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## NEWS



# Global gas price surge triggers fears of EM rate hikes

By Lewis McLellan, Oliver West


Much of the blame for the volatility is being laid on Russia

The sudden surge in the price of gas and other energy sources such as coal and oil is set to force central bankers around the world into more hawkish, less growth-friendly monetary policy just as emerging economies look to recover from the Covid-19 pandemic.

"For net energy exporters it is good news, but it pushes up inflation in all EM countries, meaning central banks have to be on the defensive," said Simon Quijano-Evans, chief economist at Gemcorp Capital. "We'll be facing more interest rate increases.

"I'm still in the camp that this inflation spike is transitory, but that transitory period is lasting longer than anticipated."

Much of the blame for the volatility is being laid on Russia.

"Russia has been sending the minimum gas required by contracts through the Ukraine pipeline, which has contributed to the rundown of European

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# Africa's vaccine drought challenges global solidarity

By Jon Hay

Inadequate solidarity is still hampering the response to Covid-19 and endangering lives, nearly two years into the crisis. The international community is struggling to deliver on pledges to bring vaccination rates in Africa up many-fold, closer to Northern norms, due to a shortage of donations, co-ordination problems and insistence on patent protection.

There are mounting fears this could impede the nascent economic recovery. Tobias Adrian,

*Continued on page 2*

# OECD tax deal 'choice between two bad things'

By Jon Hay


Poorer countries find it hard to tax multinationals

After eight years of negotiation, the OECD reached an outline deal on October 8 to reform taxation of multinational companies, but critics argue the main winners are the US, Big Tech and low tax countries like Ireland.

Some fear developing countries will gain little and might even lose money, as they must abolish some of their own taxes

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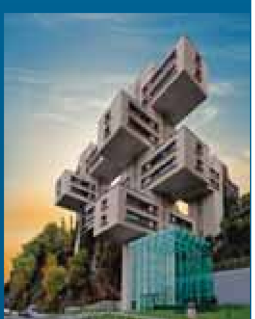

## Inside





# OECD

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on multinationals. The agreement was presented to the G20 finance ministers' meeting in Washington on Wednesday.

"It's the kind of proposal that was needed — it's proved that you can go beyond the status quo and introduce a radical idea like a minimum tax," said Susana Ruiz, tax justice policy lead at Oxfam in Madrid. "But it's not doing much to change the unfairness of the international tax system and it's not going to provide much additional revenues [for developing countries]."

It is always hard for countries to tax multinationals but is harder still with global digital companies such as such as Facebook, led by Mark Zuckerberg, Amazon, Facebook and Airbnb.

They may not have a physical presence in a country but still compete with local providers which are fully taxed. Even the UK, Germany and France have decided they need to redress the balance with digital services taxes.

The US calls these discriminatory and has threatened to impose tariffs in retaliation.

To head off this crisis, stalled talks on a global compromise were restarted three years ago.

The deal has two pillars. Pillar 1 covers multinationals with over €20bn of global sales and a profit margin over 10%. For each of these roughly 100 companies, 25% of any profits above the 10% profit margin will be reallocated from its home tax authority to countries where it does business, according to a formula. These countries can tax those profits as they wish. The OECD reckons this will reallocate $125bn of profits.

But the deal "only covers a small proportion of their profits," said Sol Picciotto, emeritus professor at the University of Lancaster, an expert on the issue. "The rest, and all the profits of other multinationals, will continue to be allocated under the existing rules, which are… totally irrational and unworkable."

**TARIFF FEARS**

Pillar 2 allows a company's home country to top up the tax on any profits it has declared in low tax countries, so that they are taxed at a total rate of 15%. This will mainly benefit countries like the US and Ireland.

Kenya, Nigeria, Pakistan and Sri Lanka are holding out, wanting to continue taxing multinationals in their own way, but a source familiar with the talks said they were taking "big risks". They "could see extraordinary tariffs come down from the US".

The G24 group of developing countries welcomed the deal and said it expected it to "yield meaningful revenues". But a person present at the G24 discussions said: "It's pretty open that developing countries do not feel it will be a meaningful increase in revenues, particularly if they give up the right to their own unilateral measures."

Ruiz said: "There was no good alternative. They had to choose between something bad and something bad."

# China slowdown set to challenge EM exporters

**By Oliver West**

China's transition to a slower growth model could mean a rocky growth path for emerging economies

Property developer Evergrande's crisis has woken financial markets to the challenges facing the Chinese economy, but concerns go far beyond the property sector as China's transition to a slower growth model could mean a rocky growth path for emerging economies.

Debt defaults by Evergrande and its peers will, by themselves, have limited long-term effects on emerging markets. But the Chinese real estate sector — which has been responsible for much global commodity demand in the last two decades — is still expected to slow sharply.

Gustavo Medeiros, deputy head of research at EM-dedicated investment manager Ashmore, said the main risk from Evergrande would be if the sector's slowdown was mismanaged, allowing the property development crisis to become a housing crisis.

"If house prices plummet then it would be ugly, and the vast majority of Chinese wealth is in housing," said Medeiros. "But Beijing is aware of this and is ring-fencing companies like Evergrande to ensure that housing companies continue to develop."

