place at the right time

Widely seen as shrewd and a battle-tested operator, he is often found on the front-line during moments of crisis

It cannot be easy to take over the mantle from an illustrious predecessor. And in Indonesia, few names burn brighter than Agus Martowardojo, a former bank chief, finance minister, and governor of Bank Indonesia (BI).

When Martowardojo's five-year term ended in May 2018, his obvious successor was Perry Warjiyo. A long-standing public servant, Warjiyo spent over 30 years working on policy issues, joining Bank Indonesia as a junior staffer in 1984. He rose through the ranks, gleaning valuable international experience during a stint as executive director of the IMF, where he represented Southeast Asia's voting group, and was Martowardojo's deputy from 2013-2018.

Widely seen as shrewd and battle-tested operator, he is often found on the front-line during moments of crisis. Warjiyo was in Jakarta as the Asian financial crisis unfolded, and in Washington in 2008 when the global financial crisis unravelled.

Over the past six years, Warjiyo has worked assiduously, first with Martowardojo, then from a position of supremacy as governor, to combat currency speculation of the rupiah, and to keep inflation under control and growth elevated.

It is a hard trick to pull off in a country that sprawls literally and linguistically (17,500 islands and 700 native tongues) and groans under the weight of 260 million people.

President Joko Widodo, who won re-election earlier this year, spent much of his first term in office improving the country's woeful infrastructure, building new ports, airports and highways. But some felt the president focused too little on growth, and that the economy, which was ticking along nicely at north of 6% in the early 2010s, lost too much of its get-up-and-go.

Injecting more growth into the economy is a key target for Warjiyo and his team, who want to cut corporate taxes, slash red tape and ease restrictive labour laws. GDP is tipped by the IMF to come in at 5.2% in 2019 and in 2020. The aim is to push that figure closer to 6%.

Another challenge facing Warjiyo as the global economy slows is what to do with rates. In September, the governor cut the central bank's key rate for the third consecutive month, and relaxed intermediation requirements for banks to encourage lending and stoke growth. These are tough times for everyone, but in Perry Warjiyo, Indonesia has the right man to deal with the gathering storm. — *Elliot Wilson*

Public Debt Management Office of the Year, Asia Pacific

Luky Alfirman

Indonesia, Director General of Budget Financing and Risk Management, Ministry of Finance

A government's debt management office (DMO) has two key objectives: reduce borrowing costs while keeping risks at acceptable levels, and support the development of the domestic financial markets. The Indonesian DMO, under the leadership of director general of budget financing and risk management Luky Alfirman, has not only done these exceptionally well, but has also taken things up a notch over the past year.

Its debt issuance strategy has been clear from the start — to frontload all the non-rupiah bond deals in the first half of 2019, while holding domestic auctions for local currency debt regularly, alternating between conventional and Islamic bonds every week.

"2018 was a very challenging year for us," Alfirman tells *GlobalMarkets*. "The US Federal Reserve increased rates four times last year, while Bank Indonesia increased rates by 175bp. We were living in a high interest rate environment last year. But in 2019, we had some good news.

"On the global front, the combination of the Fed's dovish policy and ECB quantitative easing lead to inflows into emerging markets including Indonesia. On the other hand, the Indonesian domestic economy looked quite robust, leading to an upgrade from S&P."

Despite that uplift, Alfirman and his team were very much aware of the volatility plaguing global markets, making the DMO vigilant about its fundraising. "To cope with uncertain and volatile markets, our strategy is an opportunistic one," adds Alfirman. "We are always looking at what happens in the market and finding opportunities. And if the market is conducive, we always upsize our issuance."

That flexible approach has been on show in 2019. The country, rated Baa2/BBB/BBB, kicked things off with a $3bn triple-tranche deal in December 2018 to meet this year's fundraising targets, staggering out its maturities with a five year, 10 year and 30 year tranches.

It followed up this transaction with a $2bn sukuk in February that featured a green portion, a $1.6bn equivalent Samurai bond in May and lastly, a $1.6bn dollar and euro combo deal in June. The June transaction was particularly impressive as the government sliced pricing across both the tranches.
—Rashmi Kumar

Public Debt Management Office of the Year CEE

Bülent Aksu Bey

Turkey, Deputy Minister, Turkish Treasury

Turkey has been forced to grapple with difficult economic conditions over the past year. Through it all, the debt management office has been a rock of professionalism. August 2018 brought one of the sharpest and most severe currency crises in Turkey's history. Despite this, it returned to the debt market in October, raising $2bn with a five year bond.

Had Turkey been too aggressive in its attempt to keep its interest rate burden down, investors might have rebelled, shutting the country out of the international debt market, and sending its bonds into a spiral as it scrambled for cash. As it was, Turkey showed that investors were prepared to lend it money and, in doing so, opened a path for Turkey's banks and agencies to return to the market as well.

Turkey's difficulties did not end in August. Investors around the world were puzzled by the central bank's decisions on monetary policy and its reluctance to raise rates to combat inflation. Diplomatic relations with the US became strained, thanks to Turkey's decision to purchase the S-400 missile system from Russia, which resulted in Turkey's expulsion from the F-35 programme.

Despite the frosty diplomatic backdrop, Turkey went from strength to strength in the bond market, returning for euros in November 2018 and raising a combined $6.7bn in 2019, tapping euros, dollars and the sukuk markets.

Throughout a period of remarkable volatility, Bülent Aksu Bey and his team have shown an unerring instinct for knowing how investors will react, enabling them to make use of the best available windows to fund. *—Lewis McLellan*

Finance Minister of the Year, CEE

DJAMSHID KUCHKAROV, UZBEKISTAN

A strong record of steering sometimes unpopular reforms while delivering results

"When liberalising the FX rate, or improving statistical disclosure, it's a pleasure — everyone is happy about it" — Kuchkarov

Jamshid Kuchkarov has been a steady hand on the tiller during what has been one of the most rapid programmes of economic liberalisations in recent memory. After years spent held back by the strictures commonly left behind in former Soviet states, Kuchkarov was trusted by the reformist President Mirziyoyev to manage the liberalisation of the currency markets, a lightening of trade restrictions, and the country's international bond market debut.

Some reforms have come easily. "When liberalising the FX rate, or improving statistical disclosure, it's a pleasure — everyone is happy about it," says Kuchkarov.

But the government has also taken aim at Uzbekistan's somewhat bloated array of state-owned enterprises, with an eye to preparing them for privatisation and ensuring their regulatory functions are separate from their business roles.

Kuchkarov says the changes are necessary both for efficiency and transparency, but that does not mean they are always popular. "When restructuring companies, particularly energy companies, sometimes that involves the removal of subsidies and increases energy prices. There are different opinions on this — some in support, some against."

Managing the response and ensuring the goodwill of the people is, for the government, just as important a task as ensuring fiscal and macroeconomic stability. "One of our main responsibilities is to engage with the media in all sorts of ways to promote a better understanding of the necessity of the reforms and the benefits they'll bring," says Kuchkarov.

The reduction of income tax to a flat rate of 12% is a popular measure, but quite apart from that, Kuchkarov says that the decision is key to "stimulating Uzbekistan's value chain".

GDP growth is steady — above 5% — rather than the dynamic and volatile heights of the early 2010s, but forecasts are for this to increase in the next few years.

But in spite of the high ambitions of the reform programme, the country is running only a small budget deficit — something that provides the international investment community with confidence as they analyse the credit of one of the newest entrants to global capital markets. *— Lewis McLellan*

Central Bank Governor of the Year, CEE

YAKIV SMOLII, UKRAINE

Firm stance on monetary policy starts to bring down inflation — now for economic growth targets

"Our baseline strategy envisages the key policy rate decreasing to 8% over the coming years"—Smolii

In countries with less disciplined central banks, Ukraine's recent election cycle might have disrupted monetary policy. The election of President Zelensky and his Servant of the People party in parliament was one of Ukraine's most dramatic political upheavals in recent memory.

While there was certainly incentive for the struggling incumbent to cajole some easing-fuelled economic growth from the National Bank of Ukraine, Governor Yakiv Smolii remained firm, keeping interest rates high to combat inflation. "We managed to stay away from politicking, maintain our independence, and continue working on ensuring price and financial stability, no matter what," says Smolii.

The global economy appears to be entering a period of slowing growth and high uncertainty. Smolii sees "the risk of a global crisis" ahead. "The trade conflict between the two largest economies in the world… caused global demand to slow in September and worsened conditions for Ukrainian exporters," says Smolii. However, he highlights "growing consumer demand and record growth in grain yields in Ukraine" as reasons for optimism around Ukraine's growth.

Thanks to the NBU's tight monetary policy, inflation started heading downwards for the first time in five years in 2018. The NBU expects it to hit the 5% target by the end of 2020, and began to cut policy rates earlier this year, lowering it by 3.5 percentage points to 16.5%. "Our baseline strategy envisages the key policy rate decreasing to 8% over the coming years," says Smolii, although he acknowledges this will "depend on both internal and external risks."

He also highlights that "if the pace of structural reforms increases, the NBU could cut the key policy rate more quickly".

With inflation coming under control once more, Smolii wants to work with the government to achieve the ambitious economic growth targets the finance ministry has laid out. "The NBU stands ready to support the economic policy of the government, including expanding businesses' and citizens' access to significantly cheaper financial resources," provided this does not conflict with the "attainment of price and financial stability". *— Lewis McLellan*

Ken Ofori-Atta's legacy may well be the successful conclusion of an ambitious programme of IMF reforms, allowing Ghana to exit its IMF programme in April 2019

Finance Minister of the Year, Sub-Saharan Africa

KEN OFORI-ATTA, GHANA

Ghana stages remarkable turnaround with growth steady and inflation down

Ghana has undergone a remarkable turnaround under its new administration. Under the previous rule, Ghana's economy was left struggling against low and erratic GDP growth, punishingly high inflation and a troubling debt to GDP ratio. Its fiscal deficit routinely exceeded 8%.

When the New Patriotic Party took office at the end of 2016, it did so on a wave of hope for economic improvements.

Ken Ofori-Atta's legacy may well be the successful conclusion of an ambitious programme of IMF reforms, allowing Ghana to exit its IMF programme in April 2019.

Ghana entered the programme in 2015, when its tumbling currency made its debt obligations unsustainable. The programme has left Ghana's lenders much better capitalised, with the ability to support growth through lending.

Ofori-Atta oversaw the establishment of the Fiscal Council and Financial Stability Council to ensure the non-reversibility of the reforms. The fiscal council should ensure Ghana's fiscal deficit does not exceed 5%, and that its debt to GDP ratio is kept below 65%.

The results have been vastly improved economic fundamentals. Annual GDP growth has steadied at around 6%, inflation has plummeted from 19% in 2016 to around 8% in September 2019, comfortably inside the Ghanaian central bank's target rate. The fiscal deficit was down to 3.8% in 2018.

The vulnerability entailed in Ghana's high level of external indebtedness is still constraining its credit rating, as ratings agencies are concerned about the vulnerability of the Ghanaian cedi. But while the country's currency has weakened steadily over the past few years, thanks in part to the growing strength of the dollar, its instability has markedly reduced.

Work remains to be done. The finance ministry, with Ofori-Atta at the helm, is still working hard to eradicate corruption and to improve its tax collection, but the international investment community is impressed. A head of country research at an emerging markets focused investment house said: "The degree to which the country's economy has been turned around — restoring economic growth, bringing inflation under control and controlling public indebtedness — in the four years since it entered the IMF programme has been nothing short of remarkable." — *Lewis McLellan*

Central Bank Governor of the Year, Sub-Saharan Africa

PATRICK NJOROGE, KENYA

Low inflation a hallmark of Njoroge's tenure as banking sector builds up strength

Despite the challenges, Patrick Njoroge has kept inflation within its target range eight years in a row

Kenya has faced a slew of difficulties throughout Patrick Njoroge's tenure as central bank governor. Economic growth appears to have slowed in the past year thanks in part to a delay in rainfall which hit agricultural production, the budget deficit remaining uncomfortably large and government debt to GDP climbing steadily since 2012.

Despite the challenges, Patrick Njoroge has kept inflation within its target range eight years in a row.

Njoroge kept rates prudently high in order to apply a brake to Kenya's economy during a period of high government spending. In 2016, he was able to implement a careful programme of interest rate cuts that has brought the main policy rate down by 250bp to 9%.

The interest rate has been static at 9% for more than a year now. However, with the government setting a target to reduce its fiscal deficit from 7.6% to 5.9%, Njoroge hopes to be able to provide more monetary accommodation to help speed Kenya's economic growth, provided the planned deficit reduction takes place.

Outside of rate policy, Njoroge has presided over a period of consolidation within Kenya's banking sector that has helped to clean up the country's banks and vastly improve oversight over the sector. While non-performing loans have increased, banks have tightened their lending standards in response, thanks to the central bank's oversight. As a result, NPL growth rates dissipated through 2018 and capital adequacy ratios increased.

A wave of mergers and acquisitions in the banking sector, endorsed if not facilitated by the central bank, has left the remaining banks more profitable and benefiting from strong capital buffers, and left it more resilient and stable.

As a result, the sector has become increasingly well-capitalised and flush with liquidity. The improvements are helping the expansion of Kenya's domestic capital markets.

With an expanding market for corporate bond issuance and a growing network of collective investment schemes, conditions are right to allow the private sector to participate in financing Kenya's ambitious infrastructure plans. —*Lewis McLellan*

Public Debt Management Office of the Year
Sub-Saharan Africa

Maryse Lokossou,

Benin Technical Advisor to the Minister of Finance on International Financing

Debuts in the international bond market are always challenging. In today's hectic bond markets, new borrowers have to fight for investors' attention among well-known names. Persuading an investor to do the work required to open a new credit line to lend money to a new country requires an extraordinary level of effort and organisation.

The Republic of Benin's bond market debut was, in many respects, a model of how to manage the process. Maryse Lokossou's efforts as technical advisor on international financing to the Ministry were instrumental in the process.

While Benin's high ratio of government debt to GDP might have alarmed investors, its new administration was able to win their confidence thanks to its efforts at fiscal consolidation, bringing down its budget deficit and establishing a healthy trajectory of economic expansion.

The bond, which raised €500m at a yield of 6%, required a thorough and comprehensive marketing period in Frankfurt, London, New York and Boston.

A banker involved in Benin's marketing process called the experience "unique". "It was a true inaugural deal," said the banker. "We had to reveal Benin to the international community. Of course there was the usual economic data, but the roadshow was also about Benin's history and politics — its government action programme for example — not just the economy."

The thorough approach paid off. Benin received more than €1bn of orders for its deal, and was able to reduce the yield substantially during execution.

