

# Global Markets

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## IMF's sharp shift shows urgency of climate adaption finance

By Oliver West

The launch of the IMF's new Resilience and Sustainability Trust (RST) marks a major shift in the institution's traditional way of lending and moves closer to what climate-vulnerable countries need, senior figures declared yesterday.

But the prime minister of the first country to receive funding from the facility warned that it was far from perfect and called for the World Bank to offer a similar deal as the need for cash for climate adaptation became more urgent.

Barbados prime minister Mia Mottley told *GlobalMarkets* that through the RST the IMF was recognising that "climate is capable of [causing] as much

damage as exogenous financial shocks for most countries".

"If we don't find a way of allowing them to become more resilient to these shocks, they will find themselves with increased poverty, economic difficulties and balance of payments [problems]," said the PM.

In September, Barbados became the first country to reach a staff-level agreement on an RST, which became operational on Wednesday and is designed to fund climate resiliency via long-term financing at concessional rates.

The RST marks a transformation in the IMF's traditional role. It is the first IMF facility to offer long-term funding — Barbados' \$183m loan under the facility is



Mia Mottley: "Climate can cause as much damage as financial shocks"

20 years with a 10.5 year grace period. It also carries significantly cheaper interest than previous facilities. Since Barbados agreed its deal, Costa Rica and Rwanda have also reached staff-

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## Emerging markets want financial innovation, criticise green bonds

By Jon Hay

Policymakers wrestling with a hostile economy and worsening climate are earnestly looking to financial innovation for help but are not always happy with hot innovative products of recent years such as green bonds, ministers and advisers have warned.

Rania Al-Mashat, Egypt's minister of international co-operation, said of African finance ministers meeting recently to prepare for next month's COP27 climate conference that "their ask from the international community includes

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## African food insecurity: Bretton Woods sisters urged to act immediately

By John Crabb

The IMF and World Bank must take further action at this week's meeting to prevent food shortages in sub-Saharan Africa from spiralling out of control, politicians and financial experts have warned.

As the number of people without access or funds to properly feed themselves rises, calls on the two Bretton Woods institutions

to act swiftly are amplifying.

Food scarcity exists around the world but is perhaps most pressing in sub-Saharan Africa, including Somalia — which has seen four straight years of drought — South Sudan and Nigeria, which have among the highest concentration of acutely hungry people in the world.

Zainab Ahmed, the Nigerian finance minister, told *GlobalMar-*



Nigeria's Ahmed: "High energy costs are creating shortages"

kets the situation was worsening in the country and that more must be done to help with the crisis.

"Everybody has to deal with food

Continued on page 30

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## Final Word

Larry Summers

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Success is a journey

# IMF

Continued from page 1

level agreements.

“By offering a truly concessional lending window focused on supporting climate change adaptation policies the IMF is moving further away from its traditional role of simply providing balance of payments support to the type of space normally occupied by the MDBs,” said Sebastian Espinosa, managing director at sovereign advisory firm White Oak Advisory.

But RST, which has pledges of \$40bn, is only a small step. Espinosa warned that the amounts available under the RST were “modest” compared with what was required by the world’s most vulnerable countries and called for the international financial community to “step up a gear or two”.

“You could even argue that the lacklustre approach of the World Bank and some other MDBs to lending to support climate adaptation has in part brought about the emergence of the RST,” he said.

Mottley said the new approach from the fund was necessary. “When you look at today’s world and ask what would trigger the kind of implosion that the IMF was originally established to be able to fight, you then begin to understand that we either change our mindset and change our arsenal of tools, or we become a victim of the circumstances,” she said.

## IMPERFECT FRAMEWORK

IMF managing director Kristalina Georgieva said this week that the fund was “already in advanced discussions with a diverse group of countries in their climate policy actions”. But although Mottley acknowledged that the RST is “a lot more than what was there prior”, she argued it was “not a perfect framework by any stretch of the imagination”.

“I think we have to claim ground and then work to perfect it even more,” she said.

Oulimata Sarr, minister of economy for Senegal, said the trust “requires you to have a climate assessment, which is done by the World Bank, and most countries trying to access it don’t have it ready and it will take them six months to get it”. “In the meantime, we are in a state of emergency,” he said.

“To qualify for the RST, countries need a parallel IMF-supported programme, which may put off some countries that need to use it. This “perhaps speaks more to the fact that you probably need a corresponding type of approach from the World Bank that recognises that middle income countries are vulnerable”, said Mottley.

# MDBs and developing countries split over priority of climate policies

By Jon Hay

Finance ministers of developing countries are using the World Bank’s Annual Meeting this week to call for the multilateral development banks (MDBs) to be more understanding of the difficulties impeding them from investing to tackle climate change.

They want MDBs to find new ways to resolve the competing needs of climate and urgent priorities such as energy, health and education.

Last year the Overseas Development Institute thinktank interviewed MDB staff and more than 500 government officials in 73 middle and low-income countries. “We asked where MDBs should work,” said Annalisa Prizzon, senior research fellow at the ODI. “There were discrepancies between what MDB staff and their clients want.”

Staff at the World Bank, Asian Development Bank and EBRD all put climate change adaptation and mitigation as their first or second priority. Their clients preferred issues such as health, water and sanitation and transport.

An area where governments rated the MDBs less highly was the conditions they imposed before lending. Some 48% of the officials said policy conditions affected

their choices about borrowing from MDBs a lot, another 30% said a little.

## FOOT ON THE GAS

That demand for climate finance should be low is frustrating for policymakers. But Reza Baqir, former governor of the State Bank of Pakistan, said the issue was straightforward.

Development experts distinguish between countries’ national priorities and global public goods, such as lowering carbon emissions, whose benefits accrue to the whole world.

Baqir said: “When a country like Pakistan or Egypt has to finance investments on climate-related areas that have global benefits but the country itself is bearing the entire cost, that cost needs to be subsidised.”

He suggested the World Bank’s concessional lending for the poorest countries be opened up, “not just on the criteria of income, but rather on the nature of the activity you are financing”.

Liliana Rojas-Suarez, director of the Latin America Initiative at the Center for Global Development, argued for capital increases at the MDBs, “specifically for financing global public goods”.

Her research canvassing developing



Reza Baqir: Climate related costs need to be subsidised

country finance ministers’ views showed they perceived “a lack of ownership by middle income countries... this discourages them from approaching the World Bank for financing for global public goods”. Borrower countries should be given more say at the Bank, she argued.

Views differ, too, on what the MDBs should not finance. Oulimata Sarr, minister of economy for Senegal, questioned whether MDBs were “walking the talk” on sustainable development.

“Our country discovered gas,” she said. “We want to give universal access to energy, and the world is telling us that because of climate change we will not be financing your use of gas. Half of the continent doesn’t have access to light. We are trying to develop our industries, we want to have a whole value chain on petrochemicals.”

# EMs

Continued from page 1

innovative financing tools”.

Debt swaps linked to sustainability outcomes have been mentioned repeatedly in discussions at this week’s Annual Meetings.

In November 2021 Belize issued a \$364m blue bond guaranteed by the US Development Finance Corp and hence paying low coupons. It used proceeds to buy back expensive old bonds far below their face value. Some of the savings are committed to marine conservation.

Last month, Barbados conducted a similar transaction that impressed market participants because it made the deal work even though there was much less room in the discount for investors — around 92.5 cents in the dollar rather than Belize’s 55 cents.

“There are instruments already being used that could be more widely applicable [such as] debt for climate swaps,” said Adedoyin Salami, chief economic adviser to the president of Nigeria. “What that saves countries like ours is that you can pay in local currency for projects... without having to be looking for dollars to service your debt.”

## GREEN BOND PENALTY

There have been disappointments, however. “Unfortunately, the market does not reward issuing green bonds,” said Mohamed Maait, Egypt’s minister of finance.

“It is punishing those who issue green bonds, because you get [financing] at roughly the same cost as a [normal] Eurobond, but after issuing you start paying additional cost for reporting: you have to hire a consulting firm. So, you make a headache for yourself without any reward.”

In October 2020 Egypt issued a \$750m green bond, which achieved its lowest ever five year yield, 5.25%. Bankers said it had attracted a lot of demand from new investors.

Maait still believes innovative financing mechanisms are important, “including green and blue bonds and debt swaps for biodiversity and sustainable development”.

He argued that reducing the cost of green borrowing “has to be addressed... particularly during this tough time... for increasing debt distress, which all of us now in developing countries are under.”

Maait called on commercial financial institutions to “help us design models... to reward us when we go for financing climate change adaptation or mitigation”.

Uruguay is preparing to issue its



Mohamed Maait: “Unfortunately, the market does not reward issuing green bonds”

first sustainability-linked bond, which will be innovative in having a coupon that can step down if it hits targets on cutting greenhouse gas emissions and maintaining natural forests.

Azucena Arbaleche, Uruguay’s minister of economy and finance, argued that loans made by MDBs could be structured the same way. “Who is going to pay the stepdown if we have good environmental behaviour?” she asked. “Who will give the MDB the money? We think that developed countries have to share the dividends of the development they have done in the past, because they have been polluters. It’s time that they deliver concrete resources for middle income countries in these correct instruments.”

# Asia's central banks reach limits in currency defence

By Chris Wright

Asian central banks' resolution to defend the value of their currencies so far this year may be weakening after dipping heavily into their reserves, according to leading foreign exchange experts.

"We believe we are approaching the point where some Asia central banks allow for greater FX flexibility," said Craig Chan, Asia FX strategist at Nomura. "While central banks have leaned heavily against depreciation by drawing down their FX reserves, this strategy has limits."

Nomura expects Asian central banks to allow for more currency depreciation from now on, even if this means higher imported inflation and more rate hikes than would otherwise be the case.

Several Asian jurisdictions, most notably Japan and India, have dipped deep into their foreign exchange reserves in order to defend their currencies. Japan's reserves fell by a record \$54bn during September, according to the Ministry of Finance, led by a ¥2.84tr (\$20bn) yen-buying and dollar-selling interven-

tion by the government on September 22.

India's foreign exchange reserves are down almost \$100bn this year following market interventions by the Reserve Bank of India, led by Shaktikanta Das, in defence of the rupee.

## FED TIGHTENING

Asian currencies have declined against the US dollar all year, but not much against one another. This reflects the fact that the Federal Reserve has led on tightening, with knock-on effects on others. "They can't just follow the Fed blindly," said Taimur Baig, chief economist at DBS. "They all lag the Fed, which means against the US dollar, they've all weakened."

That, in turn, creates inflation pressure in those markets, particularly if they have high commodity import bills, since commodities are priced in dollars.

Baig said both Japan and India might now be tolerant of a weakening currency: India is an exporter whose hand ought to be strengthened by a lower valuation of the rupee, while a weak yen



Shaktikanta Das: defending the rupee

creates a tailwind for Japanese tourism and helps with the country's competitive edge against China.

Baig said central banks' main objection was over "the pace with which the currency was depreciating. They will be nervous if there are sudden movements, and some degree of intervention could be warranted to allay market concerns."

Neither Japan nor India need worry about running out of reserves: India still has over \$500bn of reserves, and Japan's record outflow left it with \$1.24tr at the end of September.

But in smaller Asian markets, a shortage of reserves is very much in prospect, chiefly in India's neighbours, Sri Lanka and Pakistan.

## Indonesia copes with 'challenging' markets to keep growth and capital buffers intact

By Rashmi Kumar

Indonesia's savvy economic management means it is well positioned to weather the triple threat of rising rates, rising inflation and the depreciation of the rupiah against the dollar. But market experts warned that a careful balancing act is needed to retain that momentum.

The southeast Asian country has followed a three-pronged approach to its funding.

This includes tapping bond investors, both international and retail, leveraging its strong relationship with multilaterals to get funding support and putting in place a three-year debt monetisation exercise ending in 2022 whereby the central bank buys the government's bonds in the primary market.

As a result, Indonesia boasted a current account surplus for the first time in 10 years in 2021, which it has managed to maintain this year. For the second quarter this year, Bank Indonesia said it had a current account surplus of \$3.9bn, or roughly 1.1% of GDP.