A structural slow-down in home-building as urbanisation slows would still have a fall-out for other EM nations. Capital Economics, a London consultancy, says the main effects will be felt in metals producers in Latin America and Africa, arguing it is an additional reason to expect "weak long-term growth" in Brazil and South Africa.

Graham Stock, head of EM sovereign research at BlueBay Asset Management, added. "The main issue [for EM investors today] is that if we really are looking at weak growth in

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# Vaccine

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the IMF's financial counsellor, said investors had become increasingly worried about the economic outlook, amid ever greater uncertainty about the strength of the recovery. "Uneven vaccine access, along with the mutations of the Covid-19 virus, have led to a resurgence of infections — fuelling concerns about more divergent economic prospects across countries," he said.


Queue for vaccines in Abidjan, Ivory Coast. Fewer than 3% of people in low income countries have had a dose

In high income countries, 61% of people have had at least one dose of coronavirus vaccine — in low income states, 3.7%. The reasons why this figure remains stubbornly low are complex.

"The donations are not enough," said Tedros Adhanom Ghebreyesus, director-general of the World Health Organisation, in a discussion at the IMF/World Bank meetings on Tuesday. "It's very slow, very disappointing that it is taking so long for the world to commit. It's epidemiologically wrong, economically wrong and morally wrong."

With David Malpass of the World Bank, Kristalina Georgieva of the IMF and Ngozi Okonjo-Iweala of the World Trade Organisation, Ghebreyesus formed a joint taskforce in May to tackle the shortage of Covid vaccines, tests and treatments in developing countries.

Since June they have been calling on wealthy countries to donate surplus vaccines, so that they could be used in the developing world.

**$50BN NEEDED**

The taskforce believes that with $50bn, it could achieve its twin targets of having 40% of people in every country at least single-vaccinated by the end of 2021, and 70% by mid-2022. "We now see close to two-thirds of that available," said Georgieva. "We still have a gap to fill."

The World Bank has financing available for vaccines and has set up programmes to support delivery in 61 countries. By June, it and the African Union had negotiated to secure 220m doses of the Johnson & Johnson vaccine, with an option for another 180m, financed by the Bank.

But they have still not been fully deployed. Ghebreyesus said that in all regions more than 50% of people had received a single dose, except Africa, where it was only 7%. "Only 166m doses have been delivered to Africa, for 1.3bn people," he said.

Georgieva pointed to two bottlenecks: having the health service infrastructure to actually vaccinate people; and the timing of supply of doses. "If a rich country has vaccines coming but doesn't need

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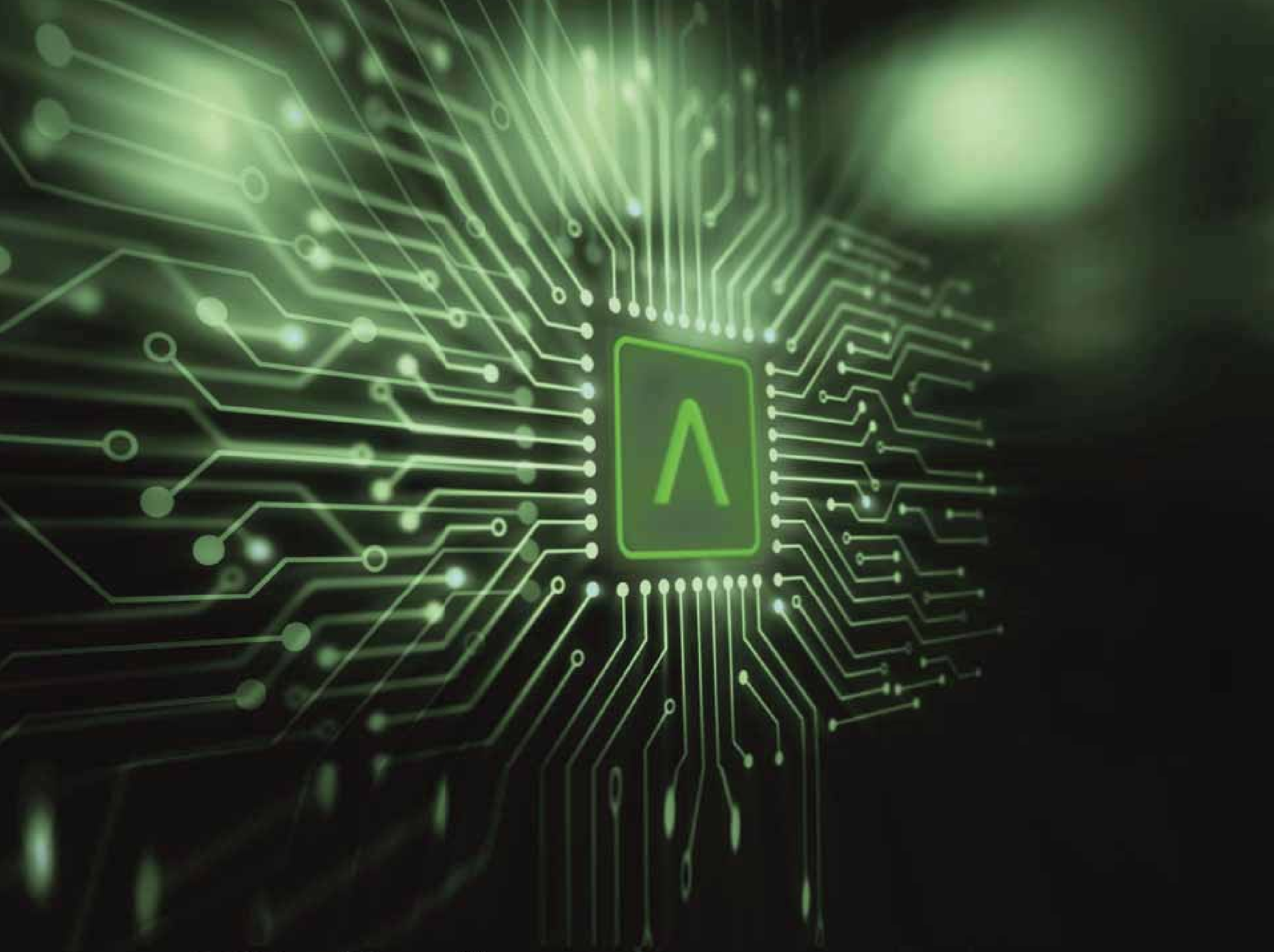

