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Ukraine's economy withstands onslaught as MDBs rally round

By Jon Hay

Ukraine is managing to keep its economy running, with help from allies, despite Russia's intensifying attack.

Multilateral development banks are eager to be in the forefront of supporting Ukraine, despite the unprecedented risk involved. And they are already looking ahead to how to finance the hundreds of billions that will be needed to reconstruct Ukraine when peace comes.

Speaking to *GlobalMarkets* immediately after a meeting in Washington DC with Ukraine's finance minister Sergii Marchenko, Werner Hoyer, president of the European Investment Bank, said: "He was extremely convincing. I encouraged him to beat the

drum, because what people don't realise... when they talk about the need to beef up military support, and I agree with that... there is another side, the functioning of the economy. The Ukrainian economy is functioning under these circumstances surprisingly well. The tax collection is working surprisingly well. So that must be supported."

He gave the example of a Ukrainian mayor who had destroyed a bridge to protect his town from Russian attack. Now that the Russians had retreated, the town needed it rebuilt.

The EIB on Wednesday disbursed €550m, the second of three tranches of its €1.59bn second

Continued on page 23



Marchenko: economy is functioning

Early moving EM central banks caught in Fed inflation crossfire

By Oliver West

As IMF managing director Kristalina Georgieva this week reiterated her call for central banks to stay the course with rate hikes, emerging market countries that largely acted far more decisively to combat inflation than their developed market counterparts are in a squeeze as rich countries play catch up.

US inflation yet again came in above target this week, with September CPI recorded at 8.2%.

"With yesterday's inflation number, the US will raise rates again, and this will generate difficulties in facing debt maturities in middle-income countries," said Sergio Masa, Argentina's economy minister at an Atlantic Council event in Washing-

Continued on page 3

Bond markets reject Truss's latest U-turn as QT looms

By Ralph Sinclair

A sacked chancellor and another embarrassing fiscal policy U-turn were still not enough to restore calm to the febrile UK Gilt market as participants debated the best way to restore stability ahead of Monday's re-opening.

Having cut short his trip to Washington DC for the Annual Meetings, Kwasi Kwarteng was fired upon his return home on

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Say hello, wave goodbye: PM Liz Truss and sacked Chancellor Kwasi Kwarteng



Final Word
Lord O'Neill

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Success is a journey

Bond Market

Continued from page 1

Friday by the prime minister Liz Truss. Truss replaced him with former health secretary Jeremy Hunt on Friday and reversed another of the tax cuts Kwarteng had announced on September 23 in a desperate attempt to restore confidence in her leadership and calm to UK markets.

The early signs in the Gilt market were that it was another failure. “Markets are all over the shop,” said a sterling rates market trader at a major UK bank on Friday night. “It is absolutely mind blowing.” The fear now is that Monday will see even greater carnage.

The Gilt market has proved a volatile place since Kwarteng announced £74bn of extra borrowing to fund tax cuts and energy bill support in a mini budget at the end of last month. Over Wednesday and Thursday, yields across the curve rallied a whopping 60bp before giving half of that back as leaks emerged of the latest policy U-turn on Friday morning.

NO CONFIDENCE

Having already reversed plans to cut the top rate of income tax, Truss said she would also press ahead with an increase in corporation tax, worth £18bn, which her government had said it would freeze, tax cuts having been a major part of her leadership campaign during the summer.

“Markets are disappointed with the extent of the U-turn,” said the trader. “The market is broken, and dealers won’t take on risk. Levels on screens are so far off and if you blink, you miss when trying to put a hedge on. You don’t expect that in what is supposed to be a risk-free market. There’s no liquidity and no confidence.”

Opinions differed, however, as to whether it was the Bank of England or the government that was to blame for the market chaos and which of them could arrest it.

The Bank stepped in to buy Gilts on September 28 as long dated yields rocketed. It has said it would not buy any Gilts after Friday but this, in the eyes of one senior debt capital markets banker, was a bigger problem than any government policy.

“It’s not tenable to have the Bank saying one thing and the government another,” said the head of European DCM. “I’m not sure the Bank understands that it’s not all about the government. The Bank doesn’t see QT [quantitative tightening] as an issue but the market sees it very differently.”

Accelerate on climate despite ESG pushback, say IFI leaders

By John Hay

The transition to clean energy must be accelerated, not slowed down, in response to the energy crisis triggered by Russian aggression in Ukraine and hostility to ‘woke’ investing, said leaders of international financial institutions in Washington this week.

They are engaging firmly on one side of a debate raging in financial markets. Some argue energy shortages show there has been under-investment in oil and gas — and they go further, claiming the whole environmental, social and governance movement will wither in the face of this year’s harsh economic realities.

“If I were a minister in whatever country and had to tell my constituents that ‘your house might get a little bit cold this winter, and maybe a couple of blackouts can be expected’, that is a very uncomfortable situation for any politician,” said Werner Hoyer, president of the European Investment Bank. “But on the other hand [at meetings in Washington] everybody today agreed with me when I said that under these circumstances, the need to accelerate the climate transition and the

energy transformation is more burning than ever.”

The EIB was the first multilateral development bank to align its financing with the Paris Agreement and ended fossil fuel financing in 2021. Hoyer has stuck firmly to the EIB’s ‘Climate Bank’ mission.

The war on Ukraine was also “a reminder that climate action is not an option, but an imperative,” he said. “We need to get rid of the dependencies from the whims of autocrats. And this flies, even in some of the more Russophile member states.”

On financial institutions backing away from ESG, Hoyer said: “I don’t see that on the markets. When we want to [issue] our bonds, green bonds for instance, the money is lying on the street waiting to be picked up by us.”

Hoyer said the pushback against ESG in some states in the US was “remarkable. It is certainly disappointing when we want to find common ground.”

Jürgen Rigterink, first vice-president of the European Bank for Reconstruction and Development, said: “The current situation actually shows that the accelera-



Hoyer: “We need to get rid of the dependencies from the whims of autocrats”

tion of the renewable energy agenda is on the table.”

Germany might have just switched on a coal-fired power plant, but this was just a short term measure, he said. Energy security, climate and cost all called for renewable energy.

“In many of our countries of operation, in north Africa and beyond, renewable energy is much cheaper and more reliable,” Rigterink said. “We have been discussing green hydrogen for 20 years, but I really see an acceleration on that.”

Rigterink said this was not just his view. “A few years ago with a different US government, they might not have completely embraced the climate agenda of the EBRD. But [now] the vast majority of our shareholders support this, they push us.”

Central banks

Continued from page 1

tion DC on Friday. Many of these countries are “on the way to ending up without access to capital markets”, said Masa.

According to Tellimer Research, almost 40% of countries in EM sovereign dollar bond indices are offering yields of over 10% — making fundraising extremely hard — and there have been several warnings this week about refinancing and default risks as borrowing costs have increased.

The end of the ‘Fed put’ — or the growing consensus that the Federal Reserve will not ease policy to support markets when turmoil hits — means markets will “remain at the mercy of US inflation prints”, Edward Glossop, EM economist at UK-based investment manager Abrdn, told *GlobalMarkets*.

“The news this week on this front was not particularly pretty,” said Glossop, continuing the “challenging backdrop for EM”.

IN A BIND

Yet even countries that are a long way from debt distress are facing acute uncertainty. Many EM central banks are

seasoned inflation fighters, and Latin American policymakers, in particular, moved faster than the rest of the world to tighten policy. Yet the strong dollar and high interest rates are taking matters out of their hands.

Julio Velarde, Peru’s central bank governor, told *GlobalMarkets* that he hoped the country was near the end of its own policy tightening cycle, and that he expects inflation to return to 3% by the end of 2023. But he said it would be a “bumpy ride” — and very uncertain.

“Nobody can tell for sure what is going to happen,” he said, referring to both potential unknown inflationary surprises and the Fed’s actions. Although US rates are already expected to peak at 4.5%-4.75% next year, “inflation remains ingrained”, said Velarde.

“Probably it [the Fed] has to be more aggressive. So who knows? There’s a lot of uncertainty.”

Developed markets took “too long” to realise what was going on, Marcelo Carvalho, BNP Paribas’ chief economist, told *GlobalMarkets* this week. “The later you start, the more you have to lose,” he said, and the downturn in growth coupled with inflation that will remain above target is going to signify a “very challenging period for central banks”.



Julio Velarde: ‘bumpy ride’

“They’re going to be facing increasing political pressure to do ‘whatever it takes’,” said Carvalho. “There will be people saying that rate rises are overkill, but I think central banks just have to act — otherwise we’re facing inflation that will be larger for longer.”

Jamaica, one of the countries that began to raise rates long before the Fed, has increased its policy rate by 600bp in this cycle — triggering public calls from MPs, private sector organisations, and manufacturers and exporters to halt rate rises. The central bank is aware of its impact, but has little choice but to be “very careful with the Fed”, said Richard Byles, governor of the Bank of Jamaica.

Modi's tougher Russia line will not stop crude imports

By Chris Wright

India will maintain trade relationships with Russia — a crucial arrangement for India's inflation outlook — despite the decision by Indian prime minister Narendra Modi to take a firmer line with Russian leader Vladimir Putin over the war in Ukraine, according to the country's senior bankers.

Until September, India had taken a stridently neutral position on Russia's actions, and therefore maintained trade connections. But at last month's Shanghai Cooperation Organisation meeting, Modi told Putin that now "is not an era of war", an apparent change of tone.

Economists in India are watching this relationship closely because the country's continuing imports of Russian crude oil — at a discounted rate — have been instrumental in keeping inflation under control and maintaining one of the world's more positive growth outlooks. Fuel imports are among the most sensitive drivers of Indian inflation.