With the US Federal Reserve going on a rate hike spree this year — and making funding costs more expensive — Indonesia now has the option to lower its debt issuance thanks to its cash surplus.

"This is partly by design, as when we entered 2022, we thought the year will be challenging, so we put aside some surplus from 2021 to be used as a buffer this year," Luky Alfirman, director general of budget financing and risk management at Indonesia's ministry of finance, told *GlobalMarkets* in an exclusive interview. "This was a very useful strategy as it helped us navigate our issuance in this very volatile, challenging period."

## GROWTH/INFLATION BALANCE

However, the country's economic and growth success will come down, to a large extent, on how well the central bank is able to manage a falling rupiah, growing inflation and a higher interest rate environment.

Anushka Shah, a senior credit officer at Moody's in Singapore, said it has been clear that policymakers, including in Indonesia, have been intervening in the currency market and using their foreign exchange reserves to stem the slide in their currencies, even if their moves have not "created a big dent" in their overall FX reserves.

"But this underscores the complications or the delicate tasks central banks are facing in balancing currency depreciation and inflationary pressures with a tentative growth recovery," said Shah.

(See story above)

# Forget greenwashing, the real problem is 'greensmuggling'

By John Crabb

Companies should steer clear of environmental politics and instead focus on their fiduciary responsibility of looking after shareholders, Vivek Ramaswamy, co-founder of anti-ESG fund Strive, said in an interview with *GlobalMarkets*.

The original "grand bargain" stipulated that corporations should not exercise too much power in the political arena, but current ESG practice allowed them to have influence in a way that could damage the overall economy, he said.

Although US fiduciary law requires ESG-promoting asset managers to be transparent about long term value maximisation, he said ESG-influenced proxy voting and shareholder engagement — which Ramaswamy separated from ESG stock screening — had the potential to damage the wider economy.

"Influencing proxy voting is not greenwashing so much as what I call 'greensmuggling'," he said. "What I mean by greensmuggling is when non-ESG funds — made up of investors presumably that did not invest with any ESG-oriented intention — have proxy voting guidelines

and shareholder engagement guidelines that nonetheless use ESG factors to determine how the underlying companies themselves behave."

He said the issue was apparent in states like Texas and Florida, where local legislation prohibits funds from boycotting certain energy companies on ESG grounds.

These states have claimed funds like Blackrock or State Street are divesting from energy, which would prevent them from operating under the new legislation. Blackrock has had more than \$1bn of investment pulled in Republican states as a result — but has since claimed to have investments in companies like Exxon and Chevron as a means of appeasing anti-ESG sentiments.

These claims conflate the two issues, Ramaswamy said. "The ESG fund might be divesting but ESG funds are only a tiny portion of the total fund managed by a firm like Blackrock," he said.

The "real problem" is not that Blackrock is divesting from oil and gas, but that it is "investing in oil and gas firms and changing the purpose of what these firms are supposed to do".



Vivek Ramaswamy: shareholders first

## CARBON CAPTURE

Eager to dispel these myths, Larry Fink, chairman and CEO of Blackrock, told delegates at the Institute of International Finance in Washington DC this week that it was one of the largest gas pipeline funders in the world. "We did a major pipeline from Texas to Mexico, the Saudi Arabia pipeline [and] the Emirati pipeline for gas," he said. "We're ready to fund pipelines here in the United States."

"We own \$181bn of US energy companies. We do as much with them as anyone. I've always said they are going to be part of the solution. They're going to have technology for decarbonisation.

"We are never going to get to a net zero world ever if we don't sequester and carbon capture. I'm now being attacked equally by the left and the right. So, I'm doing something right I hope."



# AMERIABANK: AT THE VANGUARD OF ARMENIA'S BANKING SECTOR

In an interview with *GlobalMarkets*, Hovhannes Toroyan, chief financial officer, Ameriabank CJSC, explains the bank's strategy and highlights some of the key reasons for its success in the Armenian market.

## What have been some of the key strategic focus areas for your bank over the past year?

Ameriabank has been the leading financial institution in Armenia for almost a decade. Even though 2022 started with another wave of uncertainty for the global economy, we were able to maintain and strengthen our positions further, reaffirming the reputation of a stable, modern, and competitive financial institution with significant growth potential. Over the last six months, the major focus was given to digital transformation, compliance and risk management, which we see as key drivers for future growth.

## Reflecting on your bank's financial performance over the past year, what have been some of the key highlights?

It is remarkable how much Ameriabank has accomplished in terms of financial performance and development of new products services and technology. In the past year, we continuously invested in digitalisation, improved our customer experience, internal efficiency, upgraded the services and streamlined our operations. The bank's cost-to-income ratio was maintained below 40%. We registered impressive profitability with strong capital and liquidity positions. Our annualised return-on-equity comprised 28%, with net interest margin of 5.4% and solid non-interest income. In line with our strategy, retail and SME loans comprised more than 60% of total loans. The three-year CAGR [compound annual growth rate] of the retail portfolio was 30%. For SME portfolio, it was 17.2%. As always, the bank applies robust risk management practices. Our NPL [non-performing loan] ratio continuously improved across all segments in 2022 and stands at 2.9%. Cost of credit risk was around 0%, which is a consequence of conservative provisioning during the previous two years. At the same time, Ameriabank provided exceptional service quality with net promoter score over 75% and customer experience index at 9.5 (out of 10).

## What are some of the growth areas in your banking business where you have been focusing, and will continue to focus, investment?

Staying at the vanguard of the Armenian banking industry and its transformation, Ameriabank continues investments in IT technology and digitalization in-line with its strategic priorities. A big focus will be also given to cross-selling and up-selling of services and propositions to growing number of our customers. At the same time,



“ It is remarkable how much Ameriabank has accomplished in terms of financial performance and development of new products services and technology. ”

—Hovhannes Toroyan, CFO, Ameriabank CJSC

we have launched a series of actions designed to explore new opportunities in certain sectors of economy, especially those that will also boost transactional banking and non-interest income. It is important to note that more than 90% of all transactions of the bank are performed outside the bank's branches. Finally, we will continue investments in human capital and increase productivity and motivation through intensive trainings.

## ESG and sustainability is one of the most important strategic topics for the banking industry. What significant developments or initiatives has your bank led in the past year that demonstrate how important ESG and sustainability are to your institution?

Ameriabank acknowledges its responsibility to play a key role in advancing Armenia's transition towards sustainable future. We recognise that climate change and similar environmental risks are immense challenge posing substantial environmental, economic and social risks to long-term growth and prosperity. We also support the achievement of UN Sustainable Development Goals (SDG) and as part of this alignment, contribute to financing renewable energy systems, energy efficiency, access to clean electricity, in-

vestment in clean transportation, technology development, and ultimately support to underdeveloped communities through various projects. Since 2010, Ameriabank has financed more than \$250 million of similar projects with the support of various international financial institutions. Ameriabank is the first and leading green bond issuer in Armenia. Since 2020, we have issued over \$60 million equivalent of green bonds.

## Banks are in fierce competition with one another to develop and launch innovative digital banking products and services. What are some of the new and significant digital banking products and services that your bank has launched in the past year, and what success have they achieved?

Within the fast-paced transformation of the consumer behaviour in the digital realm, we achieved promising results towards diversification and digitalisation of our services. Commitment, agility, innovative mind-set and culture of shared success, driven by the desire to satisfy customers' needs, is the formula to success in digital transformation. In this context, the past two years were remarkable in terms of developing and launching a comprehensive digital ecosystem – the first in its kind in the market – that is a one-stop shop for banking and non-banking services, covering the car market, housing market, e-commerce as well as unique ecosystem for SMEs with options of online onboarding, and machine learning based loan underwriting.

## The global economic outlook is challenging. What are some of the main risks and economic challenges you see for your bank over the next 12 months?

While Armenia is having a very solid year in terms of economic growth, there are still a lot of uncertainties and structural changes, including transformation of certain industries and shifts in global supply chains that should yet have their reflection on the country's economy. While it is more challenging to manage the leading financial institution of the country under all those uncertainties, those challenges also offer a plenty of opportunities within themselves. Under the expected increasing pattern of interest rates, deterioration of certain risk parameters, increasing need for climate action and growing dependence on digital gadgets of our customer base, Ameriabank will continue its focus on data-driven digital transformation, proper risk management and further enhancement of ESG practices to achieve our mission of “improving the quality of life” of our stakeholders. ●

# What's happening Friday, October 14

## 7:00 AM – 7:45 AM

IMF Press Briefing: **African Department**

Speaker: **Abebe Aemro Selassie**, Director of the African Department, IMF  
Location: IMF HQ1, Meetings Halls A&B (HQ1-3-430 A&B)

## 8:30 AM – 6:00 PM

**Civil Society Policy Forum**

8:30 – 10:00 a.m.

Implications of financial deepening for inequality and its impact on gender, poverty, and marginalization

Location: World Bank I 2-250

Greening whole economies? Unpacking World Bank plans for Paris Alignment by July 2023

Location: World Bank I 2-220

10:30 a.m. – 12:00 p.m.

The impact of digital trade on workers, civil society, and communities

Location: World Bank I 2-250

Achieving Accountability and Justice for Conflict-Related Sexual Violence: The role of the International Financial Institutions

Location: World Bank I 2-220

## 4:30 – 6:00 p.m.

International financial architecture reform for a fair debt crisis resolution

Location: IMF HQ2-03B-768B

## 8:45 AM – 9:00 AM

Joint EU-IMF Event on the Contribution to the Poverty Reduction and Growth

Trust (PRGT)

Location: IMF Cedar Hall (HQ1-1-660)

## 9:30 AM – 11:00 AM

Plenary: **2022 Annual Meetings**

Speakers: **David R. Malpass**, President of the World Bank Group; **Kristalina Georgieva**, Managing Director, International Monetary Fund; **Hassan Abdalla**, Governor of the Central Bank of Egypt

## 10:30 AM – 11:15 AM

IMF Press Briefing: **European Department**

Speaker: **Alfred Kammer**, Director of the European Department, IMF

Location: IMF HQ1, Meetings Halls A&B (HQ1-3-430 A&B)

## 12:00 PM – 12:45 PM

New Economy Forum: **Mitigating Illicit Financial Flows Risks in Transnational Payments and Facilitating Remittances**

Location: IMF HQ1, Meetings Halls A&B (HQ1-3-430 A&B)

## 1:00 PM – 1:45 PM

New Economy Forum: **Beyond CBDC - Fast Payments as a Competitor or Model**

Moderator: **Tommaso Mancini-Griffoli**, Division Chief, Monetary and Capital Markets Department, IMF

Location: IMF HQ1, Meetings Halls A&B (HQ1-3-430 A&B)



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## 2:15 PM – 2:45 PM

Press Briefing: **International Monetary and Financial Committee (IMFC)**  
Location: IMF HQ1, Meetings Halls A&B (HQ1-3-430 A&B)

Speakers: **Kristalina Georgieva**, Managing Director, IMF; **Nadia Calviño**, Chair, IMFC

Moderator: **Gerry Rice**, Director, Communications Department, IMF

## 3:15 PM – 4:00 PM

New Economy Forum: **The Future of FinTech in Latin America**

Location: IMF HQ1, Meetings Halls A&B (HQ1-3-430 A&B)

## 4:00 PM – 5:00 PM

IMF Seminar: **CBDCs for Financial Inclusion: Risks and Rewards**

Opening Remarks:

Her Majesty **Queen Máxima of the Netherlands** (TBC); **Kristalina Georgieva**, Managing Director, IMF

Moderator: **Kathleen Hays**, Global Economics and Policy Editor, Bloomberg

Speakers: **Bo Li**, Deputy Managing Director, IMF; **Cecilia Skingsley**, Head of the BIS Innovation Hub; **Vera Songwe**, Non-resident Senior Fellow, Brookings Institution; **Perry Warjiyo**, Governor, Bank Indonesia

Location: IMF HQ1 Atrium (HQ1-1-700)

Location: IMF HQ1 Atrium (HQ1-1-700)

Location: IMF HQ1 Atrium (HQ1-1-700)

HYBRID

## 2022 IIF ANNUAL MEMBERSHIP MEETING

THE SEARCH FOR STABILITY IN AN ERA OF UNCERTAINTY, REALIGNMENT AND TRANSFORMATION

Washington DC, US

Monday, October 10-14, 2022

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## Economics & Policy

### 10-11 IMF STEPPING UP?

The IMF faces questions about its ability to help member states amid growing calls for assistance and concerns that it is under-resourced for a worse crisis

## Multilateral Development Banks

### 12-14 MDBS A NEW ERA

The world of multilateral development banks is on the cusp of profound change. The extremely cautious balance sheets they have maintained for decades have attracted the attention of the G20. In the first of a pair of articles *GlobalMarkets* speaks to Frannie Léautier, chair of the G20's expert panel, about why the time for reform has finally come

## Special sponsored section

### 17-27 COUNTRY REPORT QATAR

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The World Cup kicks off in Qatar on November 20 and the nation's government, bankers and business leaders are eager to promote the tournament as a pivotal moment for the Qatari economy

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#### 25-27 SUSTAINABILITY

Qatar's economy is dominated by natural gas production and requires vast amounts of power generation to provide clean fresh water. But, despite these distinct challenges, the Gulf state is making a big play for renewable energy

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# 'Shock upon shock upon shock': can the IMF step up to the moment?