# UN urges ministers to ramp up climate finance ahead of Cop26

**By Jon Hay**

Tensions between ambition and caution in climate change policy — and between aspiration and reality in how much finance ministers can influence this issue — were apparent as the Coalition of Finance Ministers for Climate Action held a virtual meeting in Washington in the run-up to the Cop26 climate summit in Glasgow in November.

The ministers met as Chinese premier Li Keqiang raised concern around the world by appearing to indicate that China would moderate its pace of cutting emissions, continue building coal-fired power stations and "intensify" oil and gas exploration.

António Guterres, secretary-general of the United Nations, one of the Coalition's 20 partner organisations, gave a video statement at the meeting, in which he issued several challenges to finance ministers. "The political package that must be delivered in Glasgow needs to contain at least three key elements," he said.

The first was to "swiftly close the emissions gap," meaning countries' national pledges should collectively put the world on track to cut emissions 45% by 2030 from 2010 levels, and ultimately the goal of limiting warming to 1.5°C.

Second, Guterres said, "developed countries must close the finance gap" by providing or exceeding the $100bn a year they promised in 2009 to channel to developing countries for climate action by 2020. The target has still not been met and will be a major point of debate in Glasgow.

Under that heading, too, Guterres called on governments to emulate private sector initiatives such as the Net Zero Asset Owners' Alliance by making mandatory the recommendations of the Taskforce on Climate-Related Financial Disclosures.

His third charge was that "Glasgow must deliver a breakthrough on adaptation". He asked finance ministers, including as shareholders of development banks, "to consider allocating half of all climate finance in support of developing countries for adaptation".

Guterres: "Glasgow must deliver a breakthrough on adaptation"

Guterres's appeal rested on confidence that finance ministers could shape the climate agenda. "Your decisions and actions in the coming weeks will determine whether the global economic recovery will be low carbon, resilient and inclusive or whether it will lock in fossil fuel investments with high risks of stranded assets," he said.

Pekka Morén, special representative of Finland's finance minister, who has been centrally involved since Finland was one of the founding co-chairs when the Coalition was formed, said: "When the Coalition started, one of the key

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# Carbon markets face challenges scaling up

**By Steven Gilmore**

There is still widespread scepticism that carbon markets are an effective tool in the fight against climate change despite growing hopes among their architects that a wave of net zero pledges ahead of COP 26 can supercharge demand for voluntary offset credits, climate experts have warned.

Critics argue there is simply not enough impetus for high-impact offset projects. Instead, demand comes from incumbent fossil fuel emitters who prize quantity above quality — meaning the market then ends up supplying credits for poor quality activities that do little to reduce emissions.

"The bulk of today's market is plagued with low-quality standards for additionality, permanence, and other key performance metrics," Climate economist Danny Cullenward, told *GlobalMarkets*. "This is by design and reflects a race-to-the-bottom mindset."

The Taskforce for Scaling Voluntary Carbon Markets — initiated in 2020 by Mark Carney — has recognised the need to tackle quality concerns. It announced last month the formation of a new governance body dedicated to creating a global benchmark for carbon credit standards.

Speaking at the annual Institute for International Finance conference this week, Annette Nazareth, a former commissioner at the Securities and Exchange Commission and co-chair of the new body, said transparency should be the "great disinfectant" for carbon markets.

"Markets have been held back, in many cases rightfully so, by the perception that credits and the offsets underlying them are of poor quality," she said. "In other words, they could be used for greenwashing. We're not going to be able to scale up these markets unless they have high integrity."

This is likely to be easier said than done. The governance body aims to build core carbon principles and standards that can be broadly accepted and applied. But whether these will improve on existing standards remains to be seen. One recent academic study looking at the US Forest offset protocol in California



Nazareth: 'transparency is a disinfectant'

found that more than 80% of credits generated were not likely to represent true emission reductions.

"The taskforce could take a hard look at these problems, but serious reforms would render most of the current market unqualified," Cullenward said.

A thriving market will require much more than just standards. Nazareth said the taskforce will lay out IT infrastructure blueprints to provide the requisite market data and price transparency, and work to ensure there is

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# EU green bond behemoth raises common asset hopes

**By Lewis McLellan**

The EU sold the largest ever green bond this week, launching its participation in a market where it intends to issue some €250bn over the next five years, becoming the world's biggest green bond issuer.