"The importing of Russian oil has helped India manage inflation better," said KVS Manian, whole time director

(a term which embraces being head of corporate, institutional and investment banking) at Kotak Mahindra Bank.

He estimated that India previously imported about 2% of its crude oil requirement, a figure that might have risen to 15%. At the peak of the oil price, India was buying Russian oil at a 30% discount to the headline rate, he said.

MATURE POSITION

Manian doubted any recent rhetoric meant a change in policy behind the scenes. "While India does not want the war to continue or escalate into a worse situation, on the economic side India will look after its interest and continue to import oil from Russia," he said.

Madhav Kalyan, CEO of JP Morgan Chase Bank India, also highlighted India's track record of staying out of conflict elsewhere in the world. "The geopolitical positioning is very mature," he said.

"Much as some parts of the West would want a black or white position on things, India comes from a rich history of being non-aligned and working as a partner in multiple areas."



Putin and Modi: not so warm

The issue is crucial for India. The mood has been extremely buoyant compared to much of the world, as the country is being driven by a powerful domestic demand story which has helped to insulate it from global macroeconomic shocks.

There is a sense of momentum as India prepares to become the world's most populous nation next year and this year overtook the UK as the world's fifth largest economy.

But expectations of growth are moderating, albeit from a high base. The IMF's latest World Economic Outlook reduced its projected growth rate for India in 2022 by 0.6 percentage points relative to its July projections to 6.8.

Russian power recedes in Central Asia as Ukraine war dominates agenda

By Elliot Wilson

Russia's invasion of Ukraine has radically altered the balance of power in Central Asia, creating opportunities for some nations but for others, fear of losing sway in a strategically important and ethnically complex region, according to analysts.

Although Russia remains the region's main power, its commitment to a war that many commentators believe it is losing has diverted its attention, they said.

"Russian power is receding in the region," said Andrew D'Anieri, an assistant director at the Atlantic Council's Eurasia Centre. "It doesn't have as much to offer, and its future as an economic and geopolitical partner is weakened by sanctions."

Threats by Putin loyalists to annex Russian-speaking parts of northern Kazakhstan are no longer taken seriously. When Armenia and Azerbaijan clashed in the wake of Russia's chaotic withdrawal from Ukraine's Kharkiv region, D'Anieri viewed it as a "sign that Azerbaijan saw Armenia's patron as weakened".

Also notable were Tajikistan and Kyrgyzstan forces, during fresh border skir-

mishes in September, fighting with weapons made not in Russia, but Turkey and Iran.

Signs of Russia's fallen star abound. Last month, Russian president Vladimir Putin was made to wait for a meeting with the president of Kyrgyzstan at the Shanghai Cooperation Organisation (SCO) summit in Samarkand. In June, Kazakh leader Kassym-Jomart Tokayev, keen to attract foreign capital to fund new infrastructure, told Putin he would not breach Western sanctions on the rogue state.

MULTIPLE WINNERS

If Russia is a loser in Central Asia, there are multiple winners and China is the obvious one. Its companies are redesigning Uzbekistan's capital Samarkand, named the UN's World Tourism Capital for 2023. President Xi Jinping's attendance at the SCO marked his first foreign trip in nearly three years — a sign of the region's importance to China.

Others are filling a power vacuum created by Russia's bellicosity.

"Turkey is on an ascending trend



Erdogan: boosting linguistic ties

again," said Matthew Grey, a former UN advisor and director for ESG risk engagement in emerging markets (Eurasia) at Morningstar. "Turkish retail is making an aggressive push into the region. Turkish shows dominate TV."

He also points to the Turkic Council set up by Turkey's president Recep Tayyip Erdogan to boost regional ethnic and linguistic ties. Grey says this soft-power push is a "concern for Russia, which isn't doing much to counter it".

What is emerging is a more complex regional power structure with multiple powerbrokers. Turkey plays that role in the southwest; Pakistan oversees stability in southeast Iran and Afghanistan; while Iran floats in the background.

Japan retakes pole position in race to deliver Asian sustainable finance

By Chris Wright

Japan is reclaiming a leadership role in Asia Pacific ESG financing as China's activity becomes more domestically insulated, according to senior financial figures.

"People are saying that the current geopolitical situation may impact ESG activities, but it's not the case in Japan," says Reiko Hayashi, director and deputy president at BofA Securities Japan.

Hayashi serves on two working groups set up by the Japanese government, one on sustainable finance and another more specifically on transition finance, bringing together multiple government ministries as well as financial institutions and corporates.

"Of course, the geopolitical situation is not ideal at all, but we realise that Japan's self-sufficiency ratio [on primary energy like LNG and coal] is just 11% — very low," she said. Such a heavy reliance on energy imports has given impetus to Japan's efforts to ensure energy security. "The Japanese government, corporates and financial institutions need to think more seriously than before how to run their business with stable energy resources."

SHARP INCREASE

Against this backdrop, use of the capital markets for ESG issuance — in which Japan has long been a pioneer — is intensifying. According to data prepared for *GlobalMarkets* by Dealogic, the proportion of Japanese DCM issuance falling under ESG definitions has increased sharply over the past two years.

In 2020, green, social and sustainability bonds accounted for \$22.7bn, or 5.6% of total Japan DCM issuance that year. In 2021 the figure was \$34.8bn, which was 8.7% of total issuance.

But in 2022, ESG volumes have held up while the overall DCM market has almost halved.

So far this year \$34.7bn has been raised (to October 14), accounting for 16.3% of total issuance. "A significant portion of domestic financing done by Japanese corporates is ESG financing," said a DCM banker at another US bank in Tokyo.

Japan is among the world's most active domestic markets for transition bonds, Hayashi says. "This is a very interesting phenomenon in Japan," she says. "We are not seeing so many 'transition bonds' in Europe or the US, but in Japan we are, because [it] is promoting this concept to Japanese issuers."

Transition bonds, which assist a polluter in moving to a less carbon-intensive model, are controversial since they inevitably involve funding an enterprise that still pollutes.



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What's happening Saturday, October 15



9:00 AM - 10:30 AM

State of the Africa Region:

Opportunities in a Turbulent Time

Speakers: **Ousmane Diagana**, Vice President, Western and Central Africa, World Bank; **Victoria Kwakwa**, Vice President, Eastern and Southern Africa, World Bank; **Andrew Dabalen**, Chief Economist,

Africa, World Bank

Eric Yirenkyi Danquah, Director, West Africa Center of Excellence for Crop Improvement (WACCI), Ghana; **Monica Musonda**, Chief Executive Officer, Java Foods
Moderator: **Lerato Mbele**, International broadcaster



1:00 PM - 2:00 PM

Per Jacobsson Lecture: **Joined at the Hip: Why Continued Globalization Offers Us the Best Chance of Addressing Climate Change**

Speaker: **Raghuram Rajan**, Katherine Dusak Miller Distinguished Service Professor of Finance, Booth School, University of Chicago
Moderator: **Guillermo Ortiz**, Chairman, The Per Jacobsson Foundation
Location: IMF HQ1 Atrium (HQ1-1-700)

3:00 PM - 4:00 PM

World Bank Live
Protecting Human Capital Amidst a Global Food Crisis



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Economics & Policy

10-11 WORLD BANK DEVELOPMENT CRISIS

After years of falling, poverty is again rising due to the Covid pandemic and war in Ukraine. This is heaping pressure on the World Bank and other multilaterals, just as global growth is set to fall. *GlobalMarkets* looks at what options the World Bank has to ease the crisis.

Multilateral Development Banks

12-14 MDBS ROADMAP TO INNOVATION

After a G20 panel recommended reforms to increase ambition in MDB capital management and free up lending capacity, supporters seek to form a MDB Financial Forum to support change. In the second of a pair of articles, *GlobalMarkets* explains

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22-23 BREAKING NEWS IN AND AROUND THE ANNUAL MEETINGS

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In the face of the various changes in the world, countries cannot address the economic challenges if they act separately. Therefore, international financial centres (IFCs), which support global financial and economic integration, need to start to collaborate more closely.

Financial centres perform several interrelated functions simultaneously.

First, they help countries' financial growth and development. Second, they ensure that national and regional financial markets are integrated into the global financial system. Third, they contribute to the integration of domestic and regional economies into the global economy.

In summary, IFCs contribute to economic development, create favourable environments for investors, help attract foreign investment, and develop the securities markets and financial services for a competitive private sector. For example, following the 2008 financial crisis, IFCs contributed substantially to the growth in foreign direct investment.

The Astana International Financial Centre (AIFC), which has operated in Kazakhstan since 2018, is one such financial centre that has achieved this.

In less than five years, the AIFC has attracted over \$6.9 billion of investments to Kazakhstan. Today, the AIFC has registered over 1,500 companies from 65 countries around the world.

This year, due to the imposition of economic and political sanctions against Russian companies, there has been an increase in the relocation of foreign business to Kazakhstan, as evidenced by the increase in the number of companies registered at the AIFC.

IT firms were among the first to enter the Kazakhstani market. Foreign investors are drawn to Kazakhstan not only because of the country's stable political situation, but also because of the financial centre's special support programmes and tax exemptions. Entrepreneurs can also use the financial centre to establish holding companies and joint ventures due to the jurisdiction's flexibility, which is based on the principles of English law.

EXCHANGES AND WEF CENTRES

The Astana International Exchange (AIX) successfully operates within the financial centre. The Shanghai Stock Exchange, Goldman Sachs, the Silk Road Fund, and NASDAQ are strategic partners of the AIX.

