SPECIAL DAILY EDITION WORLD BANK/IMF

VIRTUAL, WEDNESDAY OCTOBER 14 2020

PREVIOUSLY KNOWN AS EMERGINGMARKETS

GlobalMarkets

MARKETS | DEVELOPMENT | ECONOMY WWW.GLOBALCAPITAL.COM/GLOBALMARKETS

NEWS

IMF accused of imposing 'exactly wrong' austerity advice for bailouts

By Phil Thornton, Oliver West and Lewis McLellan

The overwhelming majority of the International Monetary Fund's Covid-19 loans have come with advice that poor countries hit hard by the economic fallout from the pandemic should adopt tough new austerity measures, according to development lobbyists.

Since the pandemic was declared in March, 76 out of 91 IMF loans negotiated with 81 countries — or 84% — push for belt tightening that could result in deep cuts to public healthcare systems and social protection such as benefits, charity group Oxfam said.

Ana Arendar, the charity's head of inequality policy, said this was "exactly the wrong instruction" for the IMF to be giving poor countries. "It is nothing short of unacceptable that the IMF is using its power to make life harder for people already struggling to survive," she said.

"Millions more people are likely to be left without healthcare or income support while they search for work, thwarting any hope of a sustainable recovery."

She highlighted Ecuador where the government was advised by the IMF to backtrack on increases in healthcare spending and stop cash transfers to people unable to work. A recently agreed $6.5bn loan includes cuts to fuel subsidies.

Georgieva: spend but keep receipts

Philip Mader, research fellow at the Institute of Development Studies, said Ecuador had been negotiating with the IMF since 2017, which he said had led to a "substantial" reduction in public

Continued on page 35

Exclusive

Reform India's banks now, demands Acharya, or risk 'zombie lending'

By Rashmi Kumar

India risks coming out of the Covid crisis with big impediments to future growth unless its ailing banking sector is turned around rapidly and government takes a longer term view on reviving the financial industry, leading market experts have told *GlobalMarkets*.

The south Asian country's banks did not enter the year from a position of strength, with

Continued on page 3

China versus the rest: Africa debt relief offers splits opinion

By Rashmi Kumar

African governments saddled by years of debt accumulation, fueled by bilateral loans from China, are seeing a surprising amount of support from the Asian superpower during the Covid-19 pandemic.

This has triggered debate over China's approach to tackling debt repayments versus that of the international multilateral development banks.

Some African countries have been brought to their knees in recent years over soaring debt, a large chunk of which has come from China. Between 2007 and 2017, the Chinese government, banks and contractors lent $142bn to Africa's governments and state-owned enterprises, shows data from Washington DC-based China Africa Research Initiative (CARI).

But governments' repayment abilities — which have been tested numerous times in the past — faced their biggest challenge this year due to the Covid-19 pandemic. To help tide

Malpass: pressure on China

Continued on page 3

European Investment Bank
The EU bank

Invest in a **sustainable future**

EIB's
Sustainability Awareness Bonds
link your investment with environmental and social objectives

©Shutterstock, Getty Images

China

Continued from page 1

them over, the G20 kicked off a debt service suspension initiative — which includes China's involvement — that offers temporary suspension of debt repayments for 77 developing countries, many of which are from Africa, between May and December.

"China working together with the G20 members in this multilateral initiative is unprecedented," Deborah Brautigam, CARI director told *GlobalMarkets*.

"China has been working with the G20 countries for a few years now and has earned a reputation as being a constructive player. This is the first crisis since they became part of G20, and they don't want to drag their heels."

WAIVING NOT DROWNING

China is understood to have started discussions with a number of African countries to either extend their loans, renegotiate terms or undertake a debt re-profiling.

China president Xi Jinping has also encouraged Chinese commercial banks that are not part of DSSI to help with debt restructuring in Africa. Discussions with Angola, which has received a third of all Chinese lending to Africa, are in play, as are negotiations with Zambia.

Additionally, China has waived interest-free government loans maturing by the end of the year for some eligible African countries.

Most of China's lending is through the Export-Import Bank of China, which being a policy bank can be part of the DSSI, while lending from China Development Bank, also a substantial amount, is excluded as it is a commercial bank.

The exclusion of CDB has been a point of contention, with World Bank president David Malpass recently calling for the lender to fully participate in the DSSI, said Brautigam. The World Bank itself has offered no debt relief to African countries but instead offered fresh funding.

That has not gone unnoticed by the Chinese authorities. In April, Chinese minister of finance Kun Liu said that "as the world's most influential multilateral development agency, major multilateral creditor, and initiator for suspension of debt service payments, [the World Bank] should lead by example in suspending debt service payments from [International Development Association borrowing] countries and proposing a debt suspension timetable and roadmap."

EBRD marks out green goals and Africa expansion for next five years

By Lewis McLellan

The European Bank for Reconstruction and Development approved its new five year strategy on October 8, setting ambitious targets for green investment and likely setting the stage for expansion in Sub-Saharan Africa now that its traditional bases of operations are becoming crowded.

"The EBRD is in a tricky position because it is somewhat squeezed for European assets to invest in," said Thomas Wieser, former president of the EU's economic and financial committee and president of the Eurogroup Working Group.

"Russian sanctions have been a killer for the EBRD because a lot of its activity was there. It pivoted to Turkey but Turkey can be expected to become an increasingly difficult jurisdiction also due to the political developments there. It's expanding its footprint in North Africa, but AfDB and World Bank are already there, so there are not huge volumes of business available."

That leaves Sub-Saharan Africa, which Wieser believes is a more open field, allowing the EBRD to continue expanding its business. It will also be stepping up its activities in Iraq, which became a shareholder of the Bank on October 7.

However, even there, it will not escape competition. The EIB is expanding its operations in Africa, pushing to become the EU's development bank.

The problem, according to Wieser, is that "there is no overall vision or strategy in place of what European development finance — and a European development finance bank — should look like". Wieser, as chair of the high level group of wise persons on the European financial architecture for development, published a report recommending the establishment of a European development bank drawing on the resources of both EIB and EBRD.

The EBRD's five year strategy also includes its new Green Economy transition, which is the EBRD's framework for supporting its clients in the pursuit of a green recovery from Covid-19. As part of this, the EBRD has committed to dedicating over 50% of its annual investments to green finance projects by 2025.

Odile Renaud-Basso: new EBRD president

Courtesy World Bank Photo Collection/IKE HAYMAN PHOTOGRAPHY

The EBRD also elected Odile Renaud-Basso as its new president, who beat an unusually senior crop of candidates, most notably Pier Carlo Padoan, former Italian economy and finance minister, and Tadeusz Koscinski, the Polish finance minister.

Wieser remarked that: "Padoan is a well known and respected figure, having been a finance minister while Renaud-Basso was at the deputy minister level. This may have made it somewhat more difficult for a finance minister to come out against a colleague. France will have had to reach out and make contact with all the traditional shareholder groups in order to secure the election."

India

Continued from page 1

weak corporate asset quality and rising non-performing loans (NPLs) wreaking havoc on their balance sheets and profits well before the Covid crisis began.

With limited fiscus stimulus from the government hobbling growth, the Reserve Bank of India has taken unprecedented steps to get the economy back on track through interest rate cuts and extended debt moratoriums.

But its efforts may be in vain unless banking sector reform is put at the top of the agenda, senior leaders warned.

"The time to reform India's banking sector is now," said Viral Acharya, former deputy governor told *GlobalMarkets*. "In the short run, this can be through recapitalisation of public sector banks.

"But if the government can't provide capital given the fiscal constraints, it should shed its stakes in some state-owned banks below majority to say 25%, improve their governance by empowering the boards, and even consider providing a blueprint for reprivatising some of them."

Acharya: 'Now is the time to reform'

LEGACY LOAN ISSUES

Acharya added that India needed to avoid a situation where banks were undercapitalised and "being an impediment to growth after the country comes out of the Covid crisis".

"You're setting yourself up for much lower growth after Covid if you don't reform the banking sector now," said Acharya, now a professor at the New York University Stern School of Business. "Under-capitalised banks will end up dealing with legacy loan issues, and do 'zombie lending', or ever-greening defaulted loans, or 'lazy lending' by just buying government bonds. This will crowd out credit to healthier borrowers and push India into a 'growth trap'."

Growth has already stagnated. For the quarter ending in June, GDP plunged by a higher than expected 23.9% year-on-year. In its World Economic Outlook report published on Tuesday the IMF projected India's GDP would slide 10.3% in 2020 from growth of 4.2% in 2019, before rebounding by 8.8% the next year.

Against this backdrop, stabilising one of the most important parts of the Indian economy is all the more critical. And for this, the RBI and the government need to work closely.

"Before Covid, the fiscal effort that would have been required to clean up the banks didn't seem huge, but seemed achievable," said Shaun Roache, Asia Pacific chief economist at S&P Global Ratings. "It's bigger now. The RBI can help by improving the way monetary policy works and trying to get some rate cuts through to the real economy and setting up new lending facilities. But ultimately, if it's a balance sheet issue, it's a fiscal problem."

Financial stability risks loom beyond short-term calm, warns IMF

By Oliver West

Massive stimulus measures could have "unintended consequences" as stock markets becomes increasingly disconnected from reality, and insolvencies among small businesses could test the resilience of the financial system, the IMF warned on Tuesday.

In its annual global financial stability report (GFSR), the IMF said that the unprecedented fiscal and monetary response had contained near-term risks to financial stability, boosting investor sentiment and maintaining the flow of credit. Yet the Fund said there were "significant downside risks", with a still 5% chance of global growth remaining below zero in 2021.

"If I think back to March, when there were some horrible expectations, I would not have expected markets to come back so much," said Tobias Adrian, financial counsellor and director of the monetary and capital markets department at the IMF, told *Global Markets*. "Capital has returned to emerging markets and we're in a pretty good place where credit is available despite being in the worst recession since the Great Depression."

Adrian: Weak tail of banks

March provided a frightening example of what an unwinding of risk sentiment can look like, with even the US Treasury market turning dysfunctional. Though the IMF is confident in the ability of monetary authorities to ease disruption as they did then, the risks of a sharp downturn in financial markets are increasing, with stock market valuations reaching historically high levels in some countries, despite the pandemic.

"Though asset valuations themselves are not so much of a risk to financial stability, the risk is a combination of a market sell-off with the vulnerabilities we've already seen in the non-bank financial sector," Adrian said . "Central bank stimulus worked well before and I would expect central banks to step up again."

CORPORATE DEFAULTS

Policy stimulus has also restricted corporate defaults, protecting the damage on banks' balance sheets. But though Adrian said the bank system was in good shape, the IMF does "see weak banking systems in some countries". Even in countries with strong banking systems, "there is typically a weak tail of banks", he said.

Even though continued policy stimulus and economic recovery should "keep insolvencies at bay", said the IMF, small and medium-sized enterprises (SMEs) — which tend to dominate contact-intensive sectors, such as hotels and restaurants — are vulnerable.

"Because SMEs rely almost entirely on bank financing, they could be a source of vulnerability, especially for regional and small banks," said the GFSR.

Finance ministers demand more ambition in climate coalition

By Jon Hay and Oliver West

Finance ministers of 52 countries have begun talking about whether to set themselves binding targets for integrating climate change into their stewardship of national economies.

The Coalition of Finance Ministers on Climate Change met virtually on Monday on the sidelines of the annual meetings. It includes most European countries, nine from Latin America, as well as Indonesia, Bangladesh, Nigeria, Ethiopia and Canada — but not the US, China, India, Japan or Brazil.

Members agree to the six Helsinki Principles, striving to align policies with the Paris Agreement, promote carbon pricing, take climate into account in policymaking and budgeting and mobilise private climate finance.

"The Coalition is only a year old and was born as a non-binding coalition, but part of today's discussion was about whether it could become binding and start to establish targets," said Gabriel Yorio, deputy finance minister of Mexico.

This will not mean specific targets on how fast to decarbonise, as the Coalition allows each country to act according to its needs. But Pekka Morén, special representative of Finland's finance minister said: "Some ministers raised the point that the Helsinki principles are aspirational — we should increase the level of ambition and make the principles binding. It was not something concluded, but it was very useful to know they want the level of ambition to be higher. It's a very important signal for the co-chairs."

Chile and Finland have co-chaired the group since it began in April 2019, but Chile will step down after next year's spring meeting, leaving a vacancy. Finland is willing to keep serving if the group wants it to.

Some ministers said they wanted the group to push further in developing common approaches to policies, such as on green budgeting and climate-related financial disclosures.

Ministers agreed a statement saying the $12tr of fiscal recovery measures announced globally "creates a unique window for aligning our economies and policies to the challenge of climate change".

"The climate agenda is in some ways aligned with the fundamental changes we are going through," said Yorio. "One of the lessons from Covid-19 has been to look at our work and consumption habits and to question them. This is why the green and sustainability agenda has received such an impetus."

Yorio: Looking at targets

To outsiders, the Coalition's progress can seem slow. Dileimy Orozco, senior policy adviser at E3G, the climate change thinktank, in London said. "This Coalition was created to try to have a frank conversation among ministers of finance outside the G20 — there were high hopes of deliverables, but we haven't seen that."

She had hoped it would make a much clearer call for the recovery from Covid to be green — particularly because, unlike in the 2008 financial crisis, the multilateral development banks "don't have the G20 giving them a clear mandate for how they should support countries to recover. That leadership is completely absent."

Covid to claim first sovereign casualty as fears rise of Zambia default

By Mariam Meskin

Zambia is at risk of becoming the first African country to default since the coronavirus crisis started, as its bondholders appear unconvinced by the government's negotiations with the International Monetary Fund and say that they have not been given enough information about how it will approach debt obligations to China.

Zambia's consent solicitation request to its bondholders last month, asking them to defer coupon payments on $3bn of its Eurobonds, took many by surprise. Sources near the external bondholder committee, which holds around 40% of Zambia's Eurobonds, said there was absolutely no engagement from the government before the request.

Now sources near the matter say Zambia will struggle to get the solicitation request approved. *GlobalMarkets* understands that the committee has chosen to abstain from the investor vote, the deadline of which is October 18.

"It is now widely accepted that Zambia will struggle to get the consent solicitation approved" said Richard Briggs, investment manager at GAM, which has exposure to Zambian debt. "Bondholders are asking them to engage more and provide more detail on how exactly they plan on re-structuring or re-profiling the debt. Investors are in a limbo at the moment — the ball is in Zambia's court."

If the solicitation request is rejected, Zambia risks being the first African sovereign to default since the coronavirus crisis began. However, some say that if that is the case, the sovereign may scramble to find the cash for the coupon payment to avoid a hard default.

Bondholders fear that any form of debt relief may open the way for Zambia to continue honouring payment to Chinese creditors, which according to experts, constitutes a third of Zambia's debt. Bondholders are keen to know how Zambia is approaching negotiations with China in the interests of achieving "inter-creditor equity".

"Zambia has not given detail on what they intend to do with Chinese creditors, who appear to be asking for arrears to be paid in order for existing debt to be suspended. I cannot see other creditors, especially bondholders, being OK with that," Briggs at GAM said.

Sustainability-linked bonds could crack transition nut in EM

By Jon Hay

Green bonds have made only limited headway in emerging markets, especially among companies. The latest product — sustainability-linked bonds with variable interest rates — could have a fresh chance of success, because it addresses several needs EM issuers and investors have.

Sustainability-linked bonds (SLBs) were invented by Enel, the Italian power company, with a deal in September 2019. Unlike with a green bond, the issuer enjoys unrestricted use of proceeds. But it commits to a company-wide sustainability target, and will pay investors a coupon step-up, typically 25bp, if it fails.

The second issuer was an EM firm: Suzano, the Brazilian paper company. It raised $750m in September with a bond whose coupon will rise if it fails to cut its greenhouse gas emissions intensity 5% by 2025.

"EM issuers are interested," said Sarmad Mirza, executive director of debt capital markets at Standard Chartered Bank in Dubai. "We are hoping to bring the first one from the Middle East very soon."

Excluding China's regulated market, only 13% of all green, social and sustainability bond issues have come from emerging markets.

