



Middle East Capital Markets: Rising to the Challenges and Realizing the Potential

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DIFC | Dubai International Financial Centre



Agenda

- Regional Developments: Favourable Economic Environment & 'Renaissance'
- Fundamentals Driven Capital Markets
- New Developments: Growth of Islamic Finance
- Role of DIFC as a Regional Capital Market

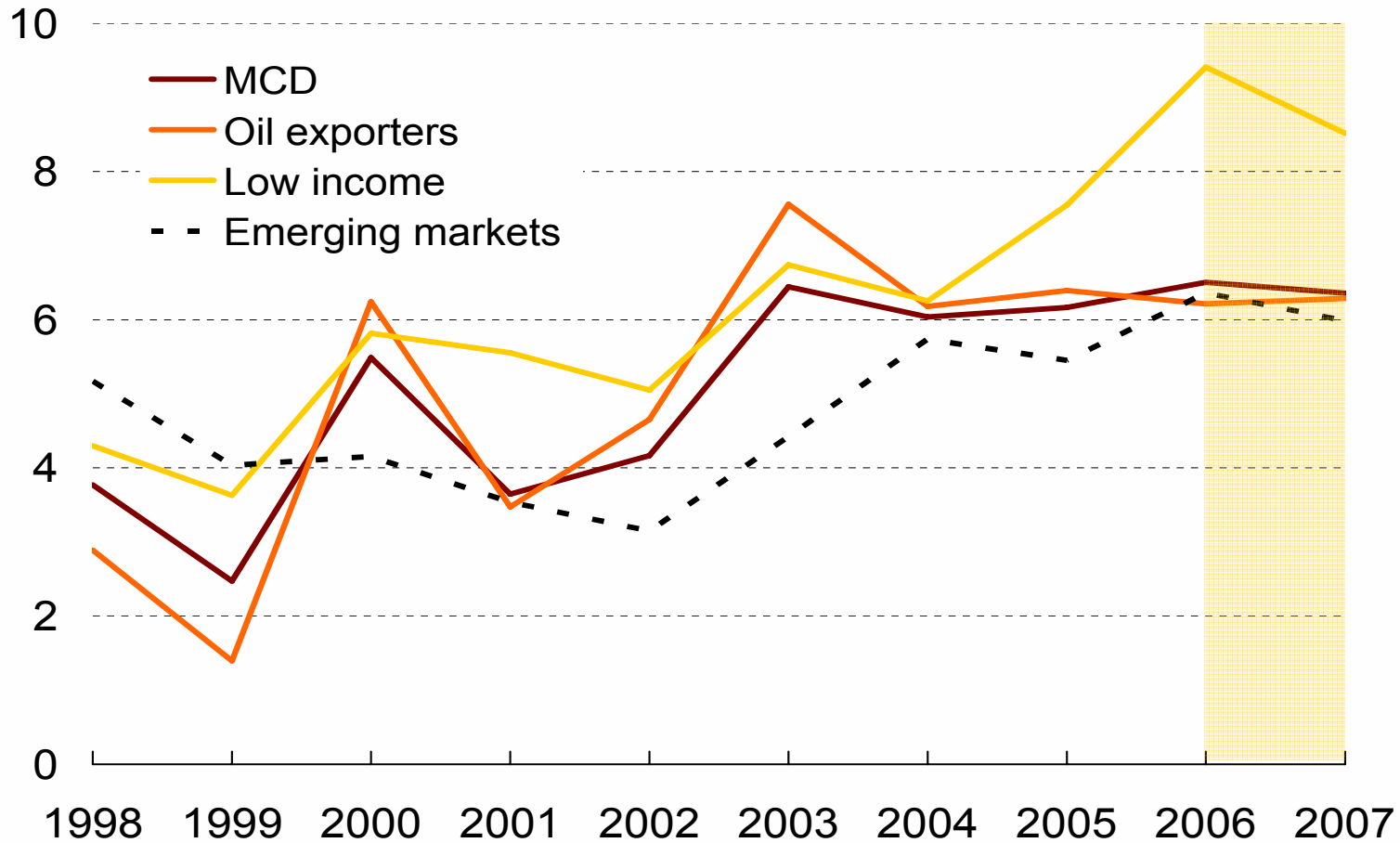


Regional Developments: Favourable Economic Environment & 'Renaissance'