As of March 2022, the AIX had raised \$321 million equivalent in equity capital and \$2.1 billion in debt capital. In addition, in March 2022, Rmb1 billion of bonds were issued in Kazakhstan for Belt and Road infrastructure projects.

About 40 enterprises from the Samruk-Kazyna National Wealth Investment Fund are also planning to IPO. The largest of them are KazMunayGas, Air Astana, and QazaqGaz.

The World Economic Forum's (WEF) Affiliate Centre for the Fourth Industrial Revolution (C4IR Kazakhstan) was launched in 2021 during the annual Astana Finance Days international conference. Only 14 such centres exist in the world, with Kazakhstan becoming the first in the Eurasian Economic Union.

By joining the global network of the WEF's so-called 4IR centres, Kazakhstan has gained access to a global network of regulators, companies, and experts in various technological fields: artificial intelligence (AI); autonomous and urban mobility; blockchain; data policy; drones and the airspace of tomorrow; the internet of things;



robotics; and smart cities.

The adoption of new technologies will contribute to the diversification of the Kazakh economy, which is a top strategic priority for the country.

The centre has brought together Central Asian government agencies, business and industrial partners. This has enabled not only the development of regulatory standards and the implementation of new innovative projects, but also the formation of partnerships with the WEF participants.

The initial international networks have already been made. Kazakhstan and the UAE affiliated centres of the fourth industrial revolution agreed in December 2021 to collaborate in the development of national 4IR strategies and public-private initiatives in the field of new technologies. The Emirates Centre, which plays an important role in the Middle East and North Africa region,

will assist Kazakhstan in the development of high-precision medicine, AI, machine learning, and blockchain-based technologies.

ALIGNED WITH GLOBAL STANDARDS

The AIFC was also acknowledged internationally for its efforts to combat the grey economy and harmful tax practices. The OECD recognised the AIFC tax regime's compliance with global tax transparency standards in its July report.

According to the OECD, Base Erosion and Profit Shifting (BEPS) practices cost countries \$100-240 billion in lost profits per year, which equates to 4-10% of global corporate income tax revenue. This is the result of exploiting gaps and inconsistencies in different countries' tax systems. As a result, having considered global practices, the AIFC adopted the rules on the substantial presence of

In less than five years, the Astana International Financial Centre has attracted over \$6.9 billion of investments to Kazakhstan. Today, the AIFC has registered over 1,500 companies from 65 countries around the world.

AIFC participants in 2021, thus aligning the centre to global tax transparency standards.

The AIFC strives to create a favourable environment for investors and international companies to attract foreign capital into the real sectors of the economy, which helps develop the national economy. At the same time, the capital, Astana, has become a draw for business, investment, and highly qualified personnel.

There are numerous global financial centres around the world. They are becoming the global centres of capital. Thanks to a special legal regime and tax exemptions for ecosystem participants, the AIFC also has evolved into an international supranational jurisdiction in the Eurasian region.

By anticipating trends in the development of the global and national economies, the AIFC ensures the fairness and efficiency of financial markets throughout Central Asia. ●



A crisis of development

After years of falling, poverty is again rising due to the Covid pandemic and war in Ukraine. This is heaping pressure on the World Bank and other multilaterals, just as global growth is set to fall. *GlobalMarkets* looks at what options the World Bank has to ease the crisis

By Phil Thornton

Money makes the world go around, but in many low and middle income countries the lack of finances threatens to bring many of them to a halt. Amid this vicious spiral of poverty and disease the World Bank and its fellow multilateral development banks are often the last chance saloon for countries.

Whether it is protecting families from the impact of the food price crisis, supporting initiatives of health and education or preventing households from falling back into poverty, it has been hastily shovelling money towards the front line.

Over a 15-month period that started in April 2022 and runs until summer next year, the World Bank Group is making around \$170bn in financing available for new and existing projects to support this crisis response package.

The bank is aware that the scale of the crises has thrust it into the spotlight. As its president David Malpass said on the eve of the meetings: “A series of harsh events and unprecedented macroeconomic policies are combining to throw development into crisis. This has consequences for all of us due to the interlinked nature of the global economy and civilizations around the world.”

But those demands could only get more intense if the bank’s scenario forecasting of a global recession, issued on the eve of the meetings, comes to pass.

While its baseline case is for global growth to slow from 2.9% in 2022 to 2.4% in 2023, its global recession scenario sees central banks raise rates by 200bp to fight a leap in inflation to 7.7%. In this scenario, almost two percentage points off is wiped off global growth, which slumps to 0.5% in 2023 (see chart).

This would be the steepest global recession since the downturn of 1982 and would see economic output per person contract by 0.4% that year. Emerging markets and developing countries (EMDCs) would be worst hit.

The scenarios are based on Oxford Economics’ Global Economic Model rather than new bank forecasts, but they provide a well-timed warning that the outlook for EMDCs is plagued with negative risks.

As report author, acting vice president Ayhan Kose, says: “Policymakers in emerging market and developing economies need to stand ready to manage the potential spillovers from globally synchronous tightening of policies.”

Last week the bank laid bare the impact on poverty, saying that the pandemic pushed

about 70m people into extreme poverty in 2020, the largest one-year increase since global poverty monitoring began in 1990.

While the causes are clearly out of the bank’s hands, it means the world is unlikely to meet its targets of ending extreme poverty by 2030, one of its twin goals (the other is to promote shared prosperity by boosting the incomes of the bottom 40% of the population in each country).

Paul Cadario, a fellow at the Munk School of Global Affairs and Public Policy at the University of Toronto, who joined the World Bank in 1975 and occupied a number of roles, says that was significant as it ended a long period of people “clawing their way” out of extreme poverty.

“As soon as there was a shock, like Covid, the increase in the cost of food and the increase in the cost of fuel because of the war in Ukraine, they fell back into poverty and will have to crawl their way back out again,” he says.

“I would hope that the bank is going to look at which countries were successful at bringing people back out of poverty after the last big shock, and look at what we learned.”

MONEY CALL

The bank’s arm that lends and gives grants to the poorest nations, the International

“
We find it discouraging but not surprising that the Bank doesn’t talk about the financialisation of agriculture at all. They’re framing the issue as purely arising from the Ukraine war”

—Luiz Vieira,
co-ordinator, Bretton
Woods Project

Bank for Reconstruction and Development, last year secured a historic \$93bn financing package from July 2022 to June 2025.

But it faces demands for further initiatives, whether to meet the bank's own poverty targets, to deal with the immediate crises or to deliver the United Nations' 2030 sustainable development goals.

The IBRD has a capital base of around \$260bn of which \$144bn is known as callable capital — money committed by shareholders only when it is required to prevent a default on a multilateral development bank's (MDB) obligation. Its sister organisation, the International Monetary Fund, has current total resources of about \$1.4tr that translates into a capacity for lending of about \$1tr.

Both are dwarfed by the \$8tr of bonds issued last year by emerging markets, which left them with outstanding debt of more than \$30tr — evidence that the EMDCs' needs run into the trillions.

The G20 under the Italian and Indonesian presidencies have raised the ideas of changing the risk assessments and capital adequacy rules of the World Bank and the regional equivalents.

A paper by the Italian central bank said the Bank could raise its “lending headroom” to \$910bn by reducing its credit rating from AAA to AA+, with a relatively limited impact on funding costs, estimated at between 40bp and 50bp. The New Development Bank owned by the Brics countries and often seen as a rival to the World Bank has adopted that strategy.

In July, G20 finance ministers welcomed an independent review of MDBs' capital adequacy that recommended multilateral banks should incorporate the financial benefits of their capital adequacy assessments. The G20 also urged rating agencies to refine their methodologies to better account for their “unique mission, track record and financial strength” and said it would discuss the issue at its meeting this week.

The Bank, which cherishes its AAA rating, and the other IFIs are keeping their cards close to their chests, saying they will consider its recommendations carefully, adding that it involved “potential trade-offs and risks that would need to be assessed”.

At a panel organised by the ODI think-tank Afsaneh Beschloss, founder and CEO of RockCreek and a former World Bank treasurer, said policymakers should ask whether the Bank could mobilise resources as easily with a lower rating.

“If there's been conversations of why not go to double-A rating as it only increases funding cost by 20bp, be very, very detail-oriented on what else might get lost apart

from costs,” she said.

Bank sceptics criticise the idea from another angle. Luiz Vieira, co-ordinator of the Bretton Woods Project NGO network, points out that the Bank refuses debt cancellation — preferring mere deferment of payments — to protect its AAA credit rating.

“If they lost, or they were to put their AAA at risk, I think all of us who have been calling for debt forgiveness will say ‘you've just done away with one of your key parameters by which you've justified the debt non-forgiveness,’” he says.

MENU FOR HELP

As well as discussing the credit side of the bank's balance sheet, G20 ministers will be reiterating their calls for targeted use of its resources to help the poorest nations. As they said in July, there has been an “alarming increase of food and energy insecurity, which are felt disproportionately by vulnerable groups” and called on international financial institutions to implement the commitments in their Action Plan to Address Food Insecurity.

The latest food security assessment by the World Bank paints a grim picture. Domestic food price inflation remains high around the world, especially in almost all low and middle-income countries. More than nine out of 10 have seen inflation above 5% with many experiencing 10% or more.

Its framework for dealing with these concurrent challenges, Navigating Multiple Crises, targets four “pillars” covering food, unemployment, insecurity and economic downturn. Malpass has said the multilateral is responding with “speed, scale and impact with financing to respond to food insecurity, protect people, preserve jobs, strengthen resilience and restore growth”.

However, pressure groups are concerned that the strategy maintains an over reliance on the private sector. “There's quite a strong focus on private sector-led growth,” says Vieira at BWP.