"The reason why it hasn't caught on," said Mirza, "is that the first question many issuers ask is: 'if I go down this path, is there a price advantage? Is there investor diversification? If not, I still care about ESG, but I don't necessarily need to set up a framework for a green bond.'"

EM issuers do not yet gain a clear price or diversification advantage with green bonds, he argued, because most specific environmental, social and governance funds are in the developed world and lack mandates to invest in EM.

SLBs, however, appeal to mainstream investors as well as SRI or green investors, said Orith Azoulay, global head of green and sustainable finance at Natixis in Paris.

Mirza: EM issuers are interested

Her bank is finding EM issuers interested in the product. An important reason is that SLBs can solve the problem of constructing sustainable financings for companies that are not green yet, but in transition.

"When the market examines a transition instrument, everybody wants to see first and foremost where the organisation is going," said Azoulay. An instrument based on the whole organisation's performance can address this better than one based on a specific pool of assets.

"Across EM what would be interesting," said Mirza, "is not just a standard SLB but to pair it with a transition bond. That's the really exciting thing and why it will expand."

Covid corruption: IMF issues stern warning to Sub-Saharan Africa recipients

By Mariam Meskin

The International Monetary Fund must work with civil society organisations to do more to prevent the misuse of $16bn of critical pandemic-related funds disbursed to Sub-Saharan African sovereigns to help them tackle the impact of the pandemic, according to leading experts.

Since the start of the crisis, the IMF has disbursed more than $31bn in emergency funding to 76 countries, 33 of which are in Sub-Saharan Africa. Similarly, the fund has provided debt relief to 29 of its poorest member countries, a whopping 22 of which are in Sub-Saharan Africa.

However, in a region notorious for the misuse of public funds, promoting the effective use of emergency pandemic financing has become a critical concern.

The IMF issued a stern warning to recipients of emergency funding in Sub-Saharan Africa on Monday in a panel on promoting the effective use of Covid-19 finance in the region.

"Our message to governments is spend what you need to, but keep the receipts," said Antoinette Sayeh, deputy managing director of the IMF. "We are balancing the need for emergency financing against appropriate governance, accountability and transparency to ensure help reaches those in need."

Some worry that for many policymakers and individuals in the region, the crisis has posed as an opportunity to misappropriate public funds.

"We have already started hearing allegations of corruption regarding the use of Covid emergency funds," said Beauty Emefa Narteh, executive secretary of the Ghanaian civil society organisation, Ghana Anti-Corruption Coalition (GACC), who referenced the notorious cases of fund abuse in West Africa during the Ebola crisis, where funds were lost through the payment of salaries to non-existent aid workers.

LIMITED CONDITIONALITY

"Conditionality has been limited in terms of rapid financing facilities by design because this is a moment of solidarity and countries are in dire need. So we had to move quickly and the expectation we have is that resources would be used transparently and would be subject to audits," said Abebe Aemro Selassie, director of the IMF's African department.

© The World Bank Group

Sayeh: balancing need against governance

With African growth expected to decline sharply this year, concerns are mounting. The IMF expects Sub-Saharan Africa's GDP to contract by 3.0% in 2020, according to its world economic outlook on Tuesday. Growth is expected to return to 3.4% in 2021, but with great uncertainty surrounding the vaccination timeline and the fall in oil prices, it will be difficult for growth to reach pre-crisis levels before 2022.

The lack of transparency surrounding facility proceeds provides ample opportunity for corrupt policymakers to fill their own pockets, with few governments publishing details of fund usage, such as whom procurement contracts are awarded to.

China woos Asean countries as US turns on the charm

By Rashmi Kumar

China's foreign minister Wang Yi kicked off a week-long visit to Cambodia, Malaysia, Laos, Thailand and Singapore this week — a move that many see as a direct response to the US recently taking a more active approach to building ties with countries in southeast Asia.

In September, the US launched the first Mekong-US Partnership with Cambodia, Laos, Myanmar, Thailand and Vietnam, offering them funding of about $63m.

Asean, or the Association of Southeast Asian Nations, has emerged as a clear winner in this geopolitical tussle. In the first half of 2020, the 10-member Asean countries overtook the European Union to become China's largest trading partner. And with the looming US presidential elections only expected to push up Trump's anti-China rhetoric, China is looking at Asean as a key trading block.

"The US has been more active in supporting Asean countries recently, and China has been watching," said Hong Kong-based Su Ee Than, managing director of China-Asean Capital Advisory Co and an adviser to the China-Asean investment Cooperation Fund.

"China has long been trying to build diplomatic relationships with the region and trying to secure multilateral collaboration with different countries, but as the US steps up, China will obviously do the same as well."

The motives are clear, given rising US-China tensions under the leadership of Donald Trump since he began his US presidency four years ago.

DEBT RESCHEDULING

Debt has also fueled some of those relationships. The Lao government has about $1bn in payments coming due per year until 2024, but has limited resources to meet these, said Marie Diron, head of Moody's sovereign risk group for Asia Pacific, the Middle East and Africa.

"Laos had large payments due before the pandemic, with the shock of the pandemic increasing its financing needs when it has limited sources of funding," she told *Globa Markets*. "Most of its debt is owed to China, so any debt rescheduling talks will involve China."

Than said that China has not been buying cheap assets due to the pandemic, despite being the first to recover from the health crisis and growth in the country picking up pace.

"China doesn't want to be seen as taking advantage of countries struggling due to Covid," he said. "They haven't gone on a shopping spree like they did after the global financial crisis."


WORLD'S BEST BANK IN
THE EMERGING MARKETS BY
GLOBAL FINANCE
CIB
WWW.CIBEG.COM
/CIBEgypt
A BANK TO TRUST

GlobalMarkets

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

ASSOCIATE EDITOR
Phil Thornton

REPORTERS
Jon Hay
jon.hay@globalcapital.com
Rashmi Kumar
rashmi.kumar@globalcapital.com
Lewis McLellan
lewis.mclellan@globalcapital.com
Mariam Meskin
mariam.meskin@globalcapital.com
Oliver West
oliver.west@globalcapital.com

CONTRIBUTING EDITOR
Nick Jacob

CONTRIBUTOR
Matthew Thomas

PRODUCTION EDITOR
Vicki Robinson

SENIOR OPERATIONS MANAGER
Barbara Fertalova

HEAD OF VISUALS
Gerald Hayes

DEPUTY HEAD OF VISUALS
Rosie Werrett

CEO – FINANCIAL & PROFESSIONAL SERVICES DIVISION, EUROMONEY INSTITUTIONAL INVESTOR PLC
Jeff Davis

CEO OF NEXTGEN PUBLISHING, FINANCIAL & PROFESSIONAL SERVICES DIVISION
Isaac Showman

CEO ASIA
Tony Shale

GROUP PUBLISHER
Oliver Hawkins

PUBLISHER
Melissa Roache
mroache@globalcapital.com
+44 (0)20 7779 8276

SENIOR ADVISOR
Christopher Garnett
cg@chutecourt.com
+447710306856

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

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

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

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

From the publishers of
GlobalCapital

When ambition becomes transformation

The European Investment Bank took a bold step when it announced in November last year that it would end funding for fossil fuel projects, alongside a slew of ambitious targets. This year has been about putting in place the roadmap for its transformation

EIB President Werner Hoyer discusses Europe's strategic challenges, climate and development

The EIB promised last year to step up its commitment to the climate — by the end of 2021, it will end the financing of fossil fuel projects; over the next 10 years, the EIB Group plans to trigger investments of more than €1tr in climate protection and environmental sustainability; and at the same time, theEIB will increase the proportion of such investments in its portfolio from 25% to more than 50% by 2025.

And, by the end of this year, it will have fully aligned all its financing activities with the principles and goals of the Paris Agreement.

It is doing all this amid the economic and health crises created by Covid-19.

"Climate change might not feel like a top priority right now under Covid conditions, but the climate emergency and the environmental emergency are challenges that won't wait for us," says EIB president Werner Hoyer.

"We took a big step forward last year in our decisions on fossil fuel financing and now first of all it is necessary that we live up to our own criteria and ambitions.

"This is something that is a huge challenge for our institution, but if we can meet this challenge we can strengthen our position in the global context and we will be the market pioneer."

Ensuring that Europe is at the forefront of efforts to deal with the twin climate and environmental emergencies is key for Hoyer from a strategic point of view as the union faces a changing world and the need to protect Europeans.

"Everyone is talking only about the US and China. We as Europeans will not play our role in this if each and every Member State tries to go it alone," he says. "Therefore the onus is on European unity now more than ever before.

"Climate and development are two key areas where I think Europeans, to put it mildly, still have a chance and this is why we, as the EU Bank, are so forcefully pursuing our role as the Climate Bank."

ROADMAP AHEAD

But while the ambition of the EIB is to move forward to a world of decarbonisation, a low carbon economy, and more money and more funding for green projects, it knows that realising that ambition requires working with its partners in Team Europe, in the other multilateral development banks and with the private sector.

"Even though we are a very big institution, everything will not be done through us — and actually most of it will require financing from other institutions," says Ambroise Fayolle, who is taking up the reins as vice-president in charge of climate as well as development. "The [involvement of the] private sector in particular will be essential to get to the pass on the green transition and to reach climate neutrality by 2050, the key objective of the European Union."

The immediate task is to approve the Climate Bank Roadmap (CBR) that will set out in detail how the EIB will achieve its ambitions over the 2021-2025 period. The EIB has been consulting with stakeholders and partners since March to deliver on the text, and plans to publish during the fourth quarter.

"Our ambition has to be reflected in an operational framework and this is the goal of the Climate Bank Roadmap that we have started to discuss with our executive board," says Fayolle. "It is important to have this roadmap, to have this operational framework, to deliver our package of projects and contribute significantly to the new Green Deal. I hope it will be agreed after discussion with the board and will set the standards for other institutions and our colleagues in other multilateral development banks to have a future that is more green and that is more low carbon."

DUAL EMERGENCY

Rising to prominence in the CBR is a wider focus on environmental issues — such as biodiversity, ecosystems and land use — as well as climate.

"If anyone was in any doubt that the environmental emergency is as serious as the

Nancy Saich, chief climate change expert: "You can't really seriously address climate change without also addressing the problem we have with nature" climate emergency, they just have to look at the recent WWF report, which shows a 68% biodiversity loss in the last 40 years," says EIB chief climate change expert Nancy Saich. "It's absolutely catastrophic."

Saich says that the EIB's work on climate has given it a much better idea of the need for an approach that cuts across both issues.

"You can't really seriously address climate change without also addressing the problem we have with nature, where we are devaluing nature by destroying forests and polluting the oceans," she says. "Similarly, you can't seriously address the biodiversity, environmental degradation and pollution problem without thinking about climate change as well."

Financing adaptation to climate change — an article of the Paris Agreement — also often means working on broader environmental issues, but without a deliverable target the EIB has found it hard to provide more than roughly €1bn a year so far.

"We need to really seriously address the adaptation goal of the Paris agreement as well as the mitigation goal," Saich says. "By having a climate target and a sustainability target what we are doing is reprioritising and re-emphasising the importance of land and water and we believe it will also help us do a lot more on adaptation."

OCEAN CLEAN-UP

The Clean Oceans Initiative (COI) is one project that has an environmental objective but also provides climate mitigation and adaptation benefits.

The EIB, working in close partnership with Agence Française de Dévelopment and KfW, launched the COI two years ago with a financing target of €2bn by 2023. The three banks finance projects that reduce the discharge of plastics into the ocean — both the estimated

Jonas Byström, lead engineer, waste management: "Plastics end up on the streets get into drainage canals and rivers and and eventually reaches the ocean"

8m tonnes of macro plastics owing to no or poor waste management and the 1.5m tonnes of micro plastics, part of which reaches the ocean through untreated wastewater.

"Together the three banks have provided €1.3bn of finance to 21 projects, so we are well on track," says EIB lead engineer Jonas Byström. However, the EIB is now looking to create a bigger impact through the Clean Ocean Project Identification and Preparation (COPIP) programme, which will identify and prepare replicable projects in sub-Saharan Africa, primarily in the solid waste sector.

The Clean Oceans Initiative is providing €2bn of funding to reduce plastic discharge into the oceans

"The kind of projects that really have an impact are those in the mega-cities in Asia and sub-Saharan Africa, where waste collection can be as low as 20%-30%, and where non-collected waste and plastics end up on the streets and — via drainage canals and rivers — eventually reach the ocean.

"We have a team of consultants looking at the coastal and near-coastal riverine cities in sub-Saharan Africa to identify projects that we and the other COI banks could co-finance and contribute to reducing the discharge of plastics.

"The goal is to identify new institutional, technical and financial structures and solutions that are more efficient or impactful in addressing the problem of ocean plastics. Ideally the projects should have a high potential for replication to reach beyond the projects that we actually do."

Improving waste collection reduces informal waste dumping and burning, and cuts emissions of the powerful greenhouse gas methane, while increasing plastic recycling reduces the carbon footprint compared with using virgin plastics, Byström points out. Improving waste collection also reduces accumulation of waste in drains and canals which reduces flood risks and contributes to the adaptation to the more frequent storms that are a product of climate change. Among its COI projects, the EIB has provided a €50m loan to help Cotonou, Benin, improve stormwater management.

"There you have a double impact — the reduction of plastics and other waste disposed in the ocean, and also a climate adaptation impact from improving the drainage and waste collection systems, thereby reducing the risks and impact of flooding."

While the EIB is already working with AfD and KfW on the oceans project, it is discussing co-operation and is due to announce new partners on this important topic.

"We are looking for new ways to co-operate that enable us to go beyond what we can do on our own — particularly in Asia, where there are many good reasons and opportunities to be involved in clean and sustainable ocean related work," says Byström.

GREEN DEVELOPMENT

The EIB's work in Africa also highlights the nexus between climate and development. Perhaps because 85%-90% of its annual lending takes place in the European Union, it is sometimes forgotten that it is the world's largest multilateral development bank, and provides around €7bn a year outside the EU.

Climate and environment are at the heart of the EIB's development approach, says Saich.

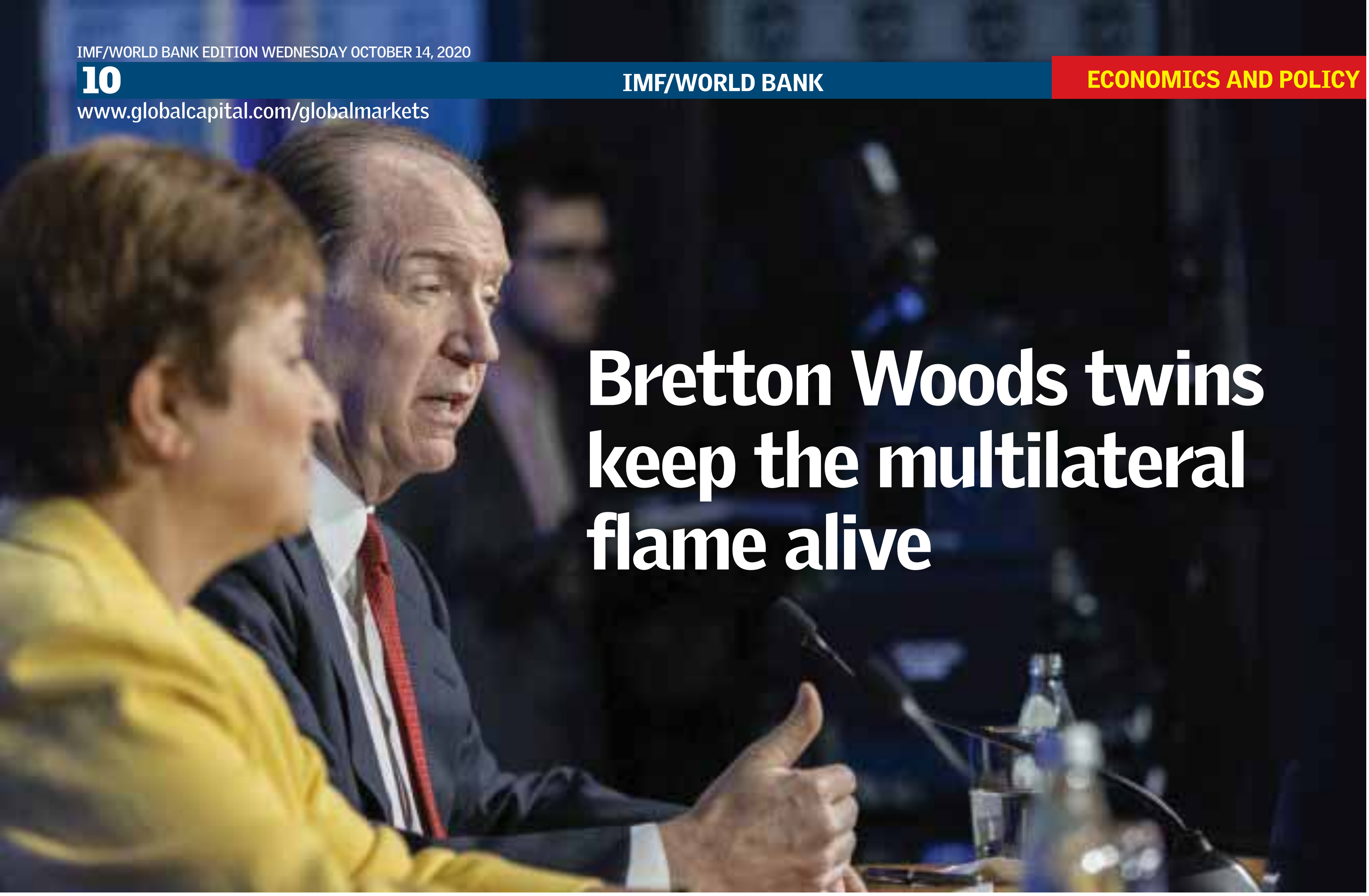
"Some people used to argue that climate is all very well but we've got to do development first," she says. "That argument is dead.