Thanks to a disciplined approach to the pricing process, the bond performed handsomely in the secondary market, ensuring a warm reception when Benin returns for its sophomore effort. —*Lewis McLellan*

Public Debt Management Office of the Year
MENA

Khaled Abdel Rahman, Egypt Deputy Minister of Debt Policy

While the country has been going through an austere IMF programme, Khaled Abdel Rahman was able to rebuild its reputation in capital markets and ensure its continued access to funds.

Not content with accessing typical tenors and formats, Rahman takes an active approach in preparing investors for new formats and maturities. Rahman is planning to issue a debut bond in an Asian currency, and to sell both green and blue bonds, financing renewable energy and water purification projects in a move he hopes will help diversify Egypt's sources of funds.

Egypt has come to the international market only twice this year, but the debt management office made both visits count.

The sovereign raised $4bn across three tranches in February, impressing on-looking bankers with the scale of its ambition. Borrowing money at 30 years, particularly in dollars, is never a simple task, but Egypt managed to get investors to put up $1.5bn.

Egypt didn't stay away for long, returning to the market for two tranches of euro funding — only its second deal ever in the currency. It managed to raise €2bn — €750m at six years and €1.25bn at 12 years.

With rates plunging deeper and deeper, Egypt has done well to access the market and secure the best available cost of funds.

Khaled Abdel Rahman and the Egyptian public debt management office have drawn praise for their vision and sense of timing, bringing large deals to the market at the ideal time to achieve a good cost of funds. —*Lewis McLellan*

Finance Minister of the Year, MENA

MOHAMMED MAAIT, EGYPT

Tight grip on fiscal policy brings down debt and sees country meet IMF objectives

Egypt in 2016 was suffering from weak growth, growing unemployment, a punishing fiscal deficit and brutally high levels of government indebtedness.

The government, with the IMF's supervision, launched into an ambitious programme to cut public spending and reduce the budget deficit. Phasing out subsidies on fuel was a key step, although the government has managed to bolster its social safety net and food subsidies, helping to keep public opinion on side.

Mohammad Maait took charge of the finance ministry in 2018, leaving the post of vice minister of finance for public treasury affairs and head of the economic justice unit.

Since joining the ministry, Maait has kept a tight rein on fiscal policy, bringing down the country's debt to GDP ratio from 108% down to 90.5% by the end of that year. He also helped to bring Egypt's budget deficit down to 8.2% from 10.4%. Next year, Egypt is aiming to reduce its deficit to 7.3% of GDP in 2020, partially through reforms to the tax administration system.

Through his work cutting public sector wage spending and subsidies, Egypt has successfully achieved the objectives set for it by the IMF in 2016.

Now, with lower government debt, banks are free to up their lending to the private sector and stimulate growth, which is already starting to return. Maait's macroeconomic reforms were instrumental in rebalancing and stabilising the Egyptian economy.

Through Maait's work cutting public sector wage spending and subsidies, Egypt has successfully achieved the objectives set for it by the IMF in 2016

Maait has demonstrated a market-oriented approach, improving Egypt's economic fundamentals to such a degree that it has earned an upgrade from Moody's and Fitch this year.

While vulnerabilities remain — a shock to global growth or a resurgence of political instability would damage progress— the Egyptian economy is far more resilient than it would otherwise have been, and Maait and his ministry are promising that the reforms will continue, sustaining economic growth and continuing to bring down the budget deficit.

Such promises are common in finance ministries rebuilding their economies, but it is a testament to the credibility that Maait and Egypt have earned that the international investor community and ratings agencies are prepared to take them at their word. — *Lewis McLellan*

Central Bank Governor of the Year, MENA

MAROUANE ABASSI, TUNISIA

Disciplined approach pays off for Tunisia as economy turns corner

Tunisia has faced an extraordinary series of shocks over the past 10 years. The global financial crisis, the Arab Spring, and a trio of deadly terrorist attacks in 2015 all took their toll on the Tunisian economy. In that time, Tunisia has had seven prime ministers. "We have not a lot of political stability over the past 10 years," says Marouane Abassi, governor of the central bank of Tunisia.

The central bank has, during that time, been perhaps the most stable and consistent organ of the Tunisian state.

As a result of external pressures, when Abassi, a former World Bank economist took over the role of governor, the Tunisian dinar was weak and inflation was well over 7%. "Our policy rate was 5% and inflation was at 7%," says Abassi. "That meant the real interest rate was 200bp negative."

Throughout 2018, Abassi raised the interest rate three times, bringing it to 7.75%. Inflation has begun to respond, dropping from 7.4% in September 2018 to 6.7% in September 2019.

Although the rapid rate hikes were no doubt painful in the short term, Abassi says he felt no political pressure. "Our responsibility is to maintain price stability and financial stability, and we are completely separate from the government," says Abassi. "I speak with the finance minister, but I don't take advice from him regarding my policy decisions."

The rate hikes have also helped to stabilise the FX, strengthening the dinar against the dollar and allowing the central bank to build up its FX reserves.

Abassi has also presided over Tunisia's progress in fighting money laundering. "We were on the FATF blacklist for lack of co-operation in fighting money-laundering," says Abassi. "We prepared an action plan and, although it was not easy to implement, we were able to do so, and expect to be removed from the blacklist in October."

Conditions have been difficult, but Tunisia is in far better shape thanks to Abassi's disciplined approach

The Tunisian economy has once more returned to positive growth. Conditions have been difficult, but Tunisia is in far better shape to address these concerns than it might otherwise have been thanks to Abassi's disciplined approach.
—*Lewis McLellan*

"Given how difficult it is to carry this type of reform in any country, Guedes deserves credit for sticking to his principles" —Álvaro Vivanco, NatWest Markets

Finance Minister of the Year, Latin America

PAULO GUEDES, BRAZIL

The architect of a potentially transformational social security reform

Paulo Guedes took charge of Latin America's largest economy in January 2019 as it stumbled under the strain of years of corruption scandals, political stalemate, and falling investment.

If the shift to a market-friendly administration meant market expectations were high, there was great uncertainty as to whether a government led by a polarising president would be able to achieve the reforms necessary.

Central to those hopes was a social security reform that investors saw as necessary to tackle the pension burden at the heart of Brazil's fiscal problems.

Guedes himself tells *GlobalMarkets* that public spending had ballooned from 18% of GDP 40 years ago to 45% at the peak of Dilma Rousseff's 2011-2016 administration. This was a "fiscal black hole threatening to derail the whole economy", says Guedes.

On October 2, Brazil's Senate passed the reform in a first round vote, leaving just one final round of voting required.

The pace of approval has "defied the odds", says Edward Glossop, EM economist at Capital Economics. "Progress on Brazil's pension reforms has been swifter than we initially expected."

Some dilution during the arduous process in such a divided political system as Brazil's was inevitable. Still, the R$800bn ($195bn) of savings that Capital Economics projects that the reform will bring is still going to be "transformational", according to one major EM bond investor (the ambitious first draft in February sought to save more than R$1tr).

Álvaro Vivanco, Latin America strategist at NatWest Markets, believes that Guedes is "delivering strongly" on reforms and "appears to have managed the political process very well".

"Given how difficult it is to carry this type of reform in any country, Guedes deserves credit for sticking to his principles," says Vivanco.

Shelly Shetty, head of sovereign ratings for Latin America at Fitch, adds that Guedes has been able to "keep a lid" on spending while facing difficult choices, and highlights that the reform is "key for improving the structural outlook of public finances over the medium to long term".

"Although there is still a lot of work to be done in Brazil, the government has moved in the right direction in several areas — fiscally, in terms of pension reform, and with potential privatisations," says Shetty. — *Oliver West*

Central Bank Governor of the Year, Latin America

ALEJANDRO DÍAZ DE LEÓN, MEXICO

A bastion of stability and orthodoxy in unpredictable times

Since being appointed governor of the central bank of Mexico (Banco de México, or Banxico) in November 2017, Alejandro Díaz de León has faced fire from all sides.

Yet as investors evaluate the challenges facing Mexico — whether global volatility affecting the peso, changing US policy toward Mexico, or certain policies of left-wing president Andrés Manuel López Obrador — they see Díaz de León as a comforting presence.

One EM bond investor goes further, telling *GlobalMarkets* that Banxico is "the number one reason Mexico has staved off a currency crisis" despite internal and external headwinds.

Díaz de León tells *GlobalMarkets* Mexico was facing a "peculiar mix of circumstances". "We have had a complicated few years and have needed to have a strong, prudent stance on monetary policy," he said. "When facing shocks and uncertainty, we also need very strong communication."

The governor highlights novelties in the bank's communication, including allowing dissenting voters on the board to offer their views and "explaining our reaction function as best we can".

Shelly Shetty, head of Latin American sovereign ratings at Fitch, says that Díaz de León's handling of a "difficult situation" has been "very good".

"In the face of recessionary conditions, difficult domestic and external shocks, new people on the bank's board, and calls to lower rates more quickly, he has been able to get inflation under control and retain credibility," she says.

Indeed, in December 2017 inflation in Mexico hit 6.77%, its highest level since the central bank introduced its 2%-4% target range. Yet in June this year, it returned to the range and has continued to ease, allowing Banxico to cut its policy rate for the first time in over five years in August. This space for monetary easing was reward for previous steadfast hawkishness.

"We have had a complicated few years and have needed to have a strong, prudent stance on monetary policy"—Díaz de León

"Under the current governor, Banxico has done a very good job in anchoring inflation expectations and continuing to ensure the credibility required of a central bank," says Álvaro Vivanco, Latin America strategist at NatWest Markets.

"The peso has been driven by long-term fundamentals and the foreign positioning in Mbonos [domestic government bonds] has been stable, which is quite impressive given the challenges Mexico has faced." — *Oliver West*

Public Debt Management Office of the Year, Latin America

Andrés Pérez, Chile,

Head of International Finance, Ministry of Finance

When Chile broke new ground in June, becoming the first Latin American sovereign to issue a green bond, it was the thought process — not just the novelty — that was impressive.

The government opted to issue in both dollars and euros, and received second party opinion from Vigeo Eiris and a certification from the Climate Bonds Initiative. Not only was it a strong statement of intent about the government's commitment to combatting climate change, but it also brought real investor diversification.

As the best rated issuer in Latin America, Chile has long been an expensive buy for EM accounts. A green bond was therefore the perfect way to tap specialist ESG investors, for whom Chile represented a more lucrative return than their usual diet.

"The key to Chile's successful sovereign green bond issuances was a combination of robust and credible commitment on climate action, dedicated investor engagement, and opportunistic market timing, supported by solid fundamentals and a strong macro-financial policy mix," says Andrés Pérez, head of international finance at Chile's ministry of finance.

It was the latest move for a sovereign issuer that has been increasing in sophistication. After issuing a first Euroclearable domestic deal in January 2017, Chile has continued to attract more international investors into its local bond curve, with total holdings increasing from around 3% in 2016 to roughly 20%.

"We are committed to further improving liquidity and the Republic's financing conditions by fostering the participation of international investors in our local bond curves," says Pérez. —*Oliver West*

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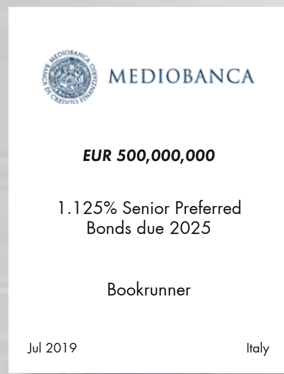

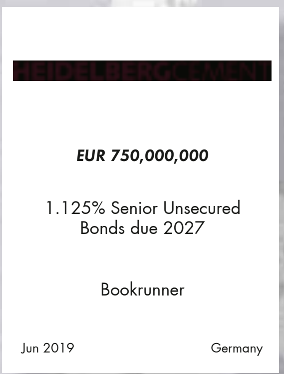

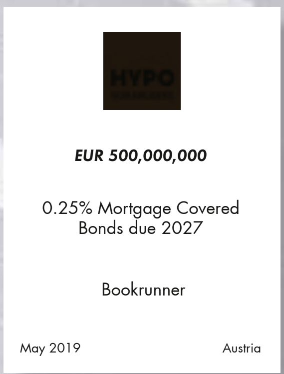

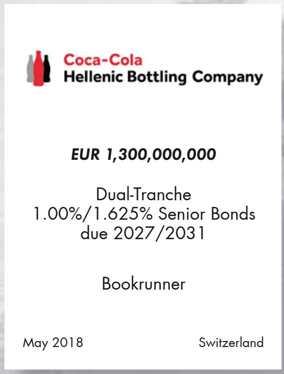

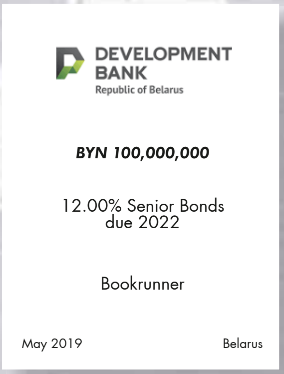

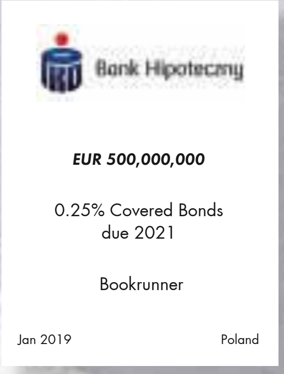

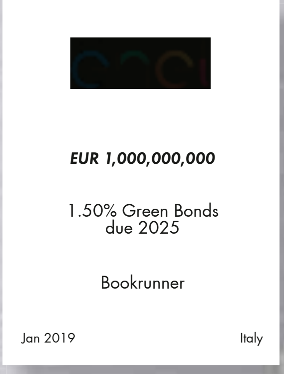

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European Investment Bank The EU bank

Towards a decarbonised future

The European Investment Bank has set out a strategy for lending that will support the EU's goal of decarbonising the economy by financing investments that cut emissions, combat climate change and support alternatives to fossil fuels

As scientific evidence on the catastrophic impact of greenhouse gas emissions has become more conclusive over recent years, so targets for decarbonisation have become progressively more ambitious. It is now more than a decade since the European Union agreed on its 20-20-20 energy and climate targets. This aimed at reducing greenhouse gas emissions by 20% on 1990's levels, increasing the share of renewables in the EU's energy mix to 20%, and boosting energy efficiency levels by 20%.

These goals, considered ambitious at the time, were later surpassed by new targets to reduce greenhouse gases to 40% of 1990 levels, lift the share of renewables to a minimum of 32% and generate energy savings of at least 32.5%.

