

# A Reform Opportunity for the IMF



Jul 19, 2019 JOSÉ ANTONIO OCAMPO

The departure of Christine Lagarde from the helm of the International Monetary Fund represents a golden opportunity to put the institution on a path toward a more effective and inclusive future. What should her successor's priorities be?

NEW YORK – This month marks the 75th anniversary of the signing of the Bretton Woods agreement, which established the International Monetary Fund and the World Bank. For the IMF, it also marks the start of the process of selecting a new managing director to succeed Christine Lagarde, who has resigned following her nomination to be European Central Bank president. There is no better moment to reconsider the IMF's global role.

The most positive role that the IMF has played throughout its history has been to provide crucial financial support to countries during balance-of-payments crises. But the conditionality attached to that support has often been controversial. In particular, the policies that the IMF

demanded of Latin American countries in the 1980s and in Eastern Europe and East Asia in the 1990s saddled the Fund's programs with a stigma that triggers adverse reactions to this day.

It can be argued that the recessionary effects of IMF programs are less harmful than adjustments under the pre-Bretton Woods gold standard. Nonetheless, the IMF's next managing director should oversee the continued review and streamlining of conditionality, as occurred in 2002 and 2009.

The IMF has made another valuable contribution by helping to strengthen global macroeconomic cooperation. This has proved particularly important during periods of turmoil, including in the 1970s, following the abandonment of the Bretton Woods fixed-exchange-rate system, and in 2007-2009, during the global financial crisis. (The IMF also led the gold-demonetization process in the 1970s and 1980s.)

But, increasingly, the IMF has been relegated to a secondary role in macroeconomic cooperation, which has tended to be led by *ad hoc* groupings of major economies – the G10, the G7, and, more recently, the G20 – even as the Fund has provided indispensable support, including analyses of global macro conditions. The IMF, not just the “Gs,” should serve as a leading forum for international coordination of macroeconomic policies.

At the same time, the IMF should promote the creation of new mechanisms for monetary cooperation, including regional and inter-regional reserve funds. In fact, the IMF of the future should be the hub of a network of such funds. Such a network would underpin the “global financial safety net” that has increasingly featured in discussions of international monetary issues.

The IMF should also be credited for its prudent handling of international capital flows. The Bretton Woods agreement

committed countries gradually to reduce controls on trade and other current-account payments, but not on capital flows. An attempt to force countries to liberalize their capital accounts was defeated in 1997. And, since the global financial crisis, the IMF has recommended the use of some capital-account regulations as a “macroprudential” tool to manage external-financing booms and busts.

Yet some IMF initiatives, though important, have not had the impact they should have had. Consider Special Drawing Rights, the only truly global currency, which was created in 1969. Although SDR allocations have played an important role in creating liquidity and supplementing member countries’ official reserves during major crises, including in 2009, the instrument has remained underused.

The IMF should rely on SDRs more actively, especially in terms of its own lending programs, treating unused SDRs as “deposits” that can be used to finance loans to countries. This would be particularly important when there is a significant increase in demand for its resources during crises, because it would effectively enable the IMF to “print money,” much like central banks do during crises, but at the international level.

This should be matched by the creation of new lending instruments – a process that ought to build on the reforms that were adopted in the wake of the global financial crisis. As IMF staff have proposed – and as the G20 Eminent Persons Group on Global Financial Governance recommended last year – the Fund should establish a currency-swap arrangement for short-term lending during crises. Central banks from developed countries often enter into bilateral swap arrangements, but these arrangements generally marginalize emerging and developing economies.

Then there are the IMF initiatives that have failed altogether. Notably, in 2001-2003, attempts to agree on a

sovereign debt-workout mechanism collapsed, due to opposition from the United States and some major emerging economies.

To be sure, the IMF has made important contributions with regard to sovereign debt crises, offering regular analysis of the capacity of countries in crisis to repay, and advising them to restructure debt that is unsustainable. But a debt-workout mechanism is still needed, and should be put back on the agenda.

Finally, the IMF needs ambitious governance reforms. Most important, building on reforms that were approved in 2010, but went into effect only in 2016, the Fund should ensure that quotas and voting power better reflect the growing influence of emerging and developing economies. To this end, the IMF must end its practice of appointing only European managing directors, just as the World Bank must start considering non-US citizens to be its president.

Lagarde's departure represents a golden opportunity to put the IMF on the path toward a more effective and inclusive future. Seizing it means more than welcoming a new face at the top.



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Writing for PS since **2006**

**35** Commentaries

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*Economic Development of Latin America since Independence.*

<https://www.project-syndicate.org/commentary/imf-lagarde-successor-institutional-reform-by-jose-antonio-ocampo-2019-07>

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# ECB rate-cut bets drive another big weekly fall in bond yields



- \* ECB easing hopes bolster bond markets
- \* German Bund yield set for biggest fall in seven weeks
- \* Focus on ECB inflation target debate

\* Markets ramp up bets on July ECB rate cut

\* Euro zone periphery govt bond yields [tmsnrt.rs/2ii2Bqr](https://tmsnrt.rs/2ii2Bqr) (Updates prices, adds comment)

By Dhara Ranasinghe

LONDON, July 19 (Reuters) – Anticipation of ECB rate cuts put German yields on track for their biggest weekly drop in seven weeks on Friday, while Italian borrowing costs were set for a seventh week of declines despite rising off 3-year lows hit the previous day.

