



GCC/ MENA Policies: What Lies Ahead?

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Agenda

Lessons from the Crisis

Banking & Financial Sector

Local Debt Markets: Cornerstone of Development Policy

Revenue Diversification & Fiscal Policy Issues

Insolvency & Corporate Governance Issues

IMF Outlook Spring 2010 for the MENAP Region

Main findings & recommendations

- MENAP Oil exporters sizeable fiscal stimulus packages help growth to recover
- However, credit still remains sluggish, amidst issue of NPLs
- MENAP oil importers growth is up marginally, given the rebound in trade & investment pick-up; but have limited scope for fiscal stimulus given high debt levels.

Real GDP growth (% annual change)

	2000-05	2006	2007	2008	2009	2010f	2011f
Bahrain	6.0	6.7	8.1	6.1	2.9	3.5	4.0
Kuwait	7.7	5.1	2.5	6.4	-2.7	3.1	4.8
Oman	3.5	6.0	7.7	12.3	3.4	4.7	4.7
Qatar	9.0	15.0	13.7	15.8	9.0	18.5	14.3
Saudi Arabia	4.0	3.2	2.0	4.3	0.1	3.7	4.0
UAE	7.7	8.7	6.1	5.1	-0.7	1.3	3.1
GCC	5.4	5.4	4.2	6.3	0.8	4.9	5.2

- The resurgence of capital flows is not evident yet; also continued weakness in Europe & competition from emerging Asia has constrained export-led growth in this region.
- Energy-importers in CCA region witnessed sharp fall in both export & remittances while energy-exporters fared relatively better; but there are signs of recovery across the board.
- Constraints include revival of the banking sector (pvt. sector growth) & fiscal constraints

Banking & Financial Sector: GCC

GCC: Financial Soundness Indicators, 2006-09

percent

	2006	2007	2008	2009e		2006	2007	2008	2009e
Bank Regulatory Capital to Risk-Weighted Assets					Provisions to NPLs				
Bahrain	22.0	21.0	18.1	19.8	Bahrain	68.5	74.0	84.0	88.0
Kuwait	21.8	18.5	16.0	16.3	Kuwait	95.8	92.0	84.7	65.0
Oman	17.2	15.8	14.7	15.5	Oman	109.6	111.8	127.3	113.8
Qatar	13.5	12.2	15.1	15.7	Qatar	94.0	90.7	83.2	95.0
Saudi Arabia	21.9	20.6	16.0	16.4	Saudi Arabia	182.3	142.9	153.3	87.0
UAE	16.6	14.0	13.3	19.0	UAE	98.2	100.0	103.0	79.0
Nonperforming Loans (NPLs) to Total Loans					Return on Equity (ROE)				
Bahrain	4.8	2.3	2.3	6.2	Bahrain	15.4	18.4	16.9	8.1
Kuwait	3.9	3.2	3.1	6.4	Kuwait	27.1	28.1	27.8	8.0
Oman	4.9	3.2	2.1	2.9	Oman	17.8	14.3	12.6	14.2
Qatar	2.2	1.5	1.2	2.0	Qatar	27.2	30.4	21.5	20.7
Saudi Arabia	2.0	2.1	1.4	3.5	Saudi Arabia	43.4	28.5	22.7	18.0
UAE	6.3	2.9	2.5	4.3	UAE	18.0	22.0	21.1	12.1

Banking & Financial Sector: Maghreb Region

It is interesting to note that the **banking and financial sector have come out of the crisis stronger** than when they went in!

Banking Sector Soundness and Financial Intermediation

percent, latest data available

	Algeria	Libya	Morocco	Tunisia
NPLs to total loans	18	19	6	15
Capital adequacy ratio	17	18	12	12
Provisions to NPLs	62	72	75	60
Return on equity	24	17	17	12
Loans to deposits	79	27	98	109

Banking Sector Financial Soundness Indicators

percent

	2005	2006	2007	2008
Capital adequacy	12	15	13	17
NPLs/total loans	19	18	22	18
Public banks	20	19	24	20
Foreign banks	3	3	9	7
Provisions on NPLs	49	54	55	62
Return on equity	8	19	25	25

Corporate lending has not picked up yet: **Financial vulnerabilities have come down -> banks can now resume lending; However, the local bond markets need to be developed alongside.**

Lessons Learned from the Crisis

- Nearly two-thirds of the increased financial stress in MENA EM countries after the Lehman shock is attributable to direct or indirect spillovers of financial stress in advanced economies (IMF WP/10/8, K Moriyama, Jan 2010)
- Policy actions should address financial vulnerabilities
- Focus on Structural Reforms

Lessons Learned from the Crisis

Policy Issues in GCC/ MENA region:

- ✓ Building Statistical Capacity
- ✓ Institutionalize and Build Economic Policy Capacity
- ✓ Engage in design of new International Financial Architecture, Policy & Regulation
- ✓ Revenue diversification/Expenditure rationalisation
- ✓ Develop Local Currency Debt/Sukuk Markets
- ✓ Need to develop the short-end of the market: currently, there is
 - No factoring: with or without recourse
 - Commercial paper market
 - Guarantee Consortia
 - Creation of a second-tier market for SMEs
 - Bankruptcy & Creditor Rights frameworks

Local Debt Markets: Cornerstone of Development Policy

Developing debt markets in local currencies would allow to:

- Deal with currency mismatching & exchange rate risk
- Absorb volatile capital flows and reduce macro-financial instability
- Provide institutional investors instruments that offer safe and stable long term yields in local currency
- Develop a stable source of capital to fund public and private ventures: Finance infrastructure and development projects in the region
- Provide Central Banks an effective monetary policy tool: open market operations feasible => help maintain an inflation target without a peg to a major currency
- Government Debt: Diminish macroeconomic and financial vulnerability from energy price fluctuations by providing governments with an alternative source of funding
- As a by-product, debt market would:
 - ✓ enhance transparency in pricing and intermediation,
 - ✓ facilitate constant monitoring of macro-economic expectations,
 - ✓ ensure disclosure of information & periodic communication regarding public policies.

Corporate Governance, Transparency & Disclosure

Improve credit market information infrastructure to help resumption of lending

- ✓ Developing local Credit Rating Agencies, as they can provide a very valuable service to conduct risk assessments and credit ratings for companies and governments.
- ✓ Developing Central Credit Reporting Organizations to provide information on bank and non-bank credit (including supplier credit).
- ✓ Institutions like Emcredit, at a Federal level
- ✓ Post Saad & Al Gosaibi, name lending has become difficult & perception of risk remains high

Heart of the problem: Availability of reliable, timely, accurate company information

Highlighting the importance of transparency & disclosure



Thank You!