More recently, the adoption of the European Commision's Clean Planet for All vision has embraced the objective of achieving a "prosperous, modern, competitive and climate neutral economy by 2050". Unveiled ahead of the COP24 UN Climate Summit in Katowice last November, this highly ambitious blueprint for decarbonisation recognises that if global warming is to be restricted to a maximum of 1.5 degrees, emissions will need to reach a net zero level within the EU by 2050.

Andrew McDowell, vice president for energy at the EIB: "This is the moment to act"

THE EU CLIMATE BANK

The EIB's approach to energy lending has evolved over the last decade in tandem with the EU's increasingly uncompromising decarbonisation goals, with almost a decade now having passed since the bank last supported a coal-fired power project. Between 2013 and 2017, meanwhile, more than 80% of the Bank's energy lending was devoted to renewable energy, energy efficiency and modern electricity networks.

The Lake Turkana wind farm in Kenya, to which the EIB provided debt and equity

As it reinforces its credentials as the EU's Climate Bank, however, the EIB is now intensifying its commitment to decarbonisation. This commitment will take shape in a new energy lending policy, following the most comprehensive public consultation ever undertaken by the Bank. This foresees a phase out of support to energy projects reliant on unabated fossil fuels — upstream oil and gas extraction, natural gas infrastructure, power generation or heat based on fossil fuels.

"We as the EU bank have a duty to focus on the longer-term challenge and investment needs of the energy sector," explains vice president Andrew McDowell for energy at the EIB who has overseen the review. "As a result, all the bank's lending activities in the energy sector must be fully aligned with the Paris Agreement. We know these are ambitious and profound objectives, which are challenging for our own shareholders but this is the moment to act."

Edward Calthrop, senior economist in the energy team at the EIB, also recognises that this direction of travel implies virtually zero emissions from the EU's power sector by 2040. Decarbonising energy supply to meet even the 2030 targets, meanwhile, calls for at least a doubling of today's EU renewable power generation capacity.

Meeting this requirement is well beyond the resources of an individual multilateral development bank such as the EIB, which has lent, on average, between €12bn and €14bn per year to the energy sector over the last five years. "It is clear that the vast bulk of investment in renewable power generation will need to come from the private sector," says Calthrop. "This means that the volume of the EIB's lending is probably a less important metric than its risk sharing and advisory work."

The EIB's president, Werner Hoyer, emphasised the importance of promoting the institution's role as the "crowding-in bank" when he addressed the United Nations General Assembly recently in New York. "By working with our public and private [sector] partners we aim to help unlock more than $1.1tr of investment by 2030," he said. "This will include a marked increase in support for climate adaptation and resilience."

INCREASINGLY COMPETITIVE RENEWABLES

McDowell says that he is optimistic that the targets set out by the EU and the EIB are achievable. "A decade or so ago, the central question was whether or not it would be possible to generate sufficient volumes of electricity from renewable sources at a cost that would make them competitive with conventional sources," he says. "This is a question that has now been unambiguously answered."

Compelling evidence of how competitive renewables have become was provided this summer, when the most recent auction of solar energy in Portugal established a new world record. One of the 24 licences on offer in Portugal was sold for €14.76 per megawatt hour. "To put this into perspective, when I worked on my

© LTWP 2019

first solar project at the EIB in 2010, we were looking at prices of as much as €600 per megawatt hour," says Calthrop.

Wind is another renewable energy source that has taken giant strides in terms of its competitiveness relative to fossil fuels over the last decade. Calthrop says that while onshore wind has been competitive for many years, the main discussion today is focused on the economics of offshore wind.

"As with solar, in some countries we have seen a spectacular transition towards wind," he says. "In the Netherlands and Germany, for example, we are seeing projects being brought forward without any government support which are now selling electricity into wholesale markets on a competitive basis."

Orchestrating harmonious revival in Katowice: the headquarters of the Polish National Radio Symphony Orchestra, financed in part by the EIB and an example of a 'Just Transition'. The new concert hall is only one part of a larger project involving the reconstruction of Katowice's city centre

© City of Katowice

Making solar and wind plants competitive in their own right is half the battle. The point has now been reached where in a number of regions, and during certain periods of the day, month and year the EU can be reasonably confident about generating plentiful supplies of cost-effective, renewable power. The challenge now, is to find ways of capturing and transferring that power to other energy carriers for residential and industrial use across the wider economy. This raises questions around the financing of storage projects as well as demand response initiatives to make markets smarter.

A JUST TRANSITION

Question marks over storage and transmission of renewable power is one reason why exiting fossil fuels is not simply a matter of throwing a switch or establishing decarbonisation targets. Especially in countries and regions that have traditionally been highly dependent on coal mining, the ramifications of embracing a future free of fossil fuels are complex and extensive.

"Multilateral public investors like the European Investment Bank have a significant contribution to make here," McDowell says. "Our financing and advice must be directed at investments that cut emissions and combat climate change and at supporting alternatives to fossil fuels. Global investment in research and development in renewable energy is still much too low. The global number in 2017 was $32bn, of which $22bn was provided by governments. That is half of what the EU automotive industry alone invests each year in R&D."

He adds: "Crucially our investments must create the jobs and growth in the renewable energy and energy efficiency sectors that will ensure the transition leaves behind no part of our societies and no region of the world. To make this work, there has to be substantial thinking on the principles and guidelines followed by major investors."

The requirement to accelerate this process is particularly compelling in the economies of Central and Eastern Europe, which accounted for about 86% of the EU's hard coal production in 2018, according to Eurostat*.

Recognising this acceleration, 10 EU member states will be supported by the EU's Modernisation Fund. Part of the EU Emissions Trading Scheme (ETS), this is a mechanism designed to support investment in small-scale energy projects, improvements in energy efficiency and the modernisation of energy systems in member states with a GDP per capita below 60% of the EU average.

The fund is being financed via the auction of up to 2% of the total EU ETS allowances, which for the period between 2021 and 2030 are estimated to be worth between €6.2bn and €9.3bn.

The EIB will have a key role to play in assessing projects applying for funding under the ETS scheme. As to its direct funding of energy projects designed to accelerate the process of decarbonisation in the EU, Calthrop explains that under the Bank's Energy Transition Package, it proposes to relax its rule of limiting its financing of individual projects to 50% of the total project cost. "We're proposing that in the countries eligible for the support of the Modernisation Fund, this should be increased to 75% for energy projects," he says.

There is a more intractable long-term issue that will need to be addressed as the process of phasing out of fossil fuels gathers momentum. This is the social impact that the decommissioning of coal mines and other sources of heavily polluting power will have in areas that have traditionally depended on these economic activities. Across 12 member states in the EU, 41 regions still mine coal, providing a livelihood for about 240,000 people.

McDowell says: "The EIB is keenly aware of the social dimension associated with the accelerated exit from fossil fuels and is supportive of the concept of a 'Just Transition'. Indeed, it is an integral part of the new policy and the incoming European Commission's proposed Green Deal, which we as the EU bank will play a pivotal role in delivering. The 'Just Transition' concept aims to provide a framework for discussions on the development of an equilibrium between sustainability and fairness for those who stand to lose out.

Werner Hoyer, president of the EIB: "By working with our public and private [sector] partners we aim to help unlock more than $1.1 trillion of investment by 2030"

"As a bank whose roots are based on supporting cohesion in Europe, we absolutely need to do everything we can to help those countries and regions that are potentially the most exposed to the process of transition from a social perspective."

This is a message that has been transmitted loud and clear by the Bank's president. "At EIB, we have been supporting this 'Just Transition' for a long time," Hoyer said in Paris in September. As an example, he pointed to the work that the bank has been doing over the last 20 years with the Polish municipality of Katowice, which in 1998 was the first Polish municipality to sign a loan agreement with the EIB.

"Our €205m of loans [to Katowice] have contributed to its successful transition from stagnating coal-mining town to vibrant urban centre, offering new business opportunities and a healthier environment for its citizens," added Hoyer.

Notably, however, the EIB's lending aimed at cushioning the socioeconomic impact of transition has not been restricted to Central and Eastern Europe. Recent initiatives financed by the bank have included those supporting rehabilitation of brownfield areas in Brandenburg, the transformation of the former coal-mining town of Essen, and the replacement of dirty heating systems with clean ones in the Irish county of Tipperary.

These projects all underscore the inseparability of decarbonisation and social development, which are at the heart of the EIB's energy lending strategy. "Achieving the objectives of the Paris Agreement and addressing climate change requires a profound transformation of our economy and our society," said Hoyer at a recent meeting in Zagreb ahead of Croatia assuming presidency of the EU in 2020. "We simply cannot shoulder the costs of inaction." ●

*See coal production and consumption statistics on the Eurostat section of the EU website: Europa.eu

Attenborough factor pushes oceans on to SRI agenda

The public is increasingly conscious of environmental challenges facing the ocean economy, and the capital markets are taking note. Industries using the oceans are numerous and fragmented, making allocating money in a sustainable way challenging. But some routes are open for investors looking to improve activities involving plastics, shipping and fishing

By Jasper Cox

Investors are increasingly using plastics as a barometer for a company's ESG [environmental, social and governance] performance"

—Felix Gummer, Sancroft in London. Member of the UN Principles for Responsible Investment's plastic investor working group

One of the obstacles to tackling global environmental problems like climate change is the disconnect between localities: it is a global problem, but tackling it involves lots of changes at the local level, which individually have little demonstrable effect.

Nowhere is this challenge better encapsulated than through the swathes of the earth covered in water: how can drops in the ocean make a difference?

The United Nations' sustainable development goals focus on the oceans through Goal 14, which concentrates on pollution, acidification and fishing.

"There are different ways to think about how companies can help with SDG 14," says Jessica Alsford, head of the global sustainability research team at Morgan Stanley, based in London. "Some companies can adapt to reduce the potentially negative impact of their products on the oceans — that's what we've seen a lot with the consumer goods companies for example with plastic packaging."

She adds: "Then there are companies providing solutions for oceans, but we found this to be quite complex."

In terms of what role investors can play, Alsford distinguishes between allocating capital towards firms offering a solution, and engaging with firms to shift their business models away from destructive practices. Of course, investors could also simply stop offering capital to the latter.

With the help of UK television presenter David Attenborough, who tackled it in his Blue Planet programmes, the issue of plastic waste has rocketed to the forefront of the world's attention.

This has not escaped capital markets participants. Alsford says plastics was the topic she was most frequently asked about last year. According to MSCI, the number of earnings calls mentioning "plastic waste" last year increased by 340%, versus 2017.

It is not just about tugging on heartstrings: caring about plastics has a commercial logic.

"It's almost a virtuous circle: the theme was capturing the media and people's imaginations, and from an investor point of view you could see how consumer behaviour and regulation might change and therefore this could have material consequences for companies," says Alsford.

Governments are certainly taking a keener interest. The EU wants 90% of plastic bottles to be recycled by 2029.

"Investors are seeing the general trend of governments ensuring that the full cost of plastics sits on the balance sheet of business, not the taxpayer," says Felix Gummer, a director at Sancroft in London and a member of the UN Principles for Responsible Investment's plastic investor working group.

The topic might also be a proxy for management quality. "Investors are increasingly using plastics as a barometer for a company's ESG [environmental, social and governance] performance," says Gummer. "If a company doesn't have a ready answer on a subject that has been on the front pages for the last two years, investors will rightly look very closely at its governance."

While consumer goods companies might lose market share if their customers and the state get annoyed with their plastic waste, other firms may benefit from investing in recycling infrastructure. If others follow China in banning imports of waste plastic, countries will face more pressure to process their own rubbish.

But the recycling sector may need government support via regulation to ensure demand is steady enough, as its economics depend on bulk and the cost of oil. A decade ago, UK investors were burnt by the oil price crash, which made virgin resin much cheaper than recycled material.

"Enough investors caught a cold to create real reticence to re-enter this space," says Gummer.

One plastics company keen to show action on waste is LyondellBasell, the listed Dutch firm familiar to bond investors. It has a project with Finnish firm Neste to

© The Ocean Cleanup; picture of David Attenborough by Stephen Jaffe © Some rights reserved IMF

produce plastics from renewable sources and a recycling venture with Suez.

SHIPPING: THE FUEL CHALLENGE

Meanwhile, the shipping industry is grappling with a push to make its emissions cleaner: both for the planet and for the local environment.

"We know a lot of coastal areas are looking very closely at ships' diesel emissions and the impacts on their air quality," says Gummer.

From the perspective of reducing carbon emissions, shipping may face more scrutiny as other sectors clamp down. "It is going to come into much sharper focus," says Gummer. "As we remove petrol and disease road vehicles, the much dirtier marine engines and their effect on coastal air quality are going to find themselves in the crosshairs."

From 2020, ships will face a stricter limit on sulphur in fuel oil under the International Maritime Organization's regulations. Firms will either have to retrofit scrubbing technology on to vessels, or buy low sulphur fuel.

Two companies, Wärtsilä and Alfa Laval, offer the scrubbing technology. Both are listed, and Alfa Laval is a bond issuer. For pure green investors, though, neither is perfect, with Alfa Laval making fossil-fuel-burning products like heaters and boilers, and Wärtsilä providing technology and services in natural gas distribution.

The Sustainable Shipping Initiative (SSI), which focuses on reshaping shipping, produced a report last year on low emission vessels. It said biofuels can be used through internal combustion, mirroring current technology and reducing implementation costs compared with other alternative power options. But, it warns that due to its large demands, the industry will need biofuels that are not derived from food, to avoid weighing on global food production. Hydrogen fuel cells are another option, but could hit profits.

The SSI said: "The technological maturity" of these options was a concern, and that achieving the required development by 2030 requires "the most ambitious members of the industry to challenge the status quo".

Alsford says investors are also interested in whether firms can ensure ships are decommissioned responsibly, even if they have only been leasing them: rather like how other firms might be asked to have responsibility for their whole supply chain.

FISHING: PROFIT WITH PURPOSE

When it comes to fishing, more sustainability would have a particular benefit: it would provide an environmentally-friendly alternative to land-based meat.

"There's a move away from beef and a move towards healthier, more sustainable protein from a health and wellness perspective but also from a sustainability, climate, water use perspective," says Jason Scott, co-managing partner at Encourage Capital in New York.

Encourage Capital is an investor looking to tackle environmental and social problems. It has invested in sustainable fishing and aquaculture, alongside other organisations like Rare, Althelia and Aqua-Spark.

A problem for any investor looking to boost sustainable fishing on a large scale is the fragmentation of the market, particularly along the supply chain: fish take a circuitous route from the sea to the plate. Encourage Capital has invested in two seafood companies that are vertically integrated, giving them more control over the sustainability of the supply chain.

Scott says many investors in the seafood industry are not interested in providing capital to get firms to be sustainable. But he believes the picture is changing, as capital matches consumer demand and sustainability goals.