Euro zone debt has resumed its rally after last week's brief selloff, receiving fresh impetus after a report that European Central Bank staff were studying a potential change of the inflation goal. That's added to expectations for prolonged policy easing.

"Last week, we did see a big selloff and when we entered this week it was a buying opportunity because central banks are expected to ease policy," said Pooja Kumra, European rates strategist at TD Securities in London. "And adding to that we've had further signals that we will get easing soon."

Comments by two Federal Reserve officials have also revived bets on a 50 basis-point U.S. interest rate cut this month, though 10-year Treasury yields inched higher on Friday after falling on Thursday .

With the exception of Italy, most 10-year euro area bond yields slipped, though they inched off session lows as U.S. yields rose.

Germany's 10-year yield fell 1.5 bps to minus 0.32% . It is down almost eight bps this week and set for its biggest weekly fall since the end of May.

In focus now is the ECB's July 25 meeting that is expected to flag a cut in deposit rates as early as September. Money

markets suggest some investors expect a move as early as next week, pricing almost a 60% chance of a 10 bps cut, up from around 40% earlier this week.

Natixis fixed income strategist Cyril Regnat said it would make more sense to wait until September but added: "The big question is not about a rate cut but whether the ECB reopens asset purchases."

"This is what investors keep asking us about."

Bets on a deeper and longer rate-cutting cycle and the possibility of another bond-buying programme sent a key gauge of long-term euro zone inflation expectations, the five-year, five-year forward, to the highest in almost two months at 1.32% .

## **ITALY**

Italian 10-year borrowing costs were the exception to the bullish mood, though analysts noted a seven bps rise came after yields fell to a new three-year low of 1.506% on Thursday.

Yields have fallen around 120 bps since mid-May, having outperformed euro zone peers thanks to the ECB easing speculation and relief that Rome avoided disciplinary action from the European Union over its fiscal position.

This week yields are down more than 10 bps.

But on Friday investors grew nervous as Deputy Prime Minister Matteo Salvini said he would meet coalition partner Luigi Di Maio amid speculation that the increasingly unwieldy government might collapse.

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While investors might welcome an administration that excludes

Di Maio's 5-Star movement, there needs to be a government in place in October to approve the 2020 budget.

Analysts at Eurasia Group said while pressure on Italian markets had lifted, they would remain volatile.

"The coalition remains inherently unstable and early elections remain likely, though probably not before early 2020," they told clients.

Reporting by Dhara Ranasinghe, additional reporting by Sujata Rao; editing by William Maclean, Larry King, Kirsten Donovan

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<https://www.reuters.com/article/eurozone-bonds/update-2-ecb-rate-cut-bets-drive-another-big-weekly-fall-in-bond-yields-idUSL8N24K2R8>

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**Will ECB walk or just talk as rate circus comes to Europe?**



BRUSSELS (Reuters) – The global march towards lower interest rates reaches Europe this week with the European Central Bank expected at least to signal easier monetary policy, while Turkey’s new banking chief is seen taking an ax to the country’s rates.

Slowing global growth, increased protectionism and in some cases weak domestic data have persuaded major central banks to loosen monetary policy, with a rate cut more or less inked in for the U.S. Federal Reserve at the end of the month.

The ECB, whose Governing Council meets on Wednesday and Thursday, said last month that euro zone interest rates would remain at present levels at least through the first half of 2020 – an extension from previous period of until the end of 2019.

Two-thirds of economists polled by Reuters expect the ECB next week simply to change its guidance, such as for rates to be at “present or lower levels” ahead, with a cut of the deposit rate to an all-time low of -0.50% at its September meeting.

“I think for now, they’ll only get to point where they consider a rate cut is on the table and then do it later. The ECB has a long history of moving very slowly,” said Capital Economics’ senior Europe economist Jack Allen-Reynolds.

But some economists believe the ECB will have to do more.

Carsten Brzeski, chief economist for Germany at ING, says he thinks of the chances of just words as 51%, versus 49% for action.

“Draghi has surprised us more often in terms of being ahead of the curve, of over-delivering, but it’s very hard to say. I think there will be a tough discussion,” he said.

If the Fed starts cutting rates and the ECB does not send out an extremely dovish message, the euro could strengthen, although at Friday’s level of \$1.12 it is hardly near the pain barrier for EU exporters.

Commerzbank is one bank that predicts the ECB will act, cutting by 20 basis points

“Maybe they want to prevent an appreciation (of the euro) and, like the U.S., they want to prolong the upswing. The data though is not as bad as you might think,” said economist Bernd Weidensteiner.

Unemployment in the euro zone is, at 7.5%, at its lowest level since July 2008, while industrial production and exports improved in May, albeit after declines in April.

In the United States, the case for a rate cut is ostensibly even thinner, with strong labor markets despite U.S.-China trade tensions and factory activity strong – at a year high in the mid-Atlantic region.

