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'Build back better' campaigns will have to fight worsening inequality

By Jon Hay

Policymakers determined to 'build back better' after the Covid-19 pandemic will have to contend with the fact that the coronavirus has made inequality much worse. New kinds of policy and creative innovations will be needed to repair the damage.

"We're all in the same storm but not necessarily in the same boat," said Mark Carney, UN special envoy on climate and finance, at the World Bank/IMF annual meetings.

From governments, civil society, companies and even central banks a chorus of voices is calling for the recovery from the pandemic not just



Lagarde: past pandemics have depressed productivity and investment

to restore the economy to what it was, but create a new one

that is greener and more just.

Away from the rhetoric, the reality is bleak. Pre-Covid, the World Bank had estimated 7.9% of the world's population would be living in extreme poverty on less than \$1.90 a day in 2020. Now, it projects that to be 9.1%-9.4%, and the rate is unlikely to decline much next year.

The effect will worsen gaps between rich and poor countries, as well as between communities within each country. Existing divides — between blue and white collar workers, women and men, black and white, those with good access to the internet and those without — have all

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Debt relief extension 'not enough' as private sector remains deaf to G20 pleas

By Oliver West and Mariam Meskin

A six month extension to the G20's Debt Service Suspension Initiative agreed on Wednesday will not be enough to deal with crippling debt in developing countries, while the lack of private sector participation is blunting its effectiveness, analysts and policymakers have warned.

IMF managing director Kristalina Georgieva on Wednesday issued a call to "deal with debt", warning global public debt

would reach a record 100% of GDP in 2021. The G20 began in March with the DSSI, under which official bilateral creditors offered to suspend debt payments from 73 poor countries between May 1 and December 31.

On Wednesday the group extended the initiative by six months, saying it would examine the need for a further extension by next year's Spring Meetings.

World Bank president David Malpass called the deal a "ray of hope" as it has increased fiscal

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al Jadaan: 'about time' for private sector debt relief

Exclusive

'Slippery slope': EM central banks warned of debt monetisation risks

By Rashmi Kumar and Matthew Thomas

Central banks in emerging markets have been forced to use unconventional tools to combat the impact of the Covid-19 pandemic, with the likes of Indonesia resorting to debt monetisation to offer the government some liquidity support. But market experts warn this may be a slippery slope.

Globally, central banks are trying to use every tool in their policy kits to shore up their economies and lessen the toll of the health crisis. While devel-

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World Bank urged to channel shareholder money to cut poor country debt

By Phil Thornton and Rashmi Kumar

The World Bank should establish its own vehicle to channel money from rich shareholder countries to pay off the debts that poor states owe to the multilateral lender, according to a leading development thinktank.

The move would bypass the threat that the bank would lose its cherished AAA credit rating status if it participated in the G20's Debt Service Suspension Initiative (DSSI), the Center for Global Development said.

The bank has refused to take part in the DSSI under which members of the G20 agreed to allow 73 poor countries to suspend their payment of debt interest this year that could deliver relief of \$8bn-\$11bn.

It has cited warnings from Fitch Ratings, Moody's and Standard & Poor's that debt suspension would mean the bank was no longer treated as a "preferred creditor" putting it first in line for repayment. It says the loss of that status would force up its borrowing costs that would in turn "drain large volumes of resources, impacting all clients".

But Scott Morris, a senior fellow at CGD and a former assistant deputy secretary at the US Treasury, said the rating agencies had added a caveat that the AAA rating would not be affected if "most of the losses were compensated" by their shareholders.

He said that for client countries that were not being reached adequately through new commitments and disbursements by the bank, there was a strong case for donor-funded loan repayments in a way that provided relief to the borrowers and protected the bank's balance sheet.

"Given where we are with interest rates in advanced

economies, which underpin the bank's AAA, I tend to be sceptical about fears that a more aggressive World Bank would pay a heavy cost in the form of much higher borrowing costs," he told *GlobalMarkets*.

It was "unclear" why the World Bank had not prioritised a donor-supported debt service facility akin to the IMF's Catastrophe Containment and Relief Trust, he said. In March the IMF revamped the CCRT and launched a fundraising effort to enable it to provide relief on debt service.

"Such a fund would be straightforward — it is a matter of putting the request in front of the bank's donors," he said. "The institution owes it to its donors, and even more to its client countries, to lay out a clear picture of how, and how well, donor money is flowing through the bank to reach IDA countries."

'NOT ON THE TABLE'

The move was backed by Costa Rica whose central bank governor said many countries were looking at creating special purpose vehicles (SPV) at the multilateral level.

"Costa Rica has been proposing the creation of an SPV within the World Bank, where creditors would actually provide funding, that will be on-lent to low income and emerging market countries at concessional rates to deal with a pandemic," said Rodrigo Cubero, president of the Banco Central de Costa Rica.

On Monday Bank president David Malpass said new statistics produced by the bank showed that up to the end of 2019 some 60% of all poor country loans were owed to Chinese creditors.



Morris: sceptical about fears that a more aggressive World Bank would pay a heavy cost

Asked whether an agreement by the bank to forgive its debts could be part of a deal for China to extend its debt forgiveness, he said that was not "on the table".

"The multilateral banks provide highly concessional grants and low interest rate loans," he said. "The first step for relieving the debt burden for the countries is from other creditors and that is the direction of the initiative so far."

The call by the CGD comes a day after it warned the bank could fall \$81bn short of its \$160bn target for emergency funding to help developing countries deal with the effects of Covid-19.

The study found that at its current rate, the bank's new commitments would fall \$31bn short of its target of \$160bn by June 2021. More importantly, they found that just \$79bn of the target would flow to developing countries by June 2021.

The World Bank said the CGD had not "accurately characterised" its response to the pandemic. "We are making good progress toward our announced 15-month target of up to \$160bn in surge financing, much of it to the poorest countries," said a spokesperson.

EM central banks

Continued from page 1

oped market economies have decent wriggle room to unleash novel ways to tackle the pandemic, developing countries have less freedom to do so.

"It was quite notable when Indonesia announced plans for debt monetisation," Stephen Schwartz, head of Asia Pacific sovereign ratings at Fitch Ratings, told *GlobalMarkets*. "Many of the risks posed to macroeconomic stability and policy credibility associated with debt monetisation are more pronounced in emerging markets, and policymakers need to be very careful when it comes to market confidence and exchange rate pressures when they embark on this path."

The Indonesian government has two kinds of agreements with Bank Indonesia (BI), Luky Alfirman, director general of budget financing and risk management at the ministry of finance, told *GlobalMarkets* in an exclusive interview ahead of the annual meetings.

"The first is the standby buyer agreement, where they will purchase governments bonds through the auction but at the market price. That is a different definition of debt monetisation."

The second agreement — which is closer to debt monetisation — is where Bank Indonesia purchases government bonds through private placements without interest, he added.

"It is what we call burden-sharing — but it's only intended to be a one-off," he said. "BI can still purchase our bonds in the primary market next year, but we don't expect the burden-sharing to continue."

UNORTHODOX SCHEMES

Alfirman added that almost all countries have adopted "unorthodox schemes" to respond to the crisis, while putting in place "huge stimulus packages". "We have taken unprecedented steps, but the situation required it."

Indonesia is not alone. The Philippines did something similar, with the central bank authorising the use of a repurchase agreement with the treasury to help meet the government's urgent financing needs, said Schwartz.

This is expected to be unwound, but it did attract



Alfirman: 'We have taken unprecedented steps, but the situation required it'

attention from investors. Other emerging market central banks have also been buying domestic bonds in the secondary market, including Thailand, Poland, South Africa, Croatia, Romania, Hungary, Chile, Costa Rica and Colombia.

In the cases of Croatia and Poland, large scale quantitative easing has been seen — rare for emerging market countries — in an attempt to lower rates. Croatia's central bank, for instance, held 17% of domestic market debt, and Poland 13%, as of the end of May, according to a Fitch report.

But such measures can have big long-term consequences for countries — unless they are kept in check.

"Near-term rating implications are relatively minor, especially for countries like Indonesia with good track records of monetary policy management and low inflation, but medium-term implications are a concern," said Schwartz. "If countries resort to these schemes repeatedly, it can undermine investor confidence, and lead to inflation and currency depreciation."

Cambodia facing microfinance meltdown threat

By Lewis McLellan

Cambodia's huge microfinance sector is wobbling in the face of the pandemic, and the collateral damage that its 2m borrowers face could be catastrophic. The sector, which has enjoyed historic support of international financing institutions, could face a painful collapse.

Cambodia, despite having a population of only 16m, has the tenth largest microfinance sector in the world — around \$10bn of loans, more than a third of the country's GDP.

The development of the sector was hailed as a success story by international financing institutions (IFIs) who fostered its development as a means of increasing availability of credit, particularly in rural areas.

Aceda, one of the only large microfinance institutions (MFI) to be majority Cambodian-owned cites various IFIs in its "roll of honour", deeming them "organisations whose support was indispensable to establishing the foundation on which Aceda Bank stands today". These include the Agence Francaise de Développement, KfW, International Finance Corporation (IFC), the UN

Development Programme and USAID.

But the sector has expanded out of control, according to Philip Mader, research fellow at the Institute of Development Studies. "There is simply no sensible explanation for two million Cambodians borrowing \$10bn. The debt growth is spiralling out of control as people borrow on top of original loans.

"The IFIs encouraged a massive inflow of commercial capital and it has created a completely unsustainable debt bubble."

With a pandemic crushing productivity around the world, Mader believes it is "difficult to see a private credit sector massively overleveraged to the poorest sector of society making it through a pandemic."

RESCUE PACKAGE

Microfinance accounts for around a quarter of the country's financial sector, meaning that its collapse would pose severe risks to financial stability.

Making matters worse, many of the loans are secured against land titles, meaning defaulting borrowers would lose their land. In June, Cambodia's prime minister Hun Sen encouraged lenders to confiscate the property of borrowers who



Hun Sen: cracking down on delinquent borrowers

are delinquent on their loans.

Mader would like to see the IFI community put forward some kind of rescue package, perhaps purchasing the loans, then writing them down to sustainable levels and detaching repayment from land ownership.

A spokesperson for the IFC told *GlobalMarkets* that in the wake of Covid-19, as of June 2020, IFC's financial sector clients in Cambodia had restructured more than 66,500 loans with a value of over \$1bn.

"We have worked with the National Bank of Cambodia to set up a credit bureau to help strengthen Cambodia's financial consumer protection framework, covering the regulated financial institutions, including microfinance institutions," the spokesperson added. IFC owns 19.99% of Amret Microfinance Institution.

Morocco action plan to support recovery from pandemic

By Mariam Meskin

Morocco intends to launch a series of economic and social reforms in the wake of the coronavirus pandemic which has hit the tourism-dependent kingdom especially hard, finance minister Mohammed Benchaaboun said at the IMF meetings this week.

While all African sovereigns have struggled since the onset of the coronavirus pandemic, Morocco has formulated a comprehensive action plan for the country's recovery.

With a low external debt-to-GDP ratio, Morocco appears well positioned to combat the worst impacts of the pandemic.

Morocco's public debt as a percentage of GDP stands at 70.7%, while external debt is 53.4%. It drew down around \$3bn made available by the IMF under the Precautionary and Liquidity Line in April. In September, Morocco became one of the only African countries to tap international debt markets since the crisis started. It raised a €1bn bond with long five and 10 year tranches.

SOCIAL SAFETY NETS

The government has ordered reforms in the health, social care and economic sectors, which will protect the country in the case of a second wave and revive the economy.

"We need to strengthen social safety nets so that all Moroccans can have health insurance, a pension scheme and a family allowance," Benchaaboun said on Wednesday. "Morocco has made that a priority and it will be launched in January 2021. In a sense, this is a challenge because we are talking about 22 million Moroccans that will join a mandatory health system between now and 2022."

Similarly, Morocco has drawn up a comprehensive financial recovery plan. "We want to ensure an economic recovery plan is our priority," Benchaaboun said. He said the plan had a budget worth 11% of GDP of which 4% which will be provided through the strategic investment fund, the Mohammed VI Investment Fund investment fund.

That fund, which is expected to increase investment and revive the economy, is set to receive a cash injection of Drh15bn, equivalent to \$1.6bn, from the state budget.

"We want to act rapidly to inject necessary funds into the economy to stimulate investment using traditional methods of financing including private equity, which will be a component of investment in infrastructure, especially through public-private partnerships," Benchaaboun added.