The IMF faces questions about its ability to help member states amid growing calls for assistance and concerns that it is under-resourced for a worse crisis

By Phil Thornton

As finance ministers and central bank governors assemble in Washington, DC, this week for the annual meeting of the IMF they could be forgiven for thinking that they are facing at least three of the horsemen of the apocalypse.

The pandemic is still gripping many emerging and developing economies, war has broken out in Europe for the first time in three decades threatening to fuel famine in Africa, and a cost of living crisis is gripping economies — poor and rich alike.

As Kristalina Georgieva, the IMF's managing director said on the eve of the meetings: "What we are experiencing is the era of shocks — pandemic, war, and now cost of living crisis. Shock upon shock upon shock."

Of course, shocks are grist to the mill for the Fund, which was set up in 1944 to provide the "machinery for consultation and collaboration on international monetary problems" in the wake of the devastation of the Second World War. But there is a growing

fear that the global economic system is facing a prolonged period of turbulence.

"I do think that in the next decade at least, we're going to be living in a period of much more volatility, more shocks, probably more frequent, maybe more extreme," says Masood Ahmed, president of the Center for Global Development think tank and a former IMF director.

But the crucial issue will be how the international financial system adapts to the new era of volatility, how institutions such as the IMF adjust to it and how individual economies can cope with its impacts.

The IMF can claim to have moved swiftly and decisively to help member states cope with the ravages of the Covid-19 pandemic. Since the beginning of the Covid-19 crisis, the IMF says it has supported 86 countries with over \$110bn, using a variety of instruments.

Its executive board approved emergency financing to 80 countries via the Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI). It extended debt service re-

lief through the Catastrophe Containment and Relief Trust (CCRT) to 29 of its poorest and most vulnerable member countries on their IMF obligation. Overall, the fund says it has lent more than \$258bn to 93 countries since the start of the pandemic, including precautionary credit lines that have not yet been drawn on.

## FOOD CRISIS MENU

But now the food crisis overshadows the outlook, with rising prices and shortages hitting many countries, but particularly low-income countries in sub-Saharan Africa that are importers of food and energy and whose balance of payments have been hit.

One the eve of this week's meeting, the fund's directors approved a proposal to expand emergency financing for countries hit by surging food prices and shortages triggered by the war in Ukraine.

The idea is to increase access to emergency financing for a year to countries that are most vulnerable, either because they are importers of food with low incomes and the cost of imports has skyrocketed for them, or because they are affected by other factors.

It would be available to countries that did not already have a larger IMF programme. Georgieva has estimated that some 50 coun-

## World of pain

International Monetary Fund managing director Kristalina Georgieva

tries would be eligible, of which 20-30 were expected to have the greatest need.

As well as these proposals, Georgieva is likely to bring proposals to deal with a more shock-prone world, where — as she puts it — “innocent bystanders get hit from spillovers from a global shock”.

“There is a very significant thinking going on now at the Fund. We are going to go to our board with a menu of options [of] how we can build the Fund for today and especially for tomorrow,” she says.

Another item on the agenda this week is the implementation of the fund’s Resilience and Sustainability Trust (RST). The initiative was unveiled this year to help countries that received a share of the \$650bn distribution of IMF Special Drawing Rights to all members — but which did not need — to reallocate them to countries in need.

Its aspiration is for the RST to mobilise about \$45bn in total resources. But like all bank accounts, the deposits are more important than the withdrawals: so far Spain has put in €1.9bn although there are reports of another €40bn lined up from elsewhere. “We are acting on getting these contributions in,” Georgieva has said, adding a guarantee that they would be in place by the time of this week’s meetings.

Alongside that in the IMF’s alphabet soup is the Poverty Reduction and Growth Trust (PRGT) providing concessional loans (currently at zero interest rates) to low income countries. Loan commitments were high at SDR6bn (\$7.9bn) in 2021, only slightly below their peak of SDR6.5bn on in 2020. In April the IMF said demand for PRGT lending was anticipated to “remain elevated” in 2022–24, with the outlook subject to considerable uncertainty, including due to the war in Ukraine.

### MONEY, MONEY, MONEY

The pressures could get more intense. The IMF itself says that about a quarter of emerging countries and more than 60% of low-income countries are in or near debt distress.

This could lead to demands for a different type of intervention, to prevent not just a country from suffering a devastating default, but one country’s failures triggering a domino run of other failures.

As Josh Lipsky, senior director at the Atlantic Council’s GeoEconomics Center says: “People are asking the IMF to step up in a different way. Yes, they’ve done a lot of lending. Yes, they’ve done a lot of emergency response during the pandemic, but it’s very clear that something different is going to be needed if a wave of countries goes into debt default in the next several months.

“The question is could they do [lending programmes] at a larger scale and get the money out the door faster. That’s all going to be discussed at the meetings.”

Towards the end of 2020, the G20 established the “Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative”. The aim was to bring China and other non-Paris Club creditors into a multilateral effort to restructure the debts of low-income countries on a case-by-case basis.

It aimed to address the problem of unsustainable debts faced by many countries in the aftermath of the Covid-19 pandemic. Certainly, the recent experiences of Chad, Ethiopia and Zambia show that the common framework must be improved. However, as Brent Neiman, Counselor to the US Treasury Secretary told the Peterson Institute for International Economics last month, “this helpful instance of global economic co-operation has not yet materialised”.

Meanwhile the IMF still has the \$1tr of funds injected by G20 countries at their summit in London in 2009 at the depths of the global financial crisis that appeared at risk of turning into a depression.

But as Lipsky said: “Is a trillion dollars enough if we were to go into a real global economic recession plus a wave of emerging market debt defaults? I think that’s a fair question to ask.

“If you had a wave of the debt defaults, and you had a big global economic slowdown at the same time, I would say the IMF in some ways may be under-resourced for what’s coming.”

Back in 2009 the economic outlook was grim but rich countries’ balance sheets were in a better shape than now and inflation was under control. Looked at today in the wake of the pandemic, the inflationary spike and the war in Ukraine, they may not be so keen for the IMF to be coming, knocking on their doors.

“Imagine that situation of going to the UK and the French and the Germans and the Americans and saying you need to do more for the IMF right now. You can’t really imagine that scenario,” Lipsky says.

The other way of putting more capital in the fund is to increase member countries’ quota shares in line with their economic weight in the world. But that would inevitably give more voting power to fast-growing emerging markets such as China — an issue that has always troubled the US.

Any changes in quotas must be approved by an

85% majority of the total voting power, but the US holds more than 17%. The members agreed an adjustment of the quotas in 2016 but in 2020, the governors adopted a resolution completing the 15th review without an increase in quotas.

The 16th review is under way but does not have to be completed until December 15 2023. Last month India, which holds just 2.75% of the quota despite being the sixth largest economy, underlined the urgent need for a successful review.

Finance minister Nirmala Sitharaman emphasised the importance of a “timely conclusion of [the review] ... in a way that addresses inequity and imbalances in the global economy”.

However, Luiz Vieira, co-ordinator of the Bretton Wood Project network of NGOs says, IMF officials are “extremely pessimistic”. “One said ‘you know, the last review was extremely painful’. And that was done after the financial crisis, in a condition where there was a lot of focus and appetite for multilateral co-operation. And the person said, ‘that’s not the case today’.”

The conflicting pressures of the need to deliver more funding to struggling member states while looking out for fresh sources of revenue could make this Georgieva’s toughest annual meetings since she began her five-year term in October 2019.

Lipsky points out that this all comes at a time when there is a discussion going on about the need for a resetting of the Bretton Woods system that created the IMF and its sister organisation, the World Bank in 1944.

“If the IMF can step up and meet the moment, then they answer the question of ‘are the institutions fit for purpose’? And if they can’t, then they raise the question of what needs to be more deeply reformed. The fundamental issue of these meetings is — will the IMF step up to that challenge?” **GM**

## “what they say



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**more frequent, maybe more extreme.”**

—Masood Ahmed, president of the Center for Global Development



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# New era opens for MDBs as shareholders focus on growth

The world of multilateral development banks is on the cusp of profound change. The extremely cautious balance sheets they have maintained for decades have attracted the attention of the G20. In the first of a pair of articles *GlobalMarkets* speaks to Frannie Léautier, chair of the G20's expert panel, about why the time for reform has finally come

By Jon Hay

The quiet work of a little known expert panel over the last year has inaugurated a new phase in the history of multilateral development banks. Frannie Léautier, the group's chair, spoke to *GlobalMarkets* in July about why it was needed and what will happen next.

The central thrust of the panel's report, commissioned by the G20 and presented to it in Bali in July, is that the MDBs could greatly expand their lending, using just their existing capital.

"Our panel was created before we were seeing this major crisis now, after the pandemic," said Léautier, CEO of SouthBridge Investments in Kigali, who chaired the Independent Review of MDBs' Capital Adequacy Frameworks. "Now with energy prices and climate risks that are multiplying, it couldn't be better timing. My hope is that the report has impact, and the MDBs get the extra headroom they need."

The multilateral development banks are pillars of development finance, of the international world order and of the bond markets.

Their prominence means they are often criticised by development advocates, activists in developing countries, and even Western governments, which jealously guard their dollars and want the MDBs at least not to impede their political interests.

They are rarely criticised in the bond market, where they are regarded as the

epitome of stable, top quality credit risk, badged with triple-A ratings that endure undisturbed for decades.

## HIDDEN STRENGTH

That contrast hides a secret, however. Those credit ratings are far more secure than they need to be — one expert calls them "quadruple-A". This has come about because most of the development and government stakeholders do not understand the financial aspects of the MDBs.

Even the small numbers of experts, inside and outside the MDBs, who do understand them are tentative about suggesting changes, for a host of reasons.

The elephant in their room is how the rating agencies treat callable capital — the contingent capital, not paid in, provided by nation state shareholders, which makes up a large part of the MDBs' capital.

The rating agencies are willing to treat much of callable capital as capital but the MDBs construct their internal capital adequacy frameworks as if the rating agencies were not. That means they are wasting up to three notches of rating headroom.

For many years, knowledge of this issue was confined to a few isolated experts. Among them are the analysts at S&P who estimated in 2016 that, other things being equal, the 19 MDBs it rated could have increased lending by two thirds, or \$1tr, without losing their triple-A ratings.

But the subject was never properly inves-

tigated, nor even mentioned in important public debates about the MDBs.

Léautier gives three reasons. The first is that the MDBs simply did not need the extra rating headroom available to them.

"Second is that their risk teams and boards have had a very cautious and conservative approach, which was needed at the time," she said. "The third thing is that callable capital is a unique feature of MDBs. Not even the shareholders, credit rating agencies and key decision makers among the MDBs fully understand the ways it can be used."