Sustainable investment does not have to go into vertically integrated firms. SafetyNet Technologies creates devices to make catching fish more efficient and sustainable, particularly through reducing unwanted catch. It responds to tougher regulations on those fishing.

The firm has found investment from an ocean-focused fund, a conservation organisation and a social impact venture capital firm. "It feels like investors are more willing to talk with companies like ours about supporting our growth," says Dan Watson, founder and CEO in London. "This idea of profit with purpose is becoming more palatable."

Watson's business, designed to be profitable in its own right, not reliant on grants, is a good example of the confluence of investor interest in sustainability and the regulatory push, both of which are propelled by public concern.

SafetyNet is a small fish in the ocean economy. But while Alsford of Morgan Stanley is right to point to the complexity of finding firms providing oceans solutions, Watson's company is a sign that it can be done. GM

Balancing nature and the global economy
David Attenborough with Christine Lagarde at the 2019 IMF/World Bank Spring Meetings

A different colour of bond

Accompanying the surge in interest in green bonds, some borrowers have turn to themed "blue bonds", focusing on financing sustainable activities related to water. The Seychelles issued a $15m deal last year to improve the sustainability of fishing and marine tourism, for example, that was called a blue bond.

Nordic Investment Bank followed earlier this year with a Skr2bn ($221m) blue bond of its own. It has a broad environmental bond framework where water management and protection is one of six categories, and for the first and only time it decided to issue a more specific themed bond under that framework.

"We have the green bond programme but there were some investors who wanted to target something related explicitly to water," says Jens Hellerup, head of funding and investor relations in Helsinki.

"Many of the investors were Swedish. They are facing out to the Baltic Sea and see what is happening there. The Baltic Sea is still a little bit polluted so there is a lot to be done."

Eligible projects included wastewater treatment, prevention of water pollution and water-related climate change adaptation. One adaptation project is the redevelopment of the Slussen water locks in Stockholm, increasing drainage capacity and allowing higher floodgates.

Hellerup says that NIB does not yet have the assets to issue another blue bond, but it could issue one again at some point in the future.

"There is big competition to finance blue assets among our peers, banks or even by the capital market itself," he says.

Banxico keeps eye on stability in face of structural shocks

Mexico's central bank has finally taken a dovish turn to ease pressure on a languishing economy. Yet prudence in the face of structural changes continues to be the guiding light for Banxico, governor **Alejandro Díaz de León** tells *GlobalMarkets*

Exclusive GM interview

By Oliver West

After more than five years without a rate cut in Mexico, analysts are finally gearing up for an easing cycle. Banco de México (Banxico) moved interest rates from 8.25% to 8% in August and then lowered by a further 25bp in September after inflation had returned to the bank's 2%-4% target range in June.

Now, according to Capital Economics, markets are pricing in a policy rate of 6% by the end of 2020.

President Andrés Manuel López Obrador praised September's rate cut, but added that he would like Banxico to "be concerned about economic growth, as well as inflation". Even certain analysts have been calling for the central bank to go dovish earlier.

"Banxico remains overly cautious in our view and strikes a still somewhat hawkish tone even after two members of the Board pushed for a larger cut," said BBVA economists in Mexico Javier Amador and Carlos Serrano after the September cut.

Admittedly, the Mexican economy — hit by the renegotiation of the Nafta trade deal, other bilateral issues with the US, a change in government, an FX rate depreciation and an increase in fuel prices — needs all the help it can get.

Mexico narrowly avoided recession in the first half of the year, and Citibanamex's latest survey of expectations shows that analysts are forecasting GDP growth of just 0.4% on average in 2019.

As it celebrates 25 years of independence, however, Banxico continues to strike a prudent tone.

> *"We must continue to show that short-term approaches quick fixes are — at best — mirages, and at worst a nightmare"*
> *—Díaz de León*

UNPRECEDENTED COMPLEXITY

"Clearly, we are not experiencing a run-of-the-mill business cycle and are dealing with circumstances of an arguably unprecedented complexity," Alejandro Díaz de León, governor of Banxico, tells *GlobalMarkets*. "Some of the changes Mexico has faced are structural — such as moving from being an oil exporter to an oil importer. "Nafta, which had become part of the status quo, was renegotiated, and this is also structural."

The downturn is beginning to impact prices. Core inflation is expected to have fallen for the fourth consecutive month in September, complementing non-core inflation that hit a record low of negative 0.7%, and the headline print in the first half of September was 2.99% — the lowest in three years.

Easing external pressures, thanks to looser monetary policy in the US and other developed markets, were therefore a welcome development for Mexico's outlook.

"One of the most challenging items for policy going forward is the larger than anticipated deceleration of the Mexican economy, which has increased the trade-off for monetary policy," says Díaz de León.

Nonetheless, to ensure an orderly adjustment to these structural shocks, Banxico has had to "strengthen the macro mix", says the governor. "When it comes to monetary policy, this means a strong stance and prudence," he adds.

So while BBVA might feel that Banxico could cut a further 200bp without having an impact on the exchange rate, Capital Economics — which earlier in 2019 was on the dovish side of the consensus — believes that "most analysts have gotten ahead of themselves" with their 2020 outlooks.

"Given that the US Fed is only likely to make one more cut, we think that a much longer Mexican easing cycle seems unlikely," says John Ashbourne, senior EM economist at the research firm, which expects the policy rate to end 2020 at 6.75%.

Díaz de León has not forgotten the "complicated" process of bringing inflation down from its December 2017 level of 6.77%, the highest print since the bank introduced its target range.

While he admits the bank does envisage a continued reduction in core inflation, Díaz de León highlights certain lingering upside risks. Wages remain higher than expected given the business cycle, for one.

"Furthermore, the FX rate has been volatile, and we have seen periods of risk aversion globally — associated with trade tensions, geopolitics, and global policy direction — that could affect us," he says. "Also, remember the non-core component of inflation is at lowest ever, so may rebound somewhat."

INVESTMENT STIMULATION

Moreover, Mexico's growth problem is not recent, and hardly just a result of tight monetary policy. While much of Latin America enjoyed transformational economic expansion in the last two decades, average growth in Mexico since 2000 is just over 2.2%.

"For 20 years Mexico has endured very low average growth," says Díaz de León. "Consequences of trade tensions, in particular, have also led to softer levels of investment."

Indeed, latest data for gross fixed investment show it fell 7.6% year-on-year in July, which Banorte said "reaffirmed [investment] as the weakest link in terms of GDP".

This is where Mexico needs to focus its efforts, says the governor. "We need to improve conditions for investment and build confidence," he says. "One key element is to improve governance and rule of law, trying to increase security and fight corruption and impunity."

Given the headwinds that Mexico has faced, even analysts pushing for more dovishness acknowledge that Banxico has been a great asset in keeping to its dual mandate of price and financial stability in recent years.

"Promoting this stability is one of our most important contributions to Mexico," says Díaz de León. "Having an independent central bank has played a crucial role in providing stability and avoiding balance of payments crises like we used to have.

"We must continue to show that short-term approaches quick fixes are — at best — mirages, and at worst a nightmare." GM

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A Leading Regional Player

Nemeh Sabbagh
Chief Executive Officer

Since its establishment in 1930, Arab Bank has maintained a commitment to the highest standards of excellence in financial services based on sustainable growth and development. The consistency of the bank's performance in recent years continues to win recognition from the world's leading financial publications, with Euromoney naming Arab Bank as the Middle East's Best Bank in 2019. This mirrors the recognition that the bank has won from the New York-based Global Finance, which has named it as the best bank in the Middle East in each of the last four years.

These prestigious awards have in part recognised the continuous growth that Arab Bank has delivered in the recent past. In 2018, for example, assets rose from $48.2bn to $49.2bn, while loans increased from $25.1bn to $25.8bn and customer deposits were up from $33.8bn to $34.3bn, with net profit reaching $820.5m. "Arab Bank's solid results in 2018 were driven by sustainable growth in its underlying business twinned with spread improvements and well-controlled expenses," says Nemeh Sabbagh, CEO.

Consistent Profitability Growth

The bank continues on a steady growth trajectory in the first half of 2019, with net profits rising by 4% to $453m, buttressed by a 5% increase in net interest income.

Over the same period, loans and deposits both increased by 3%, to $26.2bn and $34.1bn respectively, bringing the bank's loan to deposit (LTD) ratio to 76.9%. Group equity at the end of the first half of 2019, meanwhile, reached $8.7bn.

Impressive efficiency indicators

Continuous growth at Arab Bank has not come at the cost of asset quality, which remains robust. At the end of December 2018, the coverage ratio of non-performing loans exceeded 120%. Other indicators also bear impressive witness to the bank's efficiency: at the end of 2018, after tax return on equity (ROE) reached 9.5%, while return on assets (ROA) rose to 1.7%. Arab Bank's cost to income ratio, meanwhile, which was over 42% in 2014 and 2015, has been reduced to around 40%.

One of the Arab World's Largest Global Network

The awards won by Arab Bank for its excellence in financial services are also a reflection of the group's leading regional position. The Bank remains a lynchpin of the economy in its home market, with 128 branches and almost 4500 employees in Jordan, which contributed around a third of loans, deposits, revenues and income in 2018.

A key pillar of the bank's strategy, however, has been the expansion of its footprint well beyond the domestic market. Today, the group has one of the largest global network of any Arab bank, with more than 600 branches spanning five continents. The result is that the bank is now one of the most diversified in the Middle East. While Jordan accounted for 33% of total assets at the end of 2018, other Arab countries contributed 49%, with Europe and America accounting for 14% and the remaining 4% spread across Asia and the rest of the world. Loans and deposits are also well-diversified, with 31% of the bank's loan book in Jordan, 28% of its lending generated in the GCC, 15% in North Africa, 10% in Europe, 10% in other MENA countries and 5% in the Far East and elsewhere.

As well as being healthily distributed from a geographical perspective, Arab Bank's loan portfolio is also highly diversified.

A robust capital and liquidity profile

Arab Bank enjoys a solid capital and liquidity profile, with a capital adequacy ratio (CAR) which rose from 15.01% at the end of 2017 to 15.64% in December 2018, and a CET1 ratio which reached 14.5% at the same date. The bank's leverage ratio is also comfortably above Basel III and Central Bank of Jordan (CBJ) requirements, at 8.6%, while its liquidity coverage (LCR) and net stable funding ratios (NSFR) reached 536% and 142% respectively at year-end 2018.

It is this robust financial profile, allied with its track record of growth and diversification, which underpins the bank's solid position. "AB Group has been a consistently solid performer, even during difficult domestic or regional operating conditions," notes Fitch. "The Group's performance reflects its broad geographical diversification, its conservative attitude to risk and a policy of making liquidity paramount."

Company data

Total assets (End 2018):	USD 49,2Bn
Net profit (End 2018):	USD 820.5Mn
Capital Adequacy Ratio (End 2018):	15,64%
Loan to deposit ratio (End 2018):	75.2%

Supporting Investment, Opportunity and Diversification

Abdulla Mubarak Al Khalifa, Acting CEO of QNB Group

With total assets of $244bn as of June 2019, Qatar National Bank (QNB) is comfortably the largest bank in the Middle East and Africa. It is also the region's largest measured by loans, deposits, net profit and market capitalisation. In the five years to June 2019, total assets expanded at a compound annual growth rate (CAGR) of 14%, while over the same period net profit and operating income grew at CAGRs of 8% and 10% respectively.

"We stand out as a strong and highly-rated international bank operating as a full-service financial institution in our core markets of Qatar, Turkey and Egypt, and as a wholesale commercial bank across a range of frontier and emerging markets in the Middle East, Africa and South-East Asia," says Abdulla Mubarak Al Khalifa, Acting CEO of QNB Group.

In all these markets, Al Khalifa adds, the bank's contribution to socioeconomic development is not measured exclusively in financial terms. "By offering a wide range of benefits to our customers in a professional and ethical manner, we make an important social contribution to the countries and communities in which we operate," he says.

A flourishing domestic business

QNB has a dominant share of the market in Qatar, where it has 63 branches, but Al Khalifa sees plenty of scope for continued growth in the bank's home market in 2020 and beyond. "We will continue to invest in our flourishing domestic business to maintain our market-leading position," he says. QNB's commitment to the local economy is reflected in its support for small and medium sized enterprises (SMEs) across sectors ranging from manufacturing and food through to health and education. It has also been evident in the partnerships and alliances the bank has entered into with various government and private sector associations to accelerate entrepreneurship in the private sector.

In the domestic retail banking market, meanwhile, QNB remains focused on digital development and innovation. In wealth management, its cutting edge is QNB's well-regarded market insight and the tailored investment opportunities it recommends to its clients.

Supporting growth and diversification in Qatar

"Qatar is a continuing story of investment, opportunity and diversification," says Al Khalifa. Among the most exciting features of this ongoing story is the FIFA World Cup, which will be hosted by Qatar in 2022. "Preparations are well underway for this exciting and much-anticipated sporting event," he adds. "This offers Qatar an opportunity to undertake large-scale infrastructure projects, in addition to a wealth of ancillary developments in support of this showcase event."

QNB is an active participant across many of these projects, including highways, stadium construction and environmental protection. The bank is also committed to supporting the Qatar National Vision 2030 (QNV2030) initiative aimed at promoting economic diversification away from hydrocarbons by, for example, encouraging accelerated foreign investment in the local economy.

"QNB is playing a vital role as a financial intermediary in this programme to diversify the economy," says Al Khaifa. "The bank remains committed to providing the necessary funding for project execution in sectors such as services, transport and food security, as well as infrastructure for the 2022 World Cup."

A fast-expanding international presence

International expansion is one of the cornerstones of QNB's strategy of consolidating its position as a leading bank in the MEASEA region, which will remain the focal point of its long-term global growth. In line with this vision, QNB plans to strengthen its operations in Turkey and Egypt, where it sees further growth potential.

The bank is also targeting a number of economies within the ASEAN region, including India, where it opened its first branch in 2017. QNB plans to strengthen its 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, upon obtaining the regularity approvals from Hong Kong Monetary Authority recently.

Impressive efficiency indicators

Explosive growth in recent years has been accompanied by the maintenance of strong asset quality. Non-performing loans (NPLs) were flat at 1.9% at the end of June 2019, with the coverage ratio reaching 106%, which reflects the continued high quality of the Group's loan book and the highly effective management of credit risk.

QNB has also continued to deliver enhanced operational efficiency in recent years, with its cost to income ratio falling from 27.8% in 2017 to 25.6% at the end of June 2019.