Frontier markets appeal to IMF to help recovery

By Rashmi Kumar

Central bank governors are calling for more support from the International Monetary Fund for many frontier market countries that are hanging by a thread as they find ways not just to handle the pandemic but also to recover from the health crisis and grow their economies.

After the Covid-19 shock hit concerns around debt sustainability and management have risen. In response, the G20 countries launched the Debt Service Suspension Initiative in April to help poor countries defer payments.

The group also offered quick balance of payments assistance to member countries through its Rapid Financing Instrument (RFI) scheme.

Both these measures were extremely helpful as the first response to the pandemic, but Rodrigo Cubero, president of Banco Central de Costa Rica, said it was now time to focus on the recovery process.

"Many countries have to navigate difficult waters, so flexible credit lines may be useful for countries that have strong liquidity positions," he said at a panel organised by the Institute of

International Finance.

"For most others, outright lending rather than precautionary lines of credit may be necessary. Recognition that in most cases, what is needed is direct lending support as opposed to balance of payments support is critical, and is where the IMF has to help."

EXPANDING PARIS CLUB

Cubero added that debt restructuring mechanisms needed to be "rethought and refreshed", including by revisiting the structure of the Paris Club, a group of major countries that offer financial support to poor nations.

"China and Russia are big bilateral lenders to many emerging markets and low income countries," he said. "It's critical to bring these non-Paris Club lenders to the fold and agree on ways of doing that restructuring."

For some frontier market economies, however, multilateral support may not offer a way out anytime soon, said senior experts.

Sri Lanka has sought bailouts from the IMF 16 times in the past 55 years,



Cubero: look at Paris Club structure

but a change in administration in 2016 strained its relationship.

"Countries that were in good standing with the international financial institutions before Covid have generally fared better, like Pakistan and Mongolia that have been able to access IMF Covid financing and have market access," Stephen Schwartz, head of Asia Pacific sovereign ratings at Fitch Ratings, told *GlobalMarkets*.

"While Sri Lanka, which fell out with the IMF last year, has not tapped the RFI and is less likely to return soon to the IMF for financial support. In many cases, bilateral financing is the most viable alternative to MDB financing."

China leads the way with digital currency, but other central banks have plans

By Lewis McLellan

The City of Shenzhen is distributing 10m yuan this week as part of the trial of the digital currency it is developing. While China is a clear leader in the race to release a central bank digital currency, other countries are not far behind, with Japan set to begin trials next spring.

This week the People's Bank of China distributed 50,000 "red envelopes" of 200 digital yuan to winners of a lottery. The central bank claimed last week that over 1.1bn yuan had already been transacted by 113,000 consumers through its digital currency electronic payments system. The digital yuan will be accepted by more than 3,000 retailers.

The PBoC's progress in developing its own digital currency electronic payment system is unrivalled, and no major economy has made such a firm strategic commitment to the strategy.

China aims to provide a public alternative to leading private sector payment providers. It could also be a forerunner of a programmable digital currency, which would greatly expand PBoC's monetary policy toolbox.

Stuart Levey, CEO of Libra, Facebook's digital payment system, told the Institute of International Finance annual meetings on Tuesday that such a system could reduce improper use of aid funds.

IRRECONCILABLE DIFFERENCE?

The Bank of International Settlements with the collaboration of the Bank of Canada, European Central Bank, Bank of Japan, Sveriges Riksbank, Swiss National Bank, Bank of England and the Federal Reserve published a report on the foundational principles and core features of central bank digital currencies.

But the BIS's group of central banks are pursuing a different goal from the PBoC. Martin Chorzempa, research fellow at the Peterson Institute, said: "China is mostly a domestic initiative, aimed at replacing physical cash. There are voices suggesting that this will increase international usage of [China's currency], but for that to happen would require them to focus on the wholesale, inter-bank market, and their design choices don't indicate that."

By contrast, the group of seven central banks is likely to aim for a wholesale system facilitating cross-border payments and benefiting from a network effect.

Chorzempa said the absence of the PBoC from the group of banks may indicate an irreconcilable difference in values. "The PBoC is likely to focus on a centralised system, giving itself a higher degree of data access and control."

Geopolitics and pandemic uncertainty to dominate oil market in 2021

By Mariam Meskin

Uncertainty around vaccine timelines are haunting oil-producing countries, especially those in the Middle East, which continue to face the threat of geopolitical escalation. The volatile international sphere poses a unique and unpredictable set of challenges for the oil market, experts have said.

The decline in demand in the wake of the coronavirus pandemic caused commodity markets to suffer unprecedented falls this year.

In April, the price of West Texas Intermediate oil futures turned negative for the first time ever, as Brent crude dropped to \$20 a barrel for the first time in decades. Between February and April, oil prices declined by 60%.

Prices have somewhat recovered, with Brent trading at \$42.35 on Wednesday afternoon. The Institute of International Finance expects oil to average at \$47 while the IMF expects prices to average at \$46.70 — both far below where the market started 2020 at \$66.

However, experts said that oil markets

could only potentially return to pre-crisis demand levels in 2022-23, following the deployment of a coronavirus vaccine.

"We expect Brent to average at \$42 per barrel in 2020," Garbis Iradian, chief economist, MENA, at the Institute of International Finance told *GlobalMarkets*. "Lower oil prices have raised additional challenges for MENA oil exporters in addition to the Covid-19 pandemic. The combination resulted in lower crude oil production [due to the Opec+ agreement] and major fiscal challenges."

'ELEVATED UNCERTAINTY'

The oil market remains characterised by "elevated uncertainty", owing to the pandemic, according to the IMF's world economic report. It said risks were balanced, with escalating geopolitical events in the Middle East, faster containment of the pandemic and excessive cuts in oil investments the main upsides, and renewed slowdown in global economic activity and stronger oil production growth in non-Opec+ countries some of the downside risks.

But experts said geopolitical uncer-



Saudi Aramco: under attack

tainty and regional tensions will be key to the recovery of the oil market. The attack on Saudi Arabia's Abqaiq oil facilities last fall had a sharp but short-lived impact on the oil market. As long as geopolitical tensions continue to simmer, particularly between Iran and Saudi Arabia, the oil market will be vulnerable to devastating shocks.

"If the global economy has a beating heart, it is the Abqaiq processing facility. There are few things worse in terms of a single event for the global economy than a damaging attack on Abqaiq that Saudi Arabia could not fix," said Robert McNally, president of the Rapidan Group.

Deputy minfin denies budget is 'austere' as IMF urges Mexico to spend

By Oliver West

Mexico's deputy finance minister told *GlobalMarkets* it was "not fair" to call his country's latest budget "austere" as market participants backed an unusual plea by the International Monetary Fund for the government to spend more.

In its Article IV mission concluding statement, published on October 6, the IMF said that Mexico — which has increased health spending and direct budget support to households and firms by just 0.7% of GDP — "needs more near-term fiscal support".

"The authorities are encouraged to implement a comprehensive package of near-term fiscal and monetary support, credible medium-term plans to anchor fiscal sustainability, and reforms to boost investment and growth," said the Fund. "Larger temporary near-term fiscal support would alleviate current distress as well as limit lasting economic damage."

However, noting that "this is the first time we see the IMF move in a different direction to its usual austerity recommendations", deputy finance minister Gabriel Yorio insisted that Mexico

"does not have the fiscal margin for more spending and cannot use more debt, as defined by the constitution".

Fitch Ratings said on Monday that Mexico's finance ministry had "shunned" fiscal stimulus, calling the country "a standout in terms of the small size of its fiscal response". Several analysts saw the 2021 budget published in September as indicating more of the same.

"Next year's austere budget is an important factor behind our view that Mexico's recovery will be very weak," said William Jackson, chief EM economist at Capital Economics, on Friday. The research firm previously called the budget "frugal".

DO 'WHAT IS POSSIBLE'

The government is pledging a 1%-2% real rise in total expenditure versus pre-pandemic levels, it said. Yet Yorio argued that it was "not fair to say it is an austere budget".



Yorio: Mexico cannot use more debt

"In fact, we have tried to ensure that spending does not fall with the revenue shock," the deputy minister said. "As [IMF managing director] Kristalina Georgieva has said, richer countries should do whatever it takes to mitigate the crisis, but developing countries [can only] do whatever is possible."

Analysts generally see Mexico's budget, which projects a 0.2% primary surplus this year and a balanced budget in 2021, as based on optimistic revenue forecasts. Capital Economics called it "punchy" and said it could lead the government into "outright austerity" should it not meet revenue targets.

But one investor in Mexico City said this reading was mistaken, and "there was a reason for the over-optimistic budget". "Banxico [the central bank] is going to have important profits this year, part of which will go into the budgetary stabilisation Fund [FEIP]," said the investor. "These funds can only be used if revenues come up short, so by being optimistic, the government will allow itself to tap the FEIP."

Build back better

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been worsened by the pandemic.

Christine Lagarde, president of the European Central Bank, emphasised the positive when she discussed the structural changes brought about by Covid at the Institute of International Finance on Monday. “Look at how it has changed the nature of domestic activity — it’s quite amazing,” she said. “You are working remotely, I am and yet we are communicating and achieving something.”

Working from home, online retail and digital payments were all helpful trends that had been boosted by Covid, she said. Lagarde predicted “a new wave of service-driven globalisation”, pointing to her oncologist sister-in-law who had done all her consultations online for two months.

But she also pointed out that other disease out-

breaks since Sars in 2002 had depressed productivity 6% and investment 11% even five years later. The pandemic was expected to raise Europe’s Gini coefficient, a measure of inequality, by 14%.

Faced with such an uphill struggle, very targeted policies will be needed to put the economy on a better course. Jared Bernstein, economic adviser to Joe Biden, Democrat candidate for US president, said at the IIF a “new policy architecture” was needed to make the economy “far more resilient to the type of shocks that come fast and furiously these days — it could be wildfires, 100 year storms that come every year or two, a level of racial injustice that we see reverberating through our economy”.

As an example, he said “Childcare is essentially missing in this country.” Wealthy people could afford childcare; many found it difficult. Biden’s \$770bn plan to provide universal pre-school care would help parents get to work and lead to “long term positive

growth effects”, Bernstein said.

For many countries, however, spending on that scale is way out of reach — meaning the gulf between them and rich states could widen.

Angola, like most African countries, is facing a daunting array of needs: trying to protect people’s incomes and save small businesses in the short term, while also finding resources to build crucial infrastructure such as roads and attract investment to the sectors that can diversify its economy away from oil — tourism, mining, agriculture, manufacturing.

“Managing a reformist agenda is stressful, painful, with a lot of social tension,” said Vera Daves De Sousa, Angola’s finance minister. “To manage all this you need to give people a sense of hope. I believe all this crisis is quite a revolution that’s happening, but it’s an opportunity to restart, to look at each other and understand we are evaluated by our weakest link — so we need to make sure no one is left behind.”

Debt relief

Continued from page 1

resources for more than 40 countries, but said it was “not nearly enough” progress.

“Some core DSSI-related problems are still unresolved, notably lack of participation by private creditors and incomplete participation by some official bilateral creditors,” said Malpass.

Georgieva said that, “unfortunately, we have not yet seen [private sector participation] happening”.

The G20 called the absence of progress with private creditors disappointing, while Saudi finance minister Mohammed al Jadaan, chairing the G20 meeting, said private investors “have benefited from high yields for an extended period of time”, and it was “about time during this crisis that [they] participate”.

There was a similar call last week from the 54 finance ministers of the Commonwealth, while Oxfam’s international debt policy lead, Jaime Atienza, said it was “scandalous that powerful private lenders and multilateral institutions like the World Bank are still excluded”.

“Private sector debt still has no independent mechanism for review,” said Atienza. “Poor countries are continuing to repay debts to rich banks and hedge funds instead of investing in their Covid-19 response.”

DSSI VS MARKET ACCESS

The Institute of International Finance (IIF) in May attempted to provide a framework to facilitate private creditor participation, but to no avail.

The G20 statement encouraged private participation “when requested by eligible countries” — but countries have been reluctant to ask. Of the 43 countries that have participated in DSSI, only three have approached private creditors, noted Georgieva.

“There continues to be a push for private sector involvement in debt relief but it has to be on a case-by-case basis,” Graham Stock, head of EM sovereign research at BlueBay, told GlobalMarkets. “Calls for broad standstills overlook that countries are seeking to build a track record of debt service and don’t want to restructure if they can avoid it.”

Bondholders point out that Ecuador and Argentina restructured billions of dollars of bonds relatively quickly this year, while other issuers like Belize, Suriname and Zambia have requested payment holidays outside the DSSI.