"These countries are more than aware of how vulnerable they are to climate change, how extreme weather is affecting them and we know that if we don't address that then much of the development effort will be undermined.

"Absolutely, you have to address climate and development together — because no development project is worth anything at all if it's washed away."

Almost every country in the world signed the Paris Agreement (and all the countries in which EIB operates), which means that each has a nationally determined contribution to make.

"They need support from public banks like us to help them accelerate what they are doing," says Saich. "We want to help developing countries to leapfrog some of the high emitting activities that the industrialised nations did and achieve the SDGs like access to energy, transport, education and health by going straight to low carbon technologies like renewables and digital solutions." ●



Bretton Woods twins keep the multilateral flame alive

The devastating impact of the coronavirus pandemic on emerging and developing countries has put the International Monetary Fund and the World Bank at the centre of the fightback. This week's annual meetings must set a course for 2021

Swift response
World Bank president David Malpass and IMF managing director Kristalina Georgieva hold a press conference in March to address the economic challenges posed by the Covid-19 virus.

By Phil Thornton

Cometh the crisis, cometh the man. Or in this case, a man and a woman. International Monetary Fund managing director Kristalina Georgieva and her opposite number at the World Bank Group, David Malpass, have become household names over the past seven months.

This is especially so in the towns and cities of emerging markets and developing countries that have looked to the two multilateral lenders, known as the Bretton Woods Twins from their birth at the eponymous World War II conference, for help.

The economic damage caused by the outbreak of the Covid-19 pandemic, the lockdown on consumer and corporate behaviour, and the huge amount of public money needed to pay for those issues have left emerging markets reeling.

The rapid globalisation of the infection left national policymakers with little choice but to impose quarantines on their populations and shut down large sections of their economies. Given the impact on their public finances, they were going to need assistance — and fast.

The two international financial institutions reacted swiftly, as most observers agree. The World Bank, which focused on the least-developed, developing and some middle income countries, has intervened with a package of loans and grants.

Anshula Kant, the World Bank Group's chief financial officer, says it will be providing up to $160bn in financing tailored to the health, economic and social shocks countries are facing over the 15 months to June 2021. This will include $50bn on grants and highly concessional terms to the world's poorest 73 countries that are members of its International Development Association.

"The World Bank Group's emergency health responses are already under implementation in more than 110 countries, which includes addressing transmission issues related to the pandemic," Kant told an audience of capital market executives in London by Zoom on the eve of the meetings.

Meanwhile, the International Finance Corporation, the Bank's arm that lends to emerging market companies, is deploying $8bn in fast-track financing, with almost 300 businesses requesting support.

In the IMF headquarters on the other side of 19th Street in Washington DC — although more likely from their own front rooms — Georgieva and her fellow executives have taken similarly decisive action.

The IMF says it will make $250bn, a quarter of its $1tr lending capacity, available in the form of debt relief from the Catastrophe Containment and Relief Trust. So far, it has provided $89bn of financial assistance, mainly through emergency lending and precautionary lending tools, to about 80 countries — of which $30bn has gone to the poorest countries.

"It certainly would be, I believe, a crushing blow to the developing world if they don't extend some of these debt moratoriums at this meeting."

—Josh Lipsky, Director of Programs and Policy, GeoEconomics Center of the Atlantic Council

"You would be naive to expect that the annual meetings of the IMF and World Bank — two weeks before the most consequential and contested election in the largest economy that is the biggest shareholder in these institutions — are going to produce any major decisions."

—Masood Ahmed, President, Center for Global Development

For now, the jury is out, with the IFIs being praised for their initial speed but slammed for the amount of intervention.

"I don't know whether proactive is the right word, but they were very responsive," says Paul Cadario, a fellow at the Munk School of Global Affairs and Public Policy at the University of Toronto.

"Going back to the first week of the pandemic, the Fund really had the messaging down — that governments must devote resources to fighting the health consequences of the pandemic, to protecting family income, to protecting small businesses, and to making sure that there was not a range of bankruptcies that led to asset deflation."

But Masood Ahmed, president of the Center for Global Development and a former IMF executive, says the fund needs to ramp up its financing, particularly for poorer countries. He says that the IMF currently has the capacity to provide $30bn of concessional finance — grants or low-rate loans — but it should be allowed to raise that to $100bn. "For the next five years, that is how these poorest countries are going to get their development finance," he says.

"These meetings are a good opportunity to start building a consensus on what is the size of that number and how could it be financed," Ahmed adds, raising the idea of further sales of gold reserves.

Emerging markets will also need financing over the coming years, but this will come mainly from international financial markets that are becoming increasingly risk-adverse. Ahmed says the IFIs can take a big role: "They need to think about how they can do risk mitigation, introduce a whole bunch of credit enhancement instruments and think much more creatively of ways in which they can bridge these countries back to the market."

SEVEN-MONTH STOCKTAKE

High profile bust-ups are unlikely at this week's annual meetings, as the several hundred finance ministers and central bankers who flock to Washington along with hordes of financiers, campaigners, think-tankers and media will in reality be staying at home. Almost all meetings for both IFIs will be held by Zoom or similar platforms and the ability to cross-examine and question executives will be minimal.

But given that it is seven months since the imposition of lockdowns around the world, this week will be a good opportunity for both Bretton Woods twins to find out from members how successful their interventions have been and what steps they should take next.

Cadario, who joined the World Bank in 1975 and played a number of roles — including nearly two decades with the World Bank's frontline development programmes in Western Africa and China — sees the meetings as an opportunity.

"One of the things that I will be looking at Mr Malpass and Axel van Trotsenburg, the managing director for operations, [to do] is a stocktaking — however preliminary — on the extraordinary effort the Bank and the IFC went to, in the spring, to put all this money at the disposal of countries to fight the pandemic," he says.

"What we should all be looking for, when they get together virtually for the annual meetings, is 'let's have stocktaking about the resources that were deployed and what happened'."

In the case of the Bank, a lot of the money went towards public sector procurement for crucial equipment — personal protective and other medical equipment such as masks, gowns, respirators, hospital beds, ventilators, oxygen cylinders, and ambulances.

For Cadario, given that some governments struggled to get hold of equipment while major economies such as the US were able to source vast quantities, the question is whether the Bank should have ensured more equitable distribution. "Is there a good story to tell there?" he asks.

While for some countries it may be clear that the Bank and national governments stepped up to the challenge, as they have done in the past when dealing with the aftermath of a tsunami or other natural disaster, others have been hit hard.

Alternatively, there may be certain places where they fell short in this area and where lessons can be learned, both for a future crisis and for any second wave of Covid-19.

"Some of it is going to be very anecdotal and very preliminary," Cadario says. "But nonetheless, there are probably areas that got money from the Bank and the Fund where there will be stories to be told, and they will be successful. And we need to hear those stories because they reinforce the need for multilateral action and the importance of the knowledge, experience and agility of the IFIs in these situations."

Josh Lipsky, director of and policy and programmes at the Atlantic Council's GeoEconomics Center, which advocates a multilateral approach, says that a strong personal relationship between Georgieva and Malpass has helped the two organisations work together.

Georgieva was recruited from the Bank, where she was its first chief executive, to head up the fund. "There's a personal connection here that works in favour of her knowing the bank well, and knowing David Malpass, and them understanding each other, and that does make it easier," Lipsky says.

He adds that the fact that Malpass was a member of the Trump administration, which in effect appointed him and backed Georgieva's nomination, means that the White House has not criticised his actions (or Georgieva's). "There is not a natural distrust of these international institutions, as there is with some of the others."

Since the election of Donald Trump almost exactly four years ago, the White House has acted to undermine many of the other institutions that are seen as part of the post-World War II compact.

The World Trade Organization lacks enough judges to hold hearings on trade because the US refuses to approve nominees to fill vacancies on a crucial appeals panel. Its director general, Roberto Azevedo, has quit a year early.

The other Geneva-based multilateral, the World Health Organization, has also been caught in the crosshairs of Trump's Twitter account, with the president branding it a "puppet of China".

The one time the White House locked horns with the IMF was over a proposal for the fund to issue $1tr of its own currency, the Special Drawing Rights, to boost its ability to inject money where it was needed at short notice. The Group of 20 nations, including the US under former president Barack Obama, approved a similar liquidity injection in the middle of the 2009-2010 global financial crisis.

The US objected because some new money would have been allocated to IMF members in accordance with their quota share, meaning more resources going to strategic rivals such as China, Iran and Venezuela.

DEBT AND TAXES

Despite the multi-billion handouts by the two IFIs, the huge accumulation of debt by governments in the fight against the virus could create problems that the IMF and the World Bank have become familiar with over the past decades.

©IMF

IMF Photo/Cory Hancock; Xinhua News Agency/PA Images

The Covid-19 pandemic has greatly extended the list of emerging economies and developing countries in debt distress. "Not only are numerous especially low income countries already having debt distress, but many more will fall into debt distress as this crisis continues," World Bank Group chief economist Carmen Reinhart told a podcast on the eve of the meetings.

So far, however, the shock of the virus has been confined to the poorest countries and has not exploded into a full-blown middle-income emerging market debt crisis.

Emerging markets have benefited from low borrowing costs and benign liquidity conditions, thanks to interventions by central banks and continued strong demand by private investors.

According to the IMF, emerging market governments issued $124bn in hard currency debt during the first six months of 2020, with two-thirds of the borrowing coming in the second quarter.

Lipsky echoes Cadario's praise for the IFIs' rapid reaction, and adds that in the early stages it became more flexible in its response than it had traditionally been.

"In the first few months there were these new flexible arrangements," says Lipsky, a former senior communications adviser at the fund. "But I think as the crisis went on, as always happens, some of the old procedures came back a bit, and some of the flexibility and creativity eased — and it needs to continue to ramp up, as opposed to scaling back. I'm confident they can do it."

Mounting budget pressures have been accompanied by a new wave of sovereign debt credit ratings downgrades, surpassing peaks during earlier crises and raising the prospects of defaults.

Kenneth Rogoff, a professor of public policy and of economics at Harvard University, who wrote a keynote book, *This Time Is Different*, jointly with Reinhart a decade ago, says history has shown that it is not unusual for countries to keep borrowing even when default risk is high.

"Amid massive and synchronous financing needs across a broad swath of countries, there is brewing in the background a growing need for debt restructurings in numbers not seen since the debt crisis of the 1980s," they wrote in an article for the IMF with two other professors. "Official creditors should be prepared to act as needed."

The World Bank and the IMF have taken the lead on the idea of some form of debt relief. It was in response to their pressure that the finance ministers of the G20 agreed in February to suspend debt interest payments on their bilateral official loans.

However, the impact of this initiative has been underwhelming. Masood goes much further, saying the international response has been "woefully inadequate". It had initially aimed to provide $20bn of relief, but, so far, 41 of 73 eligible countries have applied and only about $5.3bn of payments have been postponed. The private sector and countries outside the Paris Club of mainly industrialised nations had not participated as fully as expected by the G20.

Malpass and Georgieva are certain to use the annual meetings (which also include a summit of G20 finance ministers) to push for a deal to reduce the stock of debt hanging over the poorest countries. "Malpass has been turning up the temperature recently, saying there really needs to be more involvement from non-Paris Club countries, there needs to be involvement from commercial creditors; neither of these have come forward," Cadario says.

Lipsky says he will be disappointed if a deal is not agreed to extend the reach of timeline of the debt forgiveness programme. "It certainly would be, I believe, a crushing blow to the developing world if they don't extend some of these moratoriums at this meeting."

He added that the US would be right to press China, which was praised at the spring meetings for its participation as a non-Paris Club member, to be more transparent about which state-owned entities were participating in bilateral debt relief.

"It turns out there were a lot of exemptions from the Chinese side," Lipsky says. "And that has raised a lot of eyebrows about what the commitment really means. I think you will see this from the US, pushing China to live up to what they said at the last meetings."

'NOT A TYPICAL TIME'

Despite the need for action, it is unlikely there will be much concrete progress at the annual meetings because of the US political timetable, Ahmed says.

"You would be naive to expect that the annual meetings of the IMF and the World Bank — two weeks before the most consequential and contested election in the largest economy that is the biggest shareholder in these institutions — are going to produce any major decisions," he says.

"But that's not going to stop both institutions from coming up with clear signals and there's nothing to stop shareholders sending clear instructions to the institutions on what they want them to come up with."

Lipsky hopes the IMF will use the meetings to start a debate over the future of capitalism, something that, he says, Georgieva is well placed to do, given her upbringing in the former Soviet Union.

"When you have two economic crises within the span of a decade, the faith, especially for younger people, is shaken to its core," he says, adding that they must "touch into some of the roots of the Bretton Woods system" when thinking about the reforms that will be needed.

"I think that conversation would go a long way and it's, frankly, not typical of the meeting. But this is not a typical time." GM

China shines as Asia scrambles to respond to Covid-19

The coronavirus has forced dramatic fiscal responses from Asian governments. But it has also cast a spotlight on crucial differences between economies in the region — with the likelihood that China will emerge from the crisis even stronger

By Matthew Thomas

For a frightening example of the economic damage wrought by the coronavirus, you need only look at Sri Lanka.

The country's government has been remarkably successful at containing the spread of Covid-19, with just 3,380 cases by October 1, according to data from the John Hopkins Coronavirus Research Centre. But that has not stopped the sovereign being downgraded by all three major rating agencies — with Moody's Investors Service cutting Sri Lanka's rating by two notches on September 28, dropping it to Caa1.

It doesn't matter that Sri Lanka has managed to contain the spread of the virus through a severe lockdown between March and May. The key consideration for rating agencies — and global investors — is the vast economic impact. Sri Lanka, a country that relied heavily on tourism before the pandemic effectively brought air travel to a halt, has no easy alternative to its lost revenues. The Asian Development Bank thinks the economy will contract by 5.5% this year.

The country also suffered from weak public finances going into the crisis, something that has severely limited its room for manoeuvre. Sri Lanka's debt-to-GDP ratio was 86.8% at the end of 2019, according to data from the central bank. The country has about $4bn of offshore debt that needs to be repaid before 2025, including a $1bn bond due in October, which will probably have to be repaid from Sri Lanka's foreign exchange reserves.