A key component of QNB's drive for generating cost savings, says Al Khalifa, is the bank's strategy of leveraging technology and streamlining processes to ensure a better customer experience and further harnessing of cost synergies on a group-wide level.

Robust capital and liquidity

QNB's robust capital adequacy ratio (CAR) of 25.9% at the end of the first quarter of 2019 reflects the Group's strategy of maintain a level well above its regulatory minimum. "In order to maintain a healthy liquidity buffer in a range of currencies, we remain opportunistic in the international markets with respect to our wholesale funding programme," says Al Khalifa. The popularity of the QNB credit among international investors has been reflected in the strong response they have given to recent transactions in currencies ranging from US to Australian dollars, as well as in demand for its QR10bn Additional Tier 1 (AT1) issue in 2018.

Company data

Total assets as at June 2019 :	$243.5bn
Net profit (2018):	$3.8bn, up 5%
Return on average assets (2018 v 2017):	1.65% v 1.72%
Return on average equity (2018 v 2017):	21% v 18.7%
Cost to income ratio (H1 2019 v H1 2018):	25.6% v 27.2%
Common Equity Tier 1 as at June 2019:	12.8%

Outperforming across the Board

"NBK has consistently led the way in best-in-class products"
Issam Al-Sager, Group CEO

National Bank of Kuwait (NBK), which was originally incorporated as the country's first indigenous bank in 1952, is comfortably the largest player in the Kuwaiti banking sector. It has a dominant share of assets in the banking system, and is a clear leader in the local market for loans and advances as well as deposits.

In 2018, the bank continued to enjoy robust growth across the board. Net profits expanded by 15% to KD370.7m ($1.2bn), while total assets grew by 5.4% to KD27.4bn ($90.4bn). Customer loans and advances rose by 6.9% to KD15.5bn ($51.1bn), and customer deposits increased by 4.4% to KD14.4bn ($47.4bn).

Continued growth at NBK has been underpinned by the consolidation of the bank's dominant position in the domestic market, as well as by the increasing scale and contribution of its international operations.

"NBK continues to outperform its local peers across all business lines, segments and channels in its home market," says Issam Al-Sager, Group CEO. "It has consistently led the way in best-in-class products and services and set the standard for banking and financial practices in Kuwait."

Specifically, Al-Sager points to the leadership position that NBK has consolidated in its Consumer Banking Group (CBG) through the enhancement of its digital offering, and as a result of the bank's highly effective acquisition and retention efforts. NBK's extensive investment in technology and digitalization has been recognised with a string of awards bearing witness to the popularity of the bank's mobile banking initiatives.

Elsewhere within NBK's domestic franchise, the recent introduction of the Smart Wealth Service, in partnership with NBK Capital, has helped attract younger clientele to the bank's award-winning wealth management business.

On the domestic corporate side, priority has been given to maintaining the bank's position as the primary player for leading local companies and as the go-to bank for foreign companies.

Notable progress is also being made in the investment banking space by NBK Capital, which in 2018 won a series of prestigious mandates such as the lead role in the $200m sale of Integrated Holding Company – Kuwait's only IPO of the year – which was 230% oversubscribed. NBK Capital also consolidated its position as the advisor of choice in the Kuwaiti oil and gas sector, as well as in the financial services industry, advising a local bank on a KD100m three year senior bond which was the first of its kind.

Exciting prospects in infrastructure and project finance

Another area in which NBK is a clear market leader is project finance, where its highly specialised team offers a full range of financing, project bidding and support, loan structuring and distribution services to its client base.

NBK's Kuwait-based project team is sure to be kept busy over the next few years. "We continue to see strong momentum in the execution of Kuwait's infrastructure development plan," says Al-Sager. "As the country's flagship bank, NBK is fully committed to remaining a key contributor to Kuwait's economic growth by supporting the "New Kuwait Vision 2035" programme."

Expanding international horizons

NBK's leadership in the domestic market is complemented and supported by the bank's international operations, which accounted for 30% of the Group's total net profit in 2018, up from 28% in 2017.

The main focus of the international operation is the Middle East and North Africa (MENA) region, where NBK is placing an especially strong emphasis on retail banking in the growing Egyptian market. In Saudi Arabia, meanwhile, NBK recently won approval to open two further branches supporting the expansion of its commercial banking and wealth management businesses in the Kingdom.

In Europe, NBK's Paris branch has been converted into a full subsidiary, while the bank's UK operations have continued to perform strongly. Elsewhere, NBK's Chinese business is taking on greater importance.

"The diversification provided by our international banking portfolio remains essential for mitigating risk and improving income opportunities," says Al-Sager.

Progress in Islamic Banking

Since its acquisition of Boubyan Bank, which began in 2009, NBK has been the only bank in Kuwait able to offer comprehensive services in conventional as well as Islamic banking. Al-Sager says he is delighted with the contribution being made by Boubyan Bank to NBK's overall growth. "Boubyan is pursuing a strategy of differentiation from other local Islamic banks, maintaining its focus on the high-net-worth and affluent market as well as on medium-sized and large companies," he explains, adding that he expects this approach to continue to deliver very satisfactory returns.

Strongly-positioned for further growth

All NBK's financial metrics and efficiency indicators suggest the bank is well-positioned to capture further growth opportunities locally and internationally. The bank's prudent approach to risk management has helped push NPLs down to 1.38% in 2018 with a coverage ratio of 228.1%, while a successful focus on cost control has seen NBK's cost-to-income ratio fall from 32.3% in 2017 to 31.3% in 2018.

NBK's capital adequacy ratio, meanwhile, remains well above the regulatory minimum, standing at 17.2% at the end of 2018. On the funding side, deposits expanded by 4.4% in 2018 to reach KD14.4bn.

Company data

Item	Value
Total assets (June 2019)	KD27,870mn
Net profit (2018 v 2017)	KD370.7mn vs. KD322.4mn
Return on average assets (June 2019 v 2018)	1.53% vs 1.38%
Return on average equity (June 2019 v 2018)	13.2% vs 12.0%
Cost to Income (June 2019 v 2018)	32.3% vs 31.3%
Core Tier I ratio (June 2019 v 2018)	14.6% vs. 15.3%

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Raising the Bar for Financial Inclusion in Egypt

CIB, which is Egypt's largest private sector bank, maintained its impressive growth in the first half of 2019, with revenues rising by 19% year-on-year (YOY) and net profits up by 21% in the same period. In spite of the challenging economic environment in Egypt, CIB is confident that it will continue to build on this strong performance over the coming

12 months. At the same time, the bank will continue to set new standards in areas such as green banking and the promotion of gender equality.

"In response to the higher interest rate environment, CIB has continued to re-engineer its balance sheet in order to preserve the bank's earnings and bottom line," says Hisham Ezz El-Arab, CIB's Chairman. "CIB has addressed its deposit-gathering strategy with the goal of reshaping the funding mix by focusing more on increasing the share of short-term deposits, which has allowed the bank to reduce its cost of funding."

The strength of its balance sheet and the improved profile of its funding mix means that CIB is ideally positioned to benefit from the accelerated recovery of the Egyptian economy. El-Arab says that private consumption is being restored on the back of strengthening purchasing power, which has in turn boosted the utilization rates of most corporates.

An improvement in the economic environment, says El-Arab, will support loan growth at CIB on several levels. In the corporate market, CIB believes that a normalization of the interest rate environment will unlock a substantial volume of CAPEX lending. "In addition," says El-Arab, "initiatives such as the Ministry of Petroleum's ambitious modernization programme, twinned with multiple reforms designed to enhance Egypt's competitiveness, bode well for the country's longer term economic outlook."

This should buttress demand in the Egyptian corporate sector, which remains underdeveloped, with corporate lending still accounting for less than 35% of GDP. The long-term prospects for household lending in Egypt are also encouraging. This represents only 6% of GDP, and will be supported by the government's financial inclusion programme, which is wholeheartedly supported by CIB. In line with this commitment, the bank has already launched a series of initiatives designed to broaden accessibility to banking services. One example is the Smart Wallet programme, which helps integrate the under-banked segment of Egyptian society into the banking sector. Another is a recently-launched financial inclusion account to encourage unbanked young people to open bank accounts.

A commitment to innovation

Broader access to financial services will be supported by CIB's continued commitment to technological innovation. "Digital banking is the future," says El-Arab. "Technological advancements are spearheading a revolution in financial services the world over, with banking transactions increasingly requiring a simple internet connection rather than bricks and mortar branches."

"CIB has embraced this change by investing heavily in its digital banking platforms," he adds. "In 2018, CIB was number one in both mobile and wallet activity as well as mobile banking penetration. We are the only bank to offer governmental and non-governmental bill payment services via our Interactive Voice Recognition (IVR) technology, along with other solutions like credit card settlement." El-Arab also points out that CIB's network of 917 ATMs is now the largest among all private sector banks in Egypt.

Company data

Total assets (H1 2019 v H1 2018):	EGP361,313mn v EGP312,179mn	
Net profit (H1 2019 v H1 2018):	EGP5,355mn v EGP4,424mn	
Return on assets	3.04%	2.92%
Return on equity	28.1%	31.1%
Cost to Income ratio	24.4%	20.6%
Tier I ratio	89%	83%
Net profit (2018 v 2017)	EGP9,582mn v EGP7,516mn	

"Digital banking is the future"
Hisham Ezz El-Arab, Chairman, CIB

El-Arab adds that in order to further cement the bank's leadership position, CIB formulated its digital business strategy in 2018, which centres on four main pillars – enhancing the customer experience; increasing migration and automation ratios; optimizing costs; and generating revenue.

Also in line with the bank's digitalization strategy, CIB is committed to leveraging its big data capabilities to build more accurate and holistic views of clients' needs and tailor financial solutions accordingly.

CIB's achievements in the digital space won notable recognition this year when it was appointed as the only representative of the Egyptian private sector as a member of the Digital Economy Task Force (DETF). The DETF is a joint venture between the African Union and the European Union aimed at promoting closer cross-border economic and policy integration across Africa.

Identifying opportunities overseas

As well as embodying CIB's commitment to technological innovation, the bank's participation in the DETF is an example of its strategy of exploring new opportunities beyond its home market. The bank has also signalled its ambitions for regional expansion through the opening of an office in Addis Ababa and its participation in the Smart network. "Although we believe that the Egyptian market still presents numerous growth opportunities, we are also keeping an eye on opportunities in other markets where our corporate clients are expanding their operations," says El-Arab. "For example, we are currently analysing a potential stake in a bank in the sub-Saharan region."

CIB's financial and corporate governance profile means that it remains strongly placed to capitalise on growth opportunities domestically as well as internationally. Aside from being the largest private sector bank in terms of revenue, net worth, total assets and deposits, CIB also has the highest market capitalisation in the banking sector and one of the strongest efficiency ratios among private banks.

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Solidly Positioned

Samba, which is one of the largest and most successful banking groups in Saudi Arabia, was originally established by Royal Decree in 1980, when the branches of Citibank became the Saudi American Bank. Citi progressively reduced its holding between then and 2003, when the bank came under full local management and was officially renamed Samba

Financial Group or Samba.

In 2018, Samba continued to build on its strong recent track record, posting a 10% rise in profits from SR5.02bn to SR5.53bn. "2018 was a great year for Samba," says the bank's Chairman, Ammar Alkhudairy. The main driver of last year's record double-digit profit growth, he says, was the significant improvement in Samba's core interest income. This was achieved through the rebalancing of the bank's asset portfolio mix and the controlled cost of funding underpinning an improvement in net interest margins.

Stronger efficiency indicators

With operating expenses also under control, all key financial and efficiency indicators including earnings per share (EPS), return on assets (ROA) and return on equity (ROE) have all shown a marked improvement over the previous year.

Alkhudairy says that it is especially important to note that Samba's impressive performance has come against the backdrop of slower market and economic growth which has subdued loan demand across the banking sector.

Samba is, however, solidly positioned to take advantage of future growth opportunities thanks to its robust capital levels, and a strong and liquid balance sheet supported by one of the lowest loan to deposit ratios in the industry. This has always been regarded as an integral part of the bank's strategy and as a front line of defence against financial crises. "A significant portion of our assets are funded by a strong deposit base which has remained strong even during difficult times," says Alkhudairy. "This has helped us to self-fund the balance sheet and ensure we remain liquid even in times of stress."

Tremendous growth opportunities

Alkhudairy says he is excited about the growth opportunities that lie ahead both for the Saudi economy and for the Kingdom's financial services industry in areas such as housing and SME lending. "Expanding the availability of affordable housing is a cornerstone of the government's Vision 2030 project, and the mortgage market has the potential to grow exponentially given the level of pent-up demand," he says.

"Similarly, the SME segment has historically been under-served and the authorities are encouraging all banks to deepen their commitment to this sector," Alkhudairy adds. "SMEs tend to challenge established ways of doing things, which is what Vision 2030 is all about."

Privatisation is another area which offers considerable potential, Alkhudairy believes, with sectors such as health and education standing to benefit from capital and advisory services. Tourism will also generate opportunities, with Samba's long-standing relationships with top-tier Saudi construction companies meaning that the bank is well-positioned to collaborate on the rollout of new tourism-related infrastructure in the Kingdom.

A landmark year for the Saudi capital market

Samba prides itself at having been at the forefront of innovation and the application of international best practice in the capital market. It therefore regards the integration of Saudi Arabia into the global market as a compelling opportunity to expand its debt and equity capital market businesses by providing Saudi companies with access to previously unavailable sources of capital.

> *"The mortgage market has the potential to grow exponentially"*
> ***Ammar Alkhudairy, Chairman, Samba***

The bank recently demonstrated its credentials in this area by leading the initial public offering (IPO) for Arabian Centres Company in May. This was the largest Saudi IPO for four years and the first of a Saudi company to be formally marketed to international investors pursuant to Rule 144A in the US.

The upgrade of Saudi Arabia to emerging market status and its inclusion in several global debt and equity indices also opens up a wealth of opportunities for Samba as active international investors follow passive ones into the Saudi capital market. "We expect to build our market share from this pool of new active investors looking for a manager like Samba Capital with a long and successful track record in the Saudi market," says Alkhudairy. He adds that the Samba Capital Brokerage Division is also well-positioned to offer an enhanced range of custody solutions to Qualified Foreign Investors.

International Growth Opportunities

At present, Samba's international presence is accounted for mainly by its operations in the UAE and Pakistan, both of which have very promising growth potential. "With economic growth starting to pick up again on the back of higher oil prices and increased government spending, banks in the UAE are enjoying a revival in credit demand from corporates as well as government and government-related entities (GREs)," says Alkhudairy. "So we are planning to expand our presence in the UAE in anticipation of significant new banking opportunities."

