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The financing conditions of emerging and developing countries, with a focus on Sub-Saharan Africa

Speech from Ambroise Fayolle,
Vice-President of the European Investment Bank

Excellencies, Honourable Governors, distinguished colleagues, ladies and gentlemen, bom dia. It is a privilege to join you today. I extend my sincere thanks to the Central Bank of Portugal, to its governor Álvaro Santos Pereira – to whom I wish every success in his new role, as well as to my former colleague and friend at the EIB Ricardo Mourinho Felix for inviting me to speak on behalf of the European Investment Bank. Today, I am pleased to share insights about financing conditions of emerging and developing countries and from our long-standing engagement with Africa.

1. <u>A few words first on the European Investment Bank :</u>

The ElB is the **long-term lending institution of the European Union, owned by its Member States**. The EIB finances investments in **core priorities** that support EU policy objectives: climate action and the environment, digitalisation and technological innovation, security and defence, cohesion, agriculture and the bioeconomy, social infrastructure or the capital markets union.

The EIB Group signed nearly **€89 billion in new financing for over 900 high-impact projects in 2024**. The EIB is also known as the EU **climate bank** and close to 60% of annual EIB Group investments supports climate action and environmental sustainability. I will come back to this in a minute.

We are also very active outside of the EU, through our branch EIB Global. The EIB is indeed a key partner in the Global Gateway strategy of the European union. We are well on track to deliver at least one third of the overarching Global Gateway investment goal of €300bn investments by 2027. We have mobilised already around €80 billion of investments in key Global Gateway sectors such as climate and energy (including Critical Raw Materials), digitalization, transport, health, education and research, in full alignment with EU priorities.

At the **Global Gateway Forum** last week in Brussels we have announced EIB Group support to several partner countries, including a loan to expand a wind power plant in Cabo Verde – I was honored to meet the Prime Minister at the Forum - a financing package (in partnership with the Commission) to develop a vaccine manufacturing facility in Rwanda, or financing to support electricity grid in rural area in Mauritania.

Coming back to the EU climate bank: **Our Board unanimously approved two weeks ago the second phase of our Climate strategy and I am very proud that we will be able to present it at the COP 30, in Belem, Brazil**:

Building on the success of the first phase, where we overachieved our objective to dedicate at least 50 % of our financing to climate action – we are closed to 60%, the key message of the 2nd phase of our climate strategy is that Europe stays the course on climate action. It is and remains a key priority for us. In addition, Phase 2 of the Climate Bank Roadmap is guided by three main objectives:

- Stronger focus on competitiveness, security and lower energy prices for companies and families;
- Doubling of adaptation financing to €30 billion between 2026 and 2030;
- Radical simplification, to reduce administrative burdens for clients.

2. Let's go back to economics and the financing conditions

Allow me to begin by briefly outlining the global economic environment to frame our discussion on financial conditions in emerging and developing markets. As you know, recent shifts in US policy, especially the introduction of sweeping tariffs, have heightened uncertainty and fundamentally altered the landscape of international trade.

Following the initial shock in response to the announcement of such tariffs, financial market conditions have stabilized. Global financial conditions remain somewhat lose; inflation rates are gradually declining.

But does this relatively benign reaction to increased uncertainty mean that there are no risks for emerging market and developing economies? Far from it, I would say:

Emerging and developing economies face a complex and uncertain economic context. Geopolitical tensions are a significant source of downside risk, and the fragmentation of global growth threatens to isolate developing countries and derail progress on the development agenda. The direct and indirect impact from tariffs on emerging market and developing economies can be substantial, be it through slower growth, currency volatility, and higher base long term rates in the US. As open economies, those economies are particularly vulnerable to trade fragmentation from new trade barriers and elevated policy uncertainty

Financial pressures remain elevated, especially for more indebted countries. High volatility in financial markets exposes open emerging market economies to the risk of disruptive capital flows and rapid readjustments. Uncertainty is extremely high and a sudden setback in global risk sentiment may trigger disruptive capital flows, leading to a reversal of the current trend, with currency depreciation and tighter financing conditions. And for some countries, a combination of weak dollar (and hence low exports and expensive imports), high oil prices and high interest rates, could be particularly detrimental.