Yet markets were by Thursday expecting a half percentage point cut in U.S. rates at the end of July, double the reduction they expected just a day earlier. The action has been sold as

insurance against any negative development. U.S. economic growth is expected to have cooled in the second quarter, set to be confirmed in a first GDP estimate on Friday.

## **TURKISH AX, NEW BRITISH PM**

In Turkey, the case for action is more clear-cut given a recession-hit economy. Economists polled by Reuters expect the central bank under new governor Murat Uysal to reduce the current 24% interest rate by an average 250 basis points.

It will follow Indonesian and South Korean rate cuts on Thursday and the Reserve Bank of Australia, which reduced interest rates in both June and July.

The trend leaves only the Bank of Canada, buoyed by higher oil exports and consumer spending, and the Bank of England as outliers, though the latter could change.

Arch-Brexiteer Boris Johnson is expected to be named as Britain's next Prime Minister on Tuesday, raising the chances of a 'no deal' Brexit and potentially lowering growth forecasts.

Only 27 of 76 economists polled now expect an increase to British interest rates before the end of next year, compared to 36 of 69 last month. On the flip side, nine of 76 were expecting a cut by end-2020 compared to five of 69 in June.

"We don't necessarily share the view that the UK economy will see a substantial pick-up in growth even in a smooth Brexit," Royal Bank of Canada, a primary dealer of British government bonds, said.

Reporting by Philip Blenkinsop; Editing by Toby Chopra

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<https://www.reuters.com/article/us-global-economy/will-ecb-walk-or-just-talk-as-rate-circus-comes-to-europe-idUSKCN1UE1LU>

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# The ECB Needs to Explain Itself



Ambiguity is hampering effective policymaking by the European Central Bank and leaving market participants wondering what to expect. A review of the ECB's policy framework would help to eliminate such ambiguity – and place the Bank on much sounder footing for a new era of leadership.

ZURICH – Finland's central bank governor, Olli Rehn, has reiterated his call for the European Central Bank to conduct a long-overdue review of its policy framework. The upcoming change of leadership at the institution – with Christine Lagarde, the International Monetary Fund's managing director since 2011, likely to succeed Mario Draghi as president – offers an important opportunity to heed that call.

When the ECB was established 20 years ago, central banks were generally not too clear about the details of their policy frameworks. At that time, some ambiguity may have been helpful, because of the flexibility it offered when the ECB started operating. Furthermore, it allowed central bankers

with different experiences and perspectives to agree on a framework, even though they may not have agreed on its precise details.

But the world has changed considerably since then, and the public is now demanding far more clarity. How can the ECB offer that, 16 years after the last review of its monetary-policy framework?

Since that review, conducted in 2003, the global financial crisis, and the ensuing European debt crisis, prompted the ECB to adopt a plethora of new policy instruments. These crisis measures – which have been deeply unpopular, particularly in Germany – can be justified only to the extent that they have been effective, and this must be evaluated. Moreover, as Rehn, who sits on the ECB's governing council, has noted, long-run structural trends – such as population aging, lower long-term interest rates, and climate change – must be considered.

The effectiveness of ECB policy requires the members of the governing council to be singing from the same song sheet. They need a shared understanding of Europe's long-term goals and the strengths and weaknesses of various policy instruments. And, in order to strengthen accountability and support smart decision-making, they need to be able to spell out the details of their monetary-policy strategies in ways that the public can understand.

As it stands, such clarity is at times hard to find, even when it comes to some of the most fundamental elements of the ECB's policy strategy. Price stability – the ECB's primary objective – is currently expressed as “inflation below, but close to, 2%.” Does 1% inflation meet that condition, or is it too low, demanding more monetary-policy accommodation? Different members of the ECB's governing council may well have different answers to this question, and thus support different policies.

The same goes for the questions of whether the ECB's inflation

target is symmetric – with the authorities intervening as vigorously when inflation is too low as they do when inflation is too high – and whether inflation should be measured over time or at a given moment. If, over some period, the inflation rate ranges from 0% to 4%, but averages to “below, but close to, 2%,” has the objective been achieved?

The answer has major policy implications. If inflation is measured over time, the ECB could accept, or perhaps even aim for, a somewhat higher inflation rate in the medium term, to compensate for the excessively low inflation of recent years. If the public came to believe that a period of above-target inflation was likely, the expected real interest rate would fall, giving a jolt to the economy.

Of course, Draghi has established in speeches and press conferences that, in his view, the inflation target is symmetric; 1% inflation is too low; and the inflation rate should be measured over the “medium term.” But it is not clear whether this view is broadly shared within the ECB’s governing council.

Inflation targeting is hardly the only area where ambiguity is hampering effective policymaking and leaving market participants wondering what to expect. The ECB’s outright monetary transactions (OMT) scheme – whereby the ECB promises to purchase bonds issued by eurozone member states on secondary sovereign-bond markets – is also generating significant uncertainty.

OMT, Draghi’s chosen tool for fulfilling his 2012 vow to do “whatever it takes to preserve the euro,” was controversial from the moment it was announced, with Bundesbank President Jens Weidmann – one of Lagarde’s main rivals for the ECB presidency – arguing fiercely against it in public. But that was seven years ago, and OMT has never actually been used. Is the governing council still committed to it? Or have the events – and council membership changes – of the last few

years rendered that commitment obsolete?