“There's a pillar on public service provision, and we're saying that the World Bank's approach hasn't been particularly conducive to strengthening the systems within countries.”

BWP also highlights the response to the international financial institutions' action plan on food insecurity for failing to mention financial speculation and instead focusing on promoting open trade, mitigating fertiliser shortages and supporting increased food production.

“We find it discouraging but not surprising that the Bank doesn't talk about the financialisation of agriculture at all,” Vieira says. “They're framing the issue as purely

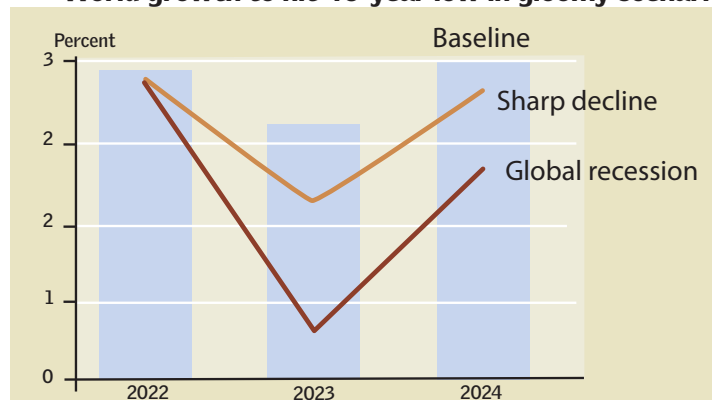
arising from the Ukraine war, although elsewhere they mention that hunger has been increasingly becoming a worsening issue since 2014.”

At the same time the bank's shareholders will want to maintain a focus on climate change after a year that has seen extreme weather events triggered by rising temperatures. This year it launched the first of a series of new Country Climate and Development Reports (CCDRs) that integrate climate change and development considerations.

The World Bank Group delivered over \$31bn of climate finance in fiscal year 2022 alone and that number is likely to rise further this year. The Bank Group remains committed to aligning its financing flows with the Paris Agreement.

But this was overshadowed last month when Malpass said in a public debate he was unsure whether he accepted the scientific consensus that human fossil fuel consump-

World growth to hit 40-year low in gloomy scenario



tion was a leading cause of climate change.

The comments were criticised by White House press secretary Karine Jean-Pierre, raising speculation that US President Joe Biden, whose predecessor Donald Trump appointed Malpass, might seek to remove him.

Malpass hastily rowed back on his initial remarks but Vieira says it has created questions over his future. “There are people calling for his resignation, which I don't think will come to pass, but it's interesting.”

Cadario says that unless Malpass were to step down, the bar to removing him has been set high. Firstly, because it is not clear who would replace him and, secondly because it would lead to demands that the new president be selected via an open, merit-based and transparent selection process rather than by the White House as has happened since 1946.

“I cannot sense a logical way, or a reasonable, rational reason why they would want to push him out because of all the work that would involve,” he says. **GM**

“*I would hope with the Bank is going to look at which countries were successful at bringing people back out of poverty after the last big shock, and look at what we learned.*”

—Paul Cadario, fellow, Munk School of Global Affairs and Public Policy, University of Toronto



Roadmap being drafted for innovation at MDBs

After a G20 panel recommended reforms to increase ambition in MDB capital management and free up lending capacity, supporters seek to form a MDB Financial Forum to support change. In the second of a pair of articles, *GlobalMarkets* explains

By Jon Hay

The history of international development is littered with worthy reports that get put on the shelf and never acted on. One that could have an immense impact was produced in July, and faces the same risk — but those close to it are convinced it will escape oblivion. On the contrary, it could gradually begin to influence the multilateral development banks to become more ambitious.

The report, *Boosting MDBs' Investment Capacity*, was the result of a year's work by the Independent Review of MDBs' Capital Adequacy Frameworks, conducted by an expert panel commissioned by the G20's International Financial Architecture Working Group.

As *GlobalMarkets* explained yesterday (Friday, October 14), the panel made five main recommendations, including that the MDBs should move away from their traditional excessive caution about their balance sheets and give credit to much of the callable capital which constitutes over 90% of their capital on average — as the rating agencies are willing for them to do.

They should also review their risk tolerance, scrap statutory leverage caps, use more financial engineering such as securitization and risk swaps, give the rating agencies more clarity about how shareholders back them and be more transparent about their finances and performance.

The panel's chair Frannie Léautier, CEO of SouthBridge Investments in Kigali, believes the support already shown for the report by the shareholders and MDBs, “plus the enthusiasm and excitement from civil society give a strong feeling that these

[suggestions] will be implemented.”

Those involved are taking steps to ensure that happens. The IFAWG, Indonesia, which holds the G20 presidency, and India, which will take over in December, are preparing a roadmap for implementation.

In this they can build on a detailed breakdown in the report of all its main recommendations, whom they are addressed to, how complex they are to execute and how long they will take. A considerable number could be done in less than a year, the panel reckons, and nearly all in less than two.

“Each MDB would have to go through its internal governance structure and come up with measures,” said Léautier. “They would have to go about it differently — but there are a number of areas where we think they could work together.”

Mutual learning would clearly speed up progress, but speaking with a common voice to the rating agencies might help too.

CO-ORDINATION NECESSARY

That the MDBs should tackle these issues together could be not only advantageous, but essential.

“Those that innovate sometimes get penalised,” said Léautier. “Co-ordination has value — it shows the ecosystem [is changing] in a strategic way, so the rating agencies wouldn't have doubts” — for example, that one MDB was experimenting unwisely or deviating from its proper purpose.

Even more than the rating agencies — which have a small number of very well informed specialists on the MDBs — maintaining a united front is likely to be crucial vis a vis bond investors.

Their trust is crucial, and explaining

change to them could be much harder if it is done piecemeal or in a confusing way.

To foster this co-ordination, the panel has recommended creating an MDBs Financial Forum, so all the main stakeholders can discuss capital adequacy frameworks and how to reform them.

A further attraction of unity, Léautier said, was “pricing. When you look at the pricing for Room 2 Run, a lot of the criticisms were that it was very expensive. But with every subsequent innovation, pricing improves. So going together could have benefits on the pricing side. If multiple [MDBs] do it multiple times, they could influence the price.”

In the Room 2 Run securitization, the AfDB paid a 10.625% annual premium to the IIFC Fund, run then by US hedge fund Mariner Investment Group and now by Newmarket Capital, and to Africa50, an infrastructure fund set up by African governments, for their guarantee of the mezzanine slice of loan risk.

Léautier also hopes that by working together, the MDBs could develop “toolkits”, prepared in advance and activated in case of disasters or regional crises to boost lending power for rapid response.

STRESS AND RECOVERY

The need for development finance is ever-present but at the same time, it goes in cycles, sometimes becoming even more intense than usual.

This pattern holds important clues to why MDBs appear not to have pressed as hard as they could to maximise their lending and development impact.

“The MDBs keep very healthy buffers, which are arguably needed for counter-

cyclical responses,” said Léautier. “Therefore they keep more [capital] than they need.”

They want to avoid becoming short of capital, or having to make a sudden rush to raise bond funding, just at a moment of crisis, which could raise their cost of funding, she said.

When crises come, “everybody is trying to respond” and staff are organised to deliver that, Léautier said, but “after it, everybody goes back to business as usual and the teams [formed for crisis response] get absorbed to do normal work.”

That normality is one in which “shareholders haven’t really pushed on risk appetite limits”. MDBs have to operate within capital constraints defined by their risk appetite statements, which are set by the shareholders. Yet the panel believe the shareholders have not paid sufficient attention to defining that appetite — their first recommendation is for shareholders to really think about it and set the limits carefully to “open up headroom”.

Rather than wrapping their credit ratings — and callable capital — in cotton wool as if they were fragile eggs, the MDBs should, the panel argues, have more trust in the robustness of both, but also manage them more dynamically.

“Our report argues that if the MDBs have to work hard to maintain their ratings, it makes them always ready for crises,” Léautier said. “The world has huge needs and we anticipate they will go even higher as climate risks multiply. If buffers get thin, [the MDBs] want loads more capital they can call in.”

SKILLING UP

The language of the panel’s interactions and report is polite, but its recommendations are strong. The committee is, after all, pointing out that the way MDBs have been run for decades is less than optimal.

“Shareholders may wish to look at the governance structure for their audit and risk committees, in particular so they can make decisions with full knowledge of capital adequacy,” said Léautier. “We propose that they should have that expertise.”

The audit and risk committees are committees of the boards of executive directors. Making sure their members are equipped with full understanding of how capital adequacy works at MDBs and of risk management could lead to better decision making.

The Asian Development Bank has already brought in independent members to its committee, while some of the others draw on analysis from consulting firms to strengthen their knowledge.

To help the banks’ owners, the panel plans to publish a glossary of terms relating to MDBs and a shareholders’ guide.

GAINING MOMENTUM

Léautier emphasises that the panel’s suggestions are “an interdependent set of recommendations, not a menu to choose from. When you do them together, you can do more.”

So far, there is still a long way to go to bring private capital into the riskier layers of MDBs’ balance sheets. But progress is speeding up.

“I believe the insurance and reinsurance industry has really evolved,” said Léautier. “It’s willing to do more with smaller MDBs [such as Trade and Development Bank] and could be willing to do things with larger MDBs.”

Another suggestion is that the Multilateral Investment Guarantee Agency, part of the World Bank Group, could play a bigger role, working with other MDBs.

These opportunities could contribute to the MDBs developing an originate-to-distribute model, as commercial banks have.

The panel also hope for progress in understanding of the MDBs’ preferred creditor treatment (PCT).