Reza Baqir, governor of the State Bank of Pakistan, told the IIF meetings this week that the DSSI had been “very useful”. However, he warned that the country does “not want to be put in a position where we have to choose between market access and the DSSI”.

“There’s a danger that this will happen if there continues to be a push towards private creditor inclusion,” said Baqir. “Pakistan wants to be able to tap markets. It needs to be clear what you’re getting [from participation] and what you’re putting at risk.”

Pakistan in May requested official debt relief under the DSSI, which triggered a review for downgrade on its B3 credit rating from Moody’s. The agency returned Pakistan to stable outlook in August when it saw private creditors were not at risk, but the governor warned that 40% of eligible countries

had not participated in the DSSI in part because of rating risks.

Also at the IIF, Patrick Ngugi Njoroge, governor of the Central Bank of Kenya, encouraged the participation of Russian and Chinese lenders in the initiative, but said his thoughts differed

on private sector involvement.

“[Kenya has] done a lot to get into the non-concessional borrowing space and we continue to dip into capital markets as we see fit,” he said. Kenya is eligible for the DSSI but has not requested relief.

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Central banks from Washington to Frankfurt via London are revising their strategies in light of stubbornly low inflation. A repeat of the 1980s Plaza and Louvre accords is unlikely this week but there is mutual movement towards looser policy

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The drop in oil prices this year, fuelled by lower global demand as a result of the coronavirus pandemic, has had a devastating impact on Middle East government budgets, causing deficits to balloon. Though measures have been taken to fill spending gaps, the future looks rocky as long as oil demand remains below pre-crisis levels

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EIB emphasises development as Covid exposes global economic weakness

The European Investment Bank isn't letting the Covid-19 pandemic divert it from its common purpose, but is focusing it more clearly than ever on the development sphere.

How should a development bank react to the dual economic and health crises created by the global Covid-19 pandemic? By moving fast to provide financing where it is immediately needed, while paying attention to the long-term challenges of digitalisation and climate, says EIB vice-president Ambroise Fayolle.

"We have learned some lessons from the previous crisis — act quickly, act with volume, and do whatever you can to speed up disbursements," says Fayolle. "Having said that, there are also things we see of importance going forward, such as the digital economy, that will bring great project effectiveness. Also, we believe that, everywhere, the recovery will have to be green."

The bank created a [€25bn European Guarantee Fund](#) to support the EU's pandemic response package and made €6bn available for healthcare projects in Europe, while also paying close attention to its mandate in developing countries, in particular those in its Africa, Caribbean and Pacific mandate, making €6.7bn available for healthcare and support to small and medium-sized enterprises.



Debora Revoltella, director of the economics department: "Covid is changing the status quo for firms"

There is a strong economic rationale for moving quickly — as well as a humanitarian one. The impact of the Covid crisis on the global economy has been severe, and although there are some signs of recovery, uncertainty remains high. And uncertainty is traditionally what constrains investment and recovery, says Debora Revoltella, director of the economics department at the EIB. Moving to alleviate the short-term impacts, should also provide better outcomes down the line.

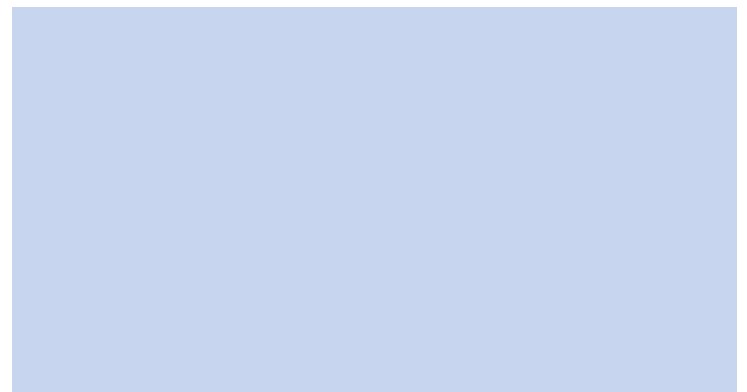
EIB economists carry out a 12,000 firm survey every year, and this year asked firms in the EU about the effect of the pandemic on their investment plans. Covid will have an impact on 45% of firms' investment plans for the year — and they will either abandon or delay their investment activities, the survey showed.

But while that makes worrying reading in the short term, Covid might have a more positive effect on European firms' investment decisions in the medium term and beyond, says Revoltella.

"We know that Covid is also changing the status quo for firms," she says. "What is coming out quite clearly is that firms perceive in the medium to long term, due to Covid, they will have to use much more digital technology, as well as reassess global value chains and adapt the goods and services they offer."

The key from a policy point of view is how to get firms to quickly start investing and adapting to the new normal.

"In Europe we still have a high percentage of firms that are non-digital, much higher than in the US, and we should find ways to get more firms to start the digitalisation process,"



EIB vice-president Ambroise Fayolle discusses what the bank has learned from the Covid crisis and its focus on development

she says. "From various studies we have done, we know that adoption of digitalisation requires a combination of elements.

"Firms need to be aware of the related opportunities and the crisis might help this factor because firms now realise its importance. But also to implement digitalisation in your company, you need to have the proper skills, to have qualified workers, and then you have to embrace the process of transformation of the company. So there is a lot to do from a policy point of view to try to construct this process."

DIGITAL AFRICA

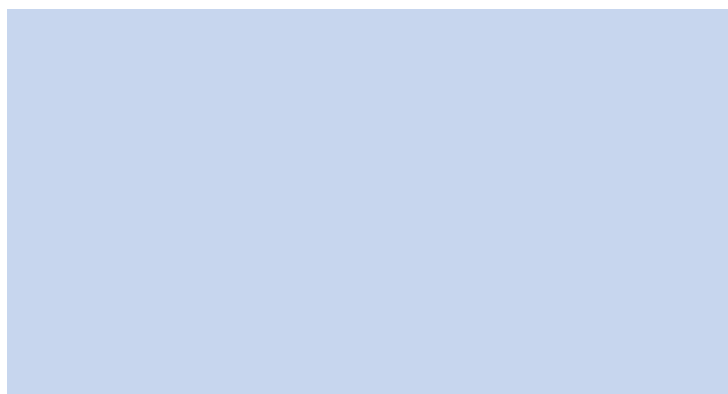
The EIB has been a key partner in the "Team Europe" initiative spearheaded by the European Commission to respond to the crisis outside the EU.

"In partnership with Team Europe, we have increased disbursements and repositioned the bank more in favour of action in the least developed countries, especially in Africa," says Fayolle. "In terms of sectors of activity, what we have tried to finance particularly in Africa is two things. First, everything related to the health sector, helping countries deal with Covid — in terms of testing, or of vaccine research, where there are great projects in Africa.

"And the second is support to the real

economy and in particular to small and medium-sized enterprises. We have developed in recent years significant contacts and projects with banks in Africa who are very active in the SME sector and we have accelerated our support to them because Africa has suffered a lot from the economic consequences of the crisis — and not only the health consequences.”

The EIB funded a [study](#) this year with the United Nations Development Programme to understand where digital solutions could be deployed to help African economies respond



The EIB has committed €1bn to the 2X Challenge that provides funding to women as entrepreneurs, leaders and employees.

to the Covid pandemic. It found that a relatively small outlay — €650m — could fund smart and low-cost technological investments such as a telephone-based contact tracing system in Kenya, using drones to spread health messaging in Côte d’Ivoire and providing an online learning platform for students and teachers in Tanzania.

Maria Shaw-Barragan, director, global partners at the EIB, says that the digitalisation drive started before the pandemic, and will continue after it.

“We have seen that the digital gap is one of the big obstacles for individuals in developing countries to be able to have access to not only the economy and trade, but also for education, information and e-government,” she says.

In order to narrow some of these digital disparities, the EIB is working with Unicef on a long-term project to ensure that every school in Africa is connected to the internet. “It’s something that for us in Europe is taken for granted: of course every school needs to have access to the internet, but in Africa it doesn’t happen.”

The partnerships with UNDP and Unicef are good examples of the way the EIB’s work helps create more impact and meet develop-

ment objectives for all the institutions.

“The UN agencies have a lot of knowledge, they have a lot of capacity on the ground but what they lack is the ability to leverage with finance,” says Shaw-Barragan. “Combining their know-how, with our financial and technical expertise, is a very complementary relationship.”

DEVELOPMENT, EVOLVED

Partnerships are just one hallmark of the EIB’s approach to development. Another is its commitment to the values of the European Union — with the UN’s Sustainable Development Goals and the Paris Agreement on Climate Action central to its operations. Sustainability is key.

“Over the years, the way development is done has been evolving,” says Shaw-Barragan. “We need a new way of doing development because the way it was done in the 20th century showed that the impacts can be wiped out too quickly. The analysis we do for every operation puts a lot of emphasis on the environmental and social

aspects in order to make sure our investments are going to be sustainable over time.

“We apply EU values when we finance operations in developing countries,” she says. “For instance, on gender, in February, we signed [a microfinance operation in Mali](#). It is a combination of supporting non-agricultural small businesses that are led by women as well as a very strong agricultural support element, which, of course, in Mali is extremely [important](#).”

More broadly, [the EIB was the first multi-lateral development bank to sign up to the 2X Challenge](#) — a commitment to provide \$3bn of finance for women that meets a set of globally recognised criteria and metrics in the fields of employment, leadership, entrepreneurship, consumption and access to finance.

“Our commitment in 2019 was to mobilise €1bn in finance empowering women and we are getting closer to achieving this. We are looking forward to the next challenge and the next horizon,” says Shaw-Barragan. “We are ensuring that what we are doing is fully incorporating women into economic activity. Women are half of the world’s population and we need to make sure they are actors in devel-



Maria Shaw-Barragan, director, global partners: “We are ensuring that what we are doing is fully incorporating women into economic activity”

opment and not just beneficiaries of developmental work or passive targets of our activity.”

As the first IFI to join the 2X Challenge, the EIB is in the good company of European Development Finance Institutions, using its position to help spread best practice and partnership. It’s an example of working together under the Team Europe brand — which brings together the EU, the Member States and the Member States’ development banks, as well as EIB, the EU bank. The concept was developed by the Commission this year to show the combined impact of the union.

“It is clear that Team Europe as a whole is the biggest contributor to development finance globally. For us, as an EU institution, the approach is natural — working hand-in-hand with the delegations on the ground is the most efficient way to reach out to the local authorities to build impact and to achieve more together,” she says.

The overall message from the EIB is that its development mission is more important than ever.

“Covid has already taught us more than I would ever have suspected, and this is partly horrifying and partly encouraging us to continue on our way to climate neutrality and strong climate resilience,” says EIB president Werner Hoyer. “The Covid crisis has not only hit the industrialised countries; it has already hit many, many developing countries, and I think Europe has a role to play there.”

“Together with the European Commission and other actors of the European level we are on that trail. We must turn this into a development challenge — and we must therefore put development on a higher level and in a more strategic dimension.” ●

A virtual accord? Major central ba



Central banks from Washington to Frankfurt via London are revising their strategies in light of stubbornly low inflation. A repeat of the 1980s Plaza and Louvre accords is unlikely this week but there is mutual movement towards looser policy

By Phil Thornton

Until recently, debates over the outlook for monetary policy and the actions of central banks were far from being the central attraction of the annual meetings of the International Monetary Fund and the World Bank.

During the so-called “great moderation” in the first decade of this century, the debates at the international monetary and financial committee, the IMF’s steering body, focused on maintaining decent levels of global growth, preventing financial crises and boosting support for low income countries.

Monetary policy was often confined to one paragraph of the IMFC communiqué, advising central banks to be ready to

contain any inflationary pressures.

How times have changed. The great financial crisis of 2008/09, the eurozone debt crunch two years later and now the devastating impact on the economy of the Covid-19 pandemic and the measures taken to control its spread have meant central banks have been at the forefront of the response.

With many advanced economies increasingly indebted by the cost of their fiscal response to each successive downturn, finance ministers have passed the baton to their central banks.

As the US Federal Reserve, the European Central Bank, the Bank of Japan and the Bank of England cut their base rates to zero or below and injected trillions of dollars, euros, yen and pounds into the economy,

it was clear their governors were now the true masters of the financial universe.

But with power comes responsibility. The tactics and strategies of these banks have been under the spotlight from critics who believe their actions have ramped up asset prices at the expense of ordinary working people by flooding markets with liquidity.

Jerome Powell, chair of the US Fed, was first out of the blocks when he unveiled the results of its pioneering public review of its monetary policy framework at the Jackson Hole symposium in late August.

The Fed will now adopt “a flexible form of average inflation targeting”, so that rather than targeting a 2% inflation rate, the Fed will now seek to achieve inflation that averages 2% over time.