With public debt in Greece and Italy still far too high, the eurozone still at risk of slipping into a recession that would significantly worsen both countries' fiscal positions, and Italian politics as volatile as ever, it would pay to know. A review of the kind Rehn demands would provide the needed answers – and put the ECB on much sounder footing for a new era of leadership.



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# **EU ministers collide over timid eurozone reforms**



Agence France Presse

LUXEMBOURG: EU finance ministers wrangled over watered-down economic reforms Thursday with France hoping the eurozone budget it has long been pushing for was finally within reach. Almost a decade after the debt crisis, French President Emmanuel Macron wants his partners to implement the changes in order to make the single currency area more resilient to shocks and to tackle the global dominance of the United States and China. But resistance to overhauling the eurozone has deepened, amid a budget row with populist-led Italy, and as richer northern countries grow reluctant to indulge the budget-busters to the south. This distrust and hesitance has plagued the eurozone since it was launched in 2002, a disunity that economists say limits growth and invites crisis.

Ministers are discussing France's flagship reform of a eurozone budget that has been scaled back by opponents led by the Netherlands that fear a transfer of wealth to Italy, Greece or Spain.

"We are not far from a consensus," French Finance Minister Bruno Le Maire said on Thursday as he arrived for talks that

were expected to last late into the night.

Such a step would be “a major breakthrough in strengthening the eurozone,” he said.

“We are close,” said German Finance Minister Olaf Scholz who added that approval was widespread for a Franco-German compromise on the delicate matter.

Not a budgetThe EU ministers are officially not negotiating a budget – which would be too politically sensitive – but something called the Budgetary Instrument for Competitiveness and Convergence, a fund with limited firepower to be used to back reforms.

The cumbersome renaming comes at the demand of the Dutch, who have only accepted the instrument on condition that it remains an extremely modest affair.

The skeleton of Macron’s plan on the table comes after months of negotiating the broad elements, including spending priorities, source of revenues, and who should ultimately wield control over its decisions

A European source said it was the last element that would keep ministers up late with the Netherlands and others insisting the budget remains under the auspices of the EU budget. As such, the budget’s firepower would remain at a modest 17 billion euros over seven years with no chance of expansion and under the authority of the EU’s 27 member states (after the exit of Britain).

Macron had originally demanded an amount of several hundred billion euros to be used to stabilize economically weak countries, but this was swiftly slapped down.

The young French leader also wanted the creation of a eurozone finance minister, an idea that was fast cast aside under pressure from Germany, which prefers that power over the

economy remains national.

'Impasse' Ignored for now is a Europe-wide deposit insurance scheme, which is supposed to be the last pillar of an EU banking union set up after a series of bank failures during the worst of the crisis.

"Regrettably, the impasse on this project is still there. No tangible progress has been made," said EU commission vice president Valdis Dombrovskis on Wednesday.

The deposit scheme is resisted by Germany, Finland and other northern European countries that fear being put on the hook for deposits in fragile countries such as Italy or Greece. Ministers also discussed Italy with Rome in infraction of EU budget rules and in danger of major fines inflicted by its currency zone partners.

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## **Gushing European energy IPO pipeline faces muted investor appetite**



Norway's Okea, Britain's Neptune, Chrysaor, Siccar Point and Spirit Energy are all either actively preparing or expected to plan an initial public offering (IPO) in the short term, as are recently merged German-Russian Wintershall Dea and Israeli-owned Ithaca Energy.

Oil and gas companies with a combined value of around \$41 billion are seen as candidates for listing in the coming years, according to estimates by energy consultancy Wood Mackenzie.

Shares of oil and gas companies historically rise after a crash in oil prices as investors bet on a recovery in prices.

But the recovery following the 2014 downturn, the worst in decades, has been slow and bumpy amid surging U.S. shale production and wider uncertainty over long-term oil demand as the world transitions to cleaner energy.

"IPOs tend to come when markets are sizzling hot and valuations are high – that is not the case for the energy sector currently," said Bertrand Born, portfolio manager for

global equities at German asset manager DWS.

Listed oil and gas companies have struggled in recent years, underperforming in many cases oil prices and other sectors, and offering a tough backdrop for any company contemplating a public listing.

In a sign of the challenging conditions, Okea on Thursday lowered its offered price per share and delayed its listing on the Oslo stock exchange.

Sam Laidlaw, executive chairman of Neptune, backed by private equity firms Carlyle Group and CVC Capital Partners, said he saw no time pressure for his company's IPO.

"Lower returns at \$100 a barrel than at \$60 raised concerns among capital markets. There is less appetite from generalist investors. We don't see anything that's IPO ready yet," he told Reuters this month.

"Some will consolidate, some will never make it to market, some will take longer. If we wanted to be first, there's plenty of time still."

Many of the IPO candidates, including Neptune, were set up in the wake of the 2014 crash by private-equity funds seeking to buy cheap and sell high when the oil price recovers.

But nearly five years on, the going is still tough for the sector.