Company data

Item	Value
Total assets (Dec 2018)	$61.3bn
Net profit (2018 v 2017)	$1.474bn and $1.339bn – growth of 10.1%
Return on assets (2018):	2.42%
Return on equity (2018):	12.74%
Cost to Income ratio (2018):	30.3%
Core Tier I ratio (2018):	22.1%

Growth Underpinned by Diversification

> **"AUB continues to compete as a major regional player with a diversified and prudent business model"**
> **Adel A. El-Labban, Group CEO and Managing Director**

The Bahrain-based Ahli United Bank (AUB) was established in May 2000 following a merger between the United Bank of Kuwait and Al-Ahli Commercial Bank.

Today, AUB is one of the most successful and well-diversified banking groups in the Middle East, offering a comprehensive range of retail, corporate and private banking as well as treasury and investment products and services. Active in conventional as well as Islamic banking and insurance services, AUB has wide geographic reach

with operations in the MENA region through presence in Bahrain, Kuwait, UAE, Egypt, Iraq, Oman and Libya besides an OECD platform through its fully owned UK subsidiary

Sustained Growth Trajectory

Over the years, AUB has enjoyed a sustained growth trajectory with strong growth in net profit. In 2018, the bank reported a net profit attributable to shareholders of $697.5m, an impressive 12.7% increase over 2017's figure of $618.7m, while return on average equity (ROAE) and return on average assets (ROAA) rose to 18.1% and 2.2% respectively.

This healthy momentum was also maintained in the first half of 2019, with net profit rising by 5.6% over the same period in previous year. "The growth was mainly driven by 4.9% increase in net interest income to $490.2m, attributable to a prudent and diversified expansion in loans and investments " says Adel A. El-Labban, AUB's Group CEO and Managing Director.

AUB's continued strong performance is a testament to its successful business model based on diversification and cross border flows through its strategic investments across the Gulf and the MENA region.

Robust Asset Quality

Despite a challenging operating environment, a combination of market responsive credit strategy, early problem recognition and quick remedial action for problematic accounts along with conservative provisioning approach have consistently helped AUB to maintain one of the lowest non-performing loans (NPLs) to gross loan ratio in the region with very conservative provision coverage ratios. As of 30 June 2019, the ratio of non-performing loans (NPLs) to gross loans was 2.0% with total provision coverage ratio of 189%.

"A continued focus on tight risk management, remediation and recovery has contributed to healthy asset ratios which remain within our historical long-term range," says El-Labban.

Overseas Growth

Selective international expansion has always been an important pillar of AUB's strategy. "AUB continues to compete as a major regional player with a diversified and prudent business model to withstand singular market disturbances," says El-Labban. "This is evidenced by the bank's strong performance across group entities in the MENA region."

"AUB has witnessed good growth across all its operating markets with significant contributions from the Gulf countries" says El-Labban. He adds that the group continuously monitors expansion opportunities across the GCC and the broader MENA region in order to strengthen the bank's credentials as a preferred regional and international intermediary for its clients.

Healthy Efficiency Yardsticks

AUB's cost to income ratio reached a healthy 26.5% at the end of June 2019, compared with 27.1% in FY2018, which is an important indicator of continued improvement in its operational efficiency.

Investment in digitalisation is expected to bring further efficiency gains. "AUB has embarked on digital optimisation of the backend processes and improving customer journeys on digital channels with specific emphasis on usability, straight through processing and automation," El-Labban explains. He adds that this has been supported by focussed campaigns and customer awareness messaging to significantly increase online and mobile-based transaction processing requests in order to reduce the operational costs of performing such transactions through branches and call centres.

Besides offering market leading digital services for retail customers, AUB's flagship business-to-business (B2B) cash management solution has significantly digitalised transaction processing for its corporate and SME clients. "The bespoke integration and customisation services offered by AUB for its B2B clients has ensured increased market penetration and stickiness of customer accounts and relationship," says El-Labban.

Good Prospects for Islamic Banking

AUB's differentiates its approach to Sharia-compliant based on specific market conditions and local regulation.

"Our largest Sharia-compliant franchise, AUB Kuwait, has very positive growth prospects which are in line with projected growth of the local economy and the steady shift to various Islamic banking offerings by consumers and businesses alike," says El-Labban.

In Bahrain, AUB continues to build on the success of its Sharia-compliant window, Al-Hilal Islamic Banking services, which has seen steady growth over the years from its five Islamic branches and two Islamic windows.

"Looking ahead, we expect to continue to see steady demand in Bahrain based on our strong market position as well as increased utilization of government-subsidized Islamic financing for local businesses," says El-Labban.

Company data

Net profit (H1 2019 v H1 2018):	$377.5m v $357.4m
Return on assets (H1 2019 v H1 2018):	2.2% v 2.3%
Return on equity (H1 2019 v H1 2018):	18.4% v 18.8%
Cost to Income ratio (H1 2019 v H1 2018):	26.5% v 26.1%
Core Tier I ratio (H1 2019 v H1 2018):	13.9% v 14.4%
Total assets (H1 2019 v H1 2018):	$38,046m v $34,421m

Bank Audi | 15 Years of Regional Expansion

"Bank Audi has stepped into the close circle of the largest and most diversified banking groups in the MENA region"

Samir Hanna, Chairman & Group CEO, Bank Audi

Over the last 15 years, the Beirut-based Bank Audi has completed its transformation from being a universal Lebanese bank with a modest international presence into a regional and highly diversified player with operations in 11 countries throughout the Middle East and Europe.

Although Bank Audi established a presence in Switzerland and France in the 1970s, it was not until 2004 that its programme of regional expansion began with the opening of its operations in Jordan. Today, the MENA region (excluding Turkey) accounts for 12.6% of Bank Audi's total assets, compared with

just 1.6% in 2004. Over the same period, loans in the region have increased from 1.2% of the total to 19.1%. And while the bank's operations in the MENA region were loss-making in 2004, they now contribute 19% of total net profits.

This explosive expansion beyond the limited confines of Bank Audi's home market has underpinned impressive growth over the last 15 years. Total assets have increased more than four-fold, from $10.5bn in 2004 to almost $47.5bn by June 2019, with deposits climbing over the same period from just under $9bn to over $32bn, and total loans jumping almost five times, from $2.17bn to $12.1bn. Net profits, meanwhile, grew from $72m in 2004 to over $500m in 2018.

Bank Audi's expansion outside Lebanon has been reflected in an increase in its branch network from 75 outlets in 2004 to 203 in 2019, while the Bank's headcount over the same period has almost tripled, from 2,188 employees to 6,197.

Improving efficiency indicators

The expansion of the last 15 years has been all the more impressive because it has been accompanied by a continuous improvement in efficiency indicators. With the cost to income ratio falling from 61.6% to 44.5% over the period, return on average assets (ROAA) rose from 0.8% in 2004 to 1.1% in 2019, and return on common equity (ROCE) has increased from 12.7% to 14.3%. Asset quality has also strengthened, with the bank's non-performing loans (NPL) ratio declining from 7.9% in 2004 to 7.1% in 2019.

Samir Hanna, Chairman and Group CEO at Bank Audi, attributes the strong growth at Audi over the last 15 years to the diversification of its product range across commercial, corporate, retail and private banking and capital market activities, as well as its geographical presence. "Through its cross-border expansion strategy of the last decade, Bank Audi has stepped into the close circle of the largest and most diversified banking groups in the MENA region, delivering added value to all its stakeholders," he says.

The successful implementation of this strategy, Hanna adds, has been supported by a well-diversified shareholder base, an experienced risk management team, and a commitment to strong corporate governance and transparency which has been recognised as being among the best in the region.

Positive catalysts in the domestic market

While deposit growth in Lebanon has slowed recently, Hanna says there are a number of positive catalysts that may support depositors' confidence over the coming months. These include a continued decline in the government's financing requirements arising from the austerity budget of 2019, twinned with measures such as the reform in the electricity sector which is also expected to decrease the budget deficit. Confidence should also be buttressed by the CEDRE pledges agreed at last year's donor conference in Paris and by positive results from oil and gas drilling initiatives expected to start by year-end.

"At the lending level, with Lebanese banks continuing to de-risk, loans to the private sector are contracting in net terms, supporting overall liquidity levels in the domestic banking system," Hanna adds.

Company data

Total assets (June 2019 v Dec 2018):	$47.5bn v $47.2bn
Net profits (2018):	$500.6mn
Return on assets (H1 2019 v 2018):	1.08% v 1.12%
Return on common equity (H1 2019 v 2018):	14.28% v 14.00%
Cost to Income ratio (H1 2019 v 2018):	44.52% v 46.27%
Core Common Tier I ratio (June 2019 v Dec 2018):	11.9% v 11.4%

Good prospects in international markets

Hanna is also optimistic about the outlook for Audi's international operations. In Turkey, Bank Audi's majority-owned subsidiary, Odea Bank, remains committed to the market, which still has very considerable untapped potential and a supportive supervisory framework. "Although Turkey's economy has had a difficult year in 2019, growth is expected to rebound next year, helped by a dynamic and well-diversified private sector, solid public finances and a financially sound banking industry," he says.

In Egypt, meanwhile, Bank Audi has continued to post solid growth, with assets rising by 21.7% in 2018 and a further 4.9% in the first half of 2019 to reach EGP70.5bn. Net profits, meanwhile, expanded by 24.1% last year and by a further 17.6% yoy in the first half of 2019, with ROAA of 2.0% and ROE of 21.5% both bearing witness to the bank's profitability and efficiency. "Bank Audi Egypt is likely to continue to benefit from the country's strong economic momentum, a more attractive business and investment environment, enhanced external competitiveness and an improving outlook for the banking system," says Hanna.

A strong financial profile

By several yardsticks, Bank Audi has a strong financial profile which positions it well for future growth. Total shareholders' equity increased to almost $4bn as of June 2019, and in parallel the bank's capital adequacy ratio rose from 18.9% at the end of 2018 to 19.3% in June 2019, with a CET1 ratio of 11.9%. "Bank Audi has achieved this internal capital increase and higher profitability by exiting non-core lending relationships and reinvesting maturing assets in higher yielding securities," says Hanna.

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A Pillar of the Lebanese Banking System

Originally established in Beirut in 1951, BLOM is the second largest bank in Lebanon by assets. Today, the bank and its subsidiaries have 5000 employees and 91 branches located throughout Lebanon, and a further 137 overseas, making it a leading local and regional player.

Aside from being a pillar of the Lebanese banking system, BLOM is also the most profitable. Its return on average cost of equity reached 16.49% in 2018, which is the highest of any locally listed bank.

In 2018, BLOM's profits rose by 5.2% to $511m, compared with $485m the previous year. According to Saad Azhari, Chairman of the Board and General Manager, there were three main drivers for this increase. First, the bank's net interest margin (NIM) rose from 2.3% to 2.4%. Second, continued progress was made in cost control, with BLOM's cost to income ratio (CIR) of 35.3% the lowest among listed banks.

The third driver of the bank's impressive profitability in 2018 was the robust performance of its foreign affiliates, notably in Egypt, where profits increased by 25%, and in the UAE, where they were up by 21.6%.

Resilience in a challenging economic environment

Azhari recognises that the immediate outlook for the Lebanese economy remains challenging, due largely to the delay in the implementation of the budget. "Of course," he says, "this has had a negative impact on loan and deposit growth and on all banking activities." System-wide, by the end of April 2019 loan volume in the banking sector had fallen by 4.1%, while deposits were down by 1% over the same period. It was notable, however, that BLOM outperformed the industry as a whole in the first quarter of 2019, posting a fall in loans of just 3.6% and an increase in deposits of 2.2%.

The weakness in the Lebanese economy is also reflected in the relatively high level of non-performing loans (NPLs) in the local banking sector. BLOM's NPL rate rose from 4.48% at the end of 2018 to just over 5% at the end of the first quarter of 2019. Azhari attributes this increase to the new IFRS9 classification, which extends the classification of NPLs to include sub-standard loans as well as doubtful and bad ones. "At about 5%, our NPL ratio is not unreasonable given the state of the Lebanese economy," he says. "And our NPLs are adequately covered, with the coverage ratio including real guarantees and specific provisions reaching 150%."

High hopes for Lebanon's Capital Investment Programme

In spite of the short-term challenges facing the local economy, Azhari is upbeat about the prospects for BLOM both in the domestic and international segments. In the Lebanese market, he says that he expects the government's ambitious $11bn capital investment programme (CIP) to have positive ripple effects on the economy and therefore on the banking sector. BLOM, he believes, is likely to be beneficiary of this important programme, which has been described by the World Bank as "an effective tool to help reinforce Lebanon's dilapidated infrastructure, abetting a boost in economic growth."

"The increase in spending under the CIP will translate into more retail activities as well as more corporate lending, especially to companies involved in the programme," says Azhari. "We will also see more capital market activities and an uptick in demand for our wealth and asset management services. So we are certainly looking forward to seeing the CIP getting started by the end of the year."

"..we are looking forward to seeing the Capital Investment Programme getting started by the end of the year"
Saad Azhari, Chairman of the Board and General Manager

A solid international franchise

Internationally, meanwhile, Azhari says he remains encouraged by the performance of BLOM's overseas operations. International expansion at BLOM dates back to 1953, when the bank opened its first branch overseas, in Saudi Arabia. Today, it has a presence in 12 countries, with the bank's foreign affiliates accounting for close to 32% of BLOM's total loan portfolio at the end of March 2019.

"We are seeing growth in Egypt and the UAE, and to a lesser extent in Iraq," says Azhari, adding that he would like to see the share of the bank's lending generated overseas rising to 50% over the medium to long term. "This will be hard over the short term because of the economic slowdown in the region," he adds. "Our preference is to grow organically, but if good opportunities for regional acquisitions arise, then we will seriously consider them."

Healthy liquidity

BLOM is very comfortable with its primary liquidity, which stood at 85.2% at the end of the first quarter of 2019, according to Azhari. The bank's capital adequacy ratio, meanwhile, was 19.6%, comfortably above the required regulatory minimum of 15%.

Company data

Total assets (Q1 2019):	$37.77bn
Net profit (2018 v 2017):	$511.6m v $485.3m
ROAA (Q1 2019 v Q1 2018):	1.3% v 1.42%
ROACE (Q1 2019 v Q1 2018):	14% v 16.2%
Cost to income (Q1 2019 v Q1 2018):	37.2% v 37.03%
Core Tier 1 (Q1 2019):	19.5%

Continuous Expansion

Incorporated in 1982 as the country's first Islamic financial institution, Qatar Islamic Bank (QIB) is the largest Islamic bank in the country, with 31 branches, 180 ATMs and 40% of the total assets of domestic Sharia-compliant banks. Rated A1 by Moody's, A by Fitch and A- by S&P, QIB is also the second largest of all banks in Qatar, with a market share of just over 11% of assets, financing and deposits as of June 2019.