Under the spotlight

European Central Bank president Christine Lagarde, Jerome H. Powell, chair of the Board of Governors of the Federal Reserve, Bank of England governor Andrew Bailey

Banks flex monetary policy muscles

This in effect commits it not to tighten policy until inflation is persistently above 2%. “In a few short lines, the Federal Reserve has set the stage for a quiet shift in central banking,” says Neil Shearing, group chief economist at analysts Capital Economics.

“Given a period of below-target inflation over the past few years, it follows that a burst of above-target inflation will not just be tolerated, it will actively be targeted.”

So far, the jury is out. Markets have moved little in the wake of the announcement. Indeed, analysis by economists from Federal Reserve Bank of Cleveland and leading US universities of a poll of 1,500 Americans after Powell’s speech found that most had not heard the news and the few who had did not pick up a shift towards average inflation targeting (AIT). “These results paint a relatively bleak picture of households’ understanding of the announcement of a move to AIT,” they concluded.

Economists are somewhat more informed, and a poll of almost 50 leading US academics by Chicago Booth’s IGM Forum found that only a fifth thought it would make a practical difference to monetary policy over the next decade.

Sceptics, such as Chicago University economics and finance professor Anil Kashyap, are unimpressed. “Their ability to forecast and control inflation is a lot more tenuous than their rhetoric suggests,” he says.

Others are more swayed. “It is a sensible revision at the lower bound,” says William Nordhaus, an economics professor at Yale University. “A decade is a long time, and this could help the recovery once under way.”

While it will be hard to tell whether the changes will have an impact on economic outturns for years to come, the immediate question it raises is whether other banks will follow its lead.

ACCOMMODATIVE CONDITIONS

That debate will be at the heart of this week’s meetings, where the IMF is expected to push for more fiscal stimulus and continued support by central banks in the form of ultra-loose monetary policy.

Andrew Milligan, former head of global strategy at Aberdeen Standard Investments and now an independent investment consultant, says the IMF will encourage governments around the world “to do more on the fiscal side than necessarily try to unify what is happening on the monetary side”.

But he adds: “Central bankers can put the necessary conditions into place for the recovery in economic activity in the coming year — necessary but not sufficient without a turnaround in consumer and business confidence, which in turn may require more government support as well as a successful vaccine to bring about.”

Mark Haefele, chief investment officer at UBS Global Wealth Management, says he expects central banks worldwide to accept moderately higher levels of inflation while excess capacity is run down.

“Policy makers could also consider a variety of other changes to policy frameworks, such as yield curve control, in order to ensure financial conditions remain accommodative and support the economic recovery,” he says.

The focus will be on Christine Lagarde, the president of the ECB, which launched a review of its monetary policy strategy in January in light of its continued inability to get eurozone inflation anywhere near 2%. The outcome has been delayed from the end of this year into the second half of 2021 because of the Covid-19 pandemic.

Reza Moghadam, chief economic adviser at Morgan Stanley and former head of the IMF’s European department, says that the ECB has found itself “out-doved” by the Fed. “By comparison, the ECB’s commitment to ‘below but close to 2%’ inflation — a target it has consistently undershot since 2012 — sounds decidedly austere,” he says, adding that there is considerable concern in Europe that the appreciation of the euro since early July may gain new momentum.

However, key members of the governing council disagree with a shift to an average inflation target. Fabio Panetta has said the ECB should err on the side of doing too much rather than too little, while Yves Mersch has argued the outlook has not changed and risks may have even receded.

“Overcoming that opposition will be a heavy lift for the ECB,” Moghadam says. “Bringing the review forward therefore does not seem a viable option.”

Instead Lagarde, who is giving a keynote speech at this week’s meetings, will have to operate within the limits of the existing ECB rules but will continue to hint at the bank’s ability to act.

In her testimony to the European Parliament’s economic and monetary affairs committee a fortnight before the meetings,

she said the bank would conduct net asset purchases under the pandemic emergency purchase programme (Pepp) “until at least the end of June 2021” — a possible date for the review.

She gave a strong hint in a speech on the eve of the meetings that central banks should commit to explicitly make up for inflation misses when they have spent quite some time below their inflation goals. “The usefulness of such an approach could be examined,” she said.

Observers such as Haefele and Moghadam believe that the ECB will raise its Pepp injections in December and extend its reach to the end of 2021 — something that markets will be listening out for in her remarks in Washington.

On the other side of the English Channel, the Bank of England is going through its own communication issues. Governor Andrew Bailey caused a stir in August when he raised the idea that negative interest rates were part of its “toolbox” but then said there were no plans to use them.

Despite similar public disagreements between members of its monetary policy committee that have been seen in the ECB, the Bank managed to get all nine members to sign up to a statement in the minutes of its September meeting that it will begin “structured engagement on the operational considerations” of negative rates in the final quarter of this year.

Robert Woods, UK economist at Bank of America, sees the bank laying the ground for a cut in the bank rate to zero from 0.1% and further quantitative easing in November, leaving it room to cut rates into negative territory in the case of a failure by the UK and European Union to agree a deal over Brexit.

“Publishing this paragraph feels like news,” he says. “It suggests to us that the Bank of England is more prepared to use negative rates than we thought. They just opened the door further to negative rates — not just next year, but for an extended period — potentially triggered by any negative economic shock.”

All three are way behind the Bank of Japan, which moved ahead of the Fed. Since 2016 it has pledged to continue expanding the monetary base until core inflation exceeds 2% and “stays above that target in a stable manner”.

But the fact that four of the most influential



In a few short lines, the Federal Reserve has set the stage for a quiet shift in central banking.”

—Neil Shearing, group chief economist, Capital Economics

“The ECB’s commitment to ‘below but close to 2%’ inflation — a target it has consistently undershot since 2012 — sounds decidedly austere”

—Reza Moghadam, chief economic adviser, Morgan Stanley

“Real interest rates at zero is unheralded and is driving all kinds of distortions in the world economy”

—Jagjit Chadha, director, National Institute of Economic and Social Research



New Fed mandate on jobs raises questions over targeting inequality

The US Federal Reserve is already unique having a dual mandate to pursue maximum employment and stable prices, but chair Jerome Powell wants to focus even more closely on the labour market.

He pointed out in his Jackson Hole speech that the historically strong labour market did not trigger a significant rise in inflation. In fact, forecasts from both members of the Fed and private sector analysts have routinely shown a return to 2% inflation that was never realised on a "sustained basis".

The implication is that the Fed will allow recoveries to go on unimpeded by monetary policy — even if unemployment rates get very low — as long as inflation remains subdued.

In a notable shift of focus, the revised mandate emphasises that maximum employment is a broad-based and inclusive goal. This change reflected "our appreciation for the benefits of a strong labour market, particularly for many in low and moderate-income communities", according to Powell.

Andrew Milligan, an independent economist, says if the Fed wants not just to

reduce the current high levels of unemployment but improve employment opportunities in key sectors such as minorities and low income groups, that represents a "fairly significant shift" in policymaking. "How significant, of course, we will only know in perhaps five years' time," he says.

A policy paper published by three IMF economists — but which does not represent official policy — looked at whether central banks should care about inequality when setting monetary policy.

"Major central bank officials are increasingly discussing distributional issues," they wrote, citing Powell's speech as well as remarks by his predecessor, Janet Yellen, in 2014 and by former ECB head Mario Draghi in 2016.

They found "some support" for making inequality an explicit target for monetary policy, particularly if central banks followed standard Taylor rules that the central bank chooses an interest rate based on current output and the inflation gaps and then augments it with an inequality target.

They found that beyond targeting just inflation and output gaps, a central bank could achieve higher welfare

by placing a small negative weight on consumption inequality: "Such an augmented Taylor rule allows both a more effective stabilisation of consumption inequality but also stabilises inflation and output gaps."

As Tyler Powell and David Wessel of the Brookings Institute, the Washington think-tank, have pointed out, research shows minority groups and low and moderate-income communities enjoy disproportionate gains from very low unemployment rates.

But Jagjit Chadha at UK think-tank the National Institute of Economic and Social Research (NIESR) warns there is a danger of central banks having a two-stage target to control inflation and then achieving another objective. "If central banks are told, 'you have hit inflation targeting, now go and look at something else like income inequality', that then means inflation will take off because agents will see that central banks don't care about inflation any more." —*P.T.*

U.S. Federal Reserve Chairman Jerome Powell delivering his speech to the annual Jackson Hole research conference in August

central banks have all taken steps to reframe the way they set monetary policy to allow inflation to rise further is not the same as active collaboration.

CHINA'S DOG HASN'T BARKED

A repeat of the Plaza Accord of the G7 countries in 1985 to depreciate the dollar and the Louvre Accord two years later to halt its decline is unlikely: those were initiatives to produce a specific outcome in the foreign exchange market rather than a strategic shift in policymaking.

A more likely forum will be the meeting of finance ministers and central bankers of the G20, which has superseded the G7 as the informal co-ordinating body for monetary policy following its co-ordinated intervention to tackle the global financial crisis at its 2009 summit.

One hurdle to a consensus among the G20 is that China, the second largest economy, is ploughing a very different monetary policy furrow. As Milligan, the independent economist, points out, in contrast to what is happening in Europe and the US, the People's Bank of China has held back from significant monetary intervention.

This is partly because Chinese firms are benefiting from a big exports boost connected to the global recovery in consumer spending and inventory rebuilding over the summer, he says.

"Chinese money supply growth has not exploded, as it has in some other countries. The authorities there seem to be relying much more on, firstly, the export stimulus, which China has benefited from, and then local support for the housing market as well, which is really rather strong," he says.

A useful role for the IMF and the World Bank would be to find a solution to their savings glut in Asia that has contributed to the repression of inflation and interest rates, according to Jagjit Chadha, director of UK think tank the National Institute of Economic and Social Research (NIESR).

"Financial engineering and innovation are required in the saver countries and that means the development of pensions savings vehicles, domestic investment and mortgages," he says.

"You need enough savings vehicles across countries or the creation of bonds or assets that are stable so there is not this level of capital flows out of emerging economies. Real interest rates at zero is unheralded and is driving all kinds of distortions in the world economy."

Milligan says the role of the central banks at the annual meetings should be to encourage governments to give more support to consumers and businesses via taxes, public spending and deregulation. The Fed, in particular, has made it clear that the bank will ensure it does not repeat past mistakes by overreacting to any inflationary pressures as and when they appear.

"The message we are receiving is that it will be some time before inflation reappears, and even when it does the Fed will be happy to see inflation running above target for a period of time to allow the economic recovery to blossom. In other words, it may be years before they take the punchbowl away.

"That's an important signal to investors, to industry, to the man or woman in the street." **GM**



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Sub-Saharan Africa

Finance Minister of the Year
Tito Mboweni,
South Africa



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

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

CEE

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

Central Bank Governor of the Year
Ernest Kwamina Yedu Addison,
Ghana



Finance Minister
Central Bank Governor

Sub-Saharan Africa Finance Minister of the Year

TITO MBOWENI, SOUTH AFRICA

A masterclass in damage limitation

Few countries have been affected more severely by the coronavirus pandemic than South Africa. The country suffered a year-on-year GDP contraction of about 17% in the second quarter thanks to some of the most stringent lockdown and distancing restrictions in the world.

Fortunately, these restrictions have paid off and the curve of increasing infections has flattened, enabling the country to relax lockdowns and allow its economy to begin healing.

Nothing could have been done to compensate entirely for the economic consequences of the economic shock delivered this year. But, under the leadership of Tito Mboweni, the South African government has provided companies and citizens with a raft of measures designed to support them through the lean period.

Low income workers are receiving a tax subsidy, while vulnerable families' social grant payments have been boosted. For those workers that fall through the gaps of South Africa's Unemployment Insurance fund, the government has provided a six month grant for the unemployed.

The government has also done what it can to aid the SME sector, particularly small farmers and businesses operating in the beleaguered areas of tourism and hospitality, providing a loan guarantee scheme to help keep companies afloat until revenues recover.

Mboweni also presided over the decision to go to the IMF for emergency funds, raising \$4.3bn through its rapid assistance programme. This decision came in the face of historic political reluctance, but analysts outside the country praised the move, saying it gives the country the best chance of making the speediest possible recovery.

Sub-Saharan Africa Central Bank Governor of the Year

ERNEST KWAMINA YEDU ADDISON, GHANA

Tough measures deliver good prospects

Ghana has not escaped the ravages of the coronavirus pandemic. Although its case load has been light compared with some, this has come at the cost of a strict lockdown that has ravaged the country's GDP growth.