## TIME FOR CHANGE

That long silence came to an end on July 20 with the publication at the G20 finance ministers' and central bank governors' meeting of the report, *Boosting MDBs' Investment Capacity*.

The detailed document, prepared by a panel of 14 development finance experts, centres on five recommendations.

In brief, they are:

1. Change the way risk tolerance is defined, with a thorough internal rethink rather than outsourcing this to rating agencies. Improve dialogue with rating agencies and remove specific leverage targets from the MDBs' statutes

2. Give credit to callable capital in MDBs' internal capital models

3. Use more financial engineering such as securitization and risk swaps

4. Give the rating agencies more clarity about the support MDBs enjoy from shareholders and their unique functions

5. Increase stakeholders' and the public's access to data and analysis about MDBs' finances and performance, to improve decision making. Raise co-ordination between MDBs

## HIGH BACKING

Just as important as these suggestions is the forum in which they have been developed and presented.

The report was commissioned in summer 2020, when Italy was president of the G20, by the body's International Financial Architecture Working Group, which promotes efforts to make the financial system more stable and resilient.

### Key players

G20 Italy, the AfDB, and currently G20 Indonesia



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	DEVELOPMENT ASSETS	TOTAL ASSETS	SHAREHOLDERS EQUITY	LIQUID ASSETS RATIO*	BONDS OUTSTANDING**
YEAR/UNIT	2020BNS	2020BNS	2020BNS	2020/%	2021/BNS
ADB	133	272	53	98	134
AfDB	8	22	20	73	19
CAF	29	47	13	31	36
CDB	1	2	1	30	1
EBRD	41	85	22	43	58
EIB	552	678	90	98	565
IDB	106	152	34	26	153
IBRD	211	297	40	29	280
IDA	168	199	168	98	38
IDB Invest	4	6	2	33	2
IFC	47	96	25	48	56
IsDB	25	35	19	30	22
NDB	7	19	10	81	14
	1,366	1,972	503	35	309

\*Liquid assets/adjusted total assets

\*\*Total long term financing - senior unsecured debt, subordinated borrowing, covered bonds and other long term financing

Since the 2008 financial crisis, the G20 has become the most powerful driving force in international financial policy. Although it has no formal regulatory or legislative powers, it has profound influence. Governments pay attention to what the G20 discusses and decides, and its recommendations tend to be implemented.

The increased regulation of banks since 2008 was driven by the G20, as was the Taskforce on Climate-Related Financial Disclosures.

Just getting the G20 to address the issue was a huge step forward. The main reason why this became possible, Léautier said, was “Just the size of the need. With multiple crises, the needs are so high that everybody is looking for solutions beyond business as usual.”

#### LITTLE BY LITTLE

But other trends have been gradually advancing, too. “There have been innovations by some of the smaller MDBs, and by bigger ones at smaller scale — they’ve shown they are able to crowd in private investment,” Léautier said.

The African Development Bank’s Room 2 Run securitization in 2018, in which it shed the mezzanine risk on \$1bn of loans to banks, project finance vehicles and companies, freeing up capital for \$650m of fresh loans, inspired many others to explore more creative financing, even though the US Treasury’s sour response to Room 2 Run put a lid on overt progress for several years.

The AfDB followed Room 2 Run with a transaction in which it shifted risk into the insurance market. There have so far been no losses on either transaction.

Now the Asian Development Bank is working with 22 insurance companies from outside its region, to provide credit guarantees for 24% of its non-sovereign lending portfolio, which would increase its capacity by \$2bn.

Trade and Development Bank, the MDB owned by 22 southern and east African countries, has been transferring risk to the African Trade Insurance Agency for several years, and has recently had its rating

outlooks raised by Fitch and Moody’s.

Meanwhile, some private investors have become interested in working more closely with the MDBs — not just buying their senior bonds, but taking more risk, and hence enabling the MDBs’ capital to go further.

The MDBs “have a very powerful model,” said Léautier. “They’re very good at due diligence and

identifying risk, they enjoy very strong preferred creditor status. And they are leaders now in the ESG space. If a private investor wants to do good, MDBs are a very credible partner.”

ILX Fund has been established in the Netherlands with \$750m from the country’s largest pension fund manager, APG, to co-invest alongside MDBs, directly in their loans.

#### LIVELY INTERACTION

These trends, combined with prompting by some experts, have over many years brought some of the nations that own MDBs to the point of realising a rethink of their capital adequacy might be needed.

The 14 MDBs reviewed by the panel had a total of just over \$1.3tr of capital, of which \$1.2tr was callable.

Because they have accumulated reserves from profitable lending, to add to their paid-in capital, the group’s shareholders’ equity for the purposes of lending totalled \$503bn, which supported \$1.37tr of development assets and \$606tr of other assets such as bonds held for liquidity purposes (*see table above from the report*).

The Italian G20 presidency appointed an independent panel and empowered it to research and reach its own conclusions. It included academics, former senior risk and finance officials at MDBs and former government officials such as Jinkang Wu, who used to represent China at the World Bank and Global Environment Facility.

Italy provided a secretariat for the panel, and the Rockefeller Foundation granted it use of its Bellagio centre for some meetings.

Support for the work has been carried on by Indonesia, which took over the presidency in December 2021, and will be by India, which assumes the role in December this year.

The panel’s way of working was interactive — there was lots of consultation and discussion with staff at the MDBs and with government officials who oversee them.

Crucially, these included the executive directors, which are appointed by countries or groups of countries to form the boards

that run the MDBs on a day to day basis. For example, the World Bank has a board of 25 executive directors. Above that, its top-most board of governors, composed of finance ministers, meets only twice a year.

“We were very happy with the interest of the executive directors, and more sessions are being planned with them,” said Léautier. The MDBs, too, were “generous with their time,” she said, and the rating agencies were “quite open to listening and sharing ideas... they’re open to new ways of thinking about things.”

#### COUNTRIES CONVINCED

The shareholders and MDBs had a chance to read the report before it was published.

With the governments, it has gone down well. “I was very pleased to see its report receive such a broad welcome from G20 members,” said Alessandro Rivera, director-general of the Italian Treasury, in a statement announcing the report. “These are important reforms that could lead to a step change in deploying MDBs’ resources to support vulnerable countries and tackle the daunting challenges we face.”

Senegal, Spain and the Netherlands — not G20 members — also gave welcoming statements, as did other G20 members.

Alexia Latortue, assistant secretary for international trade and development in the US Treasury, thanked the panel for its “clear and thorough analysis” and said: “This report is an important input to us, and all shareholders, as we work on how the MDBs can respond effectively and with scale to multiple global challenges. We urge all shareholders and the banks to carefully consider these recommendations, and be bold in thinking about how to pursue reforms to increase ambition on development finance, given the immense needs.”

The response from the MDBs was much more cautious. Nine large banks — the World Bank Group, AfDB, ADB, AfIB, EIB, EBRD, IADB, Islamic Development Bank and New Development Bank — put out a brief joint statement: “We thank the Panel for its work on this report. We will consider its recommendations carefully as appropriate including those that have already been implemented by some MDBs. As highlighted in the report, there are complex interactions among the recommendations with potential trade-offs and risks that would need to be assessed according to the capital structure, mandates, and shareholding of each MDB, which vary across institutions. We look forward to discussing it among MDBs.” **GM**

Read the second article in this series, on work to implement the report, in GlobalMarkets tomorrow, Saturday October 15th 2022.



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—Frannie Léautier, CEO of SouthBridge Investments in Kigali, who chaired the Independent Review of MDBs’ Capital Adequacy Frameworks



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## QATAR'S ECONOMY — IT'S ALL TO PLAY FOR

The World Cup kicks off in Qatar on November 20 and the nation's government, bankers and business leaders are eager to promote the tournament as a pivotal moment for the Qatari economy, writes Simon Watkins

**Q**atar's preparations for the FIFA World Cup 2022 have involved breath-taking levels of investment and hopes are high that the tournament will provide not only a short-term boost to the economy, but a legacy of growth for years to come.

The football tournament has become a symbol of Qatar's next stage of economic development as it becomes a centre for foreign investment, tourism, and other economic activities beyond hydrocarbons.

The wealth of Qatar is, of course, rooted in the hydrocarbon sector, with an overwhelming emphasis on gas. By 2019, Qatar's oil production had become so modest in comparison with other leading producers that it resigned its seat at OPEC — an organisation of which it had been a founder member in 1961.

But gas production remains undiminished. The hydrocarbon sector accounts for about 60% of Qatar's GDP and 85% of exports. As markets for

liquefied natural gas (LNG) have grown, wealth has poured into Qatar. Much of that wealth has been reinvested through the Qatar Investment Authority (QIA), one of the world's leading sovereign wealth funds with more than \$460 billion of assets, roughly three times the size of Qatar's annual GDP.

### GAS FIELDS

The North Field off the coast of Qatar is the world's largest, with an estimated reserve of almost 900 trillion cubic feet. Extraction has been underway since 1997 but is set to grow dramatically. The North Field Expansion being carried out by state-owned Qatargas is expected to boost output by 25%, from about 77 million to 100 million tonnes per year.

Krisjanis Krustins, director at credit rating agency Fitch Ratings, is confident the expansion will deliver. "The gas expansion is still a few years away, so we're expecting the first gas in 2025. There's no reason to expect that it

won't happen — the Qataris have expertise in these projects, and they have world-class multinationals helping them," he says.

While gas is a fossil fuel, it is a relatively clean fuel for electricity generation in comparison with coal. It is therefore widely expected to play a significant role in global power generation for many years, throughout the global transition to net-zero emissions. The value of Qatar's future gas output has naturally been boosted by the war in Ukraine and consequent rise in global gas prices.

"From Qatar's perspective, the global gas shortage couldn't have come at a better time," says Krustins. "It comes just as they're developing the major gas expansion and looking for partners and contracts. Producers start to sell gas way before it is actually pumped out of the ground. So, the situation we're seeing in the gas markets plays into its business model, which is to secure logged contracts."

Rising gas income also plays into Qatar's wider economic strategy of building economy activity beyond hydrocarbons.

#### INFRASTRUCTURE BOOM

Qatar has spent \$200 billion on infrastructure in preparation for the World Cup, including \$6.5 billion on the eight stadiums to be used during the tournament. Sheikh Fahad Bin Mohammad Bin Jabor Al Thani, chairman of Doha Bank, says this spending will generate 'multiplier effects' across the Qatari economy.

"Large-scale infrastructure developments ahead of the tournament have also spurred GDP growth for a period of time," says Al Thani. "Additionally, the legacy of advanced transport, innovation, sustainability, digitalisation, and utilities infrastructure will be a boost for the country's long-term competitiveness and international standing."

The World Cup investment is the

culmination of a prolonged period of investment and development in Qatar. "It comes on the back of a long development programme, with huge investments in infrastructure, new cities, real estate, museums, airport," says Krustins at Fitch. "These massive investments over the past decade or more are starting to wind down. But it's likely to continue building because it is a very important driver of the normal economy, even if those amounts are coming down."

What matters to Qatar now is that those years of investment, culminating in the World Cup, translate into lasting diversification of the economy, and expectations for the benefits to come from the tournament are high.

Bassel Gamal, group chief executive of the Qatar Islamic Bank (QIB), says the immediate economic benefits will run to billions. "By November, more than one million visitors will enter Qatar for the World Cup, generating approximately QR66 billion [\$18 bil-

lion] for the country," says Gamal.

Along with most of Qatar's business community, he believes the benefits will be lasting.

"In the long run, the World Cup will raise Qatar's international profile worldwide, providing it with a platform to grow and cultivate its leisure and tourism sector. As per reports, the lodging and food services industry has been Qatar's fastest growing, with an annual growth of 29.8%, representing the rising demand that the economy will experience as tourism grows," says Gamal. "The World Cup has significantly increased demand for hotels, restaurants, and entertainment establishments, which are expected to see an uptick and boost in the coming months and beyond."