QIB has registered continuous expansion over the last five years. Between June 2014 and June 2019, assets grew at a compound annual growth rate (CAGR) of 11.7%, while financing and deposits expanded at CAGRs of 14.4% and 11.9% respectively over the same period.

Bassel Gamal, QIB's Group CEO, says that the solid momentum of the bank's performance in recent years has been driven principally by its diversification strategy. "This has delivered stability by providing clients with a range of business lines and leveraging deep relationships, while also offering easy, secure and convenient online round-the-clock banking," he says.

Solid efficiency indicators

Consistent growth has been accompanied by solid efficiency indicators, with return on average assets (ROAA) rising from 1.6% in June 2016 to 1.9% in June 2019 and return on equity (ROE) improving from 15.8% to 18.4% over the same period. Asset quality has also remained strong, with non-performing financing assets holding steady at 1.2% in recent years, and with conservative provisioning strengthening the bank's robust risk management framework.

Another encouraging efficiency indicator has been QIB's declining cost to income ratio. "QIB's strict cost discipline has been supportive for earnings," says Gamal. He adds that according to the latest data, as of the second quarter of 2019 the cost to income ratio for the Qatari banking sector stood at 26.3%, which is higher than QIB's ratio of 23.5%.

"We have invested in digital technology to meet the demands of our growing retail and corporate clients, and increased our business volumes across all segments while improving efficiency and profitability," says Gamal.

Growth opportunities

Gamal sees plenty of scope for continued expansion across the Qatari financial services industry. "Credit to the private sector is growing, and the government is continuing to implement projects related to the 2022 FIFA World Cup and the Vision 2030 plan for sustainable development," he says.

As the leading Islamic Bank in Qatar, with a well-diversified franchise covering all segments of the market ranging from government entities to large corporations, SMEs and retail customers, QIB is ideally positioned to capture opportunities arising from these initiatives.

More broadly, Gamal looks forward to continued expansion and diversification in the vibrant Qatari economy. "The fundamentals of Qatar's economy remain strong," he says, pointing out that growth is projected to reach 2.6% in 2019, up from 2.2% in 2018, according to the most recent IMF forecasts. This will be supported by a recovery in hydrocarbon output together with strong growth outside the hydrocarbon sector. "Likewise, medium-term growth will be reinforced by increased gas production from the Barzan field, where LNG output is planned to increase by 40%."

"QIB's strict cost discipline has been supportive for earnings"
Bassel Gamal, Group CEO, Qatar Islamic Bank (QIB)

A selective approach to expansion

Although domestic operations contribute the lion's share of QIB's assets and earnings, accounting for 93% of net operating income, the bank has an international presence through the Lebanon-based Arab Finance Bank and its subsidiaries in the UK and Sudan. "We have no immediate plans to expand our international footprint," says Gamal. "However, QIB is ready to invest if profitable opportunities arise in growth markets by applying our normal due diligence process an ensuring that the business case supports our strategy of creating wealth for our shareholders."

With a strong balance sheet and a capital adequacy ratio of 18.5% in June 2019 which is well above the minimum regulatory requirement, QIB is certainly well-positioned to take advantage of sound expansion opportunities if and when they arise. "We have continued to optimize our balance sheet by aiming to achieve the right balance between the yield on our assets and the cost of our funding," Gamal explains. "In general, however, Islamic banks have traditionally been funded mainly by strong customer deposits. In our case, customer deposits accounted for 69.6% of our total assets as of June 2019."

Exploring long-term funding sources

QIB has, however, also made successful use of the capital market to diversify its sources of cost-effective long-term finance. This year, for instance, it issued a well-received $750m five year Sukuk which was oversubscribed by 4.1 times, generating total demand of $3.1bn.

Company data

Total assets as at June 2019:	US$42.5bn
Net profit for the year (End Dec 2018 v End Dec 2017):	US$757m v US$661m
Return on assets (End H1 2019 v End H1 2018):	1.9% v 1.8%
Return on equity at the (End H1 2019 v End H1 2018):	18.4% V 17.8%
Cost to Income ratio at the (End H1 2019 v End H1 2018):	23.5% V 25.6%
Capital adequacy ratio (End H1 2019):	18.5%

Robust Growth

Since its foundation in 1967, Al Ahli Bank of Kuwait (ABK) has firmly established itself as a leading provider of retail and corporate banking services in Kuwait, Egypt and the United Arab Emirates (UAE).

The last four years have been a period of consistent growth for ABK. Net loans and advances, total assets and deposits increased at compound annual growth rates (CAGRs) of 6% between 2014 and 2018, while operating profit and net profit expanded at CAGRs of 6% and 3% respectively over the same period.

Successful integration

Michel Accad, Group CEO at ABK, attributes much of this robust performance to the successful integration of Piraeus Bank's subsidiary in Egypt, which was acquired by ABK in 2016, and has since been renamed Al Ahli Bank of Kuwait – Egypt. With 42 full service branches and more than 104 ATMs located across the country, ABK's Egyptian operation had 171,000 retail customers as of June 2019. "Our Egyptian operations have been very successful for the group, and we expect our Egypt business to continue to grow faster than the market." says Accad.

Another notable driver of accelerated growth at ABK, says Accad, has been the diversification of the bank's funding base through the increased use of bonds, together with a greater focus on cash management.

ABK's fee income has also expanded strongly, thanks to the growth of its regional structured finance business and the landmark transactions it has led for a number of borrowers. ABK- DIFC provides a very convenient offshore booking office for local and regional corporates, regional loan synidications and large project finance transactions, and it has performed exceptionally well since opening in 2018.

Strategic investment initiatives

Enhanced profitability has also been supported by the bank's strategic investment initiatives around simplification, process automation and ABK's core banking upgrade programme. "For instance, we saw our cost-income ratio (CIR) decline from 38.6% to 38% in the first quarter of 2019, and we expect to see further improvements as new cost synergies begin to make themselves felt," says Accad. He adds that the decline in the bank's overall CIR is all the more remarkable given the relatively high cost base of its Egyptian operation, where the CIR is around 50%.

Strengthening asset quality

Strong growth at ABK has been accompanied by a striking improvement in asset quality, with non-performing loans (NPLs) falling to 1.8% in 2018, compared with 2.6% as recently as 2016. This builds on a trend that has been in place at the bank for over a decade. "We have clearly seen a long-term improvement in our NPLs since the late 2000s," says Accad. "In this economic climate, we expect the trend to stabilize at about the current level, which is in line with the industry average."

More important than the bank's absolute NPL ratio, Accad adds, is its very robust provision coverage ratio, which now stands at well over 300%. "Notably, ABK had the lowest peak NPL ratio of any Kuwaiti bank during and in the aftermath of the 2008 crisis," he says. "This bears witness to our conservative approach to credit sanctioning."

Company data

Item	Value
Net profit (End H1 2019 v Q2 2018):	KD22.6m v KD 19.1m
Total assets (End H1 2019 v Q2 2018):	KD4,734.4m v KD4,479.2m
Cost to Income ratio (End H1 2019 v Q2 2018):	38.4% v 38.4%
Return on equity (End H1 2019 v HY2018):	6.69% v 6.75%

Healthy outlook for local and international expansion

The consistent growth in recent years at ABK has created a solid platform for continued expansion at home and overseas. Accad says that Kuwait GDP growth is expected to accelerate to 5.1% in 2020, compared with 1.2% in 2018, with inflation holding steady at around 2%. Diversification of the economy is also making continued progress, with non-oil growth projected at 2% - 3% in 2019.

"ABK had the lowest peak NPL ratio of any Kuwaiti bank during the 2008 crisis"

Michel Accad, Group CEO, ABK

This outlook suggests that the prospects for credit growth, which expanded by 4.3% in 2018, remains benign. This will be further underpinned by a combination of relaxation on household lending restrictions by the Central Bank of Kuwait (CBK) and government spending on power, water and infrastructure, all of which will generate important opportunities for ABK.

Internationally, meanwhile, Accad says that he is delighted both with the outcome of the performance of the Egyptian operations and by the performance of ABK's unit in the Dubai International Financial Centre (DIFC). Opened in 2018, this now acts as a highly efficient offshore booking office for regional loan syndications and large project finance transactions.

ABK's overseas operations now account for about 20% of the bank's total assets and operating profit, and Accad says that international expansion will remain a key pillar of its strategy. "Regional expansion is part of ABK's growth and diversification strategy, giving us opportunities to leverage additional business synergies and regional trade flows across the region," he says.

Continued domestic and international growth will be buttressed by ABK's very strong financial profile, with its capital adequacy ratio of 19.2% at the end of 2018 comfortably above the regulatory minimum. "ABK is one of the best-capitalized banks in Kuwait and in the region," says Accad. "Our recent Additional Tier 1 (AT1) issue has helped to underwrite our organic growth as well as providing diversification of our funding sources and the flexibility to consider new inorganic growth opportunities."

Four Decades of Growth and Diversification

Originally 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 2009-Q2-19) 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," explains Dr. R. Seetharaman, Doha Bank's CEO.

Dr. Seetharaman attributes Doha Bank's consistent expansion over recent years 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," he says.

A robust domestic franchise

Foremost among the engines of growth at Doha Bank is its strong domestic franchise. With 24 local branches, seven e-branches including pay offices, one active mobile unit and around 90 ATMs, Doha Bank has one of the largest retail footprints in Qatar.

Dr. Seetharaman explains that a track record of continuous innovation has underpinned Doha Bank's success in the retail banking sector in Qatar. "Doha Bank has maintained its innovation leadership by introducing many "First-in-Qatar" products, services and channels to ensure it stays ahead of the competition," he says. Recent launches include the Doha Bank "My Book Qatar" app, biometric authentication on mobile banking, the Apple iWatch Banking app, tablet banking, Al Asriya (Ladies' Banking Package), online money transfers through credit cards and mobile e-remittances for payroll customers.

A notable example of the bank's commitment to sustainable retail banking, meanwhile, is its Green Mortgage Home Loan product.

Dr. Seetharaman says that investment in innovation will remain an important feature of Doha Bank's continued expansion and its long-term commitment to optimizing customer service. "Competition from new entrants, narrowing profit margins and tighter regulatory requirements are all driving Doha Bank's conviction that the innovative development of alternative channels is the key to growth," he says. Leveraging on the most efficient distribution channels, he explains, will help the bank to expand its loan book and generate incremental revenues.

Dr. Seetharaman says that in line with banking industry trends, priorities for the bank will include collaboration with Fintechs, implementation of Blockchain, investment in artificial intelligence, and the consolidation of mobile and online applications. Doha Bank will also focus on upgrading security features and developing call centres using sophisticated voice recognition technology.

Selective international expansion

International activities have made an important contribution to Doha Bank's growth since 2005, when the opening of its representative office in Dubai marked the start of the bank's overseas expansion. Today, the bank has one of the largest international networks of any of its Qatari counterparts, with six overseas branches and 14 representative offices.

At the end of 1H2019, international assets had reached QR11.9bn, or 12% of Doha Bank's total assets, and Seetharaman is cautiously optimistic about the potential for future growth. "The bank intends to continue its selective strategic international expansion and further leverage its highly successful trade finance business through its network of representative offices," he says.

Company data

Total assets (June 2019)	QAR 100.8bn
Net profit (H1 2019 v H1 2018):	QAR 519mn v QAR 471mn
Return on assets (End H1 2019 v 2018):	1.05% v 0.88%
Return on equity (End H1 2019 v FY2018):	9.1% 6.5%
Cost to Income ratio (End H1 2019 v FY2018):	35.5% v 35.6%
Core Tier I ratio (H1 2019 v FY2018):	11.1% v 10.7%

"Doha Bank has maintained its innovation leadership by introducing many "First-in-Qatar" products"
Dr. R. Seetharaman, CEO, Doha Bank

Supporting infrastructure expansion in Qatar and across the region

A central feature of Qatar's economic strategy in recent years has been its accelerated diversification into non-hydrocarbon sectors, twinned with prudent fiscal management. Diversification is being spearheaded by extensive investment in infrastructure as Qatar intensifies its preparations for hosting the FIFA 2022 World Cup, which Dr. Seetharaman describes as the jewel in the country's crown.

Doha Bank is fully committed to supporting continued infrastructure investment and economic transformation in Qatar. "The financial sector has the high capitalization and strong capital ratios that are necessary to help the government achieve the goals set out in the Qatar National Vision 2030," he says.

Doha Bank has also played an important role in providing local and international investors with exposure to Qatar's economic success story through the Qatar Exchange Index ETF. The QETF, which has assets under management of around $100m, generated an impressive return of 20% in the year to December 2018.

A solid balance sheet

Continued domestic and international growth at Doha Bank will be supported by solid efficiency indicators and a strong balance sheet. Costs have declined, while on the credit quality side, Dr. Seetharaman says that the Bank will continue to maintain a conservative and cautious approach to underwriting and risk management.

At the end of June 2019, Doha Bank's capital ratio stood at 17.42%, compared with a minimum Pillar 1 requirement of 13%, and a loans to deposit (LTD) ratio of 110%, against a market ratio of 118%.

"Over the last 12-18 months there has been no notable change in the bank's funding strategy," says Dr. Seetharaman. This continues to be based on diversifying its sources of funding ranging from deposits to international institutional markets, ensuring that the bank remains safeguarded against unforeseen fluctuations.

Continued Growth underpinned by Diversification and Digitalization

"The Middle East is bursting with creative young entrepreneurs"

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

Originally established in 1977, Kuwait Finance House (KFH) is the second largest bank in Kuwait, with a market share of around 23% and 62 local branches.

Over the last year, the bank has continued to post solid growth, with total assets rising by 5.5% to KD17.7bn in the year to the end of June 2019. Over the same period, deposits increased by 9% to KD12.84bn, while net operating income expanded by 2.1% to KD240.7m. Net profit to shareholders, meanwhile, was up by an impressive 13.1% to KD107.7m.

This strong performance has been underpinned by KFH's well-diversified business model. "As the largest Islamic bank in Kuwait, KFH caters for the broadest customer base in the market through various channels," says Mazin Saad Al-Nahedh, KFH's Group CEO.

KFH has an especially strong presence in the market for small and medium-sized enterprises (SMEs), which are an important engine of economic growth and innovation. "KFH supports over 1000 SMEs, which play a significant role in diversifying the economy, boosting growth and creating new jobs, especially for young people," says Al-Nahedh.