In the first quarter of 2019, European IPOs slumped to their lowest since the aftermath of the 2008 financial crisis, as uncertainty over Brexit and the U.S.-China trade dispute left companies not wanting to take their chances.

## **UNIQUE STORY**

To succeed, companies will have to offer investors something unique, says Jon Clark, regional transaction leader at EY.

“The European oil and gas IPO landscape looks like it will shift from famine to feast and the potential IPO candidates need to think how they will best position themselves,” Clark said.

Wintershall-Dea is the largest producer of the group, aiming to boost its output by around 30% to at least 750,000 barrels of oil equivalent per day by 2023, in a portfolio stretching from Brazil to Europe and Russia and the Middle East.

Chrysaor, backed by Harbour and EIG, is the largest oil and gas producer in the North Sea after acquiring large portfolios from Royal Dutch Shell and ConocoPhillips.

Neptune has assets in a number of regions and is focused on gas, seen as the least-polluting fossil fuel.

In addition to returns, environmental, social and governance (ESG) issues are an ever-growing concern for fund managers and their clients.

Unlike any other time, investors are likely to question a company seeking to list on its role in the transition to a lower carbon economy following the 2015 Paris climate agreement to limit global warming.

“Sentiment in the market is not necessarily as strong as it used to be for oil and gas assets... we’re moving towards a lower carbon economy,” said Les Thomas, chief executive of Ithaca, owned by Israel’s Delek Group, which last month acquired most of Chevron’s North Sea assets for \$2 billion.

Greek group Energean was one of a handful of energy companies to list in London in recent years, betting on Israeli gas production and long-term offtake agreements. Its shares have risen over 90% since listing last year.

“Oil price upside is not enough anymore. You have to offer investors at least partial, if not complete, security of a

return on their investment regardless of commodity prices,” Energean Chief Executive Mathios Rigas said.

“It’s not enough to say I have this amazing geologist or knowledge of a basin or promise to find oil in frontier areas. To continue investing as an energy company only in oil, from an ESG perspective, is suicidal.”

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## Turkey drafts law to help banks restructure debt



(Reuters) – A draft law submitted to Turkey’s parliament introduces tax exemptions to loan restructurings and legal protection for bankers as Ankara tries to make it easier for banks to restructure bad debt.

Following last year’s sharp fall in the lira, Turkish banks and the government have been in talks on how to restructure billions of dollars of loans and remove them from banks’ books

– an important step toward pulling the economy out of recession.

The draft law seen by Reuters contains some of the demands banks put to the government during the talks, such as tax exemptions on restructurings and amendments to protect bankers involved in restructuring.

Under an existing legal technicality bankers involved in debt write-downs or decreasing the value of loan collateral could potentially be liable to embezzlement charges.

The government pledged in April to repackage problem loans to energy companies, estimated at more than \$12 billion, into funds which can then be sold to investors. It aims to do the same with construction loans.

The plan is seen as one of the ways to free up banking resources as well as supporting industries that are burdened by the slowing economy.

“Banks seems to have got most of their demands from the government. I think perhaps this may help with the most troubled types of restructurings, but I’m cautious on a broader take up by banks” a restructuring consultant said on condition of anonymity.

The draft law, submitted to parliament on Monday, exempts at least 50% of the profits banks make on problem asset sales from corporate tax. Asset transfers from borrowers to creditor institutions will also not be subject to value added tax.

The types of restructurings that fall under the scope range from amend and extend agreements, to debt to equity swaps and transfer of problem loans and assets to special purpose funds.

The changes will be in effect for two years and can be extended for two more.

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# The Lessons of the EU Leadership Fight



The haggling may have been unedifying, but the candidates nominated by the European Council to lead the European Union's governing institutions are undoubtedly impressive. If approved by the European Parliament, German Minister of Defense Ursula von der Leyen and Belgian Prime Minister Charles Michel will become president of the European Commission and Council, respectively, and Spanish Minister of Foreign Affairs Josep Borrell will serve as High Representative of the Union for Foreign Affairs and Security Policy. Then, in November, Christine Lagarde is set to succeed Mario Draghi as president of the European Central Bank.

The good news is that each of these candidates would strengthen the EU at a time of global insecurity. The bad news is that the EU itself will continue to face significant challenges from within. The struggle to fill the top leadership positions resulted in the elimination of

the *Spitzenkandidaten* process – whereby the largest party grouping in the European Parliament selects the Commission president – and the return of backroom deal-making, which many see as undemocratic. The justification for that change needs to be explained, or the EU's credibility may suffer. After all, the *Spitzenkandidaten* process was introduced in 2014 to counter the perception that the EU suffers from a democratic deficit.

The leadership struggle has also intensified a clash of perspectives within – and about – the EU's sources of legitimacy. Whereas member states with a strong parliamentary culture think the top personnel should be selected based on the results of May's European Parliament election, others (like France) consider executive experience far more important than the link to those results. It is naturally a long process to devise a broadly accepted system for selecting EU leaders. Despite this year's setback, the principle of the *Spitzenkandidaten* system should be preserved and combined in the next elections, with additional transnational lists of candidates backed by stronger trans-European party structures. Beyond that, the EU also needs to strengthen the role of the European Parliament.