It is a view shared by the group chief executive officer of Qatar National Bank (QNB), Abdulla Mubarak Al-Khalifa, who summarizes: "All in all, the 2022 FIFA World Cup is a major 'accelerator' to Qatar's long-

**“All in all, the 2022 FIFA World Cup is a major 'accelerator' to Qatar's long-term economic ambitions, supporting diversification, the inflow of foreign direct investments, private sector engagement and the development of the local corporate sector.”**

—Abdulla Mubarak Al-Khalifa, group chief executive officer, QNB

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“ Qatar has put tremendous emphasis on developing a sustainable investment ecosystem, top-notch infrastructure, and incentives to ensure foreign investors have what they need. ”

—Khalid Al-Subeai, chief executive officer of Dukhan Bank

term economic ambitions, supporting diversification, the inflow of foreign direct investments, private sector engagement and the development of the local corporate sector.”

In a report on Qatar’s World Cup economic prospects published earlier this year, Capital Economics suggested Qatar would see a more modest \$7.5 billion in total additional tourism spending. This is still significant in the short term, due to the Gulf state’s size. The country is the smallest to ever host the World Cup, with a population of 2.99 million, so the relative economic boost from the tournament will inevitably be far greater than experienced by larger nations that have hosted the tournament.

Capital Economics expects fourth quarter GDP in Qatar to be 4.4% higher quarter-on-quarter, far greater than that experienced by most host nations. Earlier this year, the IMF forecast full year GDP growth in Qatar of 3.4%.

However, Capital Economics is more cautious about the long-term economic benefits of the World Cup. Its note refers to the Qatari government’s target of 6 million tourists per year by 2030. However, it estimates that, even with the extra football tourists expected during November and December, the total will reach 4.5-5 million for 2022.

“We are doubtful that the govern-

ment’s target will be achieved, which, given the vast supply added to the hospitality sector in recent years in the run-up to the World Cup, means that overcapacity is likely to mount,” the report notes.

For Capital Economics, the key question is whether Qatar’s investment and borrowing will ultimately pay off.

#### LEVERAGED GROWTH

The expense of the recent years of investment has left Qatar with relatively high levels of debt. “Qatar has been following a highly leveraged growth strategy,” says Krustins, a point borne out by the government’s 73% debt-to-GDP ratio in 2021, according to Fitch, and was in addition to the substantial debt of government-related corporations and non-resident liabilities of banks.

Krustins adds: “There is very high leverage for the economy, but there is some prospect of that now coming down. We can expect them to be running budget surpluses for the foreseeable future and those budget surpluses can go to paying down debt.”

He adds: “Surpluses could also go to the Qatari Investment Authority and that would develop their passive income stream, which they already have to a very large extent. They don’t disclose how much exactly the QIA is

earning on its assets, but the country as a whole received foreign investment income of about \$10 billion in 2021, which is 6% of GDP.”

Looking beyond the government’s balance sheet, Qatar’s banks are also well capitalised. Capital Economics estimates the Qatar banking sector has a tier 1 capital ratio of 17.5%.

#### BEYOND FOOTBALL

The World Cup will provide an immediate boost to Qatar’s economy and its vast investment in infrastructure will doubtless impress visitors. Quality of life for Qatari citizens is high, healthcare is good, and Doha is consistently ranked as one of the world’s safest cities.

Investment prospects will also depend upon more fundamental factors. Doha Bank’s Al Thani points to Qatar’s zero rate of personal income tax, its currency peg to the US dollar and the ability for foreign investors to take up to 100% ownership of businesses in Qatar as obvious attractions.

Gamal at QIB highlights the quality of infrastructure and Qatar’s skilled workforce. But he also places an emphasis on Qatar’s location: “Qatar offers a stable and resilient economy, located at the gateway between East and West with 2 billion people across 25 economies worth \$6 trillion in combined GDP all within 3,000km.”

For Khalid Al-Subeai, chief executive officer of Dukhan Bank, all these attributes are already contributing to Qatar rapidly emerging as one of the world’s most dynamic economies, enjoying the highest per capita income and one of the highest rates of GDP growth in the world.

He adds: “Qatar has put tremendous emphasis on developing a sustainable investment ecosystem, top-notch infrastructure, and incentives to ensure foreign investors have what they need.”

On November 20, Qatar’s national football team will step onto the pitch for the opening match of the World Cup. Their chances of lifting the trophy at the end of the tournament are slim. But for Qatar’s economy, the event will be a symbolic moment, an opportunity to put its years of investment on show and make the case for Qatar as a global investment opportunity. ●

## ABDULLA MUBARAK AL-KHALIFA, GROUP CHIEF EXECUTIVE OFFICER, QNB GROUP

**Hosting the World Cup is a significant event for Qatar. How do you assess its significance for the country — does it have potential to be transformative?**

Hosting the 2022 FIFA World Cup is a centennial event for Qatar that bears a tremendous opportunity to support its long-term objectives, accelerate the execution of the Qatar National Vision 2030, and transform the country into a knowledge-based economy. In preparation for the event, Qatar implemented a series of mega-infrastructure projects. This included the establishment of new real estate infrastructure with prime entertainment centres, hospitality and tourism-related facilities, as well as urban infrastructure with new neighbourhood areas and parks. Other large-scale developments were related to transport and logistics, such as the expansion of the Hamad International Airport, the expansion of the port, the metro project, and also electric buses and road infrastructure. This event also represents a unique occasion to showcase Qatar's combination of rich culture and heritage in a setting of world-class infrastructure and state-of-the-art, sustainable, award-winning facilities. Moreover, and perhaps even more importantly for the economy, the event will shed light on Qatar's attractive legislative, regulatory and institutional environment.

**The Qatari banking industry has played an important role in supporting the government's World Cup investment programme. For your bank, how – in what areas – has your bank supported this programme?**

QNB was an integral part of the national mobilisation to deliver a successful tournament and visitor experience. We supported several domestic and international corporates that directly or indirectly participated in a series of mega-infrastructure projects and other key initiatives across industries. QNB was an active participant across many of these projects ranging in scale and complexity, including transportation, sports infrastructure and hospitality. We supported the financing and development of roads, sewage, other basic infrastructure development projects and hotels, driving economic diversification and significantly boosting private sector engagement. Besides numerous strategic partnerships, one of our activities to support the World Cup programme was our partnership with FIFA by becoming the official Middle East and Africa Supporter of the FIFA World Cup Qatar 2022. We believe this partner-

ship will help us strengthen brand image and reputation globally, both of Qatar and QNB.

**Together with this, what have been some of the other key strategic focus areas for your bank over the past year?**

Our strategy focuses on further uplifting our wholesale banking services across our network. Besides our strong balance sheet, we aim to adopt a more focused asset-light, high return-on-equity, commission-driven approach. We focus on strategic initiatives that complement our solution-led wholesale model, such as trade finance, cash management, structured finance and other advisory services. We have benefitted from Qatar's growth as a global hub for trade, tourism and sports. Our sector focus for this year was on utilities, transport, sport, infrastructure and food security, but also on the beginning stages of the North Field Expansion. Our offering covers wholesale as well as institutional products and services, including project finance, structured finance, trade finance, cash management and treasury solutions across all tenor and currencies. This enables us to actively participate and contribute across projects in all sectors with banking solutions along the entire supply chain. As the largest bank in the country and a leading incubator for private sector engagement, we act as a one-stop shop for small and medium-sized businesses (SMEs), which have been a focus area this year. We also opened a branch in Hong Kong and re-launched our operations in Saudi Arabia.

**Reflecting on your bank's financial performance over the past year, what have been some of the key highlights?**

Qatar's post-pandemic economic recovery is now in full force, with the banking sector presenting significant growth, ample liquidity, adequate levels of capitalization, high asset quality and robust profitability. For the first half of 2022, net profit after the impact of hyperinflation was \$1.9 billion equivalent, up 4.4% compared to the first half of last year. Robust revenue growth resulted in an increase in operating income to \$4.5 billion, up 20%, demonstrating QNB Group's success in maintaining strong growth across the range of revenue sources, despite the strong market volatility. As a result of higher revenue growth, QNB Group has continued to reduce the cost-to-income ratio downwards from 22.9% in first half of last year to currently 20.2%. Total assets are at \$309 billion, up by 6% from the same period last year.



**ESG and sustainability is one of the most important strategic topics for the banking industry. What significant developments or initiatives has your bank led in the past year that demonstrate how important ESG and sustainability are to your institution?**

Our strategic focus in 2022 was to further uplift our sustainable financing activities as well as to enhance our sustainable operations. Following the successful issuance of QNB's debut green bond – which at \$600 million is the largest conventional green bond issued by a bank in the region – we further enhanced our sustainable finance and product framework to complement our existing green bond framework. This allowed us to engage in green repos, green mortgages, and ESG-themed Turkish lira swap transactions, which further uplifted our green financing activities and demonstrates our commitment towards a carbon neutral transition.

**What are some of the new and significant digital banking products and services that your bank has launched in the past year?**

We consider ourselves a leader in digital transformation and leverage cutting-edge technology to deliver digital banking with a human touch. Over 90% of our customer facing processes are already being digitised to serve our customers. This year, we became the first bank in the country to add WeChat Pay and AliPay to our comprehensive range of payment options accepted by our merchant network in Qatar. This adds to our comprehensive payment options, including Apple Pay, Google Pay, Fitbit Pay and Garmin Pay. For our corporate customers, we were the first bank in Qatar and one of the first in the region to launch Open Banking that will leverage an API infrastructure to elevate the digital customer experience. In addition, we continued our robotics programme in Egypt, Qatar and Turkey, with over 100 bots and processes that digitise repetitive routine tasks to uplift efficiency. ●

## KHALID AL-SUBEAI, CHIEF EXECUTIVE OFFICER, DUKHAN BANK

**The huge investment needed to stage the World Cup has boosted the Qatari economy. Longer term, do you anticipate the World Cup having a significant impact on the economy? If so, how?**

Qatar's national vision of 2030 and its medium-term national development strategy of 2018–22 both state that hosting the 2022 FIFA World Cup will hasten social growth and economic diversification. Additionally, the infrastructure built in advance of the competition was intended to improve the area's economic climate and quality of life while strengthening transportation links. Building infrastructure to welcome and accommodate visitors will have a significant beneficial economic impact on the nation. More than 1.5 million new jobs are anticipated to be created as a result of hosting the World Cup in important industries like construction, real estate, and hospitality. With over a million visitors planned, the tourism sector is also anticipated to profit from this, bringing in over QAR66 billion by 2025. Additionally, the nation's economic diversification plan has achieved headway. However, the lasting impact of a sporting event of this magnitude goes beyond its immediate economic benefits, and its legacy should take into account the intangible character of these advantages.

**What are some of the distinct and compelling reasons for international investors to invest in Qatar?**

Qatar is rapidly emerging as one of the world's most dynamic economies, enjoying the highest per capita income and one of the fastest-growing GDPs in the world. Its ambitious investment and development strategy is creating a rapid expansion in every sector and industry, attracting international financial institutions and major multinationals to take advantage of its culture of opportunity. Also, reliance on oil exports is being replaced by an ambitious and progressive approach to the management of the nation's economy, which focuses on developing Qatar's vast natural gas reserves. A far-reaching programme of economic liberalisation and diversification into a more broadly based economy, as per Qatar's National Vision 2030, supports the current and future growth of this small country that is nevertheless a major player alongside the world's top economies.

Qatar is one of the fastest growing economies in the world and attracts high overseas investments in infrastructure, healthcare, education, tourism, and financial services sectors. Qatar also has put tremendous emphasis on developing a sustainable investment ecosystem, top-notch infrastructure, and incentives to ensure foreign investors have what they need.