One additional point: the decreasing trend in total global ODA – official development assistance - is persisting in many parts of the world. It is real a concern, especially for the most vulnerable countries where it adds to the many constraints they are already facing.

Let me now zoom in on Sub-Saharan Africa. In Sub-Saharan Africa, financing conditions have also been gradually improving in 2025 but remain relatively tight. According to the EIB's Financial Conditions Index—which monitors ten African countries across seven macro and financial variables—the aftermath of the war in Ukraine led to the most severe tightening since 2009. This period tested the resilience of financial systems and highlighted the deep interconnections between global events and local economies.

Since that peak in 2022, financial conditions have loosened, mostly driven by a decline in inflation and interest rates, yet they remain tighter than historical averages. This highlights the need for continued vigilance in monitoring liquidity, credit flows, and systemic risks against the backdrop of policy uncertainty.

Tight financing conditions make credit both scarce and costly. In Sub-Saharan Africa, private sector credit has dropped from 56% of GDP in 2007 to just 36% in 2023. This contraction is alarming, as it restricts the ability of businesses to invest, expand, and create jobs. As a consequence, Africa's private capital stock remains well below other regions in the world — East Asia and Pacific, as well as Latin America — limiting long term economic growth, private sector development and industrialisation.

Firm-level data from the World Bank Enterprise Survey confirm this picture, showing that Africa has the highest share of firms globally needing a loan. Yet, most are unable to obtain the financing they need. Specifically, 77% of firms needing a loan are credit-constrained—far higher than in advanced economies or East Asia. The vast majority of these are discouraged from applying for a loan in the first place. Firms cite unfavourable interest rates, complex application procedures, and stringent collateral requirements as reasons for not seeking credit.

Despite the challenges, I also see opportunities for reform and innovation. Many countries in Sub-Saharan Africa have taken steps to strengthen their domestic financial markets, improve regulatory frameworks, enhanced transparency and deepen financial inclusion. Digital financial services, including mobile banking and fintech solutions, have expanded rapidly, bringing millions into the formal financial system for the first time. These efforts are essential to mobilise domestic resources, attract investment, and build resilience to future shocks.

Growth opportunities abound—in agriculture, renewable energy, digital technology, and regional integration. Unlocking these opportunities requires a vibrant financial sector that can mobilise domestic and international resources, channel investment to productive sectors, and support innovation.

3. <u>And this is where institutions like the EIB have a key role to play.</u>

The EIB has been active in Africa since 1963, and Africa remains a key focus for the EIB under the EU's Global Gateway initiative. Our operations include infrastructure and public sector financing as well as private sector development, with a strong emphasis on SMEs and climate resilience. Our approach is based on partnerships—working with governments, financial institutions, and the private sector to design and implement solutions tailored to local needs. In Portuguese-speaking countries, we will have signed by the end of the year for about 800 millions euros loan at favorable conditions since 2020. With great projects as port rehabilitation, digital connectivity or renewable energy in Cabo Verde, water infrastructure projects in Mozambique or Sao Tome, strategic road corridor in Guinea Bissau and many more.

We bring not only finance, but also technical expertise, policy advice, and a long-term perspective.

We work closely with central banks. Central banks play a vital role in shaping the financial landscape. As regulators, supervisors, and guardians of monetary and financial stability, your leadership is essential to building resilient and inclusive financial systems.

I am sure you would agree with me that financial sector development is not an end in itself, but a means to promote broader economic and social progress. Financial inclusion empowers individuals, supports entrepreneurship, and enhances resilience to shocks. It is, quite simply, a cornerstone of development.