The bond raised €12bn — narrowly pipping the UK's two week old £10bn green bond debut for the top spot. There were more than €135bn of orders — another record — and, while the practice of investors inflating orders to ensure they get bonds allocated is well known, it is clear there is huge demand for green EU paper.

The EU's arrival is a key development for the green bond market. A spokesperson from EM investor NN IP called it a "very big milestone" for the market and said: "The deal increases the size and liquidity of the green bond market significantly, and is likely to stimulate more issuers to sell green bonds in the future."

Its bonds will likely have a use beyond their value as an investment. "It helps with risk management," said a green bond portfolio manager. "If I run a corporate green bond fund, having high quality green public sector bonds is helpful because it means they can offset additional risk."

Of course, sovereign green bonds can fulfil a similar role. Sean Kidney, CEO of the Climate Bonds Initiative, said: "We've had a lot of sovereign supply, so investors are better supplied with high-quality assets than ever. The fact is that there is still not enough to meet demand though. I speak to investors who would start up green bond funds if there were more assets to buy."

France, Germany, Italy and Spain have all established green bond programmes in Europe and the total of green sovereign supply is set to keep climbing.

France has the largest volume of outstanding green bonds, with some €38.2bn issued since it launched the framework in 2017. For Germany, the total is €21bn. But with the EU's ambitions for €250bn, it will soon overtake the sovereigns and could quickly become a foundational component of green investors' portfolios.

Scarcity of high quality euro assets is still a concern for investors around the world, which the arrival of the EU as a major borrower should help alleviate.

"Since the EU began, there has been talk of the construction of a common Eurobond asset," said Antonio Cavarero, head of investments at Generali. "The EU's deal shows that there is huge demand for that kind of product."

# A REGIONAL LEADER AND KEY SUPPORTER OF GEORGIA'S ECONOMIC RISE

Since its founding in 1993, Bank of Georgia has played an important role in supporting the country's economic growth and development. **CEO Archil Gachechiladze,** talks about the bank's strategy, digital leadership and support for the country's entrepreneurs.

The banking sector across the post-Soviet regions has generally shown strength, resilience, and stability over the last decade as well as during the pandemic, with an improved outlook and growth opportunities.

Georgia is a good example of the economic recovery story. And across the countries of the post-Soviet region and central and eastern Europe more broadly, Bank of Georgia stands out among some of its peers — including Sberbank, Alfa Bank, Tinkoff Bank, Evocabank, UniCredit Bulbank, and OTP bank — for its financial stability, business growth and leadership in digitalisation.

It is for these attributes and others that the bank was recently awarded Best Bank in Georgia by Euromoney in its annual Awards for Excellence.

## FINANCIAL RESILIENCE

Bank of Georgia has a track record of high profitability pre-pandemic, and its financial performance has been extremely resilient during the pandemic, with a return on average equity above 20% for the fifth consecutive quarter since the onset of the pandemic.

The bank has focused on driving profitable earnings growth from sustainable levels of customer lending (without compromising asset quality), increasing income from fee-generating operations, and enhancing cost efficiencies.

## LEADERSHIP IN DIGITALISATION

Bank of Georgia's digital transformation started about two years ago and has accelerated during the pandemic.

"Over the past year and a half, we have redesigned the mobile app for our retail customers, adding many innovative features that gave a greater momentum to digitalization," says Gachechiladze.

Some of the new features include peer-to-peer payments, the ability to split bills and request money, digital card, an online chat function, and a digital personal finance manager.

"We have also redesigned processes, from end-to-end digital onboarding with digital card activation and delivery to end-to-end digital consumer lending. All this boosted transactions, product sales, and customer engagement. About 60% of our active retail customers are now active digital users, and that number will continue to increase."

The number of transactions in mobile app and internet banking platform tripled during the past two years. And, if two years ago, just 20% of all transactions went through mobile and internet platforms, now that is 50%, and, overall, 96% of transactions happen remotely.

## CUSTOMER EXPERIENCE

In tandem with its digital transformation, Bank of Georgia has sought to reinvent the customer experience. For Gachechiladze, this means proactively providing solutions that are tailored to customer needs and being present and relevant to customers as part of their daily lives.

Bank of Georgia's famous 'Space City' headquaters in Tbilisi

"We want to have a more holistic view of customer needs, wants, and behaviours and provide integrated journeys and personalised experiences across all channels," he says. For this the bank started to collaborate with Salesforce, the world's leading customer experience management platform, in 2020, and it has also focused on revamping the data analytics capabilities across the organization.

> "Customer satisfaction is key to everything we do, and we all closely monitor it."
>
> —Archil Gachechiladze, CEO Bank of Georgia

Reinventing customer experience also means getting a constant feedback stream from customers and using that feedback to improve products and processes. In 2020, the bank embedded Medallia, a customer experience management platform, into its main channels. As a result, the bank has seen a sharp rise in customer satisfaction, with the net promoter score reaching an all-time high of 49% in March this year, up from mid-20s four years ago.

"Customer satisfaction is key to everything we do, and we all closely monitor it," says Gachechiladze.