- **MENA has achieved average real GDP growth 6.5% over 2003-2006 vs. 3.7% in 1998-2002.**
- **Growth has been investment led with increased infrastructure investment leading to ↑ in absorptive capacity and ↑ in productivity growth**
- **Private sector is leading and driving regional economic integration of markets, FDI tourism, labour flows**
- **Accumulation of assets & international reserves leading to a tripling of international reserves between 2002 and 2006: \$188.7bn (2002) to \$517.7bn (2006) and cumulative current surplus of \$870 billion**
- **Greater regional economic integration (GCC Monetary Union in 2010, lower trade barriers Greater Arab FTA)**
- **Economic reforms, diversification and state divestment & privatisation.**
- **Growing private sector participation in infrastructure in GCC**
- **Infrastructural developments estimated value of projects planned or under development in the Gulf has exceeds USD 1 trillion.**



Real GDP Growth: Middle East & Central Asia (IMF)





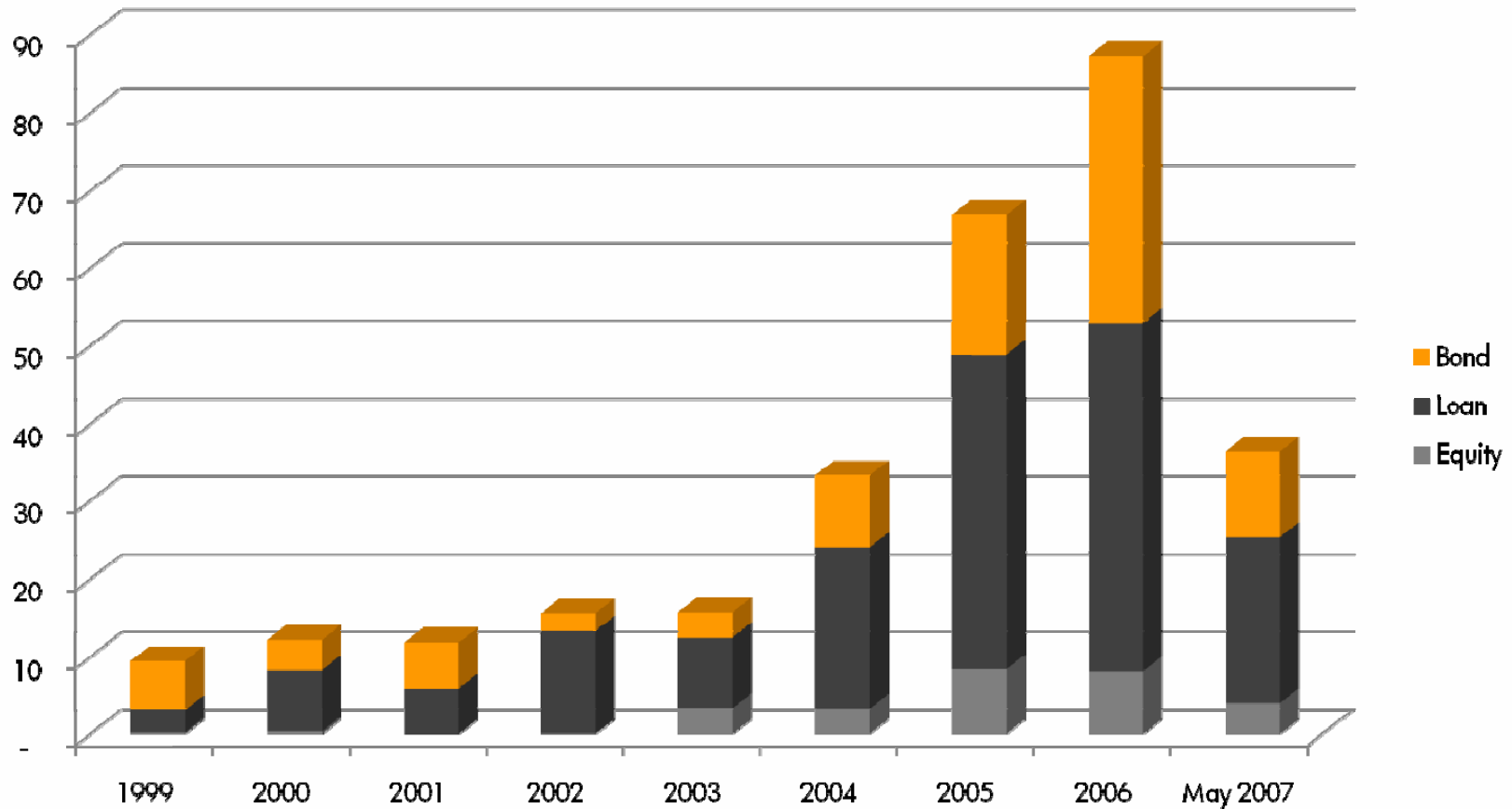
Regional Developments: A Favourable Economic Environment & 'Renaissance'