A number of MEPs are deeply frustrated by the Council's failure to nominate any of the *Spitzenkandidats* on offer, and they could make their sense of betrayal known by voting against von der Leyen's appointment. Should her candidacy be rejected, months of institutional gridlock would likely follow. As a show of good faith, von der Leyen should announce early that she will work toward empowering MEPs *de facto* to initiate legislation. With an inter-institutional agreement with the European Commission, such a change would not require an amendment to any founding treaties. Moreover, if confirmed, von der Leyen and the new European Parliament president, David Maria Sassoli of Italy's Democratic Party, should establish a working relationship as close as that of their respective

predecessors, Jean-Claude Juncker and Martin Schulz. But, given the new composition of the European Parliament, they should strongly involve the chairs of all parliamentary groups that wish to work toward a stronger Europe.

The fact that MEPs elected Sassoli instead of the Council's own candidate, former Bulgarian Prime Minister Sergei Stanishev, suggests that the European Parliament election in May has led to a renewed desire for institutional self-assertion. And yet the election left the body more fragmented than ever. The number of seats held in the 751-member parliament by the two main party groups, the European People's Party (EPP) and the Progressive Alliance of Socialists and Democrats (S&D), fell from 404 to 336, owing to gains by the Greens, right-wing nationalists, and liberal centrists.

The fall of Europe's grand coalitions and the emergence of new, smaller parties will impede decision-making, as already demonstrated by the Parliament's failure to agree on its own *Spitzenkandidaten*. Divisions among the parliamentary groups are not just political, but also geographic. The EPP has almost no MEPs from France or Italy, and large delegations from Germany and Northern Europe. The S&D draws far more support from the Iberian Peninsula and Italy, with relatively few MEPs from the Visegrád group (the Czech Republic, Hungary, Poland, Slovakia) or France.

The increased fragmentation in the European Parliament goes hand in hand with changing relationships between EU member states. France and Germany's days of working hand in glove are gone; and even if they do come together on a particular issue, blocking minorities can stand in their way at the Council. The latest round of EU leadership negotiations shows just how hard it has become to reach a majority, let alone unanimity. On the contrary, national governments fight increasingly recklessly for their interests. As a result, individual member states will face a strong temptation to pursue specific objectives in smaller, likeminded groups. The challenge, then, is to ensure

that such initiatives follow official EU processes, rather than being decided through intergovernmental backroom deals.

The strong turnout in the European Parliament election indicates that the EU has not lost public support. The political center was strengthened at a time when Euroskeptic and nationalist parties are on the rise in member states. Overall, public trust in the EU is as high as it was in the 1980s, when European integration served as a defense against the Soviet Union. For most Europeans, being a part of the EU still means something.

But the outcome of the election also signaled a desire for change. Many citizens abandoned traditional parties, and a significant share of them did so out of fear. Like politicians at the national level, the EU's new leaders will have to answer to voters who harbor deep uncertainties about their and their children's future. Europeans are understandably anxious about great-power competition, new security threats, and a technological revolution that threatens to upend entire economic systems and societies.

The EU, working with member-state governments, will need to respond to these challenges with ambition and resolve. The European Council has already devised a strategic agenda for 2019-2024, and now the ball is in the European Parliament's court. Since the elections in May, MEPs from the four moderate party groups have been negotiating a shared program of policy priorities. In other words, they are putting substance over personnel; regardless of who fills the top leadership positions, the European Parliament will already have a shared platform in place. Despite the circumvention of the *Spitzenkandidaten* process, this effort, like the slate of promising candidates selected by the Council, suggests that the EU is slowly and steadily maturing.

# ليزيكو الفرنسية: صندوق قطر السيادي الأكثر فاعلية وانتشارا على الساحة الدولية

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## Le fonds souverain qatari de nouveau offensif

Après la prudence et l'attentisme liés au blocus économique, le fonds souverain du Qatar est de nouveau plus offensif sur la scène internationale. Il veut privilégier les Etats-Unis et l'Asie dans les années à venir, et dans des secteurs comme la technologie et santé.

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Marchés financiers



أكدت صحيفة ليزيكو الفرنسية أن صندوق قطر السيادي أصبح أكثر انتشارا على الساحة الدولية ويعمل على تعزيز أعماله والتركيز على الاستثمارات في الولايات المتحدة وآسيا في السنوات المقبلة، وفي قطاعات مثل التكنولوجيا والصحة.

وبين التقرير المنشور أمس وترجمته "الشرق" أن هيئة الاستثمار القطرية استحوذت للتو على حصة قدرها 250 مليون دولار، أي أقل من 5 في قطاع التكنولوجيا، "BYJU'S" من رأس مال المجموعة الهندية التعليمية. وبعد فترة من الهدوء المرتبط بالحصار الاقتصادي الذي

عانت منه الدوحة منذ عام 2017، أصبح صندوق الاستثمار الحكومي أكثر إقبالا على المشاريع ونشاطا في السوق العالمية.