## SUSTAINABILITY

Bank of Georgia is also committed to doing business sustainably. For Gachechiladze, this means, on the one hand, running the organisation in a way that ensures highest standards of corporate governance and effective risk management.

On the other hand, sustainable business also means "unlocking opportunities that respond to the needs of our customers and improve the economic and social welfare of the communities where we operate."

As part of this, supporting education has been integral to Bank of Georgia's purpose of helping people achieve more of their potential.

"We believe that education is what will make our young people more successful and contribute to the sustainable development of the country," says Gachechiladze. "Last year we started to build multifunctional libraries in schools in remote regions, enabling students to access digital tools and educational resources. We've supported young people with scholarships, and there's much more that we will do in this area."

The bank has also been a key supporter of the country's budding entrepreneurs. In 2020, Bank of Georgia, in collaboration with the Georgian Innovation and Technology Agency (GITA), brought 500 Global — the world's biggest business accelerator — to Georgia.

"500 Global stimulates the development of Georgian startups, strengthening the country's business ecosystem and boosting its investment potential as a result," says Gachechiladze. "This programme has offered Georgian startups a unique opportunity to refine business ideas with the support of successful business founders."

Some 28 selected startups have undergone a six-month acceleration programme, with four startups that won 500 Georgia, participating in the programme in Silicon Valley. Since the launch, the startups have raised more than US$ 30 million from external international investors and venture funds. ●

# LatAm populist candidates gain ground but some may surprise investors

By Oliver West

As Latin America's rebound from Covid-19 surprises economists, emerging market investors and analysts remain fixed on a tense political climate amid a hectic election calendar.

In its latest World Economic Outlook published on Tuesday, the IMF upgraded its 2021 growth forecast for Latin America and the Caribbean from 5.8% in July to 6.3% as vaccination programmes have exceeded initial expectations. But the Fund lowered its prediction for 2022 from 3.2% to 3%.

"We are now entering a more difficult stage of the recovery," said Nikhil Sanghani, Latin America economist at Capital Economics in London. "There's been a lot of good news on the virus and vaccine front in Latin America, and economies have largely reopened. But that initial boost will start to fade and policy is going to become a bigger headwind in the coming quarters."

Central banks are tightening monetary policy as inflation numbers grow, while Sanghani said he expected fiscal policy to become far less accommodative in the Andean nations and Brazil, in particular.

These challenges will hit just as some of the largest economies in Latin America will choose new presidents. Chile will choose a new president in November, Colombia in May 2022, and Brazil next October.

**POLARISED POLLS**

All three elections are expected to be highly polarised with centrist candidates struggling to gain ground, and market participants are already gearing up for volatility.

LatAm investors have already dealt with one election shock this year after far left candidate Pedro Castillo came from nowhere to win the Peruvian presidency, and left-wingers are leading polls in Colombia, Chile and Brazil.

Graham Stock, head of EM sovereign research at BlueBay Asset Management, said there was a "growing consensus" that it would be hard for left-winger Gustavo Petro to win in Colombia "because of the way the second round works".

But Chile gives him more concern because the centre right candidate is losing ground, improving former student leader Gabriel Boric's chances. "Boric winning while the new constitution is still being drawn up is a valid reason to be concerned, though it should be remembered that the debate in Chile happens further to the right of the political spectrum than in the rest of Latin America," said Stock.

Sanghani agreed that a potential populist shift in the region was a "nuanced" story. "It can mean higher public debt risks, but on the other hand a populist can be good in the near term if fiscal support remains in place," said the economist.

Even in Peru, where Castillo's victory has shaken investors and the private sector, there are indications that investors' initial fears may be overdone, as finance minister Pedro Francke has proven to be quite moderate.

Similarly, left-wing Mexican president Andrés Manuel López Obrador has proven to be the most austere of all LatAm leaders when it comes to fiscal stimulus to combat the pandemic.

"It's a weird scenario now where the free market IMF is telling Mexico's leader to do more public spending," said Sanghani. "It's rather surreal."



Petro, Boric and Castillo: Pedro Castillo won a shock victory in Peru, while fellow left-wingers Gustavo Petro and Gabriel Boric lead the polls in Colombia and Chile

# Green light shines bright in otherwise bleak picture for Africa finance

By Steve Gilmore

The spread of sustainable finance products is a rare highlight in the annual Absa Africa Financial Markets Index, which was released on Wednesday and in partnership with thinktank Omfif.

The report scores 23 African countries — together accounting for almost 80% of Africa's GDP — across a variety of metrics. On many, including market turnover, FX reserves and debt levels, the picture is not positive.

"Aggregate scores have deteriorated pretty heavily," Absa chief economist Jeff Gable told *GlobalMarkets*. But he emphasised that it was pandemic-related volatility dragging down scores, not backsliding on fundamentals. The inclusion of ESG in this year's index, meanwhile, shows nine of the countries tapping capital markets with sustainable products and 13 having put in place a regulation promoting issuance.

Africa's energy experts are urging national policy makers to look beyond established funding sources as they seek to bridge a colossal investment shortfall. The continent faces the dual tasks of decarbonising its energy sector and connecting 600 million people still without power using sustainable forms of electricity. The Economic Commission for Africa estimates that $40bn a year is needed annually to bring power to those 600 million by 2030.