It is generally accepted that MDBs rank first in priority for repayment by developing world borrowers that are struggling to repay their debts.

Developing world governments, especially, understand this well — not least because the development banks are their cheapest and readiest source of funds. Defaulting on them would be self-defeating.

As a result, MDBs are almost always repaid, especially by government borrowers. Even private borrowers enjoy preferred treatment on obligations to the MDBs if there are convertibility problems.

But as the report points out, PCT “is informal, with no binding statutory or contractual status”. Some critics have even suggested that the MDBs should lose their unique exemption from debt restructurings.

This makes it difficult for risk analysts, whether the MDBs themselves or the rating agencies, to give weight to the credit uplift from PCT.

The panel commissioned an external report on the value of PCT. Léautier said this study would “hopefully be reviewed by the MDBs before it can be made available, but the preliminary analysis suggests that the rating agencies don’t give full credit to [the benefit of] PCT. So it could give a boost to ratings” if the study can help give the rating agencies a clearer understanding of the advantages PCT brings.

Using public data for four MDBs, the study has so far found that the probability of governments defaulting on MDB loans is 0.37%, compared with 1.13% for the same borrowers defaulting on bank loans and 1.37% for sovereign bonds. Loss-given de-

fault is only 5%, compared with 50% for commercial creditors. The report will be completed when fuller data is available.

MONEY NEEDED

“Our panel worked extremely well together,” said Léautier — and it has clearly acted as a catalyst to set a reaction going across the MDB sector.

The panel — like so many influential groups contributing to making finance markets more sustainable — worked *pro bono*. “I give my personal time to it because I care about it — I’ve been in three MDBs,” said Léautier. “So I will make myself available for work with the upcoming presidency of India.”

Indonesia and the IFAWG have asked Léautier to continue to support the roadmap for progress, and the panel is going to meet again in a year’s time to report on progress so far.

But to sustain the reaction it has started, a new force will have to take over — ideally the suggested MDB Financial Forum.

“We are working with a group of funders willing to create a fund to support implementation of the ideas in the report,” said Léautier.

Further out, the MDBs themselves may need more resources to put the report’s ideas into action.

“Many innovations required by shareholders are not always funded,” said Léautier. “We said shareholders should also look at the budget implications of reforms. If you’re going to shift risk to the private sector, you have to consider the skills needed to work on risk transfer. You need risk departments to be more dynamic if they are going to look at callable capital in different ways. You need people who understand guarantees and insurance... there is work for the legal department to negotiate contracts.”

The data analysis recommended by the panel could also require IT investment.

MDBs make enough money from their loans to cover staff and operational costs. But they are not free to increase these at will — they need to ask permission from their boards to enlarge operational budgets.

If their capacity to lend really can be increased by as much as the panel believe is possible, they may need extra staff, not just in central functions like finance and risk management, but out in the field, to source more loans.

“What shareholders ask MDBs to do keeps growing — it gets wider and wider,” said Léautier. “If they are going to get more headroom, they could use a bit of their reserves to make sure the MDBs are fit and ready to use that headroom. One thing we wanted to highlight is that there is a price to innovation.” 

“
The language of the panel’s interactions and report is polite but its recommendations are strong.

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

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REGIONAL AND CROSS-BORDER STRENGTH WITH A FOCUS ON SUSTAINABLE GROWTH

Arab Bank has one of the largest global banking networks of any Middle Eastern lender, with more than 600 branches spanning five continents. It is also one of the region's leading financial institutions, a digital innovator and provides comprehensive banking coverage to retail, SME and corporate customers.

Over the past year, the Jordan-headquartered bank has continued to build on its strong regional presence and powerful cross-border capabilities, growing its business across the MENA region, and delivering sustainable growth in profitability.

The bank has also continued to improve its operational efficiency to further support its organic growth in existing markets and to enhance its readiness to exploit appropriate new markets and opportunities.

It is a strategy that is underpinned by prudent operating policies, including sustaining high levels of liquidity, strong capital adequacy, and high asset quality.

Such credentials have continued to support the bank's financial performance. For the first half of 2022, Arab Bank Group reported net income after tax of \$252 million – up 38% on the same period last year. In addition, the group loan portfolio grew 6% to \$35.7 billion over the same period, while customer deposits increased 2% to \$47.1 billion. The increase in loans and deposits in most areas of operations are in-line with the bank's sustainable growth strategy to expand and diversify its clients, loans and deposit base. The group maintained its strong capital base with a total equity of \$10.2 billion.

Furthermore, growth in the underlying performance of the group continues with 6% growth in net operating income in the first half of the year across business lines. This was driven by a 4% and 17% increase in net interest income and commission income, respectively, and well-controlled operating expenses. Importantly, the group's liquidity remains strong, with a loan-to-deposit ratio of 75.9%, and high asset quality;

credit provisions held against non-performing loans continue to exceed 100%.

AREAS OF FOCUS AND INVESTMENT

Arab Bank has a well-diversified, comprehensive business model. Among its core businesses, the group provides corporate lending, transaction banking, consumer banking, treasury products, Islamic banking and private banking services across various markets.

Together with these business areas, sustainability is a key strategic focus for the bank. Earlier this year, it released — for the 12th consecutive year — its 2021 annual sustainability report. This comes as part of Arab Bank's commitment towards integrating environmental, social and governance factors into its operations to complement its constant efforts to support achieving sustainable development.

Furthermore, and building on its key strengths, extensive network and digital capabilities, the bank plans to continue to tap into growth opportunities in consumer banking and the SME segment across different markets, “leveraging our advanced digital solutions and integrated channels to offer value-added propositions that are responsive to customers' needs in these two dynamic sectors,” says chief executive officer, Randa Sadik.

In addition, the bank will also continue to be a primary lender in key strategic projects across MENA, including infrastructure and industrial projects involving well-established multinational and local corporations. “Financing renewable energy projects and following up on the needs of this sector across the MENA region will remain among our key priorities from both business and sustainability standpoints. The bank will also continue to be one of MENA's main players in trade finance and cash management based on its wide regional and global footprint,” according to Sadik.

Together with these areas, Islamic Banking is another growth area of focus for the group, with its Islamic banking entities in Jordan and Oman being well-positioned to offer comprehensive Islamic banking solutions to retail customers and corporations.

DEMONSTRATING DIGITAL LEADERSHIP

Arab Bank has accelerated its digital transformation, which is a main pillar in the bank's overall strategy, providing a comprehensive range of banking solutions and services that cater to the evolving banking needs of its customers across the different sectors.



“Financing renewable energy projects and following up on the needs of this sector across the MENA region will remain among our key priorities from both business and sustainability standpoints.”

—Chief Executive Officer, Randa Sadik

The bank has carried out several technology deployments across its different business lines and channels in the region providing its retail, corporate and SME customers with seamless digital experiences and innovative solutions developed internally, or, externally via its fintech partners.

“One of the key deliverables of the bank's digital transformation strategy is the digitisation of key customer journeys, based on a frictionless customer-centric approach covering key areas such as customer onboarding, instant loans disbursement, mortgage app, redemption of loyalty points at POS,” says Sadik.

“The launch of ‘Reflect’, the first NeoBank in Jordan, and continual innovations, embody Arab Bank's leading position at the forefront of digital banking. This mobile-only value proposition provides a branchless experience to digital-savvy individuals, facilitates their daily lifestyle activities from their smart phones and provides personalised offers from our merchants and partners,” Sadik adds.

Arab Bank has also released pioneer applications in Jordan, such as ‘Arabi Next’ targeting SMEs, and ‘Arabi Junior’ targeting children and teens. It is these types of innovations that bolster Arab Bank's position as Jordan's most digitally innovative financial institution. ●

KEY COMPANY DATA

■ Total assets (2021)	\$63.8bn
■ Net profit (2021)	\$314.5mn
■ Capital adequacy ratio (2021)	16.53%
■ Loan to deposit ratio (2021)	73.4%



A REGIONAL LEADER WITH INTERNATIONAL AMBITIONS

QNB aspires to be a leading bank in the Middle East, Africa and Southeast Asia bank, while maintaining its leading ranking in the Middle East and Africa.

Despite a more difficult and challenging operating environment, the bank's financial performance has remained strong, supported by Qatar's robust post-pandemic economic recovery.

For the first half of 2022, QNB reported net profit of \$1.9 billion — up 4.4% compared to the first half of last year — and \$4.5 billion of operating income, a 20% increase on the same period.

Furthermore, the bank has continued to reduce its cost-to-income ratio, which hit 20.2% at the end of June, down from 22.9% last year. At the same time, total assets grew 6% to \$309 billion.

These results have been supported by the country's economic recovery, in turn boosted by the substantial investment programme behind the 2022 FIFA World Cup, which kicks off later this year.

QNB has played an important role in the national mobilisation to deliver a successful tournament, in particular supporting 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. This included being involved in the financing and development of roads, sewage, other basic infrastructure development projects and hotels, driving economic diversification and significantly boosting private sector engagement.

These areas remain a strategic focus for QNB in the next year, together with upgrading its

wholesale banking services across its network. Its strong balance sheet is important in achieving that, but beyond its financial strength, QNB aims to adopt a more focused, asset-light, high return-on-equity, commission-driven approach to winning and executing business across wholesale banking.

“We will focus on strategic initiatives that complement our solution-led wholesale model, such as trade finance, cash management, structured finance, and other advisory services,” says Abdulla Mubarak Al-Khalifa, QNB CEO. “Our sector focus continues to be utilities, transport, sport, infrastructure, and food security but also the North Field Expansion project going forward. Last but not least, we recognise the growing importance of topics of social and environmental concern.”