However, shrewd management of the economy means the country is already bouncing back. Credit for this lies in no small measure with the governor of the central bank, Ernest Kwamina Yedu Addison.

Ghana entered 2020 on a high note, tapping capital markets for a \$3bn bond. "We were looking forward to a year of stability and high growth," says Addison. But when March brought the realisation that the coronavirus was not a Chinese problem, but a global problem, everything changed.

"Ghana's lockdown was unprecedented. There was an almost complete shutdown and the economic fallout was very severe," says Addison. Acting quickly, the bank lowered the key interest rate from 16% to 14.5%. Addison also presided over the reduction of banks' conservation buffers, reducing the capital adequacy ratio and lowering lenders' reserve requirements.

These measures, which an analyst covering the country referred to as "shrewd", helped minimise the economic impact of the lockdown. Rather than the 5% GDP contraction originally forecast, Ghana's

GDP fell only 3% and Addison believes that leading economic indicators are recovering.

These measures were only possible thanks to disciplined and prudent management of the economy. On the monetary policy side, Addison says that "the monetary policies we have pursued over the last few years have left us with the space to implement loosening".

Perhaps more crucially, though, Ghana has aggressively cleaned up its banking sector over the past few years, revoking the licences of 347 micro finance institutions and nine banks. Under Addison's direction, Ghana implemented a Basel III bank capital requirements framework and built up its bank supervisory capacity.

As a result, it entered the coronavirus crisis with well capitalised, strong banks. Thanks to this, Ghanaian banks have advanced 300m cedi (\$51.4m) more than they had by this time last year, and bank profitability



In spite of the challenges posed by the historic effect of the pandemic, Mboweni has done an excellent job in limiting the damage. The fall in GDP, though severe, could have been far worse if it were not for the swiftness of the finance ministry's response.

Analysts particularly complimented the speed with which liquidity support facilities were provided, protecting the economy from the worst of the collapse. "They have faced huge challenges, and the finance ministry cannot hope to resolve everything, but the success they have had, thanks to the swiftness of their actions, has been gratifying," said one analyst at a Washington think-tank.

Thankfully, the economy has begun to recover in the third quarter and growth is set to return 15% quarter on quarter, although this will go only a small way in offsetting the brutal 51% slump in the second quarter. That this recovery is set to take place is thanks in no small part to Mboweni's recovery package. —

Lewis Mclellan



is stronger as well.

The Ghanaian central bank has also pursued an innovative approach to digitalising money, launching a digital financial services policy earlier this year. Its pioneering E-Zwich cards have given it another advantage in the Covid-19 era, reducing reliance on cash in the economy, as well as improving financial inclusion.

Ghana still faces challenges. Addison highlights that, with the higher deficit caused by the coronavirus response, debt sustainability will be a concern for Ghana as it will all over the world. And, of course, if the resurgence of Covid-

19 in a second wave washes into Africa, then Ghana's economic growth will suffer. However, thanks to the Ghanaian central bank's prudence in preceding years, and the swift action this year, the impact of the pandemic was far less than it might have been and Ghana's economy is set to return to growth next year. —*Lewis Mclellan*

Global Markets 2020 Awards

Central and Eastern Europe

Finance Minister of the Year
Tadeusz Kościński, Poland



Central Bank Governor of the Year
Elvira Nabiullina, Russia



This year's winners in other regions

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Yi Gang, China
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Debt Manager of the Year
Yuriy Butsa, Ukraine



Debt Management Office of the Year CEE

Yuriy Butsa

Ukraine

Despite a surprise high-level resignation, Ukraine has managed to absorb the shocks from Covid-19

Ukraine's debt management office has managed to pull together the finances from international and local investors and the official sector to deal with a sharp rise in the deficit, which widened from 2.1% to 7.5% of GDP — equivalent to Hrv200bn (\$7bn).

Notably, Ukraine managed to pull off one of the most impressive emerging market bond issuances of the year, despite battling uncertainty around the pandemic and the country's internal institutions.

On the back of former governor Yakiv Smoliy's resignation and the planned Eurobond issuance in early July being pulled, Ukraine and the DMO managed to regain investor confidence and raised \$2bn at 7.25%.

"Ukraine did not have a crisis of funding," says government commissioner for public debt management Yuriy Butsa. "We used positive market conditions in January to refinance our external debt needs with a 10 year euro-denominated Eurobond... We did pull off our planned Eurobond issuance in July, following the surprise news of governor of the central bank Yakiv Smoliy resigning... It was unusual for us to retract the deal but it was the only reasonable decision."

The country's ability to secure IMF funding in the form of a \$5bn Standby Agreement despite a number of challenges, including Ukraine's anti-corruption and reform agendas, is testament to the DMO's hard work.

A pragmatic and carefully considered debt management strategy has prevented the crossover frontier-emerging market from falling into the grips of a total crisis. Economic recovery is expected to reach 4.6% next year, after contracting by 4.8% in 2020.

"Ultimately, 2020 was a rocky year for Ukraine, but we came into a problematic period fully prepared and prevented economic difficulty from turning into a full-blown financial crisis," Butsa says. "Ukraine is an example to other emerging market countries that classic prudent fiscal policies work." — *MM*

CEE Finance Minister of the Year

TADEUSZ KOŚCIŃSKI, POLAND

Poland's low level of debt at the start of the crisis gave it room to take strong action to look after its economy

The coronavirus pandemic has affected Poland in a similar fashion to most European countries — by increasing budgets and spending and denting economic growth.

Recessions in major trading partners are, of course, harmful to the Polish economy. However, through its diversification and the finance ministry's swift implementation of aggressive economic stimulus measures alongside robust social care policies, Poland looks likely to be among the least severely affected economies in the EU.

Tadeusz Kościński, Poland's minister of finance, says: "Our fiscal package had five pillars. The primary one was to ensure sufficient funding for the health service. Second, we needed to look after employees to reduce job losses, and this pillar included packages such as a care allowance for parents who were facing a dilemma when schools shut down. An additional package bought a bridge over the lockdown period for companies, ensuring they continued to have liquidity."

The Z100bn (\$26.2bn) financial shield to prevent unemployment has been widely praised as a swift and effective response to the crisis, particularly on top of the Z212bn anti-crisis shield economic support package.

"In terms of the financial system, we did everything we possibly could to ensure it was sufficiently liquid, such as reducing interest rates and obligatory reserve ratios. The final

pillar was public investment, to enable us to invest very quickly once lockdown was lifted," Kościński adds.

The ministry has worked a fine balance between focusing on strong consumption levels and supporting macro growth, using EU funding to obtain public investment and therefore to secure private investment.

"Our strategy is to emerge from the recession with strong domestic private consumption, which is why we have no plans to increase taxes, or cut costs — apart from certain unnecessary costs. The intention is to continue with the social programmes in Poland, such as pension payments and child benefit schemes. A lot of money is going into people's pockets to keep them spending," Kościński says.

The response to the crisis was exemplary, but was made possible thanks to Poland's low indebtedness at the start of the crisis, which ensured the government had the fiscal room to take such definitive action.

"Poland has had a strong response, and its debt may increase by up to 10% of GDP," says Marek Drimal, EMEA strategist at Société Générale. "But as long as there is a justification for that, it is perfectly fine." — *Mariam Meskin*



CEE Central Bank Governor of the Year

ELVIRA NABIULLINA, RUSSIA

A decisive cut in interest rates and action to stabilise the rouble have kept Russia in favour with foreign investors

While every country's economy has been deeply affected by the coronavirus, Russia was dealt a particularly tough hand, as it faced the double impact of oil prices declining and Covid-19 costs ballooning.

However, the Central Bank of Russia has been widely praised for preserving financial stability amid severe economic turbulence. Thanks to a disciplined and prudent approach over the past few years, the CBR had plenty of room to manoeuvre and swiftly implemented a more accommodative policy.

The government introduced a fiscal stimulus package and the central bank implemented temporary regulatory forbearance. Additionally, the bank deferred requirements for banks to create provisions on the loans restructured in this period and provided temporary forbearance of market-to-market on marketable securities.

Crucially, bold action in the FX market helped to stabilise the rouble and protect it from falling into the crisis-zone and to prevent dollarisation.

"The Bank of Russia augmented the fiscal rule accelerating the adjustment of the FX market operations so that it was more in sync with daily oil price fluctuations, and also provided some incremental FX sales during those

weeks when the oil price was below \$25/bbl," says Elvira Nabiullina, governor at the Central Bank of Russia.

The central bank made the wise decision to cut interest rate by 200bp this year, with key rates on track to remain at 4.25% for the rest of the year, though some have speculated about further cuts.

"Whether the decision [to cut rates] is taken depends on the state of the economy and its implications for our inflation forecast... We take into account the effects of winding down the aforementioned regulatory forbearance on the credit conditions," Nabiullina says.

Thanks to the central bank's action in preserving financial stability, Russian government auctions were one of the first markets to which foreign investors returned after major outflows in the first flush of coronavirus volatility.

Strong actions on the part of the central bank have put GDP growth forecasts at 3.5%-4.5% in 2021. In the case of a second wave, the central bank says it will formulate policy response with the ultimate goal of price stability and the goal of keeping inflation at 4%.

"For now we continue to see the balance of risks for 2021 as moderately disinflationary," Nabiullina says. "But, as this year reminded us all too clearly, the situation on the ground may change very fast." — *Mariam Meskin*





Middle East set for uphill battle in 2021 as oil volatility dominates

The drop in oil prices this year, fuelled by lower global demand as a result of the coronavirus pandemic, has had a devastating impact on Middle East government budgets, causing deficits to balloon. Though measures have been taken to fill spending gaps, the future, according to experts, looks rocky as long as oil demand remains below pre-crisis levels

By Mariam Meskin

The coronavirus crisis that erupted earlier this year did more than wreak havoc on communities across the globe, infecting millions of people; it also sent global commodity markets into unknown territory.

In April, the price of West Texas Intermediate oil futures turned negative for the first time in history, while Brent crude dropped below \$20 a barrel for the first time in decades, as the global wave of coronavirus-induced lockdowns deflated demand.

Though oil has experienced a modest recovery since then, most experts put the price of Brent crude oil in 2021 at between \$30/bbl and \$45/bbl. But that number pales in comparison to where it started this year — at around \$66. As of October 9, Brent crude was trading at \$42.78. Experts say that oil markets could potentially return to pre-crisis demand levels in 2022-2023 at the earliest, following the deployment of a coronavirus vaccine.

While the drop in prices directly affected the hydrocarbon-dependent sovereigns in the Gulf region, it also had an indirect im-

act on other Middle Eastern countries, in the form of lower remittance volumes, lower foreign direct investment and less generous financial support.

That double impact of coronavirus-related spending costs and decline in oil prices has sent both economic activity and growth tumbling across the Middle East.

“With the exception of Egypt, forecast to slow down to a modest 2.5% GDP growth for 2020, all other MENA countries are expected to experience a GDP contraction in 2020,” says Leila Benali, chief economist at Arab Petroleum Investments Corporation (Apicorp). “All are facing, at best, difficult trade-offs, or worse, daunting choices, between reining in generous social support programmes, or borrowing and over-spending, risking the currency crashing and soaring interest rates.”

Fiscal deficits across the region stand far above expected oil prices next year. Saudi Arabia’s fiscal breakeven price, for example, is thought to be about \$63/bbl, while Oman’s is \$72/bbl, according to the IIF.

“Recovery in 2021 will be modest — in addition to the uncertainty surrounding

Covid-19, we expect Brent to average \$47/bbl in 2021, which is still far below pre-Covid levels in the \$65 range. The major risk is if oil prices drop below \$40 for a long time, in which case sovereigns will seriously struggle to finance their deficits,” says Garbis Iridian, chief economist MENA at the Institute of International Finance.

CRITICAL MEASURES

The probability that oil prices will not recover to pre-pandemic levels puts sovereigns across the globe — and in particular, those in the Middle East, a region rich with governments dependent on oil revenue — in a critical position.

Some governments have been pushed towards fiscal consolidation, while being forced to extend stimulus packages through tapping existing reserves, international debt markets or accessing multilateral or foreign aid.

Those measures will continue to intensify in 2021 as sovereigns across the Middle East (and the whole world) come to grips with a new way of spending and living.