"That is a staggering amount," said former KenGen CEO Eddy Njoroge, speaking at last week's Africa Climate Week event. "If you look at how much has been spent across Africa in the last decade, it does not amount to [$40bn], and now that is what we are expected to extend every year to bridge the energy gap."

Funding from IFIs is ramping up as the push for green financing builds momentum. The Green Climate Fund (GCF) announced at the end of last week it had approved 13 new projects totalling $1.2bn — a record for a single board meeting. More than half of the funding will go to African nations, small island states and least developed countries.

But experts like Njoroge want to see far more effort from African governments to help generate green financing through capital markets. South Africa, Nigeria and Kenya have sold green bonds, but issuance needs to accelerate sharply. Njoroge also pointed to the potential for securitization to finance long-term projects like geothermal power plants.

"Governments need to have more incentives and make it easier for issuance of these [green] bonds," he said, suggesting making green bonds tax free, certification easier and potential government underwriting. The latest Absa index shows that countries are slowly recognising the need to make this kind of funding easier.

Gable points to Zambia, which the index rewarded for having reduced registration fees for green instruments.

© Courtesy ISO

Njoroge: green bonds should be tax free

Other nations like Kenya and Morocco have introduced not just green bonds, but sustainable equities and sustainable mutual funds. With sufficient capital, Africa could bring millions of people on to its grids and become a major exporter of renewable energy.

"Africa could be a massive deliverer of electric power in the next decade," said Simon Quijano-Evans, chief economist at Gemcorp Capital. "I think the capital is very much going to be there. Europe needs the electricity, and this necessity will drive the projects. This could attract many billions of dollars to the continent."

# China

*Continued from page 2*

China it is a problem for export markets.

"Financial issues in China are in the property sector, but the concerns are broader than that, including production restrictions at the provincial level and restrictions on polluting industries that could potentially lead to reduced demand for iron ore, in particular."

**EM SUPPLIERS FACE SLOWDOWN**

After average annual growth of 7.7% between 2010-2019, estimates for Chinese GDP expansion over the next decade are in the range of 4%-5%. Other investors agreed that, as Chinese authorities guide the economy into a lower growth model, countries that export to China will face challenges.

"If any countries are relying on a continued acceleration of Chinese growth, they probably need to rethink their macro policies," said Simon Quijano-Evans, chief economist at Gemcorp Capital. "Growth will be dampened because China can't afford to get itself to a place where the demand for commodities is constantly higher than supply."

Medeiros said this was a fair assessment but noted that a slower rate of growth by today's larger Chinese economy would deliver a comparable level of expansion to when the economy was growing at a higher rate 10 years ago, yet from a smaller base.

"This is a transition to higher quality growth that the authorities have been trying to do for a few years," said Medeiros. "There may be some stress as the property sector de-levers, but there are options to replace real estate jobs as China invests to become a high value added industrial economy.

"We also think core demand for housing will remain, especially in the smaller tier one and tier two cities."

The construction site of Guangzhou Evergrande Soccer Stadium in September 2021. Developed by China Evergrande Group

# Carbon

*Continued from page 4*

enough debt and equity capital to create a liquid market.

The governance body is also aiming to include representatives from indigenous people and local communities. This could go some way towards remedying a lack of engagement with environmental NGOs.

These are ambitious tasks and critics doubt there is the political will to create a network of effective voluntary markets. But this has not stopped firms from recognising that credits can be useful — and lucrative.

US firm Bluestone announced a $500m joint venture on Tuesday that will buy timber forests and manage them more effectively. "Revenues from carbon offset sales are key to justifying the acquisition," the firm said.

The Ecosystem Marketplace initiative expects the annual value of voluntary carbon markets to hit $1bn for the first time in 2021. Looking further afield, McKinsey estimates that demand for carbon credits could be 15 times larger by 2030, creating a market worth over $50bn.

Acknowledging the ultimate need to get companies to net zero, Nazareth said that carbon offsets could provide a way for firms to bridge the last mile. "I think to limit our ability to do that is really short-sighted," she said. "We need every tool in the toolbox to get to net zero as quickly as possible."

# Cop26

*Continued from page 4*

reasons was that finance ministers are not part of the Cop negotiations, and they should be."

But this has not come about. One of the clearest calls in the ministerial statement published after Tuesday's meeting was: "We underscore that finance ministries wish to deepen their involvement in the development, revision, and implementation of impactful and ambitious Nationally Determined Contributions, as well as long term strategies."

In most countries, climate policy and commitments are still being made and negotiated by heads of government and environment ministries.

"Finance ministers should be at the centre, and it hasn't happened," said Morén. But he argued that this was partly inevitable. "It couldn't happen, either, because finance ministries need to get their act together, the expertise, the tools."

Morén argued that at this stage, finance ministers could contribute most valuably through supporting climate policy by translating it into effective economic policy.

# Global gas price surge

*Continued from page 1*

stocks," said Caroline Bain, commodities economist at Capital Economics. "Russian and Ukrainian relations are very poor, so Russia has been curtailing its use of the pipeline to minimise the transit fees it pays Ukraine."

Russia will be hoping that the surge in gas prices and low stocks will hasten approval of the controversial Nord Stream 2 pipeline — from Russia to Germany — which, if approved by European regulators, would effectively eliminate the need to use the pipeline through Ukraine.