SUSTAINABILITY AND DIGITAL IN FOCUS

Sustainability is a strategic imperative for QNB. Its focus in this area during 2022 has been to further enhance its sustainable financing capabilities and activities as well as its sustainable operations.

Such efforts build on what the bank has achieved in recent years, including successfully issuing its debut green bond – which at \$600 million remains the largest conventional green bond issued by a bank in the region – in 2020. This enabled QNB to engage in green repos, green mortgages, and ESG-themed Turkish lira swap transactions, which further strengthened the bank's green financing activities and helped demonstrate its commitment towards a carbon neutral transition.

In addition, QNB has also enhanced its environmental and social risk management standards to mitigate exposure to environmentally damaging activities, while at the same time launching a group-wide initiative to reduce our environmental impact and emissions.

QNB is a digital innovator and leader in digital transformation, leveraging cutting-edge technology to deliver “digital banking with a human touch,” says Mubarak Al-Khalifa. “Over 90% of our customer facing processes are already being digitised to serve our 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.”

Together with this, QNB is focusing on other



“We will focus on strategic initiatives that complement our solution-led wholesale model, such as trade finance, cash management, structured finance, and other advisory services.”

—Abdulla Mubarak Al-Khalifa, QNB CEO

major strategic themes in innovation, including: marketplaces and platforms; robotics, automation and digitization; and analytics, AI and machine learning

Indeed, the bank has continued to invest in its robotics programme in Egypt, Qatar, and Turkey, with over 100 bots and processes digitising repetitive routine tasks to increase process efficiency. The programme ensures higher customer satisfaction with reduced turnaround time by over 90% for those processes.

In partnership with a world-class fintech company and one of the largest telecommunications firms, QNB has also launched a new, fully-digital offering in Indonesia. This financial inclusion solution enables customers to borrow small amounts through their mobile devices in just two minutes. ●

KEY COMPANY DATA

■ Total assets	\$308.8bn (H1 2022)
■ Net profit	\$1.93bn (H1 2022)
■ Capital adequacy ratio	18.9% (H1 2022)
■ Loan to deposit ratio	96.4% (H1 2022)



FINANCIAL STRENGTH COMBINED WITH DIGITAL AND ESG LEADERSHIP

National Bank of Kuwait (NBK) has a dominant share in the local market across all business sectors, supported by a strong and resilient business model and solid financial position.

The bank delivered a strong set of financial results for 2021, with net profits growing to KD362.2 million due to several factors including diversified income growth and digital transformation.

This performance has continued through this year, buoyed by soaring oil prices, increased output, credit growth acceleration to its highest levels in over a decade, and robust consumer demand, which have all contributed to boosting Kuwait's non-oil economic recovery.

"Higher oil prices provided a spell of relief for the GCC oil-exporting nations, as it eased pressures on public finances and positioned the government to accelerate project awards going forward. This strongly supports lending to the private sector," says Isam Jasem Al-Sager, vice-chairman and group chief executive officer, NBK.

Together with lending growth, the bank also grew its wealth management and Islamic banking businesses, which led to substantial gains in net income.

Core to that was the bank establishing its global wealth management division, which combines the extensive investment banking and asset management capabilities of NBK Capital with the expertise and client relationships of the private banking group.

In addition, NBK's consumer banking group also delivered a solid financial performance last year, capitalising on the innovative digital products and services it has launched for its retail client base.

"Our strategic planning paid off as clearly reflected in last year's numbers," says Al-Sager. "As a result of the accelerated digital transfor-

mation, the banking services conducted through our digital channels exceeded 95% of total banking transactions during 2021."

He adds: "Going forward, we will embark on a new phase of our digital transformation journey as we aim to increase our use of artificial Intelligence in various operations and data analysis. This approach should enhance our efficiency and provide our customers with the best services and products. We will also continue to increase our investments to further develop our digital services and transfer those experiences to our international operations, especially to Egypt, where we seek to expand our market share in retail business."

In 2021, NBK launched Kuwait's first fully digital bank Weyay, which provides innovative digital banking services specifically tailored to meet the evolving demands and expectations of Kuwaiti youth. With subscription rates significantly exceeding targets, the bank is planning to launch the Weyay banking model in other regional markets to expand the group's revenue streams.

COMMITMENT TO ESG

NBK is a leader across the Kuwaiti private sector in corporate social responsibility (CSR) and has invested around KD200 million in such initiatives over the last 20 years.

Moreover, the size of NBK's community investments comprised 4.3% of the bank's profits before taxes in 2021, highlighting its commitment to embed sustainability as a foundational element of its strategy to improve performance and enhance the positive impact on communities where it operates.

In the second quarter of this year, the bank reinforced this commitment by announcing a goal to reduce operational emissions by 25% by 2025, which, as part of this, included increasing its renewable energy usage.

Together with this, the bank has outlined a broad group strategy that focuses on integrating environmental, social and governance (ESG) standards as part of NBK's decision-making process and established a framework for sustainable finance.

"Through our strategic pathway, we aim to further develop our leadership around ESG and sustainable finance in the GCC, in addition to



"Through our strategic pathway, we aim to further develop our leadership around ESG and sustainable finance in the GCC, in addition to supporting the sustainable transition to a low carbon economy and creating a positive impact."

—Isam Jasem Al-Sager, vice-chairman and group chief executive officer, NBK.

supporting sustainable transition to a low carbon economy and creating a positive impact," says Al-Sager.

Indeed, in 2020/2021, NBK made good progress on its ESG drive, including increasing woman representation in its corporate structure, specifically electing the first woman to the board of directors. Furthermore, female employees of the bank now account for 45% of the total workforce, while its Kuwaitization rate stood at 74.6% at the end of last year.

"We are passionately committed to enhancing our local societies through our numerous ESG initiatives," says Al-Sager. "Last year alone, investments in our ESG related initiatives increased, in addition to our support geared towards the growth and development of the SME sector and sustainable procurement. Moreover, we accelerated and expanded our efforts related to protecting our environment as an integral part of our corporate strategy and how we do business." ●

KEY COMPANY DATA

■ Net profit (2021)	KD362.2mn
■ Net operating income (2021)	KD906.3mn
■ Total assets (2021)	KD33.3bn
■ Shareholders' equity (2021)	KD3.32bn



DOMESTIC CHAMPION WITH REGIONAL POWERHOUSE AMBITIONS

Commercial International Bank (CIB) has long been Egypt's leading private sector banking institution across multiple areas of its business and on key financial performance metrics.

Indeed, despite global economic turbulence, the bank delivered a stellar set of results in 2021, led by 30% increase in consolidated net income to EGP13.27 billion compared to the year before, with standalone net income rising 30% to EGP13.42 billion on standalone revenues of EGP26.75 billion — up 4% year-on-year.

Together with this, the bank was able to maintain efficiency through 2021, recording a low cost-to-income ratio of 22.8% for the year. In addition, CIB delivered a return on average equity (ROAE) 21.7% on a consolidated basis (post profit appropriation or PPA) compared to 19.2% in 2020, and its consolidated return on average assets (ROAA) hit 2.88% (PPA) — up from 2.53% a year earlier. The bank also booked a net interest margin of 5.67% for 2021.

For Hussein Abaza, CEO and managing director, of CIB, this strong performance is due to several key factors, not least a re-focusing its strategy.

“In-line with the bank's vision to be at the forefront of change, the shift in market dynamics accelerated by the pandemic has necessitated the recalibration of CIB's strategy pillars and execution tactics,” he says. “The bank expedited its digital transformation efforts and adopted an agile operating model to continue to create both financial and non-financial value for all its stakeholders.”

This recalibration focused on five key areas: the bank's core business; digital transformation; financial inclusion and small and medium sized enterprises (SMEs); responsible banking; and geographical expansion.

STRATEGY SUCCESS

CIB's first strategic pillar focused on strengthening its core business by enhancing operational efficiency and expanding its local reach and business lines at the same time as tapping into financial inclusion opportunities by supporting the SME segment. As part of this, investment in data analytics, digital channels, and behavioral segmentation, has been critical in achieving results.

The second pillar — digital transformation — required greater investment in upgrading the bank's technology infrastructure, as well as

digitising and automating its products and services. In addition, the bank has also made substantial progress to the ‘Bank of the Future’ (BOTF) strategic programme, which is already delivering strong results. The number of CIB's online banking users hit one million in 2021, with online banking subscribers increasing 30% from 2020. In addition, internet banking transactions by volume grew 22% to 2.2 million year-on-year, while the value of transactions increased 46% to EGP58.1 billion.

As part of its digital transformation drive, CIB has also become the first bank in the market to acquire the IPN (Instant Payment Network) certification, which is a new payment network with instant capability to send and receive money between banks. It offers the ability to transact between different accounts, from bank accounts to Meeza cards and Meeza digital wallets via mobile apps.

Financial inclusion and banking SMEs — the third pillar — is at the core of CIB's banking vision, and it is powerful, and an award winning bank, in this area. CIB was, for instance, recognised by Euromoney as the Middle East's best bank for SMEs 2022 in its annual Awards for Excellence.

The bank caters to SMEs with annual revenues ranging from EGP1 million to EGP200 million. It serves over 70,000 companies through a network of 250 experienced relationship managers. In 2021, the division posted an operating profit of EGP1.88 billion, up 20% year on year, with deposits up 41% to EGP41.7 billion and assets jumping 93%.

SUSTAINABILITY LEADERSHIP

Responsible and sustainable banking is another key pillar of the bank's strategy, and it is frequently demonstrating leadership in these important areas.