**How exactly is your bank supporting the government's sustainability drive outlined in the National Climate Change Plan and Qatar National Vision 2030?**

Over the past years we have developed a corporate social responsibility strategy that is not driven as a programme, but as an integral part of our daily activities. For instance, we introduced electric vehicles to reduce harmful fumes, and cut back and recycle our waste. We also partnered with like-minded companies on green projects such as the BiobiN initiative to minimise our eco-impact. In addition, we recently we have entered a partnership with Mowasalat (Karwa) and announced the joint continuation of using an organic waste convertor that turns food waste into useful products, such as compost and organic fertiliser; a project that was started by Mowasalat (Karwa) at the beginning of 2021 and will now grow further with this cooperation. We have also launched the first limited edition eco-friendly prepaid card – made from recyclable material – in Qatar and inspired by National Day.

**The Qatari banking industry has played an important role in supporting the government's World Cup investment programme. For your bank, how — in what areas — has your bank supported this program?**

Dukhan Bank has launched several initiatives in light of the World Cup such as partnering with Visa to launch a special campaign that will give Dukhan Bank Visa credit cardholders an exceptional chance to win match ticket packages. Additionally, we have launched a special edition of Visa Platinum, Visa Signature and Visa Infinite credit cards as part of its continuous efforts to reward our customers and in partnership with Visa, to celebrate the tournament being held in the MENA region for the first time.

**Reflecting on your bank's financial performance over the past year, what have been some of the key highlights?**

Recording a net profit of QAR1,193 million at the end 2021, the bank's robust financial performance during the year has resulted in its total assets increasing to QAR110.7 billion, representing a significant growth of more than 28% as compared to 2020. Notably, financing assets continued to grow to QAR75.2 billion at end of 2021 from QAR58.5 billion a year earlier. Furthermore, our customer deposit balance increased to QAR77.4 billion at end of 2021, which mainly supported asset growth. The major elements of Dukhan Bank's performance and continued growth lie in the

bank's relentless pursuit of advanced technologies and innovations that empower our customers. This allows the bank to adopt the latest technologies to transform the digital products and services offered to customers.

**What are some of the new and significant digital banking products and services that your bank has launched in the past year, and what success have they achieved?**

Since we declared our digital strategy, we have quickly built our portfolio of digital banking products and services that include an award-winning mobile banking app, best-in-class finance services, and the latest corporate and business banking solutions. Each of these innovations pave the way for customers to enjoy a safe, simplified, and smooth banking experience that makes their lives easier and helps maintain our position as "Qatar's bank of choice." These offerings include D-Tap, a maintenance-free solution that allows merchants to accept payments through a variety of contactless-enabled cards and devices; and the launch of a set of corporate credit cards to meet the needs of our commercial clientele.

**What significant developments or initiatives has your bank led in the past year that demonstrate how important ESG and sustainability are to your institution?**

Our ESG strategy aims to deliver positive change and our goal is to be the nation's leading bank as Qatar transitions into a sustainable society. Dukhan Bank has a unique opportunity to contribute to the sustainable future of Qatar by demonstrating leadership in ESG. Our ESG initiatives include the launch of green products such as electric vehicle finance and green Sukuk, as well as implementing sustainable targets in our day-to-day operations and initiatives. As a responsible banking corporation, we recognise the importance of embedding ESG principles as part of the culture and operations of Dukhan Bank, and in projects which advance the broader objectives of the UN SDG's and Vision 2030. ●



## BASSEL GAMAL, GROUP CHIEF EXECUTIVE OFFICER, QIB

**Hosting the World Cup is a significant event for Qatar. How do you assess its significance for the country – does it have potential to be transformative?**

The World Cup represents an opportunity to bring people of the world closer together. Let me start by saying, that this mega event will offer a perfect platform to showcase the Qatari customs, traditions, culture, and Arab hospitality. With its state-of-the-art infrastructure, Qatar can even prove itself as the best venue to host the Olympics in the future, which will be affirmed by the success of the World Cup. This milestone represents an exceptional event whose importance is not limited to the football game, but rather an embodiment of the objectives that Qatar established in its National Vision 2030, across economic diversification, support for environmental initiatives, human development, and social progress. With the rise of Qatar's international profile, there will likely also be an increase in foreign investment. Many foreign businesses are attracted to host countries of large events due to the increase in economic growth. Foreign investment will be beneficial to Qatar by empowering economic growth and development.

**The Qatari banking industry has played an important role in supporting the government's World Cup investment programme. For your bank, how — in what areas — has your bank supported this programme?**

Massive investments have been made to prepare for this milestone, including the revamping of the country's infrastructure. QIB played its pivotal role as Qatar's largest Islamic bank and leading digital bank, supporting the country's efforts in its preparations for hosting the landmark tournament through advancing the country's infrastructure, technology, and sustainability. QIB's business strategy is closely tied with Qatar's National Vision 2030 and the government's commitment to investing in the country's infrastructure, the diversification of the economy and the development of a strong private sector. Hosting the World Cup has helped in creating more opportunities to diversify the local economy and attract more investments, giving QIB the opportunity to support the preparations while at the same time improving its performance reflecting the strength and resilience of the country's economy and banking system.

**Together with this, what have been some of the other key strategic focus areas for your bank over the past year?**

During the last few years, we have been focusing on our bank-wide digital transformation programme to address and sometimes surpass customer's rapidly evolving expectations. Whether starting a new relationship with QIB, getting a financing, or getting a digital credit card in a few minutes, requesting a check book or updating their personal details, QIB's digitalisation programme and the revamp of our retail and corporate mobile apps, are providing customers full control, more flexibility and a more secure way to conduct their banking remotely. In addition, as the demand for a sustainable society increases and to help tackle environmental problems, QIB has adopted a sustainable banking approach, focusing on digitalising its retail and wholesale products and services to widen customer access, increase resource efficiency, minimise waste, and deliver a better service. As customers are moving to digital channels faster than ever, QIB continues its efforts to expand the range of its services catering to more segments and meeting all their daily financial needs. In fact, we were the first bank in Qatar to introduce end-to-end digital products via its mobile app.

**Reflecting on your bank's financial performance over the past year, what have been some of the key highlights?**

A key factor contributing to the bank's growth is the resilience of Qatar's banking sector and the strength of the national economy. QIB managed to strengthen its leadership in the local banking sector and continued to be the largest Islamic bank in Qatar despite the banking mergers witnessed in the country and the challenging global economic conditions. QIB achieved the best efficiency ratio (cost-to-income of 18.1%) in Qatar and the MENA region last year, and recorded a compound annual growth rate (CAGR) in net profit of 8.9% for the three-year period (2019-2021) compared to the Qatari banking sector CAGR of 0.4%. Furthermore, QIB became the third-largest institution in Qatar Stock Exchange and the second biggest institution in the financial sector with a market cap of over QAR60.5 billion (US\$ 16.5 billion) at the end of August 2022.

**What significant developments or initiatives has your bank led in the past year that demonstrate how important ESG and sustainability are to your institution?**

Islamic finance has grown rapidly and now stands as a key contributor in Qatar's economy with banks gradually integrating sustainability



in their operations to combat climate change. QIB continues to further integrate sustainability and environmental, social, and governance-related considerations at the core of our operations. In 2021, we issued our first sustainability report to highlight our efforts to contribute to the accomplishment of global sustainable development goals and share the bank's achievements in implementing Environmental, Social and Governance (ESG) standards. In the past few years, QIB has made significant contributions to the Qatar National Vision by financing projects that are diversifying and decarbonising the Qatar economy, increasing food security, and supporting the private sector and local communities.

**What are some of the new and significant digital banking products and services that your bank has launched in the past year, and what success have they achieved?**

As Qatar's leading digital bank, QIB continues to revolutionise the digital banking scene, catering to the everyday needs of its customers, from opening their first account with us to instant fulfilment of personal financing and credit cards. We have recently updated our retail and corporate mobile apps, creating a simplified and more engaging user experience. We have also introduced a series of first-to-market, end to end digital products and services including: digital onboarding; instant finance; instant credit cards; instant digital cards; video banking; and AI-driven chatbot support and many others. Through the introduction of those innovative solutions, we are offering a fast and simple way for customers to fulfil their banking needs through the QIB mobile apps, while increasing our sales record and improving internal efficiencies across the bank. ●

## SHEIKH FAHAD BIN MOHAMMAD BIN JABOR AL THANI, CHAIRMAN, DOHA BANK

### Hosting the World Cup is a significant event for Qatar. How do you assess its significance for the country — does it have potential to be transformative?

The country has invested more than \$200 billion in infrastructure for the tournament, which is expected to result in positive economic multiplier effects. Large scale infrastructure developments ahead of tournament has also spurred GDP growth for a period of time. The impact of the infrastructure built will not be restricted to the World Cup period, but will extend beyond, especially considering the expected spend on the North Field Expansion towards increasing liquefied gas production, which will provide financial resources to diversify the economic fabric of Qatar. Additionally, the legacy of advanced transport (especially aviation sector), innovation, sustainability, digitalisation, and utilities infrastructure would be a boost for the country's long-term competitiveness and international standing. Reports confirm that such benefits are clear when examining previous World Cups. So, FIFA World Cup Qatar 2022 could play the role of highlighting the brands of major Qatari companies and become a strong point to attract foreign investment. Qatari public and private sectors are currently working on their foreign presence and promotion of Qatar, as this will reflect positively on the country's future as an investment and tourism destination.

### Reflecting on your bank's financial performance over the past year, what have been some of the key highlights?

Doha Bank has been able to report good financial results, thanks to our well-established banking franchise with strong brand value, diversified revenue streams, and global footprint. Doha Bank continued the robust growth amidst these turbulent times with an 8.2% increase in profit in the first half of 2022 compared with the same period last year. Performance on several fronts have been exemplary. We have especially outperformed in managing our cost of funds, which is the lowest in the market. Secondly, there has been

commendable growth in net fees and commission income. We have a strong capital position, a growth-focused strategy, resilient business model, and strong leadership team. All these factors help us in navigating through the complexities of today's environment and achieve encouraging results.

### ESG and sustainability is one of the most important strategic topics for the banking industry. What significant developments or initiatives has your bank led in the past year that demonstrate how important ESG and sustainability are to your institution?

Doha Bank has been one of the pioneers in embracing sustainability practices, including products and reporting. Our first sustainability report was published in 2009. Fast forward to 2021, key highlights include our continued participation in environment-friendly programmes, and support to communities and other stakeholders. Some of these include eco-schools awards, recognising their performance in environmental activities, and an intensive schedule of knowledge sharing events across the world attended by large number of customers and community members. We are currently working on our inaugural green bond issuance, which will be another milestone in embracing ESG practices. Doha Bank also collaborates and contributes to improving sustainability in the local and regional financial sector through responsible lending in commercial banking, sustainable products, and energy efficiency. In the medium to long term, sustainability will remain a priority for us as we support the delivery of the four pillars of the Qatar National Vision 2030 and contribute to Qatar's prosperity.

### What are some of the new and significant digital banking products and services that your bank has launched in the past year, and what success have they achieved?

Doha Bank has launched several cutting-edge solutions for its customers. The most prominent one is our digital payments platform, which has rich function-

alities like QR-based payments, NFC payments, Visa card management and much more. In a short time period, this platform has seen a rapid adoption with over 50,000 customers now onboarded. In addition to the customer-facing solutions, we have also enhanced internal process digitisation. Several key processes have now been automated through internal capabilities and robotic process automation technology. These process automations have acted as a catalyst to improve service levels. Doha Bank will continue exploring and investing in disruptive technologies that can help us in transforming the way we operate and serve our customers.

### The global economic outlook is challenging. What are some of the main risks and economic challenges you see for your bank over the next 12 months?

As highlighted by the IMF World Economic Outlook July 2022, a few of the key risks and economic challenges include high inflation, depressed GDP growth rates, uncertainty and geopolitical fragmentation. Considering these challenges, taming inflation across the globe and major supply chains should be the priority for policymakers. However, the GCC is a region of energy producers and has benefitted from the recent surge in energy prices, so inflation has not been as major a problem for us as it has been in west. As such, Qatar is a safe and profitable destination for investors. In addition, mitigating climate change continues to require urgent multilateral action to limit emissions and raise investments to hasten the green transition. In the short-term, we need to be vigilant about changing interest rates and the cost of risk. We successfully managed our net interest margins (NIM) during the era of low interest rates. However, as interest rates rise, we will need to carefully manage the NIM, as well as credit risk and asset quality. ●



“Doha Bank continued robust growth amidst these turbulent times with an 8.2% increase in profit in the first half of 2022 compared with the same period last year.”