**UNDER THE WEATHER**

However, Bain was quick to point out that Russia should not take all the blame. Extreme weather events have pushed up the demand for energy.

"Typically, extreme weather events cause an increase in demand," she said. "But this year, the frequency and geographical reach of unseasonable weather has meant that there has not been time for demand to normalise, stocks to be rebuilt and prices to come back down."

Even before the latest gas surge, weather had already been pressuring some major EM central banks. Brazil's worst drought in 90 years has severely hurt the power supply from the country's hydroelectric dams, and the central bank has increased base rates from 2% at the start of the year to 6.25%. Even so, annual inflation has hit double digits for the first time in five years. Meanwhile, flooding in Northern China is shutting coal mines, driving prices higher.

"It's raining where you don't want it to rain but not raining where we need it to rain," said Gustavo Medeiros, deputy head of research at EM investment manager Ashmore Group.

Yury Sentyurin, secretary general of the Gas Exporting Countries Forum (GECF), said several factors were behind the price surge, including delays to maintenance schedules caused by Covid-19 and the "EU's push towards the adoption of spot pricing mechanism, [which] contributed to exacerbating the volatility of prices".

There is some uncertainty as to how long the impact of higher gas prices will last. Some countries will be shielded from the initial price moves by the fact that the majority of their gas is sourced through long term contracts, for example. And the GECF advocates long term gas contracts as a means of providing stability and protection from volatility.

However, as countries look to transition to non-fossil fuel energy sources, long term contracts are becoming less popular, according to Sean Kidney, CEO of the Climate Bonds Initiative.

Edward Glossop, EM economist at Abrdn (formerly Aberdeen Standard Investments) in London, said rising energy prices were "fairly unwelcome for EM central banks, and will likely keep them in a hawkish mood for a while yet".

He highlighted, however, that domestic gas is a "modest component" of CPI measures in most countries, around 2%-3%. In Mexico, tortillas alone have a similar weighting to gas.

"We think it is hard to make the case that year-on-year energy price inflation will continue to trend higher," said Glossop.

Medeiros at Ashmore agreed that "we are probably in the eye of the hurricane in terms of energy disruptions and the worst should be over by December," highlighting that food inflation had been declining in most countries.

But the effects of higher prices can go beyond monetary policy. Brazil, which has been dealing with an inflation shock for longer than most this year, may be an omen of what is to come.

"There's a more general point here about higher electricity prices," said Nikhil Sanghani, Latin America economist at Capital Economics. "It means there is less disposable income to consume or invest. We've seen this already in Brazil, where retail sales had a shocking collapse in August."

Relief may be some way off, given that winter looms in the northern hemisphere. "Colder than average temperatures could trigger extreme volatility for natural gas prices," said Sentyurin.

"Europe's natural gas scare is not going to disappear overnight," said Quijano-Evans at Gemcorp. "The only consolation would be any milder weather outlook."

# Vaccine

*Continued from page 2*

them in November but February, they could move the delivery to a developing country," she said.

However, developed countries are beginning to offer their own citizens a third booster shot. Ghebreyesus said that, except for special cases, "for countries to start boosters is wrong" when millions had not been vaccinated at all.

Okonjo-Iweala said: "It has been a year since South Africa and India first called for the suspension" of intellectual property (IP) rules to allow other companies to produce Covid vaccines. "The UK, Norway, Switzerland and the EU are still blocking the waiver needed."

Georgieva said production capacity was adequate, the problem was prioritising delivery for those who do not have access. The IMF is pressing for transparency on contracts to address this.

But Ghebreyesus said, pointing particularly to the G20: "I think the IP waiver will be very important. There should be a political commitment to address these problems."

Looking ahead, he backed calls for a Pandemic Treaty to set out how countries should interact in the next health emergency.

GlobalMarkets

GLOBALMARKETS MANAGING EDITOR
**Toby Fildes**
toby.fildes@globalcapital.com
+44 20 7779 7327

ASSOCIATE EDITOR
**Phil Thornton**

REPORTERS
**Steven Gilmore**
steven.gilmore43@gmail.com
**Jon Hay**
jon.hay@globalcapital.com
**Lewis McLellan**
lewis.mclellan@globalcapital.com
**Oliver West**
oliver.west@globalcapital.com

CONTRIBUTING EDITOR
**Duncan Kerr**

PRODUCTION EDITOR
**Vicki Robinson**

SENIOR OPERATIONS MANAGER
**Barbara Fertalova**

HEAD OF VISUALS
**Gerald Hayes**

GROUP PUBLISHER
**Margaret Varela-Christie**
margaret.varela-christie@euromoneyplc.com
+44 207 779 8385

SENIOR BUSINESS DEVELOPMENT MANAGER
**Ashley Hofmann**
ahofmann@globalcapital.com
+44 2077798740

SENIOR BUSINESS DEVELOPMENT MANAGER
**Daniel Elton**
delton@euromoneyplc.com
+44 2077797305

RUSSIA & CIS PUBLISHER
**Alex Korol**
akorol@euromoney.com
+7 903 720 8050

CENTRAL ASIA PUBLISHER
**Mine Hekimoglu**
minehekimoglu@aol.com
+90 5324131686

PUBLISHER, MIDDLE EAST & TURKEY
**Adil Jilla of MEIAC**
a.jilla@meiac-uk.com

ASSOC. PUBLISHER, MIDDLE EAST & TURKEY
**Kaersi Jilla of MEIAC**
k.jilla@meiac-uk.com
(UK): +44 (0) 797 384 310 (Dubai): +971 4 4548690