Sri Lanka's experience is only one among many in Asia but its example points to a few things that investors, analysts and policymakers need to consider when weighing up the likely economic impact of the crisis, says Stephen Schwartz, head of Asia Pacific sovereign ratings at Fitch Ratings in Hong Kong.

"In assessing the impact of the coronavirus and policy responses, you need to look at the structure of the economy — for example, is it very reliant on tourism revenues or remittances?" he says. "You also need to consider how much success the government had in stopping the domestic spread of the virus. But it's also important not to overlook how much policy flexibility governments actually had going into the crisis. Emerging market governments, especially those with high public debt going into the crisis, have had less room and have been less able to act quickly to fight the impact."

How do Asian governments compare when weighing up these considerations? The region can be broadly divided into two large groups: developed countries with plenty of spending power, such as Korea, Japan and Singapore, and emerging markets such as Indonesia and the Philippines, which have largely been eager to avoid spending too much, aware that unwinding stimulus is much more difficult than implementing it.

These are very broad strokes. Malaysia, by most definitions still an emerging market, has enacted an impressive fiscal spending package, pledging stimulus worth up to 19.7% of GDP, according to data from Standard Chartered. Japan, although rich enough to announce ¥234tr ($2.22tr) of stimulus, did it despite ending 2019 with a government debt-to-GDP ratio of about 230%, something that would topple almost any other government.

There are other considerations missing from this equation. Schwartz points out that

> *"The basic assumption is that sometime in the middle of next year we will have an effective vaccine, but I'm not even sure about that"*
>
> *—Carlos Dominguez, finance minister, the Philippines*

REUTERS/Thomas Peter

REUTERS/Dinuka Liyanawatte

"Emerging market governments, especially those with high public debt going into the crisis, have had less room and have been less able to act quickly to fight the coronavirus"

—Stephen Schwartz, head of Asia Pacific sovereign ratings, Fitch Ratings

"China's response to the coronavirus put a lot of emphasis on getting manufacturing going and getting the export engine started again"

—Steve Cochrane, chief Asia Pacific economist, Moody's Analytics

being able to rely on support from multilateral institutions such as the International Monetary Fund has proved a crucial differential for some countries. Sri Lanka, which has a combative history with the IMF, has not secured emergency funds from the lender. Pakistan, which has proved more willing to accept the restrictions that come with loans, has been offered a $1.44bn facility.

But these factors offer the best way of understanding the likely outcome of Asian economies in the wake of the crisis. By considering structural differences, the strength of public finances and the ability of governments to contain the spread of the coronavirus, economists have their best chance of identifying those countries that will emerge from this crisis the strongest. The odds appear to favour China.

MEASURE BY MEASURE

Every country in Asia has taken major steps to address the economic impact of the coronavirus. Singapore's reserve-funded stimulus has reached 20% of GDP, according to Standard Chartered. Hong Kong officials, who have also dipped into their country's reserves, have pledged 10%.

Indonesia has scrapped its 3% budget deficit cap, announced Rph695tr ($46.8bn) of spending and moved towards debt monetisation, with the central bank buying government bonds in what officials stress will be a one-off. India, which some have criticised for doing too little, has still pledged 10% of GDP, although StanChart calculates only 1.8% of that is direct stimulus.

Governments are being forced to perform a balancing act between fighting the economic impact of the virus and making sure they don't go too far — putting in place stimulus measures they will later struggle to unwind. Some government officials also admit that they are nervous about running out of bullets before the battle is over.

"The basic assumption is that sometime in the middle of next year we will have an effective vaccine, but I'm not even sure about that," says Carlos Dominguez, finance minister of the Philippines. "I think we are looking at a longer period. That's why we need to keep our powder dry. We can't spend all the money in the first blast."

China's response has been somewhere in the middle of the pack, less aggressive than the packages seen in Malaysia, Singapore and Hong Kong but much more nuanced than regional rival India (*see Friday's GM article on India's response*).

The People's Bank of China has been active, cutting the reserve requirement ratio, providing banks with cheap loans to extend to SMEs and leaning on the nation's giant state-owned lenders to share the burden through cuts to fees and lending rates that looked set to cost China's banks the bulk of their profits for the year.

The monetary response may have been less aggressive than elsewhere in Asia — where large asset purchases have accompanied steep rate cuts — but the fiscal package has been even more restrained.

The response of Asian governments attempting to stem the economic effects of the coronavirus has focused on minimising the damage to households and small and medium-sized enterprises. The aim is simple: keep consumer spending ticking over and ensure that vulnerable SMEs, often seen as the real engines of growth, do not collapse before they have a chance to contribute to the recovery. China's government has taken a different tack.

"China's response to the coronavirus put a lot of emphasis on getting manufacturing going and getting the export engine started again," says Steve Cochrane, chief Asia Pacific economist at Moody's Analytics. "That paid off. They got supply chains moving quickly and as soon as the rest of the global economy started to pick up a bit, Chinese exports starting to rise again. It was a really remarkable success story for China."

The country's exports grew by 9.5% in August, partly a result of rising exports to other Asian countries, particularly Taiwan and Vietnam.

The success of China's exports is partly a result of it having more time to react to drags, not just the coronavirus but a decrease in exports to the US, which started in 2019. China's exports are likely to end the year flat to 2019, says Tao Wang, chief China economist at UBS — not a bad result, given the carnage of this year.

China might have been expected to take a no-holds-barred approach to fighting the impact of a pandemic that started within its own borders. But the government has had more success in containing the spread of the virus than some rich nations. Although there are reasonable questions about the reliability of official data, by October 1 there were 90,545 cases in China, according to John Hopkins. In the US, more than 7m had been infected.

Policymakers in China were also aware that a huge response to the pandemic would undermine some of the reforms taken over the past few years, particularly an attempt to lower financial leverage in the economy by curtailing shadow banking and improving credit standards at banks.

"Earlier this year, we were concerned the policy response in China might be too forceful, giving up some of the gains they have made in terms of deleveraging," says Schwartz. "But the government has actually been relatively restrained."

China's fiscal response is certainly not negligible. It has pledged about Rmb5.4tr ($795bn) of direct stimulus, equivalent to about 5.4% of GDP, according to Standard Chartered. But its relatively measured approach and the evident results inspire more optimism than many of its neighbours.

Economists warn that it is too early for policymakers in China or anywhere else to relax. There is still no vaccine and the chance of second and third waves is a very real threat for economies across Asia. But for now, Chinese citizens appear much more optimistic about their economy than those elsewhere in the region.

In late September, fund manager Fidelity International published the results of an investor sentiment survey tracking responses from China, Hong Kong, Japan and Singapore. About 60% of Chinese investors said they expected their economy to have fully recovered within 12 months, compared with 27% in Hong Kong, 21% in Singapore and just 10% in Japan.

Perhaps China can help other countries endure the crisis. The Chinese Communist Party has already adopted some forms of soft diplomacy, shipping face masks and other medical equipment to emerging nations, although some countries have complained about the quality. China also said it will write off loans to some African countries and promised vaccine loans to South America.

But the real aid will come from new loans. In that regard, there is some good news for Sri Lanka. China Development Bank has lent the country $1.2bn. GM

GlobalMarkets Special Report

CEE Sovereign Issuance

In association with

ÁKK – Government Debt Management Agency Pte Ltd.

中国银行 BANK OF CHINA

Raiffeisen Bank International
Member of RBI Group

Banking reports

GlobalMarkets

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

REPORTER
Oliver West
oliver.west@globalcapital.com

CONTRIBUTING EDITOR
Nick Jacob

HEAD OF VISUALS
Gerald Hayes

DEPUTY HEAD OF VISUALS
Rosie Werrett

SENIOR OPERATIONS MANAGER
Barbara Fertalova

PRODUCTION EDITOR
Vicki Robinson

CEO – FINANCIAL & PROFESSIONAL SERVICES DIVISION, EUROMONEY INSTITUTIONAL INVESTOR PLC
Jeff Davis

CEO OF NEXTGEN PUBLISHING, FINANCIAL & PROFESSIONAL

SERVICES DIVISION
Isaac Showman

CEO ASIA
Tony Shale

GROUP PUBLISHER
Oliver Hawkins

PUBLISHER
Melissa Roache
mroache@globalcapital.com
+44 (0)20 7779 8276

SENIOR ADVISOR
Christopher Garnett
cg@chutecourt.com
+447710306856

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

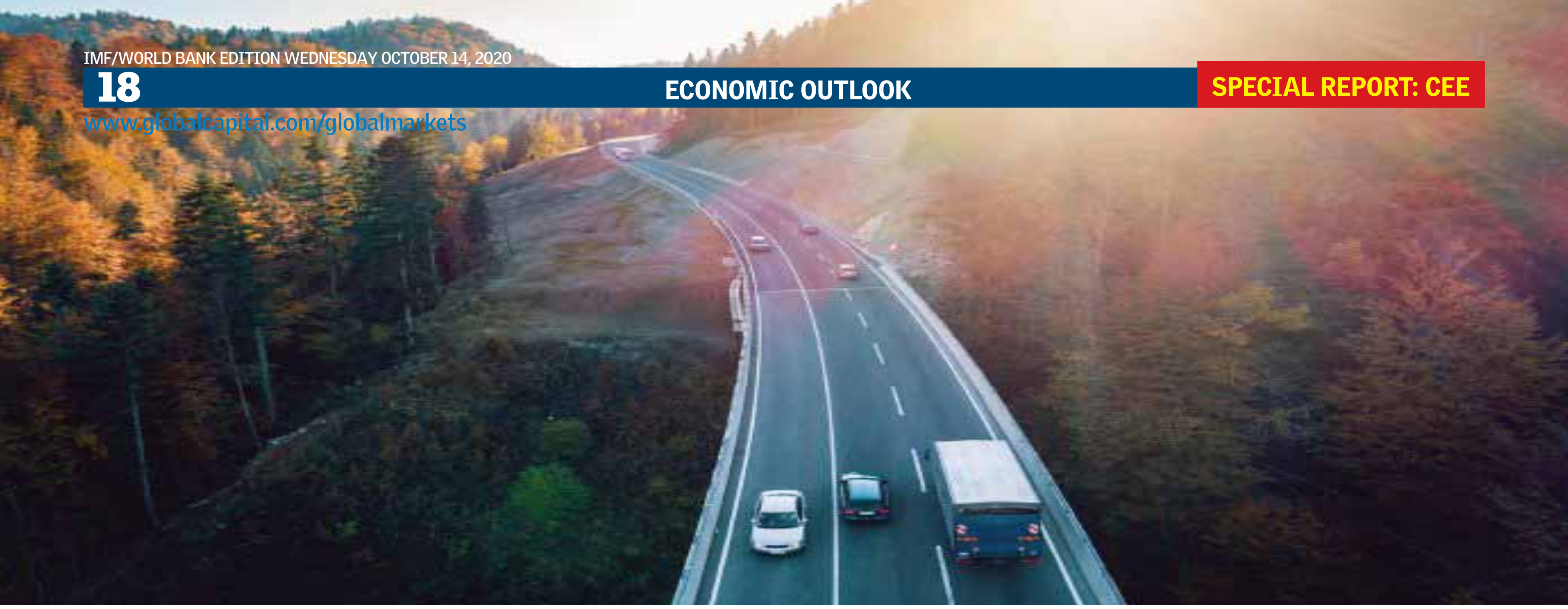
RUSSIA & CIS PUBLISHER
Alex Korol
akorol@euromoney.com
+7 903 720 8050

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

ASSOC. PUBLISHER, MIDDLE EAST &

TURKEY
Kaersi Jilla of MEIAC
k.jilla@meiac-uk.com
(UK): +44 (0) 797 384 310
(Dubai): +971 4 4548690

From the publishers of GlobalCapital



CEE economies well placed to resist second wave risks

Fears of another spike in coronavirus cases are dampening optimism that Central and Eastern European economies would charge out of recovery. But a strong starting position and the EU's huge support packages mean the region is better placed than most

By Oliver West

Such was the demand shock from coronavirus that inflation is hardly a topic of discussion in most of the world. "Policy stimulus won't boost inflation in the near term," wrote Capital Economics in September, predicting "subdued" price increases over the next few years.

The CEEregion did not get the memo. After an initial inevitable hit to headline inflation, prices in many countries rebounded over the summer as the majority of the region controlled the virus quickly.

"While core inflation has been going down almost everywhere, in Eastern Europe we have seen the opposite: demand recovered so quickly that retailers increased prices," says Marek Drimal, EMEA strategist at Société Générale. "People were spending like there was no tomorrow, which is a heritage of recent years of economic growth, bringing higher wages and purchasing power."

Core inflation in Poland hit a two-decade high in July. Though acknowledging that there are several factors contributing to inflation in Poland, minister of finance Tadeusz Kościński says this demonstrates that "the economy is still working".

HANGOVER LOOMING?

Indeed, Ed Al-Hussainy, senior interest rates and currencies analyst at Columbia Threadneedle Investments in New York, notes that, by some measures, certain CEE economies were "overheating" in the years leading up to 2020.

A strong starting position allowed CEE to survive the first few months of the coronavirus crisis with less severe economic damage than most of the world.

Several countries in CEE started out with a "very good" fiscal position, and were quick to react to the crisis, says Dan Bucsa, chief economist for CEE at UniCredit.

"Poland stands out for the volume and timeliness of its measures to defend the economy," he says. "Poland and Romania have some of the most diversified fiscal packages worldwide."

While CEE's eurozone members benefit from ECB monetary stimulus, other regional central banks dipped into the unorthodox toolbox: Poland, Czech Republic and Romania joined Hungary in implementing quantitative easing programmes.

Moreover, CEE countries — with some exceptions — mostly brought the spread of the coronavirus under control speedily. In Prague, locals held a farewell party for the virus on June 30, and governments generally lifted restrictions quickly.

By mid-September, however, there were concerns that the region would suffer quite the hangover. Capital Economics said in late September that Czech Republic, Hungary and Slovakia were experiencing some of the worst outbreaks of coronavirus on a per-capita basis. Poland registered its worst day of infections on September 24, only to break that record the following day.

At that stage, at least, governments seemed hesitant to lock down their economies. Bank of America noted after virtual meetings with regional policymakers in mid-September that there was a "bias for a softer approach towards virus containment policies".

Florin Cîțu, Romania's finance minister, tells *GlobalMarkets* the government is prepared for a second wave and would "not be putting the country back in lockdown", a message echoed by Kościński of Poland, who says that the authorities may look at

The road ahead
The Karaula overpass in Bosnia and Herzegovina

Steve Allen Travel Photography / Alamy Stock Photo

HUNGARY KEEPS FUNDING ON TRACK AMID COVID STORM

GOVERNMENT DEBT MANAGEMENT AGENCY PTE LTD.

Á | K | K

The economic impact of Covid-19 has pushed up sovereign funding requirements around the world but while Hungary is no exception, the strategy of its Government Debt Management Agency (AKK) has left it in a strong position to weather the impact.

The country's approach of terming out the debt owned by its large domestic retail investor base, developing its domestic institutional market at the long-end, and continuing to prove international market access while reducing its dependence has stood it in good stead, says Zoltan Kurali, chief executive of AKK in Budapest. However, the Covid crisis has forced constant reassessment and realignment of its funding activities.

Kurali, who spent seven years at Citi and then 13 years at Deutsche Bank, answered his country's call to run AKK in September 2019. "I didn't expect that 2020 would be such a test when I took the job," he says wryly. "But the experience I had in advising sovereigns across CEE during the great financial crisis and the eurozone crisis was helpful preparation."

A forecast budget deficit of 1% of GDP at the start of the year, grew to 3% in the early Spring — and has since widened to 7-9% — while the economic lockdown initially led to concerns that retail funding would dry up as investors wouldn't leave home to queue up to buy bonds as usual in bank branches or state treasury offices.

Since around a quarter of the country's debt stock is owned by households through the retail bond market, a lengthy Covid lockdown could leave it dependent on the domestic wholesale or international markets. And so while, AKK remains committed to keeping its FX debt below 20% of GDP, it decided to get out ahead of the potential problem and issue a €2bn dual-tranche six and 12 year deal in April, becoming the first non-eurozone sovereign to bring a new syndicated bond after Covid.