A commitment to digitalization

In addition to the bank's extensive network of branches and ATMs, KFH's commitment to digitalization allows it to reach its customer base through an increasingly broad and sophisticated range of alternative channels, with KFH's customers now making around four million online transactions per month. "KFH is continuing to invest in the latest banking and financial sector technology to make the services we offer to clients faster, safer and more cost-effective," Al-Nahedh explains. "This ultimately enhances the bank's profitability."

Al-Nahedh adds that KFH is also investing heavily in financial technology (fintech), having recently channelled $450m into two fintech investment funds, one in the Middle East and the other in the US.

"Our aim is to simplify things as much as possible for our customers by investing in the latest technology to develop our own online offering, while using external funds as a driver for more innovation," says Al-Nahedh. This strategy, he adds, is supportive of digital start-ups well beyond the Kuwaiti market. "The Middle East is bursting with creative young entrepreneurs, and we hope many of them will be customers of KFH for a long time," he says.

A Blockchain Pioneer

Another example of KFH's commitment to innovation has been the pioneering role it has played in blockchain technology in the Middle East. In May 2018, KFH became one of the first banks in the region to establish a blockchain-based money transfer system using RippleNet technology. This allows customers to transfer funds between GCC countries and beyond in a process which now takes minutes instead of days, significantly enhancing customer service.

"KFH will continue to innovate both externally and internally in order to deliver excellent customer service and to maintain cutting-edge core banking systems," says Al-Nahedh.

Local Growth Opportunities

KFH fully supports the Kuwaiti government's agenda for growth and diversification by participating in several industrial and infrastructure development projects locally and overseas.

In the oil and gas sector, for example, KFH played an important role in a recent $2.3bn credit facility supporting a liquefied natural gas (LNG) project for Kuwait Integrated Petroleum Company (KPC) by leading the $500m Islamic finance tranche.

KFH also successfully led the $500m Islamic tranche of a $4.6bn multi-sourced financing for the new Duqm refinery, a landmark project in Oman in which the Kuwait Petroleum Corporation (KPC) holds a 50% share. Supported by 29 prestigious funding institutions from 13 countries, this was the largest project financing in the Sultanate of Oman.

Another example of KFH's leadership in the market for Islamic project finance was the role it played in the Clean Fuel Project for Kuwait National Petroleum Company (KNPC). Islamic banks provided KD490m of the funding, of which KD275m was financed by KFH.

Other important projects supported by KFH include a KD124m aircraft financing for three aircraft in favour of ALAFCO Aviation Lease and Finance Company, and the Islamic portion of a US$831m syndicated facility for the new Kuwait Airport.

Continued Success in Germany

Another important component of KFH's success story has been the growth of KT Bank AG, the German subsidiary of Kuveyt Türk Participation Bank, in which KFH has a 62% stake. Operational since 2015, KT Bank AG is the first Islamic Bank to provide a full suite of Sharia-compliant banking products and services in Germany and the Eurozone. KT Bank AG, which has a branch network encompassing Frankfurt, Mannheim, Cologne and Berlin, now has assets of just over €500m.

"Despite some of the challenges facing a relatively new bank, there are many opportunities for KT Bank AG given the importance of Germany's economy and its impact on Europe," says Al-Nahedh. "Germany's large Turkish and Muslim communities will also generate substantial opportunities for Sharia-compliant banking."

Company data

Total assets (H1 2019 v FY 2018)	KD 18,747,101 vs. KD 17,770,278
Net profit (YE2018 v YE2017)	KD 263,524 vs. KD 214,155
Return on assets (End H1 2019 v 2018)	1.23% vs 1.51%
Return on equity (End H1 2019 v 2018)	11.63% vs 12.45%
Cost to Income ratio (End H1 2019 v 2018)	38.65% vs 39.20%
Core Tier I ratio (End H1 2019 v H1 2018)	15.37% vs. 15.35%

What's happening Saturday, October 19

See today's *GlobalMarkets*, pages 15-20

EventPick

6.00pm – 8.00pm
Awards Ceremony and Reception
Central Bank Governors, Ministers of Finance, and Debt Managers of the Year
Hosts: *GlobalMarkets*. (rsvp@globalcapital.com).
Location: Ballroom at National Press Club, Washington DC, 529 14th St NW

9.30am – 11.00am
State of the Africa region: empowering women, transforming Africa
Opening: **Hafez Ghanem**, VP for Africa, World Bank
Fireside chat: **Albert Zeufack**, Chief Economist, Africa, World Bank
Panellists: Acha Leke, Senior Partner, McKinsey Africa; **Dr. Christabel Ngwashi,** physician, health blogger and founder of MoreThanJustAnMD Initiative **Ciiru Waweru Waithaka,** Co-Founder and CEO, FunKidz; **Deqa Yasin Hagi** Yusuf, Minister of Women and Human Rights Development, Somalia
Moderator: **Julie Gichuru, Kenyan Entrepreneur and Media Personality**
Location: WBG MC Building, Global Hall

11.00am – 12.00pm
IDA impact: a call to action
Speakers: **Sigrid Kaag**, Minister for Foreign Trade and Development Cooperation, the Netherlands; **Per Olsson Fridh**, State Secretary, Ministry for International Development Cooperation, Sweden**; Mohammed Al-Jadaan**, Minister of Finance, Kingdom of Saudi Arabia
Location: WBG MC Building, Jim Wolfensohn Atrium

Don't Miss

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4.00pm – 5.00pm
Per Jacobsson Lecture: **The world turned upside down: economic policy in turbulent times**
Moderator: **Guillermo Ortiz**, Chairman, Per Jacobsson Foundation
Speaker: **Mervyn King**, former Governor, Bank of England
IMF HQ1, Meetings Halls A&B

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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

Atrium Hall
Host: Michael McKee

7.00am – 8.00am
Registration

7.30am – 8.00am
Breakfast and Refreshments

8.00am – 8.50am
Breakfast Conversation: eye-opener with the media
Tim Adams (moderator), Greg Ip, Deborah Solomon, Martin Wolf

Amphitheater
Host: Michael McKee

9.00am – 9.50am
Views from the C-Suite: global outlook
Tim Adams (moderator), Ron O'Hanley, Brian Porter, Philipp Rickenbacher, Olaug Svarva

10.00am – 10.50am
Views from the C-Suite: green is the new black
Audrey Choi, Sonja Gibbs (moderator), Michel Lies, Douglas Peterson, Johan Torgeby, Kees Van Dijkhuizen

11.00am – 11.50am
The challenge of central banking: finding the new normal in a persistently low inflation world and navigating progressive politics and policies
Lorenzo Bini Smaghi, Bill Dudley, Stanley Fischer, Jacob Frenkel (moderator), John Taylor

12.00pm – 12.50pm
Drowning in a sea of red ink – but does debt really matter?
Jason Furman, Lori Heinel, James McCormack (moderator), Gilles Moec

Atrium Ballroom A
Host: Dion Rabouin

10.00am – 10.50am
Markets trends in 2020
Elga Bartsch, Joyce Chang, Megan Greene, Michala Marcussen, Elina Ribakova (moderator)

11.00am – 11.50am
Lower for longer and longer: mapping risks and vulnerabilities in financial markets
Frederic Drevon, Lisa Emsbo-Mattingly, Sonja Gibbs (moderator), Nellie Liang, Geert Wijnhoven

12.00pm – 12.50pm
Capital flows to EM
Robin Brooks (moderator), Brian Coulton, Tania Reif, Gorky Urquieta, Robert Waldner

Atrium Ballroom B
Host: Andres Portilla

10.00am – 10.50am
Resisting market fragmentation
Ryozo Himino, Andres Portilla (moderator), Faryar Shirzad, Debra Stone, Mark Van der Weide

11.00am – 11.50am
Taking stock of regulatory reform: assessing impact and potential unintended consequences
John Dugan, Douglas Elliott, Richard Gray (moderator), Felix Hufeld, Frederic Oudea, Benjamin Weigert

12.00pm – 12.50pm
Global fight against financial crime
John Berrigan, Jay Collins, Matthew Ekberg (moderator), Sarah Runge, Marcus Wogart, Juan Zarate

Atrium Hall
Host: Michael McKee

1.00pm – 2.30pm
Lunch: big think
Tim Adams (moderator), Stephanie Flanders, Glen Hubbard, Raghuram Rajan, Axel Weber

Atrium Ballroom B (Afternoon)
Host: Michael McKee

2.30pm – 3.00pm
In Conversation: the future of finance
Brad Carr (moderator), Huw van Steenis

3.00pm – 3.30pm
In Conversation
Tim Adams (moderator), Lawrence H. Summers

2.30pm – 5.00pm
Global financial crime risk roundtable
Invitation only

MDBs

Continued from page 1

prosperity. I find the partial [withdrawal] of America from that position leads to a strong or dangerous erosion of the idea of enlightened Western rule-of-law based democracies."

"I am horrified by this and I hope it will not be the last word on this in Washington." Anti-multilateralists, he added, "can be seen and heard everywhere. If Europeans don't stick to multilateralism, it is dead."

The challenges facing Bretton Woods institutions, new multilaterals like Beijing's Asian Infrastructure Investment Bank (AIIB) and regional development lenders, are many and stark. At the apex, the IMF faces a showdown with Trump's policy hawks, who oppose higher funding and shareholding quotas.

CATALYST FOR CHANGE

Leslie Maasdorp, finance director of the New Development Bank, a Shanghai-based multilateral founded in 2015 by China, India, Brazil, Russia and Saudi Arabia, said the "real debate among MDBs is whether these institutions are still fit for purpose", and capable of working together to tackle complex issues like climate change. "We need to expand our capital, use it better, and use it to become a catalyst of change, rather than just lending" to worthy projects, he said.

Other development experts pushed back against claims they failed to find common ground over trans-national causes and projects. "We are in daily contact with [other MDBs]," Takehiko Nakao, the president of the Asian Development Bank (ADB), told *GlobalMarkets*.

"We totally co-ordinate with one another. Traditional MDBs were founded on the basis of collective action, and we are guided by our shareholders."

Bruno Balvanera, Central Asia managing director at the European Bank for Reconstruction and Development, noted advances made by MDBs working with Uzbekistan and its reformist president Shavkat Mirziyoyev. The EBRD is holding meetings this week with the World Bank, EIB, Islamic Development Bank and ADB to determine a collective strategy in Central Asia's most populous state.

The final question is whether the biggest and boldest development banks will remain international both in ownership and outlook, or morph into single-interest vehicles attuned to the demands of a single, powerful sovereign.

Asked if the world would emerge under the control of, say, three global MDBs, with the World Bank skewed toward the needs of the US, the AIIB dominated by Beijing, and the EIB running the table in Europe and Africa, ADB chief Nakao looked affronted by the suggestion. "Why are you only naming three [institutions]," he replied. "What's wrong with the ADB?"

THE final word

EBRD model shows way to achieve Sustainable Development Goals

By Sir Suma Chakrabarti

The EBRD's founding document commits us to foster the transition towards open market economies and promote private and entrepreneurial initiative. Our focus is thus overwhelmingly on the private sector, which currently accounts for 79% of our total investment.

That emphasis on the private sector is complemented by work on policy reform to help improve the business climate in the almost 40 countries where we operate.

During our early years, immediately after the end of the Cold War, we worked only in the formerly command economies of communist Eastern Europe and the ex-Soviet Union. But so successful has the EBRD model proved that our shareholders have since asked us to take our expertise to new geographies not once, not twice, but on four separate occasions.

And whenever we arrive in a new region, we hit the ground running. We have already invested more than $11bn in over 230 projects in the mere seven years we have been active in Egypt, Jordan, Lebanon, Morocco and Tunisia.

Why do I dwell on our model and its particular status within the IFI system? Because I believe that our approach will be central to meeting the pre-eminent development challenge of our time: how to achieve the Sustainable Development Goals (SDGs).

Unlike their predecessors, the Millennium Development Goals, the SDGs were defined with much greater participation by developing countries and emerging markets themselves, include economic outcomes and sectors where we, as well as others, have a comparative advantage, and are much more explicitly set as goals for all countries, not just low-income ones.

FORGET GEOGRAPHICAL NEATNESS

The problem is that, by now, everyone can see that we cannot finance their delivery in the old way. Areas such as infrastructure and energy — and the linked overarching priority of combatting climate change — require investment from a range of sources far broader than domestic resources, grant funding and the public sector.

The world desperately needs to leverage more private sector financing, including new suppliers from outside the multilateral system, such as pension and sovereign wealth funds.

And mobilising these sources of capital is where we at the EBRD can make a major contribution.

That does not mean that every IFI needs to go back to the drawing boards, reinvent itself wholesale and become more like us.

A far more effective approach would be for our shareholders — and there is huge overlap here — to recognise that business models and specialist expertise trump geographical neatness. As they have, in fact, already done with the EBRD.

We need a mix of models. And we need to move to a world in which we are empowered to explore different partnerships with other Development Finance Institutions (DFIs), joint ventures or common investment platforms.

Our first priority is, of course, reviewing what more we can do in our existing regions, which already stretch over three continents, so as to optimise our impact there.

We are also working on an initial analysis of what extra capital capacity we might call on and whether we could effectively deploy in the region of the world which faces the most acute development challenge of all: sub-Saharan Africa.

"To bend the arc of history, we must succeed in Africa," last year's G20 Eminent Persons Group report proclaimed. We wholeheartedly agree.

GUIDING PRINCIPLES

At the same time, while welcoming the diversity and pluralism of approaches embodied by the different IFIs, we have been clear about three principles we think should underlie the future of development finance, both in the European context and beyond.

First, all DFIs need to promote sound policy reforms in co-ordinated fashion. Financing on its own is not enough and must go hand in glove with creating an enabling environment and policy reforms in partner countries.

Second, all DFIs should use market-based pricing which crowds in rather than crowds out the private sector. We will only achieve sustainable, long-term growth in partner countries if we foster local financial and capital markets. As public institutions with taxpayer backing, we must be particularly vigilant that we do not distort the market.

And lastly, to have maximum impact, DFIs need an open architecture. DFIs are both partners and competitors. As long we respect the first two principles, competition is healthy and good news for both taxpayers and development partners.

We were encouraged to see such themes receive the prominence we think they deserve in this month's report of the Wise Persons Group on European financial architecture for development.

Its vision of the system's future foregrounds qualities which are our strengths. And it argues forcefully for a scenario which prioritises our expertise in mobilising the private sector.

Of course, any decision in this area which impacts us — if and when we reach that point — needs to be taken in the context of the EBRD's existing governance.

But as a multilateral bank with a global shareholding, albeit one with a European heart, we are more than eager to work on all these fronts with our many partners — for the greater good of all.

Sir Suma Chakrabarti is the President of the EBRD

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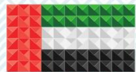

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