# QATAR LOOKS TO RENEWABLES TO POWER SUSTAINABILITY DRIVE

Qatar's economy is dominated by natural gas production and requires huge amounts of power generation to provide clean fresh water. But, despite these distinct challenges, the Gulf state is making a big play for renewable energy, writes Simon Watkins

**I**t is ten years since Qatar's capital Doha hosted the UN Climate Change Conference. Over the last decade, the sustainability agenda has accelerated dramatically, both across the world and within Qatar.

At the root of Qatar's own sustainability challenge are two vital commodities that have shaped its economy — hydrocarbons and water. With an area of just 4,470 square miles, the entire Qatari peninsula is slightly smaller than the US state of Connecticut. Fossil fuels — particularly natural gas — are plentiful. However, water is extremely scarce.

Qatar has one of the lowest annual rainfalls in the world alongside Libya, Egypt, and neighbouring Saudi Arabia. It also has scarce groundwater sources, which are currently being extracted faster than they are being replenished. To tackle this water shortage, the country recycles about a quarter of its water for use in industry and agriculture — a higher rate than other Gulf Cooperation Council countries. Meanwhile, about half of all Qatar's water is obtained by desalination of seawater.

Water production through desalination has quadrupled since 2000 and the capacity of Qatar's utility infrastructure to produce water is being tested by preparations for the FIFA World Cup, which takes place in Qatar from late November. Despite it being one of the most water-scarce countries in the world, international teams will play the tournament at eight stadiums with lush grass pitches.

Desalination is an energy-intensive process and so is ultimately responsible for large quantities of greenhouse gases. New desalination technologies that reduce the requirement for energy are emerging and being implemented in Qatar, but the fact remains that obtaining one vital commodity, water, adds to the challenge of reducing the use of another, oil and gas.

The vast majority of Qatar's water is obtained by power-intensive desalination, and the vast majority of Qatar's electricity is derived from gas-powered generation. Therefore, two of the most vital sustainability challenges — carbon reduction and water security — are

intimately intertwined. It is no coincidence that Qatar's major utility is the Qatar General Electricity & Water Corporation.

## A SUSTAINABLE VISION

Qatar's National Environmental and Climate Change Strategy is aimed at tackling the triple challenge the country faces of securing water, reducing greenhouse gas emissions, and doing so from a small land area. The government has targeted a 25% reduction in greenhouse gas emissions (versus a business-as-usual scenario) by 2030. It is also aiming for a 60% reduction in groundwater extraction as well as wider recycling and water efficiency measures.

The strategy forms part of the Qatar National Vision 2030, which aims to preserve and modernise national traditions, create intergenerational justice, to manage growth and expansion, build capacity in the workforce, and economic, social, and environmental growth and development.

The Qatari Stock Exchange, which has a total market capitalisation of \$200

**“ Qatar is moving strongly towards environment-friendly solutions, such as diversifying energy sources, investing in solar energy, moving towards an electric public transport system, shifting to green buildings, and expanding natural solutions as it prepares to host the first carbon-free World Cup in 2022. ”**

—Bassel Gamal, group chief executive, Qatar Islamic Bank

**“Sustainability is a strategic imperative for QNB”**

—Abdulla Mubarak Al-Khalifa, group chief executive officer, QNB

billion, is signed up the United Nations Sustainable Stock Exchanges Initiative. It has issued guidance to all listed firms on appropriate environmental, social and governance (ESG) reporting, which is expected to become mandatory in the near future.

Meanwhile, leading players in Qatar’s financial sector have already adopted core ESG reporting standards. Sheikh Fahad Bin Mohammad Bin Jabor Al Thani, chairman, Doha Bank, says the bank has cut its carbon dioxide equivalent emissions by 38% over the last five years and is fully signed up the target of net zero by 2050.

The bank’s assessments cover Scopes 1 and 2 of the international Greenhouse Gas Protocol. Scope 1 covers direct emissions by the bank and Scope 2 covers secondary emissions from energy purchases. Al Thani said the bank

plans to extend its emissions reporting to Scope 3, those created upstream and downstream in a company’s value chain, for example by suppliers and investments.

Importantly, Doha Bank is not alone its efforts here.

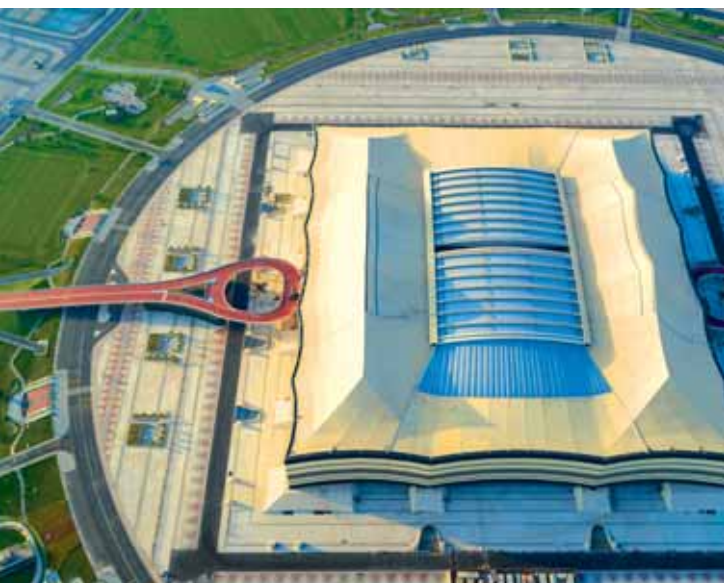
“Sustainability is a strategic imperative for QNB,” says Abdulla Mubarak Al-Khalifa, group chief executive officer, QNB Group, adding that there has been a hard focus by the bank on enhancing its sustainable financing activities and its sustainability across its operations.

This has involved strengthening its environmental and social risk management standards to mitigate its exposure to environmentally damaging activities, as well as launching a group-wide initiative to reduce its environmental impact and emissions.

Similarly, Dukhan Bank has embedded a corporate social responsibility and sustainability strategy within its activities and operations, which has led to the launch of emission-reducing green products such as electric vehicle finance and green Sukuk, as well as implementing sustainable targets in its day-to-day operations and initiatives.

While the Qatari banking sector supports the nation’s sustainability drive, Qatar cannot reasonably expect to significantly reduce its use of natural gas.

As Al Thani points out: “The Vision further calls to keep exploiting natural gas as a ‘major source of clean energy for Qatar and the world’. Energy efficiency is also promoted. The Vision also seeks a reduction in the associated gaseous emissions of fuel consumption used for water desalination, including through the usage of renewable energy.”



## FIFA World Cup Qatar 2022 Sustainability Strategy

the tournament, to leave a legacy of standards and practices for workers in Qatar and internationally. Together with this, the aim is also to develop a capable and motivated workforce and empower young people across the region.

- **Social** To deliver an inclusive World Cup that is welcoming, safe and accessible to all participants, attendees, and communities in Qatar and around the world. Through this, the aim is to leave a legacy of cultural understanding, accessible infrastructure and services, and associated expertise among the local population.
- **Economic** To catalyse economic growth and

diversification in Qatar and the region by linking local businesses to World Cup value chains and innovation opportunities. The aim also involves facilitating the development of tournament sites, related infrastructure and services that enable future events, attract new business ventures and address relevant community needs.

- **Environmental** A commitment to deliver a fully carbon-neutral World Cup, with the aim of setting a benchmark for environmental stewardship by implementing leading sustainable building standards, waste and water management practices and low

emission solutions. Through this, the aim is to leave a legacy of world-class environmental management expertise, technologies, businesses and standards in Qatar and the region.

- **Governance** To take responsibility for addressing the activity-related impacts of the World Cup due as well as those linked to business relationships and value chains. The aim is to establish a culture of compliance based on legal requirements and organisational policies and demonstrate transparency and accountability to stakeholders in relation to our sustainability decision-making and performance. ●

One of the core missions of the forthcoming FIFA World Cup in Qatar is to maximise the sustainability of the preparation, staging, and post-tournament activities.

The sustainability strategy is extensive, covering five key areas: human capital and workers’ rights; social, with a focus on

inclusivity; economic development; environmental impact; and governance and ethical business.

The main goals for each of the five pillars, are:

- **Human** A commitment to safeguarding the rights and welfare of workers on World Cup sites and promoting their rights in projects and supply chains directly linked to

‘Clean energy’ is, of course, a relative term. Gas is an imperfect source of energy, but it does create far lower emissions than coal and is widely regarded as a ‘transition fuel’. Its use not just in Qatar, but in other developed economies, is likely to persist for many years.

But while fossil fuels will be a major component in the Qatari economy for the foreseeable future, and a vital source of overseas income and GDP, the country is looking to renewables.

### A GROWING SOLAR SYSTEM

The climate of Qatar lends itself to solar energy generation, although as a geographically small state it lacks the vast expanse of desert available for solar farms in neighbouring states.

Nevertheless, Qatar has rapidly developed a solar industry in the last few years and in a relatively short space of time it has staked a significant claim in the solar energy economy, both in its own region and beyond.

Vision 2030 sets a target of sourcing 20% of its energy from non-gas generation by the end of the decade. The state-owned group, Qatar Solar Energy, is a leading manufacturer of solar power components and last year opened the largest integrated production facility for solar energy systems in the Middle East and North Africa region.

Even more recently, Qatar’s Solar Technologies, took a 49% stake in German-based SolarWorld. That investment came after a troubled period for the German group and is seen in the industry as having returned the German business to a sound financial footing.

Bassel Gamal, group chief executive of Qatar Islamic Bank, says: “Qatar is moving strongly towards environment-friendly solutions, such as diversifying energy sources, investing in solar energy, moving towards an electric public transport system, shifting to green buildings, and expanding natural solutions as it prepares to host the first carbon-free World Cup in 2022.”

The ‘carbon-free’ status of the Qatar-hosted World Cup has been contested by some climate monitoring groups, but, whatever the accuracy of that claim, there is little doubt that Qatar has taken major steps forward in its sustainable energy plans.

The country’s first large scale solar powerplant is expected to become op-

erational imminently. The Al Kharsaah project alone will, at full capacity, be able to produce 10% of Qatar’s peak energy demand. While the World Cup development has involved construction of eight football stadiums, Al Kharsaah covers the equivalent of 1,400 football pitches.

Over its lifetime, Al Kharsaah will produce energy without greenhouse gas emissions, reducing CO2 output in Qatar by 26mn tonnes.

Al Kharsaah, located approximately 80km from Doha, is also an example of international investment in Qatar’s renewable future. The project is 60% owned by Qatari group, Siraj Energy, and 40% by France’s TotalEnergies and Japan’s Marubeni Corporation.

### THE FUTURE

Qatar’s economy will be entwined with fossil fuels for many years to come. Its gas fields are simply too large to remain unexploited and, whatever the long-term climate targets of the world’s leading economies, they will be eager consumers of its gas due to the twin goals of energy security and the energy transition.

A rebalancing is underway in Qatar. The country has invested billions in developing new sectors of its economy (see our companion feature on the Qatari economy) and is now driving hard towards renewable energy sources.

While the vital importance of water security and the country’s relatively small geographical area pose challenges, the nation’s wealth and its recent history of attracting international investment suggest it could yet become a regional leader in renewable energy. ●

1) Msheireb Downtown Doha — the world’s first sustainable downtown regeneration project that revives the old commercial district with a new architecture 2) Education City Tram — a pioneering transport system that brings a new form of sustainable travel to Qatar 3) “cool pavement” project in the capital, Doha, which involves the use of a cryogenic material to reduce the temperature of the asphalt on roads. 4) Desalination outside Doha



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# Population time bomb threat to China's goal to surpass US

By Elliot Wilson

China's demographic problems may wreck its ambition to become the world's leading economy as it struggles to cope with the costs of supporting its elderly population, leading experts have warned.