"The markets are interlinked so to make sure that all investors are assured, we needed to show we have access to liquidity and size — and once that is done we can take care of the day-to-day business," says Kurali.

"The really good thing with that transaction was that we got attention from the investors that we wanted to see — continental European asset managers. We reached out to these investors and it certainly helped that I had visited investors in Germany before Covid struck."

Covid also forced a change in AKK's long-standing plans to issue its inaugural green bond after working hard last year to put a robust framework in place. It's original aim was to issue in Asia, either in China or Japan, and target only a relatively small size.

"When Covid hit, it turned out that we had a much more sizeable green expenditure — around €1.1bn in a year and enough that we could target a benchmark-sized euro deal," explains Kurali. Hungary raised €1.5bn from the 15 year debut.

"WHEN COVID HIT, WE HAD A SIZEABLE GREEN EXPENDITURE — AROUND € 1.1BN IN A YEAR AND ENOUGH THAT WE COULD TARGET A BENCHMARK-SIZED EURO DEAL"
—ZOLTAN KURALI, CHIEF EXECUTIVE OF AKK IN BUDAPEST

With €500m remaining in AKK's €4bn international issuance plan for 2020, it turned to the Samurai market in early September, pricing a ¥62.7bn (€498m) issue with three, five, seven and 10 year maturities. The two long term tranches were issued in green format, making Hungary the first foreign sovereign to issue a green bond in the Samurai market.

In the domestic wholesale market, AKK worked to ease the operational shock faced by its primary dealers going into lockdown at the same time as having to cope with one of the worst liquidity crises in recent history. It temporarily relaxed some of its rules for its primary dealer group, widening the maximum bid-offer spreads, for instance.

It also worked in lockstep with the central bank which introduced a new fixed rate collateralised term lending facility, with AKK increasing the frequency of its bond auctions to match the weekly liquidity window. Hungary's quantitative easing programme also played to AKK's strategy, efficiently targeting the long-end of the domestic curve and allowing AKK to issue 10 year to 20 year bonds into the bid, and helping raise the average maturity profile from below four years at the start of 2020 to nearly five years by the start of September.

"It's an efficient and targeted government bond purchase programme, so far just below 1% of GDP but has largely kept long-term yields in check despite the significantly higher issuance," says Kurali. "The way we approached our increased funding requirement was to get a large portion of funding done first in the FX market, then the central bank measures have supported the domestic institutional market while the retail market has come back on track."

Indeed, after the worries in March about the retail market, households have returned to buying bonds, buoyed by the guaranteed positive real yields that Hungary offers on new series of popular 'Plus' bonds launched last summer.

"Now, 90% of the retail bonds we sell are three to five year maturities instead of the one year bonds we used to sell, and that is a maturity conversion for which we are willing to pay," says Kurali. "We also reduce our exposure to market and FX risk and create a counterbalance to the institutional market."

It's taken a similar approach in the institutional market, using a switch programme to extend maturities, and together the changes mean that its annual refinancing requirement, which was stubbornly around 20% of GDP for years despite a falling debt-to-GDP ratio, will be closer to 10% in coming years.

"It's a healthier and longer maturity profile and obviously if the global interest rate cycle does turn, then we are ready because our exposure to repricing is much lower," he notes.

As part of this push towards the long-end of the curve, AKK introduced a new total return index for its medium and long-dated issuance, the HMAX index at the beginning of the year.

"We're trying to encourage pension funds and other longer duration portfolios to benchmark against HMAX," he says. "Additionally, you also need an efficient Hungarian forint interest rate swap market that is cleared to make long term bonds more liquid and allow a wider group of investors to be able to manage their risks using cleared swaps. " ●

"localised intervention, if necessary".

Even if the virus remains under control in CEE countries, however, they will be affected by weaker external demand as the entire world attempts to climb out of recession.

"[CEE economies] were able to absorb the economic shock relatively well, but the recovery from here will very much be a function of how quickly Europe goes," says Al-Hussainy. "It would be unusual for the likes of Poland and Hungary to go gangbusters without European manufacturing recovering, for example."

Several CEE economies are highly reliant on the car industry, which accounts for 13% of GDP in Romania and Slovakia, and 10% in Czech Republic, Hungary and Slovenia, according to Scope Ratings. Tourism, one of the world's hardest hit sectors, is a major driver of GDP in Hungary, Croatia, and other Balkan states.

POLISHED PERFORMANCE

Poland, too, has important car and tourism industries. Yet the economy is far more diversified — cars account for less than 3% of GDP. This diversification, coupled with the forceful economic policy response, means it is viewed as a likely outperformer.

"The rebound is likely to be stronger in countries where domestic demand plays a more important role in GDP, such as Poland," says Bucsa of UniCredit. "Slovakia, Hungary and Czech Republic had a deeper trough and are likely to lag in the recovery."

Minister Kościński says that, on "conservative estimates", Poland's economy will contract by 4.6% in 2020, and grow by 4% in 2021.

"By this time next year, the economy will be where it was in December 2019," he says. "We are going to be a year ahead of some countries."

Unemployment had only risen to 6.1% by July, up from 5.5% in February, and wages have continued to increase, the minister points out.

FISCAL SPACE REMAINING

Moreover, though Poland will not be immune from another wave of Covid-19, any further economic hangover could be dealt with. Al-Hussainy believes that, given the fiscal space and the central bank's capacity to intervene, "there is scope to borrow more" if necessary. Neither analysts nor Kościński appear concerned about the increase in Poland's debt-to-GDP ratio, given its broad access to financing.

So far, the largest economies in CEE seem well positioned to offer further stimulus, should the winter prove to be bleak in terms of the virus.

"If the second wave continues to advance, the question is: are countries going to need a new lockdown, and how bad will it be?" says Drimal. "Though CEE governments will support businesses and others, can they withstand another drop in demand?"

In some cases, fiscal support that has already been announced is likely to last for a while yet.

Marjan Divjak, director general of the treasury at Slovenia's ministry of finance, says that the ministry's estimates suggest that "the take-up of [the most important stimulus] measures will come later in the year and will have a positive effect in the recovery phase". In Romania, minister Cîțu believes that 6% of GDP already announced is "significant" for such an economy, suggesting there will not be a need to expand the stimulus.

Where analysts are asking for more action is Hungary, which Bucsa calls a "clear laggard" in terms of fiscal spending, saying the stimulus arrived late and was mostly covered by transferring funds from other types of budget expenditure.

While Hungary's central bank continues to expand its bond purchases in the belly of the curve, despite a short-term rate hike in September, it is more important that the country implements a "proper fiscal response" says Drimal. He believes the government has "surprisingly, not been very aggressive".

"As the second wave continues, we will want to see governments across CEE seeking to prevent massive layoffs and defaults, just like Poland, Czech Republic and Western Europe did in the first wave," says Drimal.

HANGOVER CURES

Even countries struggling with domestic stimulus plans, however, may receive a major helping hand. First, the EU's €100bn SURE (Support

Romania

All eyes on elections in Romania amid pension battle

Florin Cîțu, Romania's finance minister, is in defiant mood as he speaks to *GlobalMarkets* from the campaign trail ahead of a busy election cycle.

The previous day, September 22, parliament had voted to amend the budget to increase pensions by 40% — instead of the 14% increase that the National Liberal Party (PNL)-led government, which has a minority in parliament, had implemented.

With Romania rated Baa3/BBB-/BBB- and on negative outlook with all three major agencies, the higher increase — if implemented — would almost certainly push the country into sub-investment grade territory.

The PNL, which markets hope will win a majority at parliamentary elections in December, still has options to block the move, including the president returning the bill to parliament and challenging it at the constitutional court.

"The pension issue is non-negotiable," says Cîțu. "A 40% increase is not going to happen, and this is our clear message to the market.

"I kept my word about increasing pensions: we did an increase of 14% that everyone has agreed is OK, and we will stick by this. We have the tools to stop the 40% increase from happening."

Nonetheless, analysts are concerned. Extremely expansionary fiscal policy under the previous government — which was led by the same Social Democrat Party (PSD) that is pushing the 40% pension increase and has the largest share of seats in Romania's hung parliament — has left the country running dual deficits.

Marek Drimal, EMEA strategist at Société Générale, says that the current account is approaching "dangerous levels".

Florin Cîțu, finance minister of Romania

Inquam Photos/Octav Ganea via REUTERS

Moreover, "now that the parliament has approved a 40% pension increase, we think the risk of a downgrade has increased significantly", he says, adding that the currency "also looks vulnerable".

Dan Bucsa, chief economist for CEE at UniCredit, highlights that the move will bring challenges down the line.

"If pensions in Romania do increase by 40%, at first the country would probably have to issue more debt, but eventually it would have to reduce the deficit and increase taxation," he says.

For now, rating agencies have not reacted, with some believing they are waiting for elections. But Fitch has warned that the 40% increase would lead to annual government spending rising by 4% of GDP.

Bank of America economist Mai Doan said in a September 21 note that "all hopes [were] on PNL".

If the PNL wins, markets can expect a "liberal" economic policy, says Cîțu.

"We will act responsibly and put the economy on a path of fiscal consolidation," says the minister "The pace will depend on the health of the economy, but we will show progress by next year.

"We want to show that things can be done differently in Romania: we can work together with the European Commission and investors, manage the economy in a proper way and show that we can be trusted.

"So far, I think we have regained trust; now we are looking to improve the rating, and will take the measures necessary." *—O.W.*

to mitigate Unemployment Risks in an Emergency) initiative will provide loans to countries to ensure businesses can keep their staff.

Yet the largest breakthrough is the €750m Next Generation EU recovery fund, which will provide €390m in grants and €360m in loans and is set to proportionately benefit CEE more than the rest. This is on top of the EU's standard budget.

Divjak in Slovenia calls the deal "groundbreaking", noting that the initiative "goes beyond sole emergency measures, by balancing the need for immediate economic support with the objective to provide sustainable and inclusive growth in the future".

"It also addresses strategic questions like climate change and digital transformation," says Divjak.

CEE is expected to benefit strongly. Analysts at Erste Group Bank estimate that CEE countries will receive roughly 5% of 2019 GDP in grants, and almost 7% in loans.

Minister Cîțu of Romania says he is "confident" that the Next Generation EU funding will be effective in supporting his country's economy, and will come at a better cost than other funding. Romania could be a net recipient to the tune of 9.5% of GDP, says ING.

Romania has previously failed to spend all its available EU funding as projects have missed deadlines.

"We have learnt from our mistakes," says Cîțu. "Romania is lacking EU funding and will be prepared to use all the funds available. Our strategy is to structure the budget in such a way that all EU projects can be fully financed by EU funds."

Yet Drimal at SocGen — while describing the recovery fund as "amazing news" and a "game-changer" — cautions that support will arrive from 2021 onwards and have no short-term impact on the recovery.

More important for CEE, says the strategist, is the "change in Germany's fiscal narrative as it starts to spend".

Europe's largest economy has announced fiscal stimulus worth about 10% of GDP. Unlike the Next Generation funding, the impact is likely to be felt immediately.

"Such is the strength of trade linkages that CEE is basically a proxy of Germany, meaning this is the bigger news in my view — at least for Hungary and Czech Republic," says Drimal.

CEE finance ministers therefore want to see the EU be proactive with the disbursement of its grand plan.

"Next Generation EU will only play an important role in the recovery if it's deployed fast," says Poland's Kościński. "If we talk and talk and it happens in five years, the recovery will be long forgotten. The biggest possible problem is the speed."

Of course, non-EU countries will not have access to the same level of funding from EU support measures, which will result in a "natural lag" in the recovery, says UniCredit's Bucsa.

"However, if demand recovers in the EU, then this will benefit the exports of the non-EU countries," he says. "For CEE, Germany's recovery matters more than that of any other country."

LOOKING AHEAD

The long term will bring new challenges. As GDP per capita in some CEE economies closes in on Western European nations, the convergence trade will naturally slow.

"These economies have been driven by outsourcing manufacturing and it's not clear how sustainable that growth model is, when I think about the next five to 10 years," says Al-Hussainy. "There's another wrinkle, which is that these economies are ageing at a dramatic pace."

There are some potential structural changes that could benefit the region. Some people believe the pandemic could lead to the repatriation of global supply chains — from which CEE would be ideally placed to benefit.

Drimal of SocGen believes the nature of CEE economies will "remain unchanged for many years", and Bucsa at UniCredit says that the region "remains competitive cost-wise", meaning its market share in the eurozone has space to increase and change is some way off.

But Kościński is already preparing for the future.

"Covid-19 has not pushed our agenda back," he says. "Poland needs to keep working on moving from an imitation-based to an innovation-based economy, investing in research and development.

"We are ready to react very quickly to changes in the global economy." GM

REUTERS/Valentyn Ogirenko

Ukraine

IMF agreement underpinning Ukraine prospects

Ukrainian president Volodymyr Zelenskiy

Ukraine priced a $2bn 12 year bond on July 1, tightening pricing to 7.3% yield that was inside the expectations of many market participants as the country passed a major test of international investor acceptance with flying colours.

The celebrations lasted a matter of hours. That very same evening, Yakiv Smolii resigned as governor of the National Bank of Ukraine (NBU) citing "systematic political pressure", triggering sufficient uncertainty to force the sovereign to cancel the deal.

Continued central bank independence is a key condition of Ukraine's $5bn standby agreement with the International Monetary Fund, agreed in June.

"There are still some deep questions about whether Ukraine can stay on track with the IMF programme, and the central bank independence issue is a major factor," says Stuart Culverhouse, head of sovereign research at Tellimer.

Yet investors found sufficient comfort in Kyrylo Shevchenko, Smolii's replacement, for the sovereign to return to markets just three weeks after it pulled its first deal. Moreover, with EM high yield assets having rallied globally, Ukraine achieved better pricing than the first time, raising $2bn at 7.25%.

For now, there is cautious optimism that Ukraine will do enough to keep the agreement in place. The new 2032s remained just above par in secondary markets until a broader sell-off in risk assets in the second half of September pushed the bonds to around 95.50 at the end of the month.

Even as Ukraine struggles to control the spread of coronavirus and lacks the fiscal space of most of its eastern European peers, the central bank resisted calls from President Zelensky to cut rates below 6% in September.

"This is a positive sign that the governor is taking steps to protect the NBU's independence, which should help to keep the country's IMF deal on track," said Capital Economics.

Investors will now have a close eye on the progress of anti-corruption and banking sector reforms, which are also key to the IMF programme.

"You buy Ukraine because of the hard currency flowing in from the IMF," says Ed Al-Hussainy, senior rates analyst at Columbia Threadneedle. "The macro framework is improving, but the reason there are no financing gaps is the IMF.

"If the IMF programme gets derailed, then Ukraine returns to where it was two or three years ago." *—O.W.*

EU puts CEE eyes on green but smaller sovs could struggle with green bonds

Hungary wasted little time in turning this year's increased external funding needs into an opportunity to expand its green bond plans. Yet though sustainability is quickly climbing the list of priorities in Central and Eastern Europe, not all countries are likely to hop on the green bond wagon

By Oliver West

Poland broke new ground when it sold the world's first ever sovereign green bond in December 2016. Yet strong interest from ESG investors for the €750m five year trade did not appear to turn other CEE borrowers green with envy.

It was not until Hungary raised €1.5bn of 15 year green funding in June this year that another CEE sovereign managed a green benchmark. Hungary followed this with another world first, becoming the only sovereign to have sold a green Samurai when it returned to Japan for the first time in two years in September.

Hungary initially contemplated green bonds to attract more interest from Asia, according to Zoltán Kurali, CEO of AKK, Hungary's debt management office. And the government's environmental protection plan provided ample use of proceeds.

Therefore, when Covid-19 pressures saw the country's 2020 funding needs in international bond markets increase from €1bn to €4bn, there was "space to issue both a green euro benchmark and a green Samurai", says Kurali.

Maryam Khosrowshahi, head of CEEMEA sovereign DCM at Deutsche Bank, says that she sees CEE governments "listening and watching how Hungary has very successfully just issued a green bond".

