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2023 – The Year of The Balance

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Tech or Treat

The first home banking service offered to US consumers was in 1980, delivered via internet modems to allow consumers to access – and only access – their account information securely. In a span of 30 years, both online and mobile banking grew at a faster pace than the internet itself. The world has learned, adopted, and fallen in love with the letter "e" over the course of 3 decades, but embracing new technologies now happens in a fraction of that time. The UK, France, Germany, UAE, and many other countries are sprinting to lay the foundation for a legal framework to enforceable digital trade and digital debt instruments, as they have come to quickly realize the financial benefits for their trade and shipping businesses. Regulators in the rest of the world are likely waiting for an impetus to do so, either in the form of a force majeure, or the giants - the US and China - imposing dealing in digital instruments, or a push from a large local company which sees its competition being eroded in this digital world. Next gen tech is already present, and we already hear whispers of how ChatGPT and AI are being deployed in treasury and banking systems. On the other hand, the FinTech market has reached a stable level of maturity, and despite the continued stream of new entrants in the marketplace, these new companies are bringing forth ideas which harmonize well with the existing offering. The tech market has yet to witness one of those natural selection processes though to help successful FinTech companies continue and grow and offer less incentivizing environment for the fast blooming - fast withering enterprises.

Big ships will manage to sail through

The inflation trajectory has defied expectations. Central Banks in many developing countries currently face higher than expected inflation rates, and as a result, a new cycle of monetary policy tightening has ensued. Fed rates are expected to rise again to new heights, and while this could be good news for some, the result might be catastrophic on others with the flight to quality of short-term investments, creating a more challenging financial and economic environment for smaller economies. Those who stand to benefit are banks with strong balance sheets or those who have accumulated solid levels of cash at low rates, whilst on the flipside, banks with mis-managed balance sheets, financing tenor mismatches, and continuous need of short-term refinancing to face their trade finance needs will bear the brunt of these rising rates.

The Balance!

Banks' profitability faces downward pressure due to asset-quality deterioration, higher cost as well as capital allocations pressures, with it being somewhat counterbalanced by higher policy rates facilitating wider margins. Transaction bankers need to properly manage their asset and liabilities book effectively and profitably.

The combination of challenging conditions such as tighter liquidity policies and inflation rate, typically lead to higher loan reserves, geopolitical risks and subsequently less credit appetite to lower-rated corporates, as well as the necessity to keep a specific level of asset quality for balance sheet related purposes, may all slow down credit growth, but not to pull the curve downwards. Banks, encouraged by an overall global desire to get out of recession, will be required to cautiously inject more funds into their markets supported by the fact that we have not seen a credit collapse in the last decade. Again, banks will need to hit that fine balance between meeting the growth requirements of their customer base, whilst addressing their liquidity and risk concerns. "The right deal for the right customer" seems to be the general mantra being adopted by most financial institutions today. Interestingly, Sub-Saharan Africa is the region which will witness the highest level of credit growth rates mainly due to the upsurge in government fiscal deficits in recent years, higher inflation rates and low financial inclusion. The Gulf Countries Council ("GCC") region is outperforming others in terms of wider spreads and an overall

strong regional performance backed by respective governments' commitment to rally for their respective countries' futures. Dubai, as an example, has announced an $8.7 trillion economic plan, which aims to double foreign trade and investment by 2033, boosting its position as a global financial hub.

ESG – Deep Tier SCF: The Hyperlink

ESG compliance has become "de rigueur" for various businesses in multiple aspects. Specifically, Scope 3 emissions scrutiny aside, a parallel deep analysis of suppliers' adherence to ESG measures is being conducted along the entire supply chain. Anchors of the SCF programs, along with their good suppliers of suppliers - typically SME's - who successfully comply with ESG requirements, will be rewarded in the form of lower financing costs, creating a win-win for all players within the ecosystem as:

- SMEs will be happy to have access to a cheaper liquidity source (in most scenarios)
- Buyers, or the program anchors, will be happy to help their supply chain become more resilient in a turbulent word and gaining ground within their network
- banks will benefit from higher credit utilization, and subsequently, reap higher profits.

Regulators, on the other hand, will need to meet the requirements to incentivize financing green initiatives without inadvertently cutting off access to funding for SMEs, who have typically relied heavily on energy intensive industries; in other words, finding the right equilibrium in allocating sufficient cash rewards, out of what might be limited financial resources, to ESG-compliant businesses. Ways of achieving that fine balance will differ from one country to the other; however, advanced economies will obviously fare better at identifying and monitoring ESG-related exposures, rewarding the good performers whilst penalizing institutions which fail to comply with the new rules. The linkage between ESG-compliance and funding segments of the economy which might be typically challenging to finance, will remain persistent.