Some sovereigns in the Gulf that were hit

Emergency

Saudi Arabia’s minister of energy Prince Abdulaziz bin Salman Al-Saud speaks via video link during a virtual emergency meeting of OPEC and non-OPEC countries in April

particularly hard by the double-whammy of Covid-19 and low oil prices have been forced to reduce spending — such as Saudi Arabia, which has cut spending this year by about 10%. However, ex-GCC countries in the Middle East, such as Jordan, Lebanon and some North African countries, including Egypt, have had to sharply increase government spending — although their access to emergency IMF funding has helped. According to the IMF, \$13.9bn has been disbursed across the Middle East and central Asia since the start of the pandemic.

“Only a few countries have the ingredients in place, in terms of governance, policy credibility, public finances management and a strong and sustainable economic basis, to be able to translate stimulus packages into productive debt and sustainable recovery,” says Benali at Apicorp.

A TAXING TIME

But one of the most important aspects of governance in the Middle East next year will be fiscal consolidation in the form of taxation.

Experts say a tax revolution will need to take place across the region, especially the Gulf.

Saudi Arabia, for example, tripled VAT to 15% in July, a move that elicited a harsh reaction from many of its citizens. Fiscal consolidation in the form of tax increases is likely to happen across the Middle East over the next year as governments scramble for income.

“The GCC still has a more generous tax system compared with the rest of the world, though taxation will have to adjust to become less dependent on oil while sustaining a wealthy average level of living,” says Gustavo Medeiros, deputy head of research at Ashmore Group.

The Gulf in particular has a reputation for having generous welfare systems and providing large subsidies to their citizens, but that must change if these sovereigns favour economic growth amid a declining oil market.

“There is no choice but for GCC countries to increase non-oil revenue and restrain government spending, given the era of prolonged low oil prices,” says Irdian at the IIF. “It is likely that Bahrain and the UAE will follow Saudi Arabia and raise their VAT rate. Qatar, Kuwait and Oman have still not introduced VAT, but they eventually will. Kuwait is facing major problems in financing its deficit, so it could initiate major fiscal consolidation next year, following the parliamentary elections, by introducing VAT and cutting current spending.”

CAPITAL MARKETS TO THE RESCUE

Many sovereigns have turned to international debt capital markets to fill their fiscal deficits this year, leading to what some are calling a record year for bond issuance. That, they say, is set to continue in 2021 as corporates begin to funnel into a market dominated by sovereign issuance in 2020.

“So far this year, \$102bn has been issued in the region, which is already substantially higher than last year’s figures and approaching an all-time record,” says Salman Ansari, managing director, head of capital markets, West, at Standard Chartered in Dubai.

According to Dealogic, \$124bn has been signed across the entire Middle East since the start of the year.

Despite the inflated levels of uncertainty around commodities and Covid-19 in 2021, bankers say the Middle East will manage to stay insulated from the worst of the shocks, as investor appetite appears insatiable.

“The GCC has shown itself to be exceptionally resilient to external shocks and the 2020 markets have proved this very well,” says Ansari at Standard Chartered. “While geopolitical risk may exist, secondary valuations across the region keep getting tighter, with 2020 seeing the lowest cost of funding across particularly investment grade issuers in the region. As a result, for investors in 2020, GCC debt has proved itself to be tremendously insulated to external shocks.”

Issuers have exceeded expectations in recent months, raising record tenors at cheap levels.

Abu Dhabi, for example, raised the longest ever bond in the region in a \$5bn triple-tranche that included a \$1.5bn 50 year tranche. Others have also extended their curves.

“The kingdom has extended its dollar curve twice in 2020 — from 30 years to 35 years in its January issuance and to 40 years in April, marking the largest EM order book in 2020, which is a testament for KSA balance sheet strength and transparency with global investors,” says Hani Almedaini, head of portfolio management at Saudi Arabia’s debt management office, the National Debt Management Centre.

Even sub-investment grade credits such as Bahrain, rated B2/B+/B+, managed to raise billions of dollars in multiple transactions, pointing to investors’ confidence in even the region’s weakest credits amid what has been a turbulent year.

However, the Middle East is split between those who can easily absorb more debt and those that are at risk. While increasing debt-to-GDP levels may be more damning for the Levantine Middle East countries, in-

cluding Jordan and Lebanon, those in the Gulf will be able to cope.

“A number of sovereigns have also successfully issued local currency debt this year, which was met with a lot of success. Sovereigns in the Gulf are maturing and now have multiple avenues of fundraising available to them,” says Hussain Zaidi, managing director of EMEA and Americas syndicate at Standard Chartered in London. “We are not concerned about the implications of high levels of debt raising because the debt-to-GDP ratios of the Gulf countries remain very manageable compared with emerging market peers.”

DESTINATION DIVERSIFICATION

For some governments, the volatility in the oil market has reinforced the need for sovereigns to diversify away from hydrocarbon revenue. Sovereign wealth funds will play a critical role in doing that. The Middle East is home to some of the world’s largest sovereign funds, including Abu Dhabi’s Investment Authority, which is estimated to have \$580bn of assets.

“Sovereign wealth funds are helping to diversify oil-dependent economies and to achieve a surplus of capital. For example, Qatar’s income from investments has allowed it to achieve diversification, whereas other sovereigns in the region are still heavily focused on oil,” says Medeiros at Ashmore.

Some sovereigns have begun to diversify using capital markets. Saudi Arabia this July raised a green loan backed by Germany’s export credit agency — the first loan of its kind signed in the region. Such financings help to facilitate the transition towards more environmentally conscious ways of spending, which most experts say the Middle East will need to embrace to prevent being as badly affected by future commodity shocks.

Though some of the stronger sovereigns in the Middle East may be insulated from the worst impacts, sub-investment grade credits Bahrain and Oman are causing market-watchers concern. Neither of those countries have sufficient financial buffers in the form of adequate public foreign assets that could be used to finance deficits.

“Bahrain and Oman are very concerning cases — debt-to-GDP levels and fiscal account dynamics have reached unsustainable levels and fiscal consolidation efforts have failed,” says Medeiros at Ashmore Group.

“At Ashmore, we have become more cautious on Bahrain, as we do not think its fiscal adjustments were effective enough; however, we had been overweight on Bahrain in 2018 and 2019.” **GM**



We expect Brent to average at \$47/bbl in 2021, which is still far below pre-Covid levels”

—Garbis Irdian, chief economist MENA, the Institute of International Finance

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A BANK TO TRUST

Economy feels the impact of reform effort

Egypt was the only regional economy to have seen its credit ratings remain stable during the Covid-19 pandemic. This underscores the impact that a series of economic reforms are having.

Having overseen an extensive series of economic reforms in recent years, Egypt was one of the fastest growing emerging markets before the Covid-19 outbreak. This performance reflects the positive impact of a series of reforms undertaken by the government that have won it the plaudits of the big international institutions. The World Bank has attested to the success of Egypt's macroeconomic stabilisation programme in supporting growth, generating a solid primary budget surplus, reducing the debt-to-GDP ratio, and replenishing reserves.

The overall macro-economic picture has been positive in spite of the serious challenges that Egypt has endured under the Covid-19 pandemic. The country's recent economic growth record has been impressive, increasing to 5.6% in FY2018/19 (up from 5.3% the previous year), thanks to strong performances in sectors such as wholesale and retail trade, agriculture and manufacturing. By way of comparison, this compares with 2.3% average GDP growth seen during 2011-2014.

A consequence of Egypt's reform efforts has



been its ability to tap new sources of funding support from the IMF. In June 2020, the Fund finalised the previously agreed 12-month stand-by agreement that provides Egypt access to \$5.2bn. This followed the \$2.8bn in emergency funding that Egypt secured on May 12 as part of the IMF's rapid financing instrument programme.

In August 2020, US investment bank JP Morgan highlighted the fact that Egypt is the only country in the Middle East and Africa that successfully concluded the annual cycle of credit rating review while retaining the confidence of all three global rating institutions, Standard & Poor's, Moody's and Fitch.

"Sovereign evaluation and credit rating have been stabilised with a stable outlook for the Egyptian economy," the Ministry of Finance said in a statement in August. "It is an important achievement for Egypt, and a strong indication of the success of the economic reform programme, which won the trust of credit rating institutions and the international investment community."

The combination of the new IMF deal and general improvement in global risk appetite has triggered a return of foreign capital to Egypt, notes consultancy Capital Economics. Foreign holdings of government debt rose by \$4bn over the course of June and first two weeks of July 2020.

Investors are attracted by the country's large and diversified economy, a large domestic funding base and projected foreign exchange reserves that Moody's says are sufficient to cover maturing external liabilities over the next three years.

Comparatively low levels of foreign currency denominated and external government debt also support Egypt's credit profile, in addition to a sizable domestic market that provides a funding base for the government, notes the ratings agency — citing evidence that despite high exposure, Egypt's credit metrics are broadly resilient to financing shocks, in part due to policy credibility and effectiveness.

According to Moody's, the national economic reforms that were undertaken between 2016 and

2019 helped create the fiscal space and structural flexibility to counter the negative impact of the coronavirus shock on the economy.

Moody's has hinted that its rating could be upgraded if, over the medium term, there's a marked improvement in debt affordability and reduction in gross financing needs, resulting from a lengthening track record of credible and effective fiscal, economic and debt management and a sustained improvement in the labour market and in non-hydrocarbon exports.

"This credit outlook reflects the resilience of Egypt's credit profile against financing shocks despite high exposure, a positive for its credit profile. This is driven by its effective and credible government policies," said Elisa Parisi-Capone, a senior analyst at Moody's. "A lengthening track record of credible and effective fiscal, economic and debt management would also reflect positively on Egypt's credit profile."

Diverse offering

"The Egyptian economy is currently very diverse, offering unique investment opportunities in a growing number of fields, ranging between manufacturing, the service industry, tourism, agriculture, healthcare, energy, and more," says Hisham Ezz Al-Arab, chairman and managing director of Commercial International Bank. "Additionally, the country's strategic location and abundant gas reserves, plus its youthful and growing population, make up a strategic market for any company to penetrate."

The country is rolling out its sustainable development strategy, 'Egypt's Vision 2030', a road map that aims at maximising the benefit from the nation's elements and competitive advantages.

"The strategy adopts the concept of sustainable development as a general framework aiming to improve the quality of life in the present time, without prejudice to the rights of future generations to live a better life," says Mr Ezz Al-Arab.

The government is actively supporting the



economy, both through its reform efforts and through various spending initiatives. Much of this is inspired by the need to cope with the Covid-19 situation. In July, it launched a new initiative to stimulate consumption and encourage local products. This includes granting ration card holders an additional 10% discount, with a total value of E£12bn, secured from the current fiscal year 2020/2021 budget.

The initiative also provides for the possibility of online purchase and instalments with reduced interest rates. The aim is to motivate investors to expand their production activities, inject new funding and provide job opportunities, in a way that contributes to improving economic performance.

According to a CBE report issued in July of this year, Egypt's pillars of growth are becoming more diversified and more sustainable, mainly due to the positive performance of investment and net exports rather than consumption, which has been the main driver of growth for many years.

On the sectoral side, growth has been driven by manufacturing, natural gas, tourism, construction, and telecommunications as the main drivers of growth, highlighting the shift to a more sustainable sector structure. Net export performance contributed positively to growth by 2.3 percentage points in FY18/19, compared with a contribution of 1.9% during FY17/18.

The fiscal position has also strengthened. According to the CBE report, the primary

surplus has reached E£51.6bn — 0.9% of GDP during the July-May of FY2019/20, compared with a primary surplus of E£58.2bn during the same period last year. Total revenues reached E£787bn, an increase of 2.2% compared with the same period of last year.

Inflation has been contained, falling to a nine-month low of 3.4% in August 2020. The annual average inflation rate reduced to 5.7% during FY19/20, compared with 13.9% during the previous year.

The balance of payments also showed a surplus of \$400m in the first half of the FY2019/2020 fiscal year, compared with a deficit of \$1.8bn during the same period last year. This comes in light of a subdued current deficit which declined by \$700m to reach \$4.6bn during the period. The improvement reflects an 11.4% increase in non-oil merchandise exports due to escalating exports of gold, radio and TV transmitters and receivers, drugs, vaccines, pharmaceuticals, and organic and inorganic compounds, which overcame the decline in oil exports to \$5bn due to the drop in the exports of crude oil and oil products, despite the increase in the exports of natural gas. Suez Canal receipts increased by 3.5% to reach \$3bn. Remittances rose by \$ 1.7bn (13.5% up) to reach \$3.6bn.

There is another source of encouragement for Egyptian policymakers, in light of international oil companies' success in new natural gas discoveries in Egypt's offshore territories. At

the end of July 2020, oil companies ENI, BP and Total successfully tested a new natural gas discovery in Egypt's shallow waters. According to the developers, once in production, the well is estimated to deliver up to 100 million standard cubic feet of gas.