"There is more and more consciousness about ESG issues on both the issuer and investor side," she says.

Beyond the repeat issues from Poland and Hungary, however, the CEE green bond market has remained muted. Lithuania, with a small €20m green bond in May 2018, is the only sovereign from the region to have issued, while only a handful of deals have emerged from corporates and banks.

> *"For some smaller sovereigns it may be a challenge to come up with a benchmark size green or sustainable use of proceeds, But as they begin to understand the frameworks, I think more will be encouraged to issue."*
>
> *—Maryam Khosrowshahi, head of CEEMEA sovereign DCM, Deutsche Bank*

Yet there may be reason for optimism.

"Until recently, the topic of climate finance remained relatively low on the agenda of policymakers [in CEE]," says Zofia Wetmańska, analyst at WiseEuropa, a think-tank in Warsaw. But she expects developments at the EU level to both "fast-track and scale up" national efforts.

Governments in the region are "starting to slowly embrace this change in dynamics", says Wetmańska.

"This is partly to do with the European sustainable finance agenda, but more so due to the climate conditionalities associated with the next MFF [multiannual fiscal framework] and the EU Recovery Fund," says the analyst. "There's an increasing understanding that low-carbon investments may… support the process of economic recovery from the Covid-19 crisis."

BEYOND BONDS

Indeed, European Commission president Ursula von der Leyen has set a target for 30% of the €750m Next Generation EU plan to be funded by green bonds. But this does not necessarily mean more green bonds from CEE sovereigns.

"The big question mark for green bond issuance in the future is that EU funding will cover a lot of green projects, and you cannot double count expenditure," says AKK's Kurali.

Bankers and issuers are still trying to understand the impact of the EU's funding programmes on bond market needs, and Kurali says that "ideally, the EU funding should be incremental", which "may leave space for more green issuance".

Another obstacle to issuance is size.

"For some smaller sovereigns, it may be a challenge to come up with a benchmark size green or sustainable use of proceeds," says Khosrowshahi at Deutsche Bank. "But as they begin to understand the frameworks, I think more will be encouraged to issue."

Marjan Divjak, director general of the treasury at Slovenia's ministry of finance, acknowledges that the economy's important long-term challenges include "the green transition" and achievement of green targets.

And Divjak adds that he sees "advantages" in issuing green or other thematic bonds.

However, as a small issuer, "Slovenia faces certain limitations as thematic issues could lead to excessive bond fragmentation", says Divjak.

Elsewhere, in September Slovakia's debt management agency told *GlobalCapital*, *GlobalMarkets*' sister paper, it saw few benefits but "a lot of hurdles and costs" to issuing green bonds.

Slovakia's DMO said it remained committed to supporting the green economy, even though it will not issue green bonds. And governments have alternative ways to support climate investment beyond benchmark bond issues.

Indeed, Wetmańska says that a more stable regulatory environment is a key way to attract green investment, highlighting that unclear state policy in Poland between 2015 and 2017 continues to discourage investors in the wind energy sector.

"Frequent changes in the design of public support systems made clean investments unattractive for investors when comparing to investments in other segments of the economy," she says.

In any case, for CEE's larger sovereign issuers, international markets are only a small component of their funding.

Poland's finance minister, Tadeusz Kościński, tells *GlobalMarkets* that the country keeps green bonds [and Panda bonds] "in the bottom draw for when an opportunity arises", but has no pressure to access international markets.

Similarly, Hungary mostly finances itself in local currency, so the government will "look at whether it makes sense to introduce an ESG instrument in the domestic markets", says Kurali.

"We would love to help the market evolve, but it needs to be justified and should be driven by the buyside. For now, ESG interest among Hungarian investors remains limited." GM

Green fields
Solar panels, Poland

中国银行
BANK OF CHINA

BANK OF CHINA SUPPORTS DEEPENING CEE-CHINA CO-OPERATION AND DEVELOPMENT IN THE FINANCIAL INDUSTRY

MULTI-FIELD COOPERATION AND INTEGRATION

Since the first summit between China and the 16 countries of Central and Eastern Europe in 2012, the development strategies of the partners have seen deepening integration, with a comprehensive and multi-level cooperation mechanism established in nearly 20 areas.

Financial cooperation has always been an important aspect of “16+1 cooperation”. Ministries of Finance and central banks in CEE have explored changes to their holdings of currency while supporting the internationalization of the Chinese renminbi (RMB). It has helped build up the foundations of deeper development of finance and trade between the CEE countries and China.

Among these developments, the central banks of Hungary, Albania and Serbia have all signed bilateral currency swap deal with the People’s Bank of China. Magyar Nemzeti Bank, Narodowy Bank Polski and Lietuvos Bankas have all tapped in to the China Interbank Bond Market (CIBM) by using the Qualified Foreign Institutional Investor Scheme (QFII), becoming the first institutional investors from CEE. Meanwhile, Poland and Hungary issued Panda bonds in CIBM in 2016, 2017 and 2018. Along with the RMB’s inclusion into the IMF’s Special Drawing Rights basket, the Chinese currency has become an option for diversification of foreign exchange reserves for neighbours and the countries along the Belt and Road. An encouraging sign was that in 2019 Ceska Narodni Banka decided to include RMB in its foreign exchange reserves.

BANK OF CHINA ADOPTS STRUCTURE, PRODUCTS FOR CEE COOPERATION

Bank of China took the lead in setting up a subsidiary in Hungary in February 2003. In recent years, Bank of China has actively responded to the implementation of the “Belt and Road” initiative and has now established six branches in Central and Eastern Europe.

In June 2015, Bank of China became the Hungarian RMB clearing bank, the first RMB clearing bank in Central and Eastern Europe. Since then, 16 mainstream banks in six countries in Central and Eastern European have opened RMB settlement accounts at Bank of China and act as RMB participating banks.

Then, in 2016, Bank of China established its DCM Centre (EMEA) to build up its global debt capital markets business. The Centre has been exploring opportunities in the region to support more transactions from its investor base, as well as introducing foreign issuers to the opening of Chinese capital markets.

16+1: Heads of states at the plenary session of 8th Summit of CEEC & China in Dubrovnik, Croatia, 2019

> “WE BELIEVE THAT MORE AND MORE CENTRAL AND EASTERN EUROPEAN COUNTRIES WILL PARTICIPATE IN CIBM TO FURTHER EXPAND FINANCING CHANNELS AND ENRICH THE INVESTOR BASE. COMMITTED TO SUPPORT THE FRAMEWORK OF THE “BELT AND ROAD AND ‘16+1 COOPERATION’ INITIATIVES”
> —**MR KUN HU, BANK OF CHINA HEAD OFFICE**

“Bank of China has maintained its leading position in the Panda bond market for many years, and has taken the lead in assisting countries such as Poland and Hungary to issue Panda bonds, using an international bond underwriting and distribution network covering both onshore and offshore investors,” says Mr Kun Hu, Bank of China Head Office, General Manager of Investment Banking and Asset Management Department. “There is great demand and potential for the use of RMB in investment and trade cooperation between Central and Eastern European countries and China.”

He continues: “We believe that more and more Central and Eastern European countries will participate in CIBM to further expand financing channels and enrich the investor base. Committed to support the framework of the “Belt and Road” and “16+1 cooperation” initiatives, Bank of China will continue to best utilize its global business network and advantages to further promote project financing and further enhance the interconnection between domestic and foreign issuers and investors.”

Bank of China signed the “Belt and Road” Green Investment Principles in April 2019, integrating the concept of green development into the infrastructure construction of countries along the “Belt and Road”. In June 2020, the bank’s Hungarian branch provided a project financing in forint for a 100MW photovoltaic power plant project in Kaposvár, Hungary, which is the largest photovoltaic power plant project in Hungary.

By the end of 2019, Bank of China had participated in more than 600 “Belt and Road” projects, providing more than $160 billion in credit support to countries along the “Belt and Road”. Bank of China has built up its ability to offer quotations in 99 emerging market currencies, of which 46 are of countries along the “Belt and Road”.

OUR VISION AND HOPE

By providing close-chain product line and services such as corporate loans, deposits, settlement and clearing, and financial markets, Bank of China will continue to provide a bridge between China and the CEE countries, inspiring and promoting deepening cooperation between China and the CEE countries in the financial sector, and working together with local institutions on issues such as sustainability, low-carbon, energy-saving and digitalization. ●

CEE sovereigns feast on bonds but have space for more

Central and Eastern Europe had never been better prepared for a crisis than when Covid-19 hit, and the region's sovereigns faced few obstacles in ramping up external bond issuance this year. But there is uncertainty regarding what EU funding will mean for CEE volumes

Staying safe
Downtown Budapest after the COVID-19 restrictions were lifted in June 2020

By Oliver West

In February this year, Poland sold a five year bond in euros offering investors minus 0.102%, in what was the first ever negatively yielding bond in euros from an emerging markets issuer. When it returned to euros in July, during the Covid-19 era, it paid minus 0.11% for a three year deal.

Poland had already become the first EM borrower to issue with a negative yield in any currency, when it sold a three year Swiss franc bond in 2015.

These deals beg an obvious question: if you can borrow money at a rate below zero, can you really be considered an emerging market?

Tadeusz Kościński, Poland's finance minister, does not seem overly concerned either way.

"Whether Poland is a developed or emerging market is debatable," Kościński tells *GlobalMarkets*. "Investors look more now at the economic fundamentals, rather than which box you are in."

Minister Kościński may be right to suggest that the difference is "mostly academic". But what is not debatable is that Poland's bond issues have few characteristics of a traditional EM issuer.

"Poland currently has negative yields up to the 10 year part of the euro curve; at those levels, it is clearly a rates trade and not a credit story," says Marzena Fick, head of CEE DCM at Citi.

Fick says that no CEE sovereign is 100% EM or 100% SSA in terms of its investor base.

"But there are some that are mainly held by European rates buyers, and those are not just the eurozone countries," she adds.

FUNDING THE FIGHTBACK

In the immediate aftermath of the last global financial crisis, non-eurozone CEE sovereigns such as Poland would have still been seen as useful relative value comps for other EM credits — including certain Latin American sovereigns, such as Brazil, which are today deep in sub-investment grade territory.

With CEE economies outperforming and the issuers gaining followers, Covid-19 was the ideal opportunity for the region's sovereigns to demonstrate how resilient their bond market prowess was.

When 2020 began, CEE debt bankers had largely been gearing up for a busy year of corporate and financial institution issuance. The pandemic immediately changed that, with sovereigns suddenly under pressure to raise funding, corporates retreating from volatility and bank regulation pushed down the list of priorities.

Sovereigns stormed bond markets in unprecedented fashion. In 2019, CEE governments — excluding Russia and those to the east of the Caspian Sea — raised $20.8bn-equivalent in international bond markets, according to Dealogic. As of September 25, they had raised more than $51bn-equivalent in 2020.

With the EU creating its Pandemic Emergency Purchase Programme (Pepp), it was the eurozone issuers who led the way as CEE bond markets emerged from the Covid-19 market shutdown in March. Slovenia was the first from the region to test the waters. Latvia soon followed.

"Slovenia has built a broad and diversified investor base and ensured a permanent and steady access to the sources of financing in the past years," Marjan Divjak, director general of the treasury at Slovenia's ministry of finance, tells *GlobalMarkets*. "We have not seen any deterioration in that respect during the Covid-19 crisis."

SSA YIELD-HUNTERS

ECB buying of CEE sovereigns in the eurozone was clearly a big factor in driving yields tighter; by July, Slovakia, Slovenia, Lithuania and Latvia were all trading inside where they began the year, notes Scope Ratings.

"Several CEE sovereigns have moved into a different spectrum of investor base, and rates buyers are bidding aggressively for CEE sovereigns with strong metrics," says Maryam Khosrowshahi, head of CEEMEA sovereign DCM at Deutsche Bank.

Furthermore, EU countries outside the

Xinhua News Agency/PA Images, Attila Volgyi eurozone also benefit, note both Khosrowshahi and Fick.

"These sovereigns are among the very few assets that a rates buyer can find without competing with the central bank," says Fick. "Even at a negative yield, Poland is offering investors a pick-up to western European countries."

When Hungary — rated Baa3/BBB/BBB versus Poland's A2/A-/A- — tapped euro markets for the first time in two years in April, and then returned in September with a green bond, it was therefore an issuer to watch.

The April deal — the first from a non-eurozone European sovereign in the Covid-19 era —did not receive the inflated orders "on the back of perspective central bank buying" that eurozone credits enjoyed, notes Zoltán Kurali, CEO at AKK, Hungary's debt management office.

"Nonetheless, in our euro deals — and more so with interest rates so low — we see continental asset managers and pension funds, as we are trying to attract more developed markets and rates buyers," says Kurali.

WELL PREPARED

If vast liquidity from central banks has played a serious helping hand in squeezing CEE sovereign yields, the region's outstanding economic growth in recent years has also been a big factor. Most major economies were therefore very well prepared for the Covid-19 crisis.

Hungary quadrupled its external issuance requirements overnight from €1bn to €4bn when Covid-19 set in. It was not an issue for markets.

"Hungary did not have much hard currency debt outstanding when the crisis began, meaning the FX depreciation did not hurt us too much," says Kurali. "We are very conscious that this low FX exposure helps, which is why our hard currency debt cannot exceed 20% of total central government debt."

This meant Hungary had no need to reassure international investors about the sudden increase in euro issuance.

"In fact, the international issues were a way to reassure domestic investors that we were not going to overly rely on them," says Kurali.

So impressed was Moody's with Hungary's ability to deal with the crisis that, on September 25, the rating agency placed a lesser-spotted Covid-era positive outlook on the sovereign's rating. Moody's believes the country's reduction in external vulnerabilities since 2012 will be sustained, it said.

Trickier credit stories were no match for the weight of demand either, however. Romania, with weakening fiscal metrics even before Covid-19 and a Baa3/BBB-/BBB- rating (on negative outlook from all three agencies), was the biggest contributor to supply, with more than $10bn-equivalent by September this year.

Crossover name Croatia took investors down the credit curve in May, and in the next two months high yield sovereigns Serbia, North Macedonia, Albania and Belarus followed.

Ukraine was even able to issue immediately after having to pull an initial deal when the central bank governor resigned.

For the SSA buyers looking for high grade countries or the EM investors looking away from the eurozone countries, the rarity of certain issuers meant CEE's bond party offered something different.

"I don't believe this many CEE sovereigns have ever issued in the same year before, and as many of these countries are not frequent issuers, they offer investors a great opportunity for diversification, which adds to the attraction of these deals," says Fick.

Bulgaria's euro deal in September was its first since March 2016, while eurozone member Estonia had not issued since 2002 until its €1.5bn 10 year in June.

GENERATING MORE DEALS

The ease with which CEE sovereigns across the credit spectrum have tapped markets provides comfort as, by mid-September, fears of a second wave of coronavirus cases in Europe were gaining traction.

Analysts say that this risks derailing what they had assumed to be a smooth economic rebound for CEE, raising the very real possibility that primary activity from the region's sovereigns will remain elevated.

"If Covid-19 were over and everything were back to normal, then this year would have been a one-off," says Fick. "However, Covid-19 is not done and sovereigns will have to continue to fund themselves and their stimulus packages."

Much of this might depend on conditions in domestic markets. Khosrowshahi at Deutsche Bank notes that many non-eurozone countries raise "the lion's share" of their funding in local currencies, having focused on developing domestic markets in recent years.

"This allows them to reduce their reliance on the international markets," she says.

Yet bankers and issuers say there is an important unknown in the form of the EU's Next Generation recovery fund. Comprising €750bn of grants and loans, the fund has the potential to provide important funding to government investments — and CEE countries are likely to be some of the largest beneficiaries.

Florin Cîțu, Romania's minister of finance, notes that the country wants to shift a lot of its investment towards EU funding.

"This could release some of the financing pressure for Romania, and potentially mean a lower budget deficit," Cîțu tells *GlobalMarkets*.

Divjak in Slovenia says it is "still early" and that questions remain before he can elaborate on the impact of the Next Gen fund on the country's funding needs. Hungary's debt office, AKK, echoes this.