In 2021, CIB issued Egypt's first corporate green bond to help unlock finance for climate-smart projects, reduce greenhouse gas emissions, and support the country's transition to a greener economy. The bond will help the bank increase lending to businesses that want to invest in eco-friendly initiatives, including green buildings, renewable energy and energy efficiency, markets which are still nascent in the country. In addition, as a founding member of the Net Zero Banking Alliance (NZBA), hosted by the United Nations Environment Programme Finance Initiative (UNEP-FI), CIB is among 43 of the world's biggest banks focused



“The bank expedited its digital transformation efforts and adopted an agile operating model to continue to create both financial and non-financial value for all its stakeholders.”

—Hussein Abaza, Chief Executive Officer & Managing Director, CIB

on delivering the banking sector's climate commitments in alignment with Paris Agreement goals. CIB is also the only MENA bank to join NZBA and the only bank representing Africa in the NZBA Steering Group. Moreover, CIB is also Egypt's first bank to support the Task Force on Climate Related Financial Disclosures (TCFD).

The final pillar of CIB's strategy is geographical expansion. It aims to become a regional financial services provider and diversify its operations, balance sheet structure, and sources of income.

As such, CIB took its first step on its journey to expand into Africa in 2020 with the acquisition of Mayfair CIB Bank (MCIB). MCIB broke even in 2021 and recorded profit after tax (PAT) of \$14.2 million for the year — beating estimates — compared to a loss of \$56 million in 2020. Income from trade finance helped drive that — surging 138% on the year before to \$2.39 million. ●

KEY COMPANY DATA

■ Standalone net income	EGP13.42bn (2021)
■ Standalone net revenues	EGP26.75bn (2021)
■ Consolidated cost-to-income ratio	22.8% (2021)
■ Consolidated return on average equity	21.7% (2021)



بيت التمويل الكويتي
Kuwait Finance House

ISLAMIC FINANCE LEADER AND LOCAL AND REGIONAL BANKING POWER

Established 1977 as Kuwait's first Islamic bank, Kuwait Finance House (KFH) is a pioneer in Islamic finance or Sharia compliant banking and today is one of the world's foremost Islamic financial institutions. It is also one of the leading banks and biggest lenders in local and regional markets.

Such a strong market position has supported the bank's growth, development and financial performance, which last year was impressive, with net profit attributable to shareholders of KD243.4 million, up 64% year-on-year, thanks to stable funding and operating costs.

Total operating income rose 1.9% year on year, to KD811 million, with return on average equity and assets rising by 514 and 54 basis points respectively, to 12.77% and 1.44%.

The bank's outperformance continued into the new year, with chairman Hamad Abdulmohsen Al-Marzouq announcing net profit of KD138.1 million for the first half of 2022, up 35.1% from the same period a year ago. KFH posted net financing income of KD320.2 million to the end of June, with a strong capital adequacy ratio of 17.74%

For acting group chief executive officer, Abdulwahab Iesa Al Rushood, this strong performance is due to the bank focusing on four key areas: its core banking business; sustainability; increasing operational efficiency; and regulatory compliance and prudent risk management.

The first area involved the bank concentrating on growing its core banking business within main segments such as financing, savings, and retail banking, but also included strengthening strategic partnerships and collaborations.

This focus also fed into the bank's sustainability drive, which is an important part of KFH's core strategy. This was demonstrated by the bank, via KFH-Turkey, issuing a green Sukuk worth \$350 million, and the publishing

of its sustainability report as part of a comprehensive sustainability strategy. The strategy incorporates environmental, social and governance (ESG) factors into KFH operations, activity and management along with analysis and measurement of the economic, social and environmental impacts.

For the third area, "KFH focused on increasing operational efficiency in processes and ways of working to simplify customers' financial journey and to realize the value of investments and resources," says Al Rushood. "By using new technology and automation, KFH was able to serve customers and continues to meet their expectations and keep up with competition."

He adds that to enable its strong and profitable core business, "KFH focused on the fundamentals relating to regulatory compliance, prudent risk management, stable and resilient technology infrastructure."

DIGITAL INNOVATOR

KFH has long been leader in digital banking, but recently it has bolstered its position, becoming the first domestic lender to roll out an electronic signature service for all personal finance transactions and launched Kuwait's first AI-supported robo-banking service. It added new features to KFH Xpress, a cross-border money transfer platform, and became the first Middle East lender to launch a mobile wallet based on Mastercard's digital enablement service for merchants.

"In 2021, KFH customers executed about 160 million digital banking transactions through KFHOnline, with 25% growth compared to 2020," says Al Rushood. "This reflected the success it achieved in this area and its customers confidence, ease and efficiency of the innovative digital banking services KFH provides to enhance the banking experience of its customers."

Together with digital, KFH is focused on the intersection between sustainable investing and Islamic finance, with the crossover expected to boost appetite for Sharia-compliant products. Indeed over the next few years, dramatic growth is expected in the number of investment funds combining ESG factors and Sharia compliance over the next couple of years.



"KFH is moving forward in leading the sustainable Islamic finance industry, contributing to providing greater support for growth and sustainable investing, and taking into account ESG standards."

—Abdulwahab Iesa Al Rushood,
CEO, KFH

"Moreover, the boom in ESG issues coupled with growing investor demand for responsible investing will enhance investors' shift towards Sharia-compliant funds, particularly those investors whose investment decisions are guided by ESG considerations, therefore creating opportunities for the Islamic finance industry," says Al Rushood.

He adds: "In this regard, KFH is moving forward in leading the sustainable Islamic finance industry, contributing to providing greater support for growth and sustainable investing, and taking into account ESG standards. For example, KFH has an environment-friendly, auto showroom (KFH Auto), which is fully compatible with the standards of green buildings and global sustainability."

KFH is the first bank in Kuwait to receive Global Sustainability Assessment System GSAS certificate – gold level for its KFH Auto. ●

KEY COMPANY DATA

■ Net profit	KD243.4m (2021)
■ Total operating income	KD811m (2021)
■ Total assets	KD 21,788m (2021)
■ Shareholders' equity	KD1,932m (2021)

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ANNUAL MEETINGS INTER-AMERICAN DEVELOPMENT BANK WORLD BANK/IMF ASIAN DEVELOPMENT BANK EBRD SPRING MEETINGS AIIB

Asean resilience leads region's outperformance

By Chris Wright

Southeast Asia is proving resilient to global macroeconomic pressures, insulated by a combination of domestic demand, intra-regional trade, foreign direct investment and policy — but the Asean bloc is leading the pack.

The IMF this week revised overall its Asia and Pacific growth forecast for 2022 to 4%, down by 0.9 percentage points, relative to April projections. But it kept its outlook for the 10 members of the Association of Southeast Asian Nations almost intact, down just 0.1% to 5%, highlighting a bifurcation between northeast Asian markets, which are struggling, and the more buoyant economies of southeast Asia.

“In Asean, the recovery is expected to be strong in 2022, because of robust consumption, services and exports in the first half of the year, supported by border re-openings and the gradual removal of pandemic restrictions,” said Krishna Srinivasan, director of the IMF's Asia and Pacific Department.

Whereas Srinivasan sees “formidable headwinds” for Asia generally, he says “southeast Asia is likely to enjoy a strong

recovery.” The IMF expects 7% growth in Vietnam this year, 6.5% in the Philippines and 5% apiece in Indonesia and Malaysia.

There are several reasons for the relatively strong performance in global terms. There is a sense that policymakers in Asia have learned from previous crises dating back to the Asian financial crisis and are much quicker to react to new challenges. The Philippines, Indonesia, Malaysia, Thailand and Vietnam all raised rates in September reflecting an aggressive approach to tackling inflation.

DOMESTIC DEMAND

This week Standard & Poor's noted that FDI inflows into the region, which hit a record \$174bn in calendar 2021, “are expected to be supported by the resilience of Southeast Asia to the slowdown in the US and EU during 2022”.

S&P's Global PMI data show that manufacturing conditions across Asean improved at the quickest pace for nearly a year in September, with companies signalling steeper increases in output, new orders, purchasing activity and employment amid his-



Krishna Srinivasan: strong recovery

torically strong business confidence.

“This highlights the increasing importance of domestic demand within the Asean region as a growth driver, which has helped to mitigate the impact of weakening growth momentum in the US and EU,” said Rajiv Biswas, Asia Pacific chief economist at S&P Global Market Intelligence.

Biswas said that in 2020, 21% of total Asean merchandise trade was intra-regional between Asean nations.

FDI is particularly potent in Vietnam, according to Andy Ho, chief investment officer of Vina Capital. “One key area supporting the growth of the economy is FDI, up 16% year-to-date,” he said. “That is sticky money: Apple producing next generation Apple Watches in Vietnam, Samsung producing new phones. These are long-term investors who are going to invest for years to come.”

China pays for ‘less hospitable’ stance with FDI drought

By Elliot Wilson

With borders still all but closed, foreign direct investment (FDI) into China has slumped to its lowest level in years. In the 2010s, it attracted on average 474 new greenfield projects in the first half of each year, worth \$35.3bn. In the first six months of 2022, 110 projects worth a total of \$6.2bn were announced, according to data from fDi Markets.

Beyond Xi Jinping's draconian approach to stamping out Covid-19, there is a widespread and growing sense that it is no longer a great or even safe place to invest.

“For over a decade, China was consistently the largest recipient of FDI,” said Stephen Roach, an economist and former chairman of Morgan Stanley Asia. “It was integral to the country's growth strategy. But China has turned less hospitable to foreign multinationals, just as other options for investment dollars such as Vietnam became available.”