Reform push

The government is, meanwhile, strongly focused on persevering with its economic reform programme. According to the IMF, in order to enhance the role of the private sector, the government will publish an updated report on the financial situation of state-owned enterprises and on economic authorities that undertake investments on behalf of the government. The government also aims to submit draft amendments to the previously submitted Egyptian Competition Law by the end of December 2020 to level the playing field for private and public agents for procurement purposes. A new customs law by March 2021 will aim to reduce non-tariff trade barriers and facilitate trade by streamlining customs and valuation procedures.

In August, Finance Minister Mohamed Maait affirmed that economic reforms were the key to the country's resilience in the face of internal and external shocks, which have enabled it to quickly deal with the challenges and repercussions that were imposed by the pandemic. He said that the government pursued a proactive policy in dealing with the pandemic, citing a financial package in support of the Egyptian economy that amounts to 2% of GDP to support various sectors.

Government support measures have been substantial, both in scale and impact. In late March, President Abdel-Fattah El-Sissi announced a E£100bn economic and fiscal stimulus package. By the end of May, E£63bn of this had been disbursed, of which E£50bn was earmarked for the tourism industry. Under the government's "social solidarity" scheme, E£27.6bn will be disbursed to 2.4 million families, totalling around 10 million citizens.

Another £20bn will be channelled through the CBE for the direct purchase of shares in the stock exchange. The president also announced a 14% annual raise for pensioners, set to take effect in fiscal 2021 (year ending June 2021), and a two-year freeze on the implementation of a tax on agricultural land. The plan also includes tax extensions for businesses and support for the tourism and aviation industries.

All this leaves Egypt in strong fettle to emerge from the crisis as it went into it — as the region's best-placed emerging market. ▲

Egypt: a magnet for foreign investment

The country has made itself a beacon for overseas investors, compelled by favourable incentives and a large and dynamic domestic market.

Egypt has undertaken considerable efforts to turn itself into an investment hub, and with some success; the country is Africa's largest recipient of foreign direct investment (FDI) flows, which in 2019 grew by 11% to \$9bn. The total stock of FDI stands at \$126.6bn, according to the United Nations Conference on Trade and Development's (Unctad's) Global Investment Trends Monitor 2019 report.

Unctad said economic reforms undertaken by the Egyptian government have improved macroeconomic stability and boosted investor confidence. Although much foreign direct investment was still driven by the oil and gas industry, which absorbs about two-thirds of total foreign investment, capital is also seeping into a diverse range of sectors, including communications, financial services, consumer goods and real estate.

The government has framed its investment policies to stimulate investment and enhance production, in addition to supporting economic activity with technical support programmes, training and capacity building.

Investors have been attracted to Egypt's intoxicating mix of rapid GDP growth, a strategic geographical position, a skilled labour force and, crucially, a large domestic market. The country's Investment Law includes performance requirements for certain investment incentives. The government has also established special economic zones with tax incentives and more rapid facilitation of registration and customs procedures.

In December 2019 President Abdel Fattah Al-Sisi placed prime minister Mostafa Madbouly directly in charge of the government's investment portfolio, with direct oversight of the investment and administrative reform portfolios. The investment portfolio is now run through the General Authority for Investment and Free Zones, while administrative reform will come under the Central Agency for Organization and Administration. The aim is to speed up the work and prevent overlap.

Egypt has witnessed a busy projects market in recent years, attracting sizeable foreign funding for some major infrastructure schemes. For example, Egypt's first nuclear power project is proceeding with \$25bn in Russian finance. Investors from the

Gulf Cooperation Council states, as well as Asia and Europe, are also investing in projects across sectors ranging from real estate to rail.

Despite the pandemic, the government has been busy this year in pushing major new strategic economic projects. At the end of May, Egypt's Minister of Petroleum and Mineral Resources, Tarek El-Molla, announced a \$19bn plan for the country's petrochemicals sector. This would consist of 11 projects that would be implemented between 2020 and 2035, that will be supported financially by the US International Development Finance Corporation and the US Export-Import Bank.

Plans also call for investment in new affordable homes: the Ministry of Housing estimates 500,000 will be required annually to match demand. Transport is also likely to prove a major recipient of investment. The national transport ministry and the Egyptian Railway Authority have announced plans this year to launch a rapid transit bus system for Cairo's ring road, along with road expansion work and new stations built with links to metro Line 3 stations in Cairo and Giza.

The investment plans are rooted in Egypt Vision 2030, the country's roadmap for a long-term sustainable development strategy. The concept is based on 10 pillars:

Pillar I: Economic Development

By 2030, the Egyptian economy will be a disciplined market economy that is characterised by stable macroeconomic conditions. The Egyptian economy will be an active player in the global economy, capable of adapting to global variables, maximise the added value and provide job opportunities, as well as making the real GDP per capita reach the ranks of upper middle-income countries.

Pillar II: Energy

By 2030, the energy sector will be able to meet all the requirements of sustainable national development of energy resources, leading to an effective contribution in promoting economic growth, national competitiveness and social justice as well as preserving the environment and showing leadership in the fields of renewable energy and rational sustainable management of resources.

Pillar III: Knowledge, Innovation and Scientific Research

By 2030, Egyptian society will be creative, innovative and productive in the fields of science, technology and knowledge, characterised by the existence of an integrated policy that includes the development value of innovation and knowledge.

Pillar IV: Transparency and Efficiency of Government Institutions

By 2030, the administrative apparatus will be efficient and effective. Besides, it will be characterised by transparency, fairness, and flexibility, it will be subject to accountability and it will work to increase citizens' satisfaction, and will interact with and respond to them.

Pillar V: Social Justice

By 2030, it is targeted to build a fair society characterised by equality of rights, as well as economic, social and political opportunities with the highest degree of societal integration.

Pillar VI: Health

By 2030, all Egyptians shall enjoy the right to a safe and healthy life, through the implementation of an integrated health policy.

Pillar VII: Education and Training

By 2030, high quality education and training shall be made available to everyone.

Pillar VIII: Culture

By 2030, it is intended to set up positive cultural values in Egyptian society that respect diversity, differences and non-discrimination.

Pillar IX: Environment

By 2030, the environment pillar will be an essential one in all development and economic sectors, to ensure security, efficient usage, optimal exploitation and investment of natural resources.

Pillar X: Urban Development

By 2030, Egypt, through its land, civilization and distinguished location will be able to accommodate its population as well as resources under a more balanced scheme that meets the aspirations of Egyptians and improves the quality of their lives. ▲

A position of strength

Commercial International Bank (CIB) is well placed to prosper, despite some challenging global conditions. CIB chairman and managing director Hisham Ezz Al-Arab explains the bank's strategy.



Hisham Ezz Al-Arab
Chairman and MD, CIB

This has been a challenging year for banks across the globe, with economic activity disrupted and concerns surrounding asset quality coming to the surface.

Yet Egypt's strongest lenders appear well placed to prosper. Commercial International Bank (CIB), Egypt's largest lender by market capitalisation, has entered this troubled period — like Egypt as a whole — from a position of strength, says its chairman and managing director, Hisham Ezz Al-Arab.

"We've been investing heavily in our digital transformation platforms, giving us an edge over our competitors during a period where customers needed established tools and services to carry on their banking needs while staying safe," he says.

The spread of the novel coronavirus has created opportunities for banks like CIB to expand in digital services, for example developing digital channels and automating payments. The number of transactions via internet and mobile banking increased by 100% following the emergence of the virus.

The bank has continued to grow and expand in 2020. "Despite unfavourable global circumstances, we successfully finalised our first acquisition outside Egypt, acquiring a majority stake in Kenya's Mayfair Bank, making CIB the first Egyptian Bank to establish a presence in

Kenya, in line with our expansion plans in Africa," says Mr Ezz Al-Arab.

CIB announced the acquisition of a 51% stake in Mayfair, to be renamed Mayfair CIB Bank Limited in Kenya, at the end of April.

The move is in line with CIB's mandate to explore and assess opportunities in Africa, building a bridge for Egyptian customers to benefit from regional integration efforts across the continent and benefiting from the prospects available from being Common Market for Eastern and Southern Africa (COMESA) members and the recent African Continental Free Trade Agreement (ACFTA).

Nonetheless, key sectors of the Egyptian economy, such as tourism, are suffering due to the global shutdown. The tourism sector isn't expected to make a full recovery before spring/summer 2021. Meanwhile, remittances — traditionally a big source of income for Egypt's economy — have remained low due to a number of Egyptian workers abroad being let go from their jobs. The Suez Canal revenues have also been affected.

However, says Mr Ezz Al-Arab, the Egyptian government took a number of measures to ensure that the economy can withstand these difficult times.

"Egypt has entered the crisis from a point of strength after achieving high economic growth in 2019, and, according to projections from several international financial institutions such as the IMF and the World Bank, it is the only country in the MENA region that will not undergo a recession in 2020, but is set to experience growth. This growth is a testament to the strength of the Egyptian economy, the success of the government's response to the global crisis and the fruition of the economic reform programme implemented in the past few years," he says.

CIB's financial results for the first half of 2020 showed a resilient performance by the bank, as it entered this global crisis from a position of strength. "Our revenues grew by 17% compared to the first half of 2019 thanks to the Bank's management and staff and commitment to ensure business continuity and to navigate these unprecedented times," says Mr Ezz Al-Arab.

First-half 2020 standalone revenues were E£2.7bn (\$806m), up 17% from first-half 2019,

CIB shows resilience in H1 2020

According to a CIB earnings release issued in July, the bank management noted that: "Notwithstanding an outlook that is beset with challenges, CIB managed to upkeep its resilient performance in the second quarter of 2020, delivering singular top line growth while leaving its solvency untouched. This came to pass as the bank entered the crisis in a position of strength, owing largely to its balance sheet positioning over the past years, with a big chunk of assets in high-end corporate facilities and with a large concentration in longer-term bonds, which came to shield the bank's profitability against a steeply-declining-interest-rate environment."

Besides these, key factors have been the collaboration between the bank's management and staff and commitment to ensure business continuity and to pull through these unprecedented difficult times.

This effectuated as management took a gear change in developing its communication infrastructure while capitalizing on its pre-existent digital solutions and online banking platforms, in order to maintain work efficiency without impacting on the wellbeing of the bank's staff and clients.

Funding to businesses and individuals grew by 2% over first-half 2020 to record E£134bn, with a loan market share of 6.40%. Deposits grew by 5% over first-half 2020 to record E£319bn, with a deposit market share of 7%. The performance comes on the back of a strong year in 2019, which saw CIB report a 23.5% increase in net profits.

on the back of net interest income growth. Second-quarter 2020 standalone revenues were E£6.24bn, up 20% from second-quarter 2019.

The bank's first-half 2020 standalone net interest margin was 6.96%, generating net interest income of E£12.5bn, up 25% in year-on-year terms.

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The bank took a number of measures to insulate itself in the pandemic.

"We remain in full compliance with all regulatory ratio requirements," says Mr Ezz Al-Arab. "With regards to liquidity and capital adequacy, our asset base is composed of almost 60% sovereign investments. We are at a capital adequacy ratio of 26%, putting us in a solid position to withstand any blowback. As at year-end 2019, we held total capital of E£52bn, 90% of which is classified as tier one. CIB's provisioning policy has been highly successful in shielding us from external shocks in recent years: the bank's coverage ratio stands at 233% and our specific ratio was at 98.5% as of year-end 2019."

CIB has in place a contingency funding plan to manage any arising liquidity requirements as needed, and it has minimised market risk by restricting its trading book position. Additionally, the Bank's assets and liabilities committee is closely monitoring all market developments and will take immediate action as and when required to manage CIB's balance sheet.

CIB maintained its comfortable liquidity position above CBE requirements and Basel III guidelines in both local currency and foreign currency in the first half of 2020. The local currency CBE liquidity ratio remained well above the regulator's 20% requirement, recording 69.0% as of June 2020, while the foreign currency CBE liquidity ratio reached 59.6%, above the threshold of 25%.

Over the past few years, CIB's strategy has been focused on moving toward a more

customer-centric approach to uniquely position it among peers as an organisation, explains Mr Ezz Al-Arab.

"This focus revolves around the customer experience and a superior brand image. To carry out our strategy, we have been investing heavily in data analytics, upscaling our infrastructure, digitalizing and automating the way we do business, while constantly developing our employees' skills with the latest emerging trends," he says.

The bank is working to transform traditional financial services into simple and accessible solutions by investing in people, data, and digitalization to serve tomorrow's needs today by supporting the decision-making process with structured data, creating countless experiences that are consumed digitally by its customers.