SENIOR ADVISOR
**Christopher Garnett**
cg@chutecourt.com
+447710306856

CEO, FINANCIAL & PROFESSIONAL SERVICES DIVISION
**Jeff Davis**

CEO, NEXTGEN PUBLISHING
**Isaac Showman**

MANAGING DIRECTOR, MARKET INTELLIGENCE
**Timothy Wakefield**

MANAGING DIRECTOR, ACCREDITATION AND MARKETING SERVICES
**Guy Cooper**

VP REVENUE AND COMMERCIAL STRATEGY
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**Richard Lee**

SENIOR MARKETING MANAGER, CLIENT SOLUTIONS
**Christopher Erasmus**

HEAD OF EDITORIAL DEVELOPMENT, NEXTGEN
**Mariana Valle**

**From the publishers of**
GlobalCapital


Euromoney Institutional Investor PLC
8 Bouverie Street, London,
EC4Y 8AX
Telephone: +44 (0)20 7779 8888

**EUROMONEY INSTITUTIONAL INVESTOR PLC**
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# What's happening Thursday, October 14

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## All times EST

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**11:00 AM – 11:45 AM**
Analytical Corner Session 3: **Macro Challenges**
*•Addressing the Looming Problem of Bad Loans in Sub-Saharan Africa*
Speakers: **Jehann Jack**, African Department, IMF; Tarak Jardak, European Department, IMF
•The Decline in Real Rates Despite Soaring Government Debt: What Does It Mean for Debt Sustainability?
Speaker: **Ehsan Ebrahimy,** Institute of Capacity Development, IMF
Financial Integrity Screening of Cross-border Financial Flows
Speaker: **Maksym Markevych**, Legal Department, IMF
*• Negative Interest Rates: The Experience So Far*
Speakers: **Marco Casiraghi**, Monetary and Capital Markets Department, IMF **Gunes Kamber**, Monetary and Capital Markets Department, IMF

**11:15 AM – 11:45 AM**
Press Briefing: International Monetary and Financial Committee (IMFC)
Speakers: **Kristalina Georgieva**, Managing Director, IMF; **Magdalena Andersson**, Chairman, International Monetary and Financial Committee
Moderator: Gerry Rice, Director, Communications Department, IMF

**12:00 PM – 12:30 PM**
Capacity Development Talk: **Engineering the Green Transformation**
Moderator: **Martin Caudron**, Communications Officer, IMF Institute for Capacity Development
Speakers: **Sashi Jayatileke**, Senior Climate Finance Advisor, Center for Energy, Environment & Infrastructure, USAID; **Martin Kipping**, Head of Climate Policy Division, German Federal Ministry for Economic Cooperation and Development; **Chol Suphachalasai**, Technical Assistance Advisor, IMF Fiscal Affairs Department

**12:00 PM – 1:15 PM**
**Making Climate Action Count: Turning Ambition Into Reality**
Speakers: **David R. Malpass**, President, World Bank Group, **Iván Duque**, President of Colombia, **Mark Carney**, UN Special Envoy on Climate Action and Finance and UK Prime Minister Johnson's Finance Adviser for COP26 **Janet Yellen**, U.S. Secretary of the Treasury; **Axel van Trotsenburg**, Managing Director of Operations, World Bank; HRH the Prince of Wales; **Gerd Müller**, Federal Minister for Economic Cooperation and Development. Germany; **Alan Jope**, Chief Executive Officer, Unilever; **Alok Sharma**, COP26 President; **Saleemul Huq**, Director of the International Centre for Climate Change and Development, Bangladesh; **Rosane Santos**, Sustainability Director, Iguá S.A., Brazil; **Samer S. Judeh**, Co-founder and Chairman, Jordan Wind Project Company PSC; **Hong Hoang**, Founder and Executive Director, CHANGE, Vietnam; **Inoussa Dambagi**, Economist, Niger; **Alicja Messerszmidt**, Chairwoman, Trade Union of the ZE PAK Group, Poland; **Yamini Aiyar**, President and Chief Executive, Centre for Policy Research, India; **Armelle Sidje Tamo**, Agricultural Entrepreneur, Cameroon; **Chris Sacca**, Founder and Chairman at Lowercase Capital & Lowercarbon Capital; **Nakkide Annet**, Agricultural Engineer, Uganda
Moderators: **Stéphane Hallegatte**, Lead Economist, Climate Change Group, World Bank Group; **Meriem Gray**, Senior Communications Officer, World Bank

**1:00 PM – 1:45 PM**
IMF Seminar: **Debate on the Global Economy**
Moderator: **Sara Eisen**, CNBC Co-Anchor "Closing Bell"
Speakers: **Kristalina Georgieva**, Managing Director, IMF; **Kristin J. Forbes**, Professor, Global Economics and Management, MIT; **Mo Ibrahim**, Founder, Mo Ibrahim Foundation; **Min Zhu**, Chairman, National Institute of Financial Research at Tsinghua University


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Please contact Margaret Varela-Christie margaret.varela-christie@euromoneyplc.com +44 207 779 8385
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