Government data show FDI into the country rising 17.3% year-on-year in the first seven months of the year, to \$88bn. But even if notoriously unreliable state

data can be trusted, the reality is that much of that is “round-tripped” by domestic funds routing capital back into the mainland via Hong Kong. The former British colony was the source of 76% of all FDI in 2021.

Alicia Garcia-Herrero, chief Asia economist at Natixis, said the Chinese government was keen to trumpet new big-ticket FDI projects because it was aware of low productivity rates, a looming demographic crisis and a deep fear “that global investment chains are being reshuffled — and not in its favour”.

'HOLLOWING OUT'

Analysts said that ignored the fact that much of the investment it did attract was sourced from a tiny handful of multinationals. Just four German firms, including Volkswagen and BMW, accounted for 34% of all European FDI into China by value from 2018 to 2021.

Logan Wright, head of China markets research at Rhodium Group, said that narrow focus was unhealthy. He pointed to a “huge hollowing out of smaller firms investing in China, which



Xi: zero covid

is behind a significant decline in greenfield investments from around the world. Our data points to a sharp slowdown in inbound FDI in 2022.”

Even large corporates are exiting, blaming rising costs and wrangles with investors. In July 2022, the CEO of Stellantis, Carlos Tavares, blamed a “breach of trust” on a decision to shutter a joint venture with local partner Guangzhou Automobile Group. He warned of “growing political interference in the way we do business as a Western company in China”.

Tavares said the “interference of the political agenda has been increasing by the day”, adding that rival carmakers with plants in the country could even lose them if the world “fragments” and China becomes embroiled in a sanctions standoff with Western nations.

Africa must bolster its financial market framework

By John Crabb

Improving access to financial markets is the best way for Africa to attract capital, South African bank Absa said this week as it launched its latest annual Africa Financial Markets Index.

It looks to develop financial markets in 26 different African countries, representing 78% of the population and 82% of GDP. Africa has a history of attracting foreign capital but has little record of raising its own through its domestic markets, which are largely undeveloped.

South Africa is the exception, boasting the most advanced and diversified economy in the region and a market cap of listed domestic companies of more than \$300bn. The rest of the region is lagging.

“What we're trying to do is to encourage African financial market development so that markets are open, transparent and accessible,” said Jeff Gable, chief economist at Absa.

To do this, the index measures several different indicators. The more information that is available, the more investable the country becomes. If a market only has foreign participants, money tends to leave as quickly as it arrives.

“Everyone is used to the narrative that Africa needs a lot of capital, so we want to make sure that the market structure is in place to not just to ensure the best chance of attracting foreign capital but also the capital on the continent,” he said.

Because there are not appropriate existing ways to invest this capital, he continued, it tends to get “stuck in people's mattresses” or ends up in US Treasuries. Improving access to the market is the best way for Africa to put its own financial resources to use and to attract financial resources from the rest of the world.

Even with support, it will take some time for domestic capital to become a widespread source of major long-term financing for these countries, said Andrew Dabalen, the World Bank's Africa region chief economist. “They are still young and still forming, but it's going to take some time for them to become nearly as complex, deep and sophisticated as the rest of the financial markets.”

Sub-Saharan African governments with smaller domestic capital markets came into this year with higher funding costs to start with, a situation that was made much worse as the dollar has grown in strength.

“In many cases, countries just don't have access to foreign commercial markets anymore, or not significant amounts, Ghana is an example of this,” said Frank Gill, EMEA sovereign specialist at Standard & Poor's. “Even the domestic market in Ghana is saturated with government paper and most of the gross financing this year so far in Ghana has been done through an overdraft facility with the central bank, and they are in talks with the IMF.”

Ukraine

Continued from page 1

support package for Ukraine. It provided a first €668m in March. The money includes immediate support for the administration and repairing infrastructure.

The private sector-focused European Bank for Reconstruction and Development had invested €1bn a year in Ukraine for the past three years, and has committed to increasing that to €3bn over 2022 and 2023.

“We have a new €300m trade finance facility with local banks, to support exports,” said Jürgen Riegerink, first vice-president at the EBRD. It is lending €300m to state gas company Naftogaz so it can buy gas for the winter and €150m to power grid Ukrenergo to repair damage, and supporting Ukrainian Railways. It has lent to a pharmaceutical company, done risk-sharing facilities with local banks, and even committed to a private equity fund.

Lending to Ukraine at the moment carries much higher risk than the EIB or EBRD’s usual loans. The EIB has required guarantee support from the EU.

The EBRD has asked shareholders individually for support, amounting to an average of 50% across the portfolio. The US came in first with a \$500m grant and others including France, Germany, Norway and Canada have followed. This week the UK signed a guarantee.

RECONSTRUCTION

Meanwhile, the MDBs are looking ahead to the reconstruction of Ukraine, once peace is achieved. Cost estimates range from \$350bn to \$750bn. “You have to start planning,” said Riegerink. “It’s not too early to start thinking about how you would co-ordinate such efforts.” MDBs have been holding “deep-dive” discussions in Washington this week.

Teresa Czerwińska, vice-president at the EIB, said it was “currently working on a comprehensive support package, which will be part of the financing architecture prepared by the [European] Commission and G7. We are considering many financial instruments to support Ukraine, such as guarantees, fund structures and others.”

Priorities include small and medium-sized enterprises, creating youth employment and reorienting the economy away from its close links with Russia and Belarus and towards the EU.

“We probably have to have a step change,” Riegerink said. MDBs, he said, “are very thorough. You get a stamp of approval, but that also means in many cases we are quite slow, with questionnaires, due diligence. Can we really accept that we finance a road in Ukraine and it will only be there in three years’ time? We have to see how we can shorten some of these processes without lowering the bar.”

MDBs are working on how to align their project approval processes to speed up investment. “Maybe for our collective shareholders, it’s easier to approve this for Ukraine, because there’s a clear need,” Riegerink said.

Markus Berndt, acting head of EIB Global, which focuses outside the EU, said Ukraine’s status as an EU membership candidate “very much enhances the chances of success when it comes to reconstruction”.

THE final word

India’s time to shine is now

By Jim O’Neill

The name “Mister BRICS” will probably be stamped on my forehead for the rest of my life. According to my forecasts back then, this decade was supposed to be the decade where India grew a lot more than China in relative terms. And by the end of the decade, India would start to challenge Germany to become the fourth largest economy in the world. And then not long after start to challenge Japan to become the third.

In some ways, India seems to be still in a position to do that. Indeed, I believe that now is really a fresh moment for India to stand out. If the government does carry out further reforms and allows for further urbanisation and the creation of these huge businesses as it has been doing, then India is the right place for many investors to be over the long term. There is no other country in the world that has the chance of doing what India can do in the next 10-15 years, because no other country has the labour force dynamics that India has.

Against that, India’s stock market is pretty nicely priced relative to others. India will stay expensive until we turn the corner of the current macroeconomic outlook and other markets start to rally. If we do get a big recovery in global markets, I’m pretty sure other markets will, for a while, outperform India. The other markets that are cheap are primarily China and then much of the developed world — Europe in particular. But these markets are not going to turn around until we see some signs of independent domestic growth coming out of both places. When that happens, they will probably rally a lot more than India. But I suspect that until that time and while we still have this current environment, that unless there is a huge policy mistake in India it will stay expensive relative to other markets.

But for those investors that have got no problems with mark-to-market and week to week or month to month accounting requirements or reporting requirements, I feel that this is now probably a time to start



There is no other country in the world that has the chance of doing what India can do in the next 10-15 years

buying. I can see us being closer to the end of the broad weakness of stocks than the beginning. Much of what has happened in the past 12 months — although not the scale of it — and much of the general tone of markets have been quite predictable in my opinion. The pick-up in inflation starting in the summer of 2021 was quite obvious to me.

And I can see certain signs that by this time in six months we will turn the corner. So if that is the case, I am pretty sure central banks will once again change the rhetoric and so that background of tightening monetary policy will have gone.

FRACTIOUS WORLD

I suspect as we see some signs of that, longer dated bonds are probably worth owning especially in the emerging world because many yields are

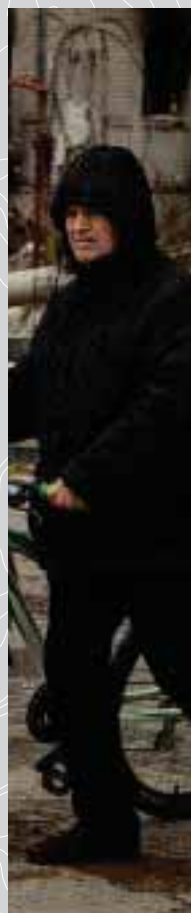
pretty high. And I emphasise that for those that do not have mark-to-market accounting issues, some of these very cheap equity markets around the world are probably worth buying. I think some of these growth sectors that have been so battered relative to defensive sectors, and that includes parts of technology that have got proper future earnings streams, are going to be worth owning. But I have a big caveat: it is pretty clear that the Federal Reserve is not going to stop with this really aggressive sort of mood until it is sure that inflation has turned the corner in the United States.

In this very fractious world, at the epicentre of which is China versus the United States, India may have two big advantages. Firstly, under prime minister Narendra Modi India is quite cleverly navigating the path of not being part of anyone else’s club. India is part of India’s club. Secondly India is the only other economy in the world other than China that has more than a billion people. Quite a lot of people are thinking that because India is based more on its internal domestic economy, maybe it is a more stable and less risky place to be doing business than many of these other places in the rest of the world.

Lord O’Neill, chairman of the Council of Chatham House, the Royal Institute of International Affairs, is a former chairman of Goldman Sachs Asset Management

CRISIS UPON CRISIS

IMF ANNUAL REPORT 2022



FACING THE CHALLENGE



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