"Whether the EU funding will affect Hungary's bond market funding needs depends very much on the details, such as the use of proceeds and conditionalities," says AKK's Kurali. "We have low redemptions of FX debt in the next three years, so — provided that the EU funding is cheaper — there is certainly a possibility that it could reduce our willingness to tap markets."

Fick of Citi believes there could be a reduction in issuance volumes from individual countries as a result of the EU's support programmes — but only in the medium term.

"CEE sovereigns are still cautious about when and how EU funding might be distributed, so the impact is still to be determined and will not, most likely, be immediate," she says.

LIQUID OUTLOOK

When chaos hit financial markets in March, few could have predicted that bond markets of all kinds would be showing record levels of supply and all-time low yields just six months later.

"There are reasons to expect volatility, especially when the fear factor about another wave of the virus is high," says Khosrowshahi of Deutsche Bank. "Markets have shown that they can recover very strongly from panic, because of the significant prevailing liquidity."

However, CEE issuers are unlikely to become complacent.

Having carried out pre-financing, a decision which "proved to be the right one", Slovenia this year "decided to scatter new funding throughout time due to uncertainties brought to financial markets by Covid-19", says Divjak at Slovenia's finance ministry. Indeed, Slovenia has visited the markets on eight occasions in 2020, according to Dealogic.

"Therefore, a strategy of frontloading and pre-financing combined with scattering the issuance dynamics using different maturities in certain time horizon shall remain our guidance," says Divjak. GM

"what they say

"We are very conscious that [Hungary's] low FX exposure helps, which is why our hard currency debt cannot exceed 20% of total central government debt." —Zoltán Kurali, CEO at AKK, Hungary's debt management office

"CEE sovereigns offer investors a great opportunity for diversification, which adds to the attraction of these deals."

—Marzena Fick, head of CEE DCM at Citi

"Several CEE sovereigns have moved into a different spectrum of investor base, and rates buyers are bidding aggressively for CEE sovereigns with strong metrics."

—Maryam Khosrowshahi, head of CEEMEA sovereign DCM at Deutsche Bank

China seeks way into CEE with closer co-operation but investment remains low

Though China has increased co-operation with Central and Eastern European nations in recent years, provoking some concern in the EU, investment volumes remain muted. Non-EU nations in the Balkans, however, offer a chance to progress on the Belt & Road initiative

By Oliver West

Eight years after the inauguration of 16+1, the platform for co-operation between China and Central and Eastern European nations, the initiative has had mixed reviews. Though Greece joined in 2019, meaning 16+1 became 17+1, an April 2020 policy paper from CHOICE (China Observers in Central and Eastern Europe) noted that 17+1 had been commonly labelled an "empty shell", implying there was little substance behind the fanfare.

Despite the annual high-level conferences, which China has elevated from prime minister to head of state level, there are certainly signs of cracks.

Czech president Miloš Zeman had initially turned down the invite to this year's 17+1 conference in Beijing, claiming that China had not lived up to its promises on investments. He later changed his mind, but the event scheduled for April was postponed owing to Covid-19.

Miloš Vystrčil, head of the Czech senate, led a delegation to Taiwan in August — provoking the ire of Zeman. Yet the numbers suggest that President Zeman's initial assertion was right.

According to the Mercator Institute for Chinese Studies, Eastern Europe's share of Chinese foreign direct investment into the European Union was just 3% in 2019 — well below the region's 10.1% share of EU GDP.

While acknowledging that China is a "very important" trade partner for the region, Dan Bucsa, chief economist for CEE at UniCredit, says that Chinese investment in economies has "not been of huge importance".

"There are some infrastructure projects that are complementary to projects in the EU, but most of the largest Chinese investments are outside of the EU, in the Balkans," he says. "Often Chinese funding for projects is more expensive than what countries can achieve in the market."

With the 17+1 initiative grouping 12 EU members and five non-EU countries together, the EU has appeared wary of the initiative.

"The level of Chinese investment would have been a lot larger if there had not been as much pushback from core Europe," says Ed Al-Hussainy, senior rates strategist at Columbia Threadneedle Investments in New York.

Yet if some observers see 17+1 as part of a divide-and-conquer strategy, in reality most CEE countries remain dependent on trade and investment with EU member states.

Though the CHOICE paper found there had been a "huge uptick" in political and societal ties between China and the region, authors noted that "results in the economic domain are falling behind expectations".

Concerns that China is buying influence in CEE therefore appear wide of the mark.

"The assumptions that CEE as a whole has become more forthcoming towards China on political issues is not supported by the evidence," says CHOICE. "While Hungary and Serbia have supported China on political issues, they represent an exception rather than the rule."

Most nations in CEE, therefore, are not taking sides.

"Poland and China have a relationship based on mutual respect," says Tadeusz Kościński, Poland's minister of finance. "We have around $950m of Chinese investment, but in an economy of our size, perhaps that doesn't make the headlines.

"There's no policy to stop Chinese investment, nor to actively encourage it."

BALKAN BUY-IN

Hungary, Czech Republic, Poland, and Romania — all EU nations — receive the bulk of Chinese investment in CEE. Yet when it comes to infrastructure, Chinese projects are focused on non-EU states, which are in greater need of funding and where investors do not have to abide by EU regulations.

These states are all in the western Balkans. Albania, Montenegro, North Macedonia and Serbia are all official EU accession candidates, and Washington DC-based think-tank the Centre for Strategic and International Studies (CSIS) calls them "an area of geostrategic competition". Here, says CSIS, Serbia is China's "strategic anchor", and FDI numbers are more significant.

Chinese companies acquired Serbia's only steel mill, in Smederevo, in 2016 and copper miner RTB Bor in 2018. These inflows "helped the economy and budgetary situation" as they were loss-making companies, says Bucsa.

Serbia is one half of a project to build a railway between Belgrade and Budapest in Hungary — part of the Belt & Road Initiative. The railway, which is part of an effort to eventually link landlocked Hungary and Serbia to the Aegean Sea, is one to watch for how successful 17+1 may be.

Hungary, which has become the hub for much of China's co-operation efforts in CEE, has classified details of the construction of its side of the project, in a decision that Fitch Solutions called "concerning" with "wider implications for the transparency of publicly-financed infrastructure in the country". The European Commission has previously questioned the procurement procedure.

CSIS says that the project "lacks transparency", with questions over the "high costs as well as the eventual return on investment".

Yet the Balkans and their access to Mediterranean ports are important to Belt & Road because of their position as a gateway to European markets. If Balkan integration with the EU wanes, the project may not be so effective.

"China's government-to-government dealmaking and pursuit of its own standards in Serbia drive Serbia further from EU integration," says CSIS. "In other words, China is burning the bridge it is attempting to build to the EU market via Serbia by failing to fulfil its commitments to greater transparency around its economic activities or respect for EU regulations." GM

Cementing relationships
Cement equipment leaves Hai 'an City in May 2020. increasing support for Belt & Road countries

Jiang Ming / Costfoto/Sipa USA


PBZ GROUP
SUCCESS TIES US TOGETHER
Croatia's Best Bank Award
EUROMONEY
AWARDS FOR EXCELLENCE
2020
PBZ
10
PRIVREDNA BANKA ZAGREB
Blog
www.pbz.hr
Bank of INTESA SANPAOLO
PBZ CARD
OBVEZNI MIROVINSKI FOND
PBZCROATIA
OSIGURANJE
PBZ STAMBENA ŠTEDIONICA
PBZ LEASING
INTESA SANPAOLO BANKA
Bosna i Hercegovina
INTESA SANPAOLO BANK
Slovenia

GlobalMarkets South Asia 2020 Awards

Finance Minister of the Year
Nirmala Sitharaman, India

Finance Minister Central Bank Governor

This year's winners in other regions

East Asia Pacific
Sri Mulyani Indrawati, Indonesia
Yi Gang, China
Luky Alfirman, Indonesia

Latin America
Richard Martínez, Ecuador
Mario Marcel Cullell, Chile
Herman Kamil, Uruguay

MENA
Mohammed al Jadaan, Saudi Arabia
Ziad Fariz, Jordan
Fahad Al-Saif, Saudi Arabia

SUB-SAHARA
Tito Mboweni, South Africa
Ernest Kwamina Yedu Addison, Ghana

CEE
Tadeusz Kościński, Poland
Elvira Nabiullina, Russia
Yuriy Butsa, Ukraine

Central Bank Governor of the Year
Fazle Kabir, Bangladesh

South Asia Finance Minister of the Year

NIRMALA SITHARAMAN, INDIA

India had limited options for fiscal intervention, but its finance minister has carefully focused on the real priorities

No country in Asia has been hit harder by the coronavirus than India. The country had more than 6.68 million infections by early October, putting it behind only the US in terms of the world's worst-hit nations. The rapid spread of the virus has also led to an alarming economic impact, partly a result of a strict nationwide lockdown that started in March and has existed in different forms since then.

India's GDP contracted by 23.9% between April and June, which is the first quarter of its financial year. Economists at Deutsche Bank think the economy will shrink by about 7.8% this year, although they do predict a 7.9% recovery in 2021.

The government's response has been questioned by economists. India's 10% fiscal package looks strong at first glance, but less than 2% is direct stimulus, according to Standard Chartered. The central government has also disappointed in other areas, particularly by failing to provide enough funding to India's states, increasing state deficits and highlighting a tension between federal and local needs. That has led to talk of debt monetisation at the state level, a slippery slope that could undermine confidence in India's fiscal reputation.

But the naysayers are too quick to judge India's response to an almost impossible situation. There is plenty to praise.

The government's Rp20tr ($272.8bn) fiscal spending package in March included healthcare funding, an agriculture spending push and a wide commitment to infrastructure investment. It came alongside an extension to the tax deadline, giving hamstrung corporations breathing room to assess the damage of the pandemic.

India has also made sure to address the most urgent problem facing its citizens, launching a food security drive that has provided wheat and rice to about two-thirds of the population.

There are still questions to be raised about India's approach. But the painful impact of the coronavirus has forced heart-wrenching choices on a government that had little wiggle room for fiscal largesse.

Finance minister Nirmala Sitharaman, hampered by the government's tight finances, has attempted to balance short-term needs and long-term hopes. She has had a difficult job — but she is doing it admirably. — *Matthew Thomas*

South Asia Central Bank Governor of the Year

FAZLE KABIR, BANGLADESH

Bangladesh has done what it can to limit the damage to a fragile economy – including a cut to a reference rate that has not moved for almost two decades

Central banks around the world have been forced to use all the tools at their disposal to fight the impact of the coronavirus. But few could trump the novelty of Bangladesh Bank's decision to cut a reference rate that had been unchanged for 17 years.

The reduction to the bank rate, from 5% to 4%, came alongside a series of moves by the central bank, led by governor Fazle Kabir. Bangladesh Bank also cut the repo and reverse repo rates, as well as the reserve requirement ratio, the amount of cash banks need to hold with the central bank.

This wide range of rate reductions was clearly the crucial way the central bank tried to influence the economy, but it was certainly not the only method. In March, Bangladesh Bank launched a bond-buying programme — although it was coy about the size. It also announced a six-month debt moratorium on loan repayments.

Bangladesh's government, perhaps doubting the efficacy of working from home, declared a prolonged public holiday between March 26 and April 25, sharply decreasing economic activity in the country. It has since lifted a nationwide lockdown, although some parts of the country are still restricted.

The full economic impact of the coronavirus remains to be seen, but since the country's fiscal year ends on June 30, it may have been able to spread the damage across two reporting periods. The economy grew 5.24% in the most recent fiscal year, according to official data.

Bangladesh is suffering from an insufficient fiscal response; the government's spending package was worth about 3.7% of GDP — and just 1% was direct stimulus, according to StanChart. But Bangladesh Bank has clearly helped to cushion the blow. — *Matthew Thomas*

Finance Minister Central Bank Governor Debt Manager

GlobalMarkets
2020 Awards
East Asia Pacific

Finance Minister of the Year
Sri Mulyani Indrawati, Indonesia

Photo courtesy WEF / Sikarin Thanachaiary

Central Bank Governor of the Year
Yi Gang, China

This year's winners in other regions

South Asia
Nirmala Sitharaman, India
Fazle Kabir, Bangladesh

Latin America
Richard Martínez, Ecuador
Mario Marcel Cullell, Chile
Herman Kamil, Uruguay

MENA
Mohammed al Jadaan, Saudi Arabia
Ziad Fariz, Jordan
Fahad Al-Saif, Saudi Arabia

SUB-SAHARA
Tito Mboweni, South Africa
Ernest Kwamina Yedu Addison, Ghana

CEE
Tadeusz Kościński, Poland
Elvira Nabiullina, Russia
Yuriy Butsa, Ukraine

Debt Manager of the Year
Luky Alfirman, Indonesia

Debt Management Office of the Year
EAST ASIA PACIFIC

Luky Alfirman

Indonesia

Indonesia's debt management team has taken a calm, considered approach to an unprecedented situation

No sovereign borrower has been more assured than Indonesia during the coronavirus pandemic. The country gave a textbook demonstration of how to respond to a crisis — showing flexibility, maturity and a keen eye for opportunities.

The most impressive deal across Asia's capital markets this year may still be the country's $4.3bn multi-tranche bond in April — a time when markets were overcome with panic about the impact of the coronavirus.

The bond was a landmark for the region's capital markets, becoming the closest we have seen to a proper Covid response bond from an Asian sovereign. Funding officials in the country did consider going the whole way, emulating some European borrowers that have officially labelled their bonds as "Covid response" deals. But that option demanded extra time when time was in short supply. Instead, Indonesia stuck with a conventional deal but made it clear that the use of proceeds would be fighting the impact of the pandemic.

That was followed in June by a $2.5bn green sukuk, a format Indonesia has been using since 2018, when it realised combining two niche investor bases could have lasting benefits. The icing on the cake came a month later, when Indonesia sold a ¥100bn ($943m) Samurai bond.

Indonesia's debt management team certainly had some support. A pledge from Bank Indonesia, the country's central bank, to buy $40bn of government debt at effectively zero-percent interest rates — a move which officials stress was a one-off 'burden sharing' arrangement — was clearly helpful. But the sovereign's forays into the international markets had no such help.

Indonesia has long been seen as one of the savviest sovereign borrowers in Asia, standing alongside the Philippines, which has reduced its reliance on offshore funding in recent years, and China, which has finally woken up to the potential of the market. But a look at the country's offshore bond supply this year should be enough to settle the debate. Indonesia is not just among the most impressive sovereign borrowers in the region; it is the very best. — *MT*

East Asia Pacific Finance Minister of the Year

SRI MULYANI INDRAWATI

Indonesia has responded to Covid-19 in a robust fashion, guided by a finance minister who won't take her eye off the long-term plan


Photo courtesy of Asian Business Leadership Forum (ABLF)

SRI MULYANI INDRAWATI HAS LONG BEEN ONE OF THE MOST HIGHLY respected finance ministers in Asia. She has a reputation for being unwilling to sacrifice the country's long term financial well-being for short term policy goals. But this year she proved that when crisis hits, she is willing to act decisively.

Indonesia has announced impressive spending plans in response to the pandemic, including increases in social security and the offer of tax breaks, loan guarantees and subsidies to hard-hit businesses. These efforts tally to less than some countries in Asia, particularly Singapore and Malaysia. The great change, however, has been temporarily abandoning a once-sacrosanct budget deficit target.

Indonesia has been committed to keeping its budget deficit below 3% since 2003, when it moved to shore up its finances in the wake of the Asian financial crisis. The deficit cap has become a key source of confidence in the government, long associated with the steady hand on the tiller that Indrawati represents — she was finance minister between 2005 and 2010, before returning to the job in 2016.

But the government is now willing to see its budget deficit go beyond 3% until 2022, giving it wiggle room to announce new spending plans. It expects the deficit to hit 6.3% this year.

The sharp increase in the deficit is largely down to the Rph695tr ($47.2bn) fiscal spending plan the government has announced, increased from an earlier Rph405tr plan, but it was also pushed higher by tax breaks for coronavirus-hit businesses. The spending plan included cash transfers to low income households, loan guarantees, interest rate sub sidies for small and medium-sized enterprises and capital injections into Indonesia's sprawling network of state-owned enterprises.