"This has enabled us to funnel time-consuming small ticket operations from the branches to digital channels, allowing our employees to concentrate on bigger ticket transactions and customers," says Mr Ezz Al-Arab. "The move has benefited customers as well who no longer have to wait in long lines to perform their banking needs, almost everything is available through the click of a mouse or a touch of a screen on a smartphone."

Expansion plans

CIB is looking forward to expanding its lines of business and diversifying its revenue base.

"The two main aspects we're currently concentrating on are digitisation and sustainability," says Mr Ezz Al-Arab. "We will continue our efforts in expanding our digital

roaster of products and services, bringing more of the bank to the customer and help them perform more types of transactions from the comfort and safety of their homes or offices."

As for sustainability, in 2020 CIB became the first bank in Egypt to establish a sustainable finance division, in line with its continuous efforts to establish a new standard of responsible banking in the region. The new division ensures the centrality of sustainability as a core business strategy and provides a solid platform to integrate ESG principles across the bank's functions.

The pandemic and the ensuing social distancing requirements have reinforced how important digital banking is in this context. "Brick and mortar branches will remain a vital part of banking, but those who don't invest in digital will be left behind. More customers demand the agility and flexibility of digital banking, while banks stand to gain from funnelling their small operations from branches to their digital platforms, thus reducing queuing and time spent on servicing low revenue transactions," says Mr Ezz Al-Arab.

As it moves forward, CIB will be looking to continue expanding its presence in Africa through partnerships with established banks in the countries it aims to penetrate. "We aim to build the partnerships between the two banks by combining the strengths of both entities; CIB with its technical expertise, experienced know-how, and vast correspondent banking network, with the local bank's knowledge of the market and navigation via its existing shareholders," says Mr Ezz Al-Arab. ▲

Banks double down on digital

Egyptian lenders are strongly capitalised, ensuring they are well placed to build for the future. Many are now looking to deliver more of their services digitally in the future.

Egypt's banks have traditionally exerted a calming influence over the Egyptian economy, particularly during a decade of significant economic and political developments.

The Covid emergency has provided for another tough challenge for lenders. But the substantial efforts that banks have undertaken, under the guidance of the regulator, the Central Bank of Egypt, have helped build the buffers to withstand

such shocks.

Although many banks have had to boost their provision for problem loans, with an inevitable impact on wider sector profitability, capitalisation levels are still robust and revenues sufficiently flush to withstand the crisis.

Liquidity is expected to remain strong, in light of banks' stable funding base and low levels of loan leverage. There are, reports ratings agency Moody's Investors Service, currently 38 banks operating in

Egypt, with total assets of £5,830bn (\$370bn) as of January 2020 — equivalent around 101% of nominal GDP. The two largest banks command a combined share of 47% of the country's banking assets. Most private sector banks are foreign owned.

According to Moody's, in an analysis of the Egyptian economy published at the end of August, all banks will be impacted by the economic shock unleashed by the coronavirus [PAGE 7 »](#)

« FROM PAGE 6 pandemic, which will take a toll on the Egyptian economy by reining in tourism revenue, reducing foreign direct investment, slowing the flow of remittances and pressuring the local currency. For banks, this will likely lead to lower business generation, higher non-performing loans (NPLs) from the 4.1% recorded in March 2020 and potentially renewed foreign-currency liquidity pressures.

However, Moody's also notes that overall financial stability will be supported by stable local funding and high local currency liquidity; and that despite pressures on NPLs, two-thirds of banks' investments are to (less risky) government securities, cash and interbank placements.

Banks resilient

Profitability looks set to be resilient as banks invest more in government securities and at potentially higher yields given the current environment. The agency also expects capital buffers to remain broadly stable, as dividend pay-outs are reduced.

Egyptian banks' credit profiles are linked to the government, given that 38% of total assets are invested in T-bills and government bonds, a strategy that is expected to continue.

According to Moody's assessment, Egyptian banks have the capacity to further increase their exposure to the government, given the high core liquidity (cash and interbank assets make up 23% of total assets); and the bulk of the government securities held are unencumbered, hence they can pledge a portion of these with the Central Bank of Egypt and use the proceeds to buy more government securities. Thirdly, a solid yearly growth in deposits, stemming from efforts to increase financial inclusion and remittance inflows makes a difference. In a difficult year, Moody's still anticipates witnessing 7%-10% growth, impressive in the circumstances.

The Central Bank of Egypt is meanwhile pushing ahead with regulatory improvements. In July 2020, Egypt's House of Representatives approved the Law of Central Bank of Egypt and Banking System, generally known as the new banking law. This new law is set to ensure Egypt's banking system keeps pace with international standards of best practice, as well as legal systems for the corresponding regulatory authorities worldwide. The aim is to allow Egypt's banks to gain a competitive edge internationally.

The new law enhances the governance and independence of the Central Bank of Egypt. It also requires banks to build up, within three years, their capital reserves — they must increase their paid-up capital to \$310m (E£5bn) and representation offices must have capital of at least \$9.41m.

Alongside the new capitalisation requirement,

the new law also seeks to modernise the system covering electronic banking, fintech and cryptocurrencies.

A key focus for leading Egyptian banks is to bring in more of the population into the formal banking system. According to Hesham Ezz Al-Arab, chairman and managing director of Commercial International Bank (CIB), currently more than 60% of Egyptian adults are unbanked. Financial inclusion is high on the agenda for banks seeking new growth avenues.

"Including this segment in the formal economy and adding it to the banking sector has become a national priority following the launch of Egypt's Vision 2030 and the country's alignment with the UN's Sustainable Development Strategy. We envision a future where every Egyptian adult has a bank account and possesses the knowhow to save, receive funding for their projects, send money, and perform all banking transactions with security and ease," says Mr Ezz Al-Arab.

Financial inclusion

Expanding services to the unbanked and underbanked segments of the population will not only benefit the bank but will benefit the Egyptian economy as a whole.

Despite the still large number of Egyptians — an estimated 40% — without a bank account, the country has nonetheless made significant strides in recent years in improving financial inclusion. For example, the percentage of Egyptians with a bank account was estimated to be in the range of just 8%-12% three years ago, but following economic growth and several national-level initiatives, it has expended significantly more recently. The total number of debit and credit cards in use in Egypt has nearly doubled since 2010.

In 2018 the government launched its Meeza payment card, available in either prepaid or debit form, as part of efforts to boost financial inclusion and reduce the reliance on cash. As of late 2019, four million Meeza cards had been issued. The government wants to issue 20 million cards to be used to conduct e-commerce transactions as well as receive pensions and subsidy payments.

Boosting financial sector inclusion offers other spin-offs for the wider economy, in that it will help the small and medium-sized enterprise (SME) sector, an important motor for the private sector.

The SME sector has been impacted by the Covid-19 pandemic, which has a significant follow-through to banks given that the SME sector is estimated to represent about 20% of the largest institutions' lending books, and — notes ratings agency Standard & Poor's — could be more exposed to the direct and indirect economic effects of social distancing measures than large corporates.

In S&P's view, the magnitude of the impact will depend on the duration of the pandemic, as well as on the effectiveness of relief measures such as the six-month moratorium on principal and interest announced by the Central Bank of Egypt in March 2020 and the subsidised loans granted to SMEs. In addition, it says that some banks, both public and private, have signed agreements with multilateral lending institutions to finance the investments of some SMEs.

In January 2020, the central bank launched a pilot project that would enable bank accounts to be opened electronically, without the customer needing to visit a bank branch. The central bank is also expected to issue instructions in relation to internet banking services in the near future.

Digital banking penetration might accelerate, the agency predicts. New technologies could support financial inclusion. Amid the lockdown, Egyptian banks were using digital channels (including phone calls, mobile banking, and ATMs) in increasing volumes to interact with their customer bases.

The number of internet and mobile banking transactions undertaken through these means increased 100% year-on-year in July 2020, an indication of the rising interpenetration of technology and banking in Egypt. CIB launched its own 'Smart Wallet' in 2016, a system that allows for users to pay for items using their mobile phones. The bank has seen the number of subscribers to the smart wallet service for individuals by 17% as of July 2020 compared to December 2019.

Egyptian banks will likely enjoy a persistent boost to operations from the low interest rate environment, which should support their lending strategies. Standard & Poor's says that while consumer spending has been negatively affected, it expects economic activity will start recovering in the second half of fiscal 2021, potentially triggering an increase in credit demand. With this regard, it believes that the CBE's decision to cut interest rates by 300bp in March 2020 could play a positive role by providing additional stimulus.

Although Egyptian banks of all sizes have been prompted to increase their provisions for doubtful loans this year, which invariably applies pressure on banks profits, the sector looks well placed to rebound once a level of normality returns to the global economy.

General profitability levels have been strong in recent years. For example, Egyptian banks' net profits jumped 18% y-o-y to E£83.1bn by the end of 2019, according to the Central Bank of Egypt. Revenues reached E£154.95bn at the end of 2019, up 17.5% from E£131.9bn in 2018. In the first half of 2020, a total of 17 banks operating in the Egyptian market achieved combined net profits of about E£18.656bn. ▲



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5:30 AM - 6:15 AM

2020 Annual Meetings Plenary
Speeches: **David Malpass**, President, World Bank Group; **Kristalina Georgieva**, Managing Director, International Monetary Fund; **Dr Ernest Kwamina Addison**, Chairman of the Boards of Governors of the International Monetary Fund and World Bank Group / Annual Meetings Chairman

8:00 AM - 8:45 AM

CD Talk: Introducing the CCAMTAC
Speakers: **Iikhom Norkulov**, Ministry of Economic Development and Poverty Reduction, Uzbekistan; **Jihad Azour**, Middle East and Central Asia Department, IMF; **Artak Harutyunyan**, Statistics Department, IMF; **Paul Inderbinen**, Executive Director, IMF; **Padamja Khandelwal**, Middle East and Central Asia Department, IMF

10:45 AM - 11:15 AM

Press Briefing – IMFC
Speakers: **Kristalina Georgieva**, Managing Director, IMF; **Lesetja**

11:00 AM -12:00 PM

Analytical Corner: A Fairer Recovery
Session 1: Government Support to Firms During Covid-19: Benefits, Costs, and Risks
Speakers: **Bryn Battersby**, Fiscal Affairs Department, IMF; **Elif Ture**, Fiscal Affairs Department, IMF

Session 2: Social Spending for Inclusive Growth in the Middle East and Central Asia
Speakers: **Anastasia Guscina**, Middle East and Central Asia Department, IMF; **Atif Saeed Chaudry**, Middle East and Central Asia Department, IMF

Session 3: "Flattening the Curve" of Insolvencies in the Time of Covid-19
Speaker: **Chanda Delong**, Legal Department, IMF

Session 4: Procurement and Beneficial Ownership Transparency: A Pandemic-Driven New Take on Public Access
Speaker: **Ivana Rossi**, Legal Department, IMF



Kganyago, Chairman for the International Monetary Fund and Financial Committee (IMFC); Moderator: **Gerry Rice**, Director, Communications Department, IMF

12:00 PM - 1:00 PM

Seminar: Protect & Invest in People: Human Capital in the Time of Covid-19
Speakers: **Mari Pangestu**, Managing Director of Policy and Partnerships, World Bank; **Melinda Gates**, Co-chair of the Bill & Melinda Gates Foundation; **Mamta Murthi**, Vice President, Human Development, World Bank Group; **Abhijit Banerjee**, Nobel Laureate; **Cyril Ramaphosa**, President, South Africa and President of Africa Union; **Dr. Mai Alkaila**, Minister of Health, West Bank and Gaza; **Narender Dev Mantena**, Head, Global Strategy and CEO, Biological E. Limited; **Mohammed Akoojee**, Group CEO, Imperial Logistics; **Azucena Arbeleche**, Minister of Economy and Finance, Uruguay; **Reha Denemeç**, Deputy Minister of National Education, Turkey; **Stephanie von**

Friedeburg, Chief Operating Officer, IFC; **Mirai Chatterjee**, Director of Social Security, Self Employed Women's Association (SEWA), India
Host: **Michelle Fleury**, Business Correspondent, BBC News

12:00 PM - 1:00 PM

CNBC Debate on the Global Economy
Moderator: **Geoff Cutmore**, Anchor, CNBC
Speakers: **Kristalina Georgieva**, Managing Director, IMF; **Christine Lagarde**, President, European Central Bank; **Sri Mulyani Indrawati**, Finance Minister, Indonesia; **Ngozi Okonjo-Iweala**, Board Chair at GAVI / AU Special Envoy on response to Covid-19



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