China's population is forecast to shrink this year for the first time since the 1960s — a decade ahead of schedule — according to the United Nations' 2022 World Population Prospects report.

It is on track to have "just" 587 million people by 2100, fewer than Nigeria or the United States while India will replace it next year as the most populous nation. According to the China Academic of Social Sciences, the US could overtake it as early as 2060.

Nancy Qian, professor of economics at Northwestern University and an expert on China's demographics, said the share of the population of working age would slump from 80% today to 30% by 2100.

"It's a huge drop and the government cannot stop it," she told *GlobalMarkets*. "Older people, who now expect a certain level of healthcare and a middle-class

lifestyle, will need to be supported by an ever-shrinking younger population.

"Most countries push through the transition from high to low fertility after they get rich, but China is doing so despite not being rich, and just as the economy is starting to slow. It's a double whammy."

Daniel Tu, founder and managing director of Hong Kong-based Active Creation Capital, said: "Xi's ambitions are to turn China into a great power, and that requires long-term intensive capital allocation. If China has peaked, it may never surpass the US as the world's largest economy or become a superpower, and for Xi, that's really bad news."

## ONE-CHILD POLICY

The causes are many and interconnected: a controversial one-child policy, implemented in 1980 and only recently scrapped; the high cost of parenting; a lack of affordable healthcare; and now, a slowing economy and a stricken property sector.

The implications will be complex and costly. Xiujian Peng, a senior research



Residents queue for their buffet lunch at Heyuejia, a care home for the elderly, in Beijing

fellow at Victoria University, said China's pension payments would have to rise five-fold, to 20% of GDP by the end of the century, from 4% today.

There are no easy fixes to a crisis, decades in the making. China is unlikely to open its borders to migrant workers. Its one-child policy means people are used to small families. Countless couples, favouring a boy, aborted girl babies, resulting in an unusually small number of women of child-bearing age.

The government could relax long-standing restrictions on rural-urban migration. This would give rural workers the same rights as city-dwellers, in areas from healthcare to education. Productivity would rise, perhaps sharply. The downside would be wage deflation, as employers in big cities hire cheaper newcomers.

# Optimism over EM corporates against global 'impending doom' backdrop

By Oliver West

After another downgrade for the economic outlook and amid extremely challenging bond market conditions, emerging market corporate credit offers a rare reason for optimism for investors, major bond buyers have told *GlobalMarkets*.

"As finance ministers, economists and bankers converge on Washington for the IMF-World Bank Meetings, there is a sense of impending doom," said Walter Molano, chief economist at BCP Securities.

His comments came after the IMF's latest World Economic Outlook, which downgraded its 2023 GDP growth forecast by 0.2 percentage points since July in both emerging and developed economies — to 1.1% in developed economies and 3.7% in emerging markets.

Emerging markets specialist investment manager Gramercy said it expected the EM fixed income asset class to shrink for the first time in two decades this year, with net financing expectations having turned negative. In other words, EM issuers are repaying more bonds than they are issuing them.

Yet Gramercy is more optimistic on the fortunes of emerging markets companies. "The jury is out on whether there will be a recession that looks like 2008-2009, or if it will be quite mild, but ultimately we think EM companies are good enough to weather this," Philip Meier, managing director of Gramercy's credit strategy team, told *GlobalMarkets*. "We like corporates because they are fundamentally in a much better place than sovereigns."

## ROOM TO ABSORB

According to the investment fund, EM corporates' net leverage of 1.2 times at the end of 2021 was the lowest since 2016. And, with the CEMBI index for EM corporates down almost 16% year-to-date, valuations are already pricing in a "mild" recession, said Meier.

"If we get a harsher downturn, then sure, corporate fundamentals will deteriorate," he said. "But fundamentals are coming from historic highs, and there is room in valuations to absorb that. If we do get a serious downturn, I'd far rather experience it in EM corporates than US or European corporates."

His view was echoed by Thomas Fisch, head of emerging markets at Fisch Asset Management, who said EM corporates did a "good job" of refinancing their debts in the years before interest rates rises. He said his firm would see any further sell-off in markets as an "opportunity to pounce again".

"EM corporate fundamentals are intact, their refinancing situation is OK, inflation is topping out, growth in EM is normal or better than expected, and PMIs are good," said Fisch.

# Saudi's PIF sends message to the world with 100 year bond: 'We are not EM'

By Toby Fildes

Saudi Arabia's sovereign wealth fund, the Public Investment Fund, has shone a rare and intensely bright light with its debut \$3bn debut bond last week amid the gloom in global fixed income markets, and especially the EM primary bond markets.

PIF's spectacular transaction, a green deal that included a \$500m 100 year tranche, made the global debt markets sit up and take notice. A first-time green transaction weighing in at \$3bn is an unusual occurrence, especially from a country whose economy, up until now at least, has been almost entirely based on hydrocarbons.

But PIF has put in place a green financing framework, as well as securing a second party opinion from DNV, which appears to have persuaded the international investment community — despite Saudi Arabia continuing to earn vast sums of money from oil production — that its plans are credible. Some 250 investors joined the deal.

The framework outlines what the money from green bonds can be spent on — renewable energy, energy effi-

ciency, sustainable water management, pollution control, green buildings, sustainable resource management and clean transport. It also details what it cannot be spent on — coal or gas power generation, new oil and gas exploration and development, coal mining, transporting fossil fuels, nuclear generation, military activity or industrial agriculture.

Some of the projects will be funded by PIF. As one debt capital markets banker who worked on the transaction said: "This is the transition vehicle away from an oil economy to a non-oil economy."

But what astounded market participants across the world was the \$500m 100 year piece. At a time when even developed market sovereigns are thinking twice about issuing anything over 10 years because of the increasingly high costs that investors are demanding of such maturities, bagging a century bond was deemed extraordinary.

## GOLD PLATED

For some onlookers, the 100 year tranche was a classic case of a Saudi borrower buoyed by the high oil price



showing off. One said it was "the primary debt market's equivalent of the gold-plated Lamborghinis that drive around central London during the summer months. Really ostentatious, a bit noisy but quite interesting to look at."

Century bonds are rare in emerging markets. China, Argentina, Mexico and Israel have issued 100 year bonds, which are often seen as trophy transactions done for the bragging rights, rather than for any particular funding need or efficiency they have achieved for the issuer.

But in PIF's eyes, there were practical purposes for the 100 year note. It wanted to show that Saudi Arabia had a multi-decade plan to invest in green assets, and to begin building a full yield curve.

As a senior debt capital markets banker who worked closely on the transaction said, the costs associated with doing a longer deal were outweighed by the message that such a maturity sent. "What the Saudis really do not like is the EM tag," he said.

## African food

Continued from page 1

security to the extent that there is global inflation, and that affects us because food prices are rising at a rate that is causing extreme hardships to people," she said. "We're having to look at how to mitigate the cost of food to make things easier for people.

"In Nigeria we produce enough food to feed our people, but the high energy cost is impacting the cost of transportation of goods and services and showing up in food prices and creating shortages."

Andrew Dabalen, the World Bank's Africa region chief economist told *GlobalMarkets* the food insecurity situation was "actually dire, it is serious". "We have something close to 140m people at this point that are classified as acutely food insecure. And 20m of those, just this year alone, have been added to that block," he said.

A combination of factors including the war in Ukraine, drought, the Covid-19 pandemic and inflation have meant the average African is spending well over half of their consumption basket on food, according to Standard & Poor's.

Although both institutions are taking action to implement several programmes and initiatives to address the issue, food scarcity is now a problem that must be dealt with immediately.

"They may want to consider more flexibility on country-specific programmes, in terms of the amount as the percentage of quota that they're prepared to lend," said Frank Gill, EMEA sovereign specialist at S&P. "Your average IMF lending programme usually requires at least six months to negotiate. The question is how many countries in Africa really have six months?"

### PRODUCTIVE CAPACITY

Despite the calls for greater action, the World Bank has already taken steps to fix the problem in both the short and longer terms.

The Bank is encouraging countries to ensure they support programmes that many poor and vulnerable households depend on such as safety net cash or food distribution programmes — if the countries have them — to make sure that those are well funded and supported, said Dabalen.

These include the Bank's \$570m Multi-Phase Programmatic Approach Program and the new Food Systems Resilience Program.

Dabalen said the Bank had already got ahead of this issue ever since the war in Ukraine, but a permanent fix would mean a longer process and more long-term investment. "Our policies are really geared towards ensuring food security and food stability in the future," he added.

Nigerian economist Ngozi Okonjo-Iweala, who is director-general of the World Trade Organization, told the IIF annual conference it was positive that multilateral organisations were discussing how to leverage their joint strengths to get things done.

# THE final word

## REFORM OF WORLD BANK MUST BE KEY PRIORITY FOR BIDEN ADMINISTRATION

By Lawrence H. Summers

Outside of the security area, the World Bank overhaul offers the Biden Administration its greatest opportunity for a major foreign policy achievement. The World Bank should be — but currently is not — a major vehicle for crisis response, post-conflict reconstruction support for the huge investments necessary for sustainable and healthy global development.

The remarkable feature of the World Bank's financial model is that even before necessary reform of the financial model, and even without considering its ability to catalyse private sector finance, each dollar of appropriated funds from the US catalyses a permanent increase in lending of more than \$15 a year.

Uniquely, the international financial institutions have the capacity to do very large things in the world at low budgetary cost. They are multilateral and most of the shareholders share our values.

Despite a polycrisis that has the world on fire with global recession impending, high rates and a strong dollar along with rising food and energy prices, still prevalent pandemic and climate change, Bank lending has not even kept up with growth since 2017. In fact it has declined in the last year and the International Monetary Fund has not done much better.

This should be unacceptable to the United States and other major shareholders. Given the magnitude of global challenges over the next decade we should be thinking about the Bank in the trillions not the billions. If war is too important to leave to generals, financing global survival is too important to leave to green eye shades and international bureaucrats.

### NECESSARY STEPS

Four steps are necessary.

First, there needs to be a general acceptance that the mission of the World Bank must become more extensive to fully embrace sustainability and global public goods concerns, along with poverty reduction. At the same time, it needs to be recognised that the global situation demands major increases in the level of investment supported by the World Bank Group to perhaps \$2tr over the next decade.

Second, there needs to be a comprehensive overhaul of the current financial model to include more extensive leveraging of the Bank's capital. This should include reconsideration of its lending instruments including their horizon, and the degree of conditionality; and a combination of the Bank's

co-financing through the International Financial Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) to maximally catalyse the private sector investment.

Consideration should be given to ideas to use the IMF's Special Drawing Rights as capital for development. So far reallocations of SDRs, as best I can tell, despite all the ballyhoo have had no development impact.



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Third, there is a pressing need for the reform of the Bank's culture and procedures to emphasise speed of execution. The time will come when the reconstruction of Ukraine will be a key priority. I hope but do not expect that, without reform, funds committed will be rapidly transferred on promised schedules unlike in so many other post-conflict situations.

Fourth, these three steps should be brought together in a major green capital increase to be agreed within a year. The increase should, given how dire the world's needs are, be two or three times as large as the previous \$13bn increase in 2018.

### TIME FOR ACTION

I estimate that a \$30bn increase in paid-in capital which would cost the United States about \$5bn over eight years could support nearly an extra \$100bn in lending annually heavily directed towards energy transition.

This is more the beginnings of a vision than a detailed programme but I hope I have conveyed a sense of the urgency and scale the moment demands. Perhaps those consumed by questions of practicality this week should ponder that many more people will perish because of the polycrisis than will perish on Ukrainian soil, and ponder that if the planet is to be saved capital investment in new technologies in relatively poor countries will be most of the solution. If we do not see major progress on these issues this week, a major opportunity will have been squandered.

The time for action is now.

Lawrence H. Summers, US Secretary of the Treasury (1999-2001) and Director of the US National Economic Council (2009-2010), is a former president of Harvard University, where he is currently University Professor.

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