### توسيع الاستثمارات <

وأورد التقرير أن سعادة الشيخ محمد بن عبد الرحمن آل ثاني، نائب رئيس الوزراء وزير الخارجية، ورئيس مجلس إدارة جهاز قطر للاستثمار، في مقابلة مع فاينانشال تايمز: "في الأشهر الستة الماضية أكد: كنا نشطين للغاية، خاصة في أمريكا الشمالية. ما زلنا نستثمر في أوروبا، لكننا أكثر تركيزًا على آسيا والولايات المتحدة." وتابع التقرير خلال زيارة رسمية لباكستان، أظهر الصندوق القطري اهتمامه بالاستثمار في قطاعات الطاقة والسياحة والإسكان. مثله مثل عدد من نظرائه، فهو مهتم بإمكانيات السوق الهندية الواسعة. وفي القارة الأوروبية، تحدثت التقارير العالمية عن استحواذ قطري على أسهم في بنك دويتشه، حيث استثمرت الدوحة بالفعل في 6.1٪ من حصة.

وحسب الصحيفة الفرنسية، فقد استثمر الصندوق في شركات الإدارة، لسيطر على المشاريع الكبرى، بالإضافة إلى قطاعات مثل التكنولوجيا والصحة. كما استثمر هذا العام في شركة سان فرانسيسكو الأمريكية في قطاع التمويل الشخصي عبر الإنترنت، واستأنف عمليات SOFi، الشراء في العقارات الفاخرة في مانهاتن بنيويورك. وحصل على 200 في Severn Trent مليون جنيه إسترليني في المجموعة البريطانية إدارة الموارد المائية.

وبين عامي 2010 و2018، حقق الصندوق القطري زيادة سنوية في متوسط رأسماله بنسبة 21٪، الذي يبلغ حوالي 300 مليار دولار وفقا لصندوق النقد الدولي. وفي تقرير نُشر في يونيو، تم توضيح أنه يتم استثمار نصف الأصول في الأسهم المدرجة، و20٪ في السندات و30٪ في (الأصول البديلة) (العقارات، والأسهم الخاصة، وصناديق التحوط).

### تقدم قطري <

وفي تقرير سابق قالت صحيفة ليزيكوالفرنسية إن قطر نجحت في تجاوز أزمة الحصار، حيث رفضت خطة الاستسلام الجيوسياسي المكونة من 13 نقطة والتي طالبت بها دول الحصار ومنها إغلاق قناة الجزيرة، وتمكنت من الصمود بمرونة عالية، وواصلت عمليات التوريد للبضائع والمواد الاستهلاكية، ووجدت طرقا جديدة لتحقيق اكتفائها الذاتي من خلال التعاون مع عدد من البلدان على غرار الكويت، تركيا، إيران، الدول الأوروبية، المغرب، الهند، الصين، سلطنة عمان. وفي هذا

الصدد صرح رجل الأعمال رودي بارودي ليزيكو: "لقد أظهرت قطر صمودا  
"وتماسكا وطنيا، ولم تتوقف عن الاستثمار

وبينت الصحيفة أن الدوحة رفعت سقف الملكية الأجنبية في أي مشروع  
محلي إلى 49%، مقابل 25%، وأطلقت برامج دعم كبيرة للصناعة  
المحلية، وقامت ببرامج لتحقيق الاكتفاء الذاتي منها إنشاء أكبر  
مزرعة لمنتجات الألبان في الشرق الأوسط في وقت قياسي لتغطية  
احتياجات السوق الاستهلاكية، حيث ساعدت هذه التدابير في تجنب النقص  
، والزيادات التضخمية

وذكرت الصحيفة أنه حسبما ذكر صندوق النقد الدولي في تقرير له في  
مارس الماضي، فإن تأثير الحصار كان عابرا، لم يتعد كونه  
انتقاليا، حيث تمكنت المؤسسات المالية القطرية كالبنك المركزي  
وصندوق الثروة السيادي، وجهاز قطر للاستثمار من ضخ السيولة وحماية  
الاقتصاد القطري من تداعيات الأزمة الخليجية، كما حققت قطر مرونة  
اقتصادية كبيرة بفضل إستراتيجيتها في التأثير والتأمين

## Saudi Aramco allows sneak peek into its finances



The world's focus, not surprisingly, has been on Saudi Aramco's \$111bn of net income recorded in 2018, making it the

most profitable company in the world. But elements of the upstream story were largely ignored.

For example, the prospectus showed the company's largest oilfield, Ghawar, undershooting what many had thought was its current capacity of around 5mn bl/d, instead coming in at 3.8mn bl/d.

Ghawar has contributed about half of the estimated 150bn barrels of crude that Saudi Arabia has produced to date. Without doubt, Ghawar is an enormous field. Its remaining reserves are put at 48bn bl, so there is still a lot of oil out there, but it will get harder to recover, and require substantive expenditure.

Aramco is developing new fields to plug depletion, with half a dozen expected to come on stream by 2026 – adding an extra 1.25mn bl/d, according to data from consultancy Energy Aspects. Its co-founder Richard Mallinson emphasises that future upstream development is designed to keep things steady “at current capacity levels...Aramco is not talking, as it has done in the past, about possibly raising potential capacity from 12mn bl/d to 15mn bl/d.”