It is against this backdrop that the EIB works to strengthen financial systems by providing long-term funding, risk-sharing instruments, and technical assistance to local financial institutions. We support the development of capital markets, encourage innovation in financial products and services, and promote financial inclusion—particularly for women, youth, and rural populations. Our interventions are designed to address market failures, build resilience, and unlock opportunities for growth.

Indeed, our support to private sector led growth is largely channelled through the financial system and by doing our goal is to contribute to strengthening and further developing financial intermediation in Sub-Saharan Africa. In 2024 we have signed 2.1 billion euros of financing in sub-Saharan Africa. A large part of lending in Africa is targeting the private sector, contributing to growth and job creation, but also to the strengthening and deepening of financial intermediation. Around a third of our lending in Africa contributes to climate action and environmental sustainability, including adaptation.

Our support to the private sector has evolved over time and become much more tailored and targeted, focusing on SMEs active in sectors relevant for the Global Gateway, e.g. agricultural value chains, transport and digital corridors, Critical raw material, green hydrogen, green enterprises, blue economy where relevant, etc. EIB retains its strong focus on supporting women economic empowerment through enabling financing to women-led and women-owned businesses.

As global goals call for more climate investment, the EIB has been introducing new instruments to help countries address investment needs, at affordable debt servicing costs.

Last July, at the Sevilla financing for development conference, the EIB joined the Debt Pause Clause Alliance. Debt pause clauses allow for the temporary suspension of debt payments in the face of extraordinary events (natural disasters, food crises, or health emergencies) offering borrowing countries immediate fiscal space to respond to the crisis without jeopardizing their solvency or their ability to meet social expenses. The EIB has made Debt Pause Clauses available for contracts on its new operations in 70 countries.

With the Global Green Bond Initiative, our goal is to mobilize private capital for climate and environmental projects in low and middle income countries, supporting the development of local green bonds markets. We hope to launch it soon. The Initiative works by providing technical assistance to help countries establish credible green bond frameworks and using a dedicated fund to act as an anchor investor and de-risk private investments, thereby bridging the climate finance gap and fostering sustainable development.

We have also innovated the way in which we deliver technical assistance. We went on line, developing with the IMF a course on financial sector development and financial inclusion specifically aimed at creating capacity within financial institutions to cater for the SME segment.

In a survey of Sub-Saharan Africa banks that we have run for nine years until 2024, when we asked banks about the challenges they were facing in promoting climate finance, capacity has been systematically mentioned as a key constraint. Against this backdrop, the EIB's Greening Financial Systems Technical Assistance Programme has emerged as a transformative initiative. Rolled out across continents, including in Kenya and Ethiopia —and soon Uganda, and the West African

Monetary Union—the Programme supports central banks and financial supervisors in strengthening climate risk management and sustainable finance practices.

A standout example is Kenya, where the Central Bank, with the Programme's support, developed and launched the Kenya Green Finance Taxonomy and the Climate Risk Disclosure Framework. This success illustrates how tailored advisory can enable central banks to turn their strategic vision and commitment into concrete tools for advancing sustainable finance. I also want to highlight the momentum felt during the Peer Learning Workshop for Central Banks supported by the Programme held on 8 October. The collaborative spirit and commitment to shared learning were truly inspiring. As we look ahead, the GFS Programme will continue to deepen institutional capabilities and expand its reach — reinforcing the role of central banks as catalysts for a just and green transition.

Dear Friends and Colleagues, I hope you found these perspectives useful and I am sure you will have fruitful conversations through the day.

Let me conclude by saying that amid growing uncertainty and geopolitical shifts, Europe and the EIB are staying the course of multilateral cooperation…we are staying the course of financial sector development and partnerships, climate action and economic and social inclusion. Let us work together—across institutions and borders—to build a resilient, dynamic, and forward-looking financial system for Africa.

Thank you/Obrigado