The pandemic has put infrastructure spending on hold and delayed a plan to move the country's capital to East Kalimantan. Infrastructure spending is likely to make a quick comeback, being one of the government's priorities for next year — when fiscal stimulus to fight the lingering impact of the pandemic is likely to remain — but the fate of the capital relocation is, like many things this year, uncertain.

There is no way for governments to remove uncertainty. But its impact can be remedied by a finance minister who inspires the sort of confidence that is won only through years of steady, careful economic planning. That description matches Indrawati perfectly. — *Matthew Thomas*

East Asia Pacific Central Bank Governor of the Year

YI GANG, CHINA

At the PBoC, the governor knows that there are times when less is more


Photo courtesy of IMF / Ryan Rayburn

Central bank responses to the coronavirus have typically been of the kitchen sink variety: emergency interest rate cuts, huge asset purchases, broad statements to do whatever it takes. Not so in China. The People's Bank of China has taken a careful, considered approach.

That already looks smart. China's ability to deal with the pandemic better than many other large countries, partly because it was the first to know quite how big the problem was, has meant the number of infections has been kept relatively low in the mainland. The economic impact has also been contained: China is one of the few economies in Asia that looks likely to grow this year.

But it is from a long term view that the PBoC's conservative approach under governor Yi Gang looks even better. The problem with central banks unloading their monetary bazookas is that their ammunition, once fired, proves very difficult to put back in the chamber. Asset purchases, even more than interest rate cuts, are incredibly difficult to unwind without unintended consequences.

That doesn't mean other central banks were mistaken to take an all-or-nothing approach. But it does highlight one of the key strengths of the PBoC — its ability to get help from the country's huge state-owned banks when attempting to stimulate the economy.

After a mix of deferred loan repayments, lower lending rates and reduced fees, China's big four state-owned banks all saw their first half profits drop by more than 10%. Most analysts put that down to government urging to "sacrifice profits", rather than the harsh impact of the pandemic itself.

There have been serious monetary policy moves, of course. The PBoC has cut the reserve requirement ratio, created new re-lending and re-discount windows and injected billions of dollars into the banking system through repo operations.

But the PBOC has been careful not to overstep, seeing its role not as the saviour of the financial system but as just one of many stakeholders that need to step up — albeit the most important one. That approach could not work in many countries but it has worked marvellously in China. — *Matthew Thomas*

Finance Minister Central Bank Governor Debt Manager

Global Markets Latin America 2020 Awards

Finance Minister of the Year

Richard Martínez,
Ecuador

Central Bank Governor of the Year

Mario Marcel Cullell, Chile

This year's winners in other regions

South Asia
Nirmala Sitharaman, India
Fazle Kabir, Bangladesh

East Asia Pacific
Sri Mulyani Indrawati, Indonesia
Yi Gang, China
Luky Alfirman, Indonesia

MENA
Mohammed al Jadaan, Saudi Arabia
Ziad Fariz, Jordan
Fahad Al-Saif, Saudi Arabia

SUB-SAHARA
Tito Mboweni, South Africa
Ernest Kwamina Yedu Addison, Ghana

CEE
Tadeusz Kościński, Poland
Elvira Nabiullina, Russia
Yuriy Butsa, Ukraine

Debt Manager of the Year

Herman Kamil, Uruguay

Photo of Cullell courtesy Banco Central de Chile/ IMF Photograph/Ryan Rayburn

Latin America Finance Minister of the year

RICHARD MARTÍNEZ, ECUADOR

Against all the odds, a debt restructuring and IMF programme in record time

Richard Martínez faced a painful decision in March.

With Covid-19 and plunging oil prices crippling a desperately tight public purse, Ecuador's dollarised economy was running out of options as a $325m bond maturity loomed. Facing down extreme political pressure, Martínez paid up.

By avoiding default, Ecuador ensured the arrival of billions of dollars from multilaterals to keep the country going during the crisis. It also laid the way for a remarkably swift debt restructuring.

First, Ecuador received overwhelming bondholder approval to delay coupons, buying time for more comprehensive negotiations on its $17.4bn bond stock.

"It was a difficult and painful decision in the middle of a pandemic, but we paid, achieved the coupon waiver, and clinched multilateral funding," Martínez tells *GlobalMarkets*. "We knew the importance of a positive relationship with the market."

Jan Dehn, head of research at Ashmore, an important Ecuador bondholder, says that this administration had always been very credible.

"Rather than pretend it didn't have a problem, Ecuador contacted bondholders to show them the numbers," says Dehn. "The message was: we simply cannot pay, but can we reach an agreement that's in our mutual interests?"

Bondholders told *GlobalMarkets* that Ecuador under

Photo of Martínez courtesy Ministry of Economics and Finance Ecuador

Martínez was a tough but fair negotiator, and — in record time — Ecuador had a deal with a majority of bondholders that promises more than $10bn of payment relief in the next four years.

"Richard Martínez did not have many policy options when the Covid-19 shock hit, but Ecuador restructured its debt while preserving the goodwill of the markets," says Alberto Ramos, head of Latin America economics at Goldman Sachs.

Moreover, Ecuador "maintained a very constructive relationship with the IMF, despite very difficult governability conditions", says Ramos.

This allowed Ecuador to clinch an IMF deal that surpassed all expectations in August, with the Fund — unusually — granting exceptional access despite looming presidential elections.

Martínez managed all this under acute political pressure, but analysts say that whoever wins February's vote will under no circumstances be able to claim that external debt payments are a burden. Ecuador has a good chance of pulling through.

"We achieved enough fiscal space for Ecuador to grow and continue with reforms," says Martínez. "By not falling into default, we sent a message to society that a good payer can go places in life, and we believe we can break the cycle [of Ecuador being a serial defaulter]." — *Oliver West*

Central Bank Governor of the Year, Latin America

MARIO MARCEL CULLELL, CHILE

Well-earned credibility allows bank to broaden policy toolbox amid series of shocks

As the crisis management capabilities of central banks everywhere are tested, Chile has had a particularly challenging ride.

When Covid-19 battered financial markets in March 2019, Banco Central de Chile had already earned plaudits for calming markets amid unprecedented social unrest in October and November 2019.

This scenario "was particularly challenging because it was so unexpected, and arrived with such speed and violence", says the bank's governor, Mario Marcel Cullell.

Then came Covid-19, but this was not the end of the volatility: in July a bill was passed to allow Chileans to withdraw 10% of their pension savings.

"Chile's central bank has faced three different crises in the past year and had no way to foresee any of them," says lvaro Vivanco, Latin America strategist at NatWest Markets. "Yet ever since November, it has shown the ability to intervene at the right time, using spot and forward intervention and providing liquidity for local institutions."

Amid the crises, the bank has cut interest rates to a record low of 0.5%, announced an FX intervention programme, and carried out bank bond purchases.

"Chile's central bank was quick off the mark in recognising the nature and severity of the shock and using the monetary policy lever as much as possible," says Alberto Ramos, head of Latin America economics at Goldman Sachs.

William Jackson, chief EM economist at Capital Economics, notes that — while many LatAm central banks have acted "admirably" — "the speed with which Chile's acted and the clarity of its communications put it above the rest".

As it dealt with a series of shocks, governor Marcel Cullell says, the central bank needed to ensure it would "not find itself walking into a dead end", so the bank adopted measures to "broaden policy space".

Most notably, Congress passed constitutional reform to allow the central bank to undertake government bond purchases for the first time ever.

So far, Chile has not had to use its newfound ability to buy government debt. Shelly Shetty, head of Latin American sovereign ratings at Fitch, notes that — just as with the FX intervention — the bank has not needed to use QE because "the signalling worked".

But the move shows that the bank is planning ahead.

"QE programmes are largely untested in EM countries," says Shetty, "but Chile — with very significant financial penetration and strong institutions — has the credibility required to implement these instruments if the need arises." — *Oliver West*

Debt Management Office of the Year, Latin America

Herman Kamil

Uruguay

Uruguay picks the right moment to issue debt — and keeps a local focus

When Covid-19 hit emerging markets in March, Uruguay was not spared, and bond yields shot 150bp wider. Yet in several ways, Uruguay has been the exception in Latin America in 2020.

"Uruguay was proactive with multilaterals and bided its time in bond markets," says one DCM banker. "It was the right choice."

By June, when Uruguay did issue, it was the last LatAm investment grade sovereign to do so this year. And it took an unusual path: $1.6bn-equivalent of its $2bn deal was in local currency — via a rare global inflation-linked bond.

"It is never easy to do pesos," says one LatAm syndicate banker. "They timed it brilliantly."

While the rest of the region fails to control Covid-19, Uruguay had — as of October 7 — suffered just 49 deaths, and without a mandatory lockdown. Herman Kamil, director of the debt management office, credits "Uruguayan policymakers' deft management of the pandemic" for "building resilience under extreme uncertainty, helping Uruguay become the first LatAm sovereign to issue in its own currency since the onset of the pandemic".

The deal required "active, broad engagement with investors" in the run-up to the trade, "with close coordination between ministry of finance and central bank staff", says Kamil.

Uruguay now "plans to continue de-risking its sovereign debt portfolio" by increasing the local currency share.

"One way is to fund in local currency, with a focus on increasing liquidity and developing the international yield curve," says Kamil. "We are also carrying out currency conversions of our dollar debt with multilaterals at fiscally-sustainable rates." — *OW*

What's happening Wednesday, October 14

Click here to go straight to the latest IMF ANNUAL MEETING 2020 VIRTUAL schedule

All times EST

7:00 AM – 7:30 AM
Governor Talk: Morocco
Moderator: **Jihad Azour**, Director of the Middle East and Central Asia Department, IMF
Speaker: **Mohamed Benchaaboun**, Minister of Economy and Finance of Morocco

8:00 AM – 8:30 AM
Press Briefing: Fiscal Monitor (FM)
Speakers: **Vitor Gaspar**, Director, Fiscal Affairs Department, IMF; **Cathy Pattillo**, Assistant Director, Fiscal Affairs Department, IMF; **Paolo Mauro**, Deputy Director, Fiscal Affairs Department, IMF; Moderator: **Ting Yan**, Communications Officer, Communications Department, IMF

8:00 AM – 8:45 AM
CD Talk: IMF CD on Debt and Debt Management
Speakers: **Roger Nord**, Institute for Capacity Development, IMF;
Peter Breuer, Monetary and Capital Markets Department, IMF
Oana Croitoru, Institute for Capacity Development, IMF; **Clement Ncuti**, Statistics Department, IMF
Marcos Chamon, Strategy and Policy Review Department, IMF
Amanda Sayegh, Fiscal Affairs Department, IMF

9:00 AM – 10:00 AM
Analytical Chapter: Technology in a New World
Session 1: Digitalization and the Fight Against Covid-19 in Sub-Saharan Africa
Speakers: **Felix Fernando Simione**, African Department, IMF; **Martha Tesfaye Woldemichael**, African Department, IMF
Session 2: IT Shields: Technology Adoption and Economic Resilience During the Covid-19 Pandemic
Speakers: **Nicola Pierri**, Research Department, IMF; **Yannick Timmer**, Western Hemisphere Department, IMF
Session 3: Mobile Money and Covid-19: Opportunities and Challenges
Speakers: **Hector Carcel Villanova**, Statistics Department, IMF; **Majid Bazarbash**, Monetary and Capital Markets Department, IMF

10:15 AM – 10:45 AM
Press Briefing: IMF Managing Director
Speakers: **Kristalina Georgieva**, Managing Director, IMF
Geoffrey Okamoto, First Deputy Managing Director, IMF
Moderator: **Gerry Rice**, Director, Communications Department, IMF

11:00 AM – 11:30 AM
Press Conference: 2020 Annual Meetings Opening
David Malpass President, WBG

11:15 AM – 12:00 PM
Press Conference: G-20
Moderator: **Rima Almedaires**, Communications & Production Manager
Speakers: His Excellency **Mohammed Al-Jadaan**, Saudi Minister of Finance; His Excellency **Dr. Ahmed Alkholifey**, Governor of the Saudi Arabian Monetary Authority

12:00 PM – 1:00 PM
Seminar: A Sustainable Recovery for People and Planet
Speakers: **David Malpass**, President, World Bank Group; **Tania Ortiz Mena**, CEO, IEnova Infraestructura Energetica
Alok Sharma, Secretary of State for Business, Energy and Industrial Strategy, UK, and COP26 President
María del Pilar Garrido Gonzalo, Minister of Planning and Economic Policy, Republic of Costa Rica
Diane Holdorf, Managing Director, World Business Council for Sustainable Development; **Aiyaz Sayed-Khaiyum**, Attorney-General and the Minister for Economy, Civil Service and Communications, Republic of Fiji; **Celso Ismael Correia**, Minister of Agriculture and Rural Development, Mozambique; **Helen Mountford**, Vice President, Climate & Economics, World Resources Institute
Host: **Zain Verjee**, Founder and CEO, Zain Verjee Group

12:30 PM – 1:15 PM
Conversation between Melinda Gates & Kristalina Georgieva
Moderator: Becky Anderson, Anchor, CNN International
Speakers: Melinda Gates, Co-chair, Bill & Melinda Gates Foundation; Kristalina Georgieva, Managing Director, IMF

Don't Miss

2020 IIF Annual Membership Meeting (Live-Stream)
Financing a sustainable economy: crisis recovery and drivers of future growth

IMF Bailouts

Continued from page 1

investment, including reducing healthcare investment by two thirds.

"The consequences of this have been devastating for the country's response to the pandemic," he told *GlobalMarkets*. "I would have hoped to see the IMF backtracking on that, but it seems the new financial aid will still be predicated on fiscal consolidation and austerity."

'SPEND WHAT YOU NEED'

Oxfam said 14 countries including Barbados, El Salvador, Lesotho and Tunisia were likely to freeze or cut public sector wages and jobs, which could mean lower quality of healthcare and fewer nurses, doctors and community workers in countries already short of healthcare staff.

Mader said Latin American states that lacked social institutions to let people shelter and forego weeks of wages had much worse infection and death rates. "Countries need to have the public capacity to prevent poverty from driving people out to put themselves and others at risk in order to keep themselves fed and sheltered," he said.

Nine countries including Angola, Nigeria and Malawi are likely to introduce or increase the collection of VAT, which Oxfam said applied to everyday products such as food, clothing and household supplies whose higher costs would fall disproportionately on poor people.

Arendar urged the fund not to repeat the mistakes it made in the aftermath of the 2008 financial crisis. "Ordinary people paid the price for austerity measures," she said.

Mader said the global consensus was for borrowing, stimulus and rescue now and worrying about paying later. "The IMF and the rest of the IFI community have to think about what they want their role to be," he said. "If they want to be a global social good, they should look beyond investors' narrow risk aversion. That may mean that some loans they make won't, and shouldn't, be repaid."

Reza Baqir, Governor of the State Bank of Pakistan, told *GlobalMarkets* that the IMF had to rethink the balance between the adjustment and finance. "This is a unique crisis. The last global financial crisis was unprecedented but this is very, very different. I'm looking forward to the IMF looking at its own tool kit and how it wants to help countries out of the crisis. I'm expecting much more in terms of how we design programmes, the size of programmes, what constitutes exceptional access. All these are up for grabs," said Baqir, a former division chief at the IMF

However, neither body is accusing the IMF of imposing conditions as it did in previous crises. The IMF said it was currently providing emergency financing with a strong focus on immediate fiscal support and no conditionality. In fact IMF chief Kristalina Georgieva has said countries should spend what they can "but keep the receipts". "Our message has been clear — spend what you need to save lives and livelihoods," said spokesman Gerry Rice.

However, he said that once pandemic had been defeated, many countries would have higher debts and lower revenues and would need to put their finances back on track.

Rice said that governments should prioritise boosting revenues through progressive tax measures that focused on those who could afford to pay, cracking down on loopholes and tax evasion, and reprioritising spending and making it more efficient to "get more bang for their buck".