Still, Aramco is not giving up on Ghawar anytime soon. The prospectus says field facilities and infrastructure there remain a central component in the company's long-term strategic framework.

“The scope of the utilisation and maintenance of the established infrastructure has expanded to be a hub for development of secondary reservoirs and satellite fields,” says the prospectus.

The prospectus also shows how it has boosted production at other fields. At Shaybah in the south of the kingdom, and at the offshore Safaniyah field in the Gulf, Aramco reported production was close to double earlier Western estimates. At the Khurais field, near Ghawar in the east of the country, a

“mega-project that started in 2009 with initial capacity of 1.2mn bl/d, has hoisted production to 1.5mn bl.” In 2018, Aramco produced 13.6mn bl/d of oil, including 10.3mn bl/d of crude.

## Half a century of reserves

Overall, Aramco’s reserves come in at a similar level to an independent audit published earlier this year: 261.5bn bl of crude and condensate, sufficient for proved reserves life of 54 years, “significantly longer than the 9 to 15 year proved reserves life of any of the five major IOCs based on publicly available information”, claims the prospectus. The document also records 36.1bn bl of NGLs and 233.8tn ft<sup>3</sup> of natural gas.

Another scarcely mentioned disclosure in the prospectus was Aramco’s shift to lighter-grade oil, in terms of projects that have come on line, and new ones in the pipeline. The question now is the extent to which Aramco can match this type of product to demand in the marketplace. The move to lighter is good in terms of petrochemical demand and positive when gasoline/diesel demand is strong.

The prospectus flags Aramco’s rock-bottom cost of production based on a comparison of data of the five major IOCs and other leading oil and gas companies. The company’s “average upstream lifting cost was \$2.80/bl” of oil equivalent produced in 2018. Revenue from upstream operations stood at around \$217bn, while downstream revenue was \$139bn. It had \$86bn in free cash flow at the end of 2018, with minimal debt.

But all that glistens is not gold. Aramco may be the world’s most profitable oil company, producing more than 10pc of global crude, but the prospectus shows the state’s reliance on the company means it generates less per barrel than privately-owned competitors. Riyadh relied on the oil sector for 63pc of its total revenue in 2017, according to the prospectus. In 2018, Aramco paid about \$160bn to the government in dividends,

taxes and royalties.

## **Top credit rating**

The transfer of funds from Aramco to the kingdom meant the oil company made about \$26/bl last year, compared with \$38/bl for Shell and \$31/bl for Total. That's why Moody's and Fitch assigned the company ratings of A1 and A+, respectively, arguing the government's reliance on the oil producer to fund its budget acted as a cap on its creditworthiness. ExxonMobil is rated AAA by Moody's.

The linkage between the state and company is an important one in the debate about whether Riyadh really does intend to float a minority stake in Aramco in 2021. Investors worry about the government's control over the oil giant and whether future decisions will be made for the benefit of the state or shareholders.

Andy Critchlow of S&P Global Platts says "investors may be cautious about an IPO because of uncertainty linked to sovereign risk and the kingdom's future potential financing needs [particularly if prices crash due to a swifter switch to green technologies]".

In the interim, the company is shoring up its defences in an uncertain world. It plans to double its refining network, mostly outside the country. The idea is to feed about 50pc of its oil into its fully-owned or joint-venture refineries, making it the largest consumer of its own crude. The prospectus states categorically that refinery expansion was a means "to secure crude oil demand by selling to its captive system" of refineries.

Also revealed is the way Aramco ensures it always has enough spare capacity up its sleeve. The aim is to have "the average maximum number of barrels per day of crude oil (MSC) that can be produced for one year during any future planning period".

## Sovereign wealth boost

As of 31 December 2018, MSC stood at 12mn bl/d of crude. Spare capacity afforded by maintaining MSC enables the company “to increase production above planned levels rapidly in response to changes in global crude oil supply and demand”.

Saudi Arabia is drawing on Aramco’s cash to bolster its sovereign wealth fund to develop new industries to break the kingdom’s reliance on oil. It is also trying to extract more profit from the crude it pumps by turning it into gasoline and diesel, as well as plastics and other materials used in consumer goods. The \$69bn purchase of Sabic was a case in point and a major factor behind the bond offering.

The aim is to provide more cash for the Public Investment Fund, the kingdom’s sovereign wealth fund, to invest both internally and overseas to wean Saudi off its addiction to fossil fuels. It is a race against time as the bond prospectus indirectly acknowledges via its references to risk factors that span climate change, among others. And that raises, once again, the issue of an IPO down the line in which the Saudis would like to raise a cool \$100bn.

A listing may be better sooner than later if you believe in the relentless switch to cleaner fuel sources. That said, traders are wondering whether Aramco and Riyadh really need the money.

After all, have they not demonstrated how easily they can tap the bond markets for credit?

Scott Modell, head of geopolitical risk at Washington-based consultancy Rapidan Energy, disagrees with this thesis. “An IPO is necessary [otherwise MBS’s] ambitious Vision 2030 programme designed to reduce oil dependence [could end up becoming] Vision 2130,” he says. “And for that reason, the IPO [postponed last year] is certainly back on the table.”

