Ukraine's central bank pledges to stand firm on Privatbank

By Lewis McLellan and Oliver West

Ukraine's central bank governor has insisted that the government will fight any moves by oligarch Ihor Kolomoisky to regain control of Privatbank. The issue has become one of the top concerns for the International Monetary Fund and other investors in Ukraine.

Privatbank, which had been owned by Kolomoisky and his business partner Gennadiy Bogolyubov, was nationalised in 2016 at the behest of the IMF because of a $5.5bn hole in its balance sheet.

Since then, the businessmen have been fighting to get the bank restored to them or to obtain compensation, through a legal battle in jurisdictions around the world, including London, New York, Switzerland and Cyprus.

In the latest skirmish, a London court ruled in favour of the National Bank of Ukraine (the central bank) and Privatbank. That allowed Privatbank to pursue a $3bn claim against its former owners. However, the pair have launched appeals, which will be heard next week.

Kolomoisky and Bogolyubov are accused of a fraud that led to the balance sheet hole. They deny this and claim the bank was nationalised illegally.

Yakiv Smolii, the NBU governor, told *GlobalMarkets* that the 2016 nationalisation was legal. "Current legislation does not permit for the possibility of returning the bank to its previous owner," he said.

In the Ukrainian courts, a verdict is expected on October 24. A preliminary hearing scheduled for October 17 was delayed, apparently to allow Ukraine's negotiations with the IMF in Washington to be conducted uninterrupted.

The proceedings in Kiev are an appeal against a decision in favour of Kolomoisky in April. Smolii said the NBU would appeal to the supreme court if it lost.

However, the issue has taken on deeper significance since the election of Volodymyr Zelensky as president in April.

Zelensky had been an actor on a television show broadcast on a station owned by Kolomoisky. Observers fear the links between the two could make it easier for Kolomoisky to prevail in the Privatbank battle.

Graham Stock, head of EM sovereign research at BlueBay, said the IMF's trust in the Ukraine government had been shaken. "We believe that any assistance for Kolomoisky would be a serious problem for the Fund and other donors in Ukraine," he said. "The nationalisation of Privatbank was a key step forward in the anti-corruption movement, and any unwind of that would be very serious. It's the number one issue for the Fund in Ukraine at the moment."

Smolii: NBU will fight Kolomoisky

An emerging market-focused investor said: "Frankly, I expect the NBU to lose the appeal. The worry is that the courts in Ukraine are not sufficiently independent. There has been a longstanding problem of corruption there, and it seems that Kolomoisky has some kind of relationship with President Zelensky."

In September, Zelensky met Kolomoisky and Ukrainian prime minister Oleksiy Honcharuk alarmed investors by announcing he was seeking a "compromise" with Kolomoisky over Privatbank.

Mexico calls for 'game-changing' ratification of Nafta 2.0

By Oliver West

The new US-Mexico-Canada trade agreement will be "game-changing" if the US Congress approves it quickly, according to the Mexican finance minister.

The trade agreement, which replaces the existing Nafta, was signed on October 1, 2018. Mexico's Congress approved it on October 1 this year, and the Canadian parliament is expected to do so as soon as the US gives the green light.

"A real game-changer would be if [the deal] is ratified within the next six weeks," said Arturo Herrera, finance minister since the resignation of Carlos Urzúa in July, at the IIF meeting in Washington this week. "Given the worldwide uncertainty, a very clear path for the North American region would be a way for investments to be focussed here, while the rest of the world is in a wait-and-see position."

Herrera warned that global trade tensions were having a big impact in Mexico, highlighting volatility in the peso and oil prices when US president Donald Trump slapped tariffs on Chinese imports.

"These trade tensions are not a fact of life and go against a long term trend of economies opening, agreements being reached, and multilateral organisations [being] used as a way to reach consensus," he said.

Trump's renegotiation of Nafta alarmed its neighbours, but the Mexican government has taken the approach that an update was necessary.

"A lot has happened in the economy in the last 20 years," said Herrera. "The digital economy, in particular, is very different to what it used to be, and we and the business community feel pretty comfortable about [the renegotiation]."

Mexico has officials attending the US Congress to clarify doubts and smooth the process. But investors fear the minister may be disappointed.

"I am not expecting the deal to be ratified soon, as I don't see much getting through Congress in the US in the current environment," Jan Dehn, global head of research at Ashmore Group, told *GlobalMarkets*. "It is hard to see Nancy Pelosi [speaker of the House of Representatives] passing any of Trump's projects."

Herrera: we feel "comfortable" about USMCA

After impeachment proceedings were launched at Trump in September, the president claimed this could derail ratification of USMCA.

Research firm Capital Economics warned then that the "risk of the deal being caught up in US domestic politics is probably rising" as the 2020 election approaches, even though Trump's opponents played down the fears.

Pension funds key to unlocking Africa's infrastructure funding

By Oliver West and Virginia Furness

Ghana's minister of finance has called on global pension funds to help meet Africa's vast infrastructure need, easing the funding burden which has seen several African countries load up on unsustainable levels of expensive dollar debt.

The African Development Bank estimates that Africa's infrastructure needs are between $130bn and $170bn a year. However, financing for African infrastructure currently falls short by between $68bn and $108bn per year.

"The question we need to confront is how do we get appropriate financing to be able to do that," Ghana's minister of finance Ken Ofori-Atta told *GlobalMarkets*. "The debt burden that comes with infrastructure financing is too heavy."

Part of this funding will come from development banks such as the World Bank, European Investment Bank and IFC, and from China, but officials are urging for action from one of the world's largest sources of private capital.

"There needs to be a sit-down with global pension funds to make infrastructure an asset class, which now it isn't, which would be able to give certain accommodation," Ofori-Atta said.

Private investment in Africa stood at just $8bn, out of a global spend of $90bn in 2019, according to World Bank data.

Makhtar Diop, vice president of infrastructure at the World Bank said: "There are trillions of dollars sitting in pension funds in Japan, if we manage to collectively solve that part of the puzzle, we will be able to make the huge jump we need. Plus, the rate of return is very good."

Pension funds have been particularly reticent in part because of a lack of understanding of the macro risk in African markets, according to Bryan Carter, BNP Paribas Asset Management's head of emerging market fixed income.

Many are focussed on investing in countries without macro risk, and are uncomfortable taking on local currency funding risk, he added. However he said that infrastructure was becoming a bigger focus for funds looking for yield. "It's still a new market, but yes I would say the interest is there," he said.

Still the cost of infrastructure financing in Africa is, in many cases, prohibitively expensive, but with African default rates low, experts are urging for a programme of education for investors.