- Region's companies are becoming multinationals: Emaar, Orascom, Etisalat, MTC, Dubai Ports, Mittal...
- Massive Wealth Creation.
 - GCC \$585bn current account surplus has outgrown those of China and Japan.
 - Currently, the GCC region's proven oil reserves stand at 484.3 billion barrels and natural gas reserves at 41.4 trillion cubic meters accounting for 40.3% of the world's proven oil and 23% of natural gas reserves, respectively.
 - Given global energy demand growth projections, using conservative estimates for oil prices at \$48/bbl, the projected cumulative oil and natural gas revenues for the GCC in the 2005-2030 period totals \$5.1 trillion.[1]
- Financial sector development is key to sustained growth and competitiveness.
 - Manage region's growing wealth
 - Finance Infrastructure: physical, human, social



Capital Markets Issuance is on the Rise

Recent Capital Market Issues USD Billions



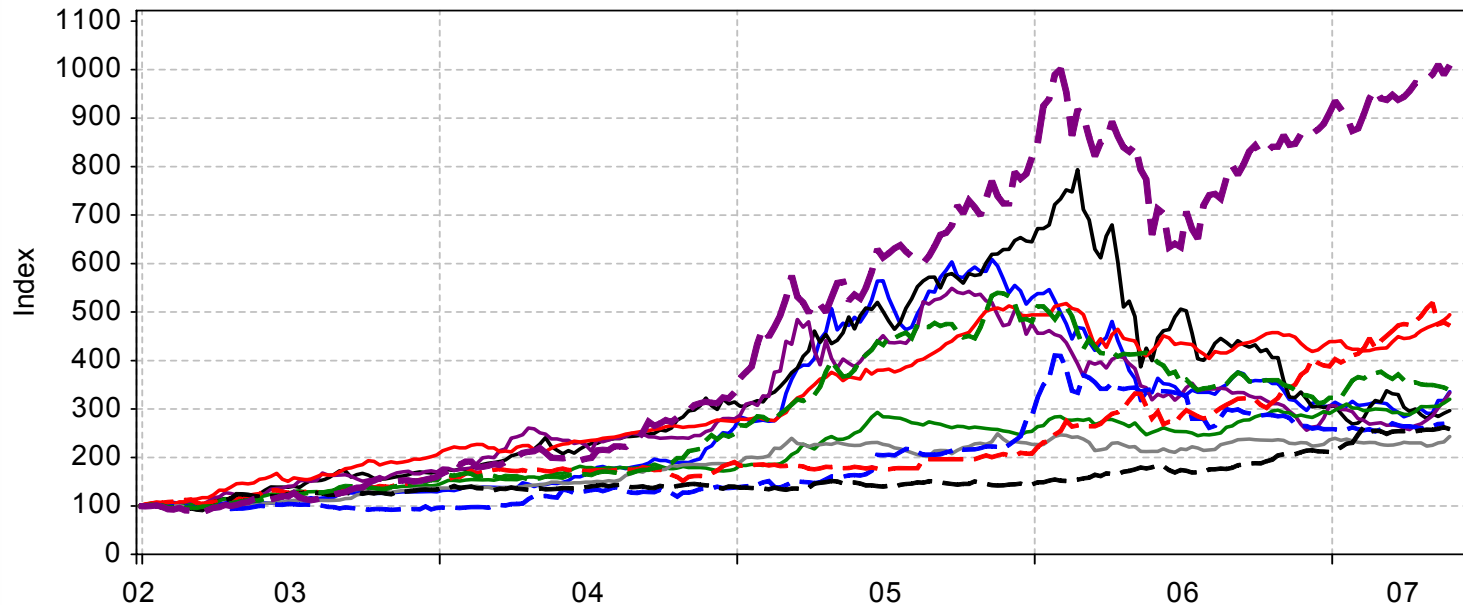
*Bloomberg, Algebra Capital



Fundamental Driven Capital Markets

Relative Performance of MENA Markets

Index value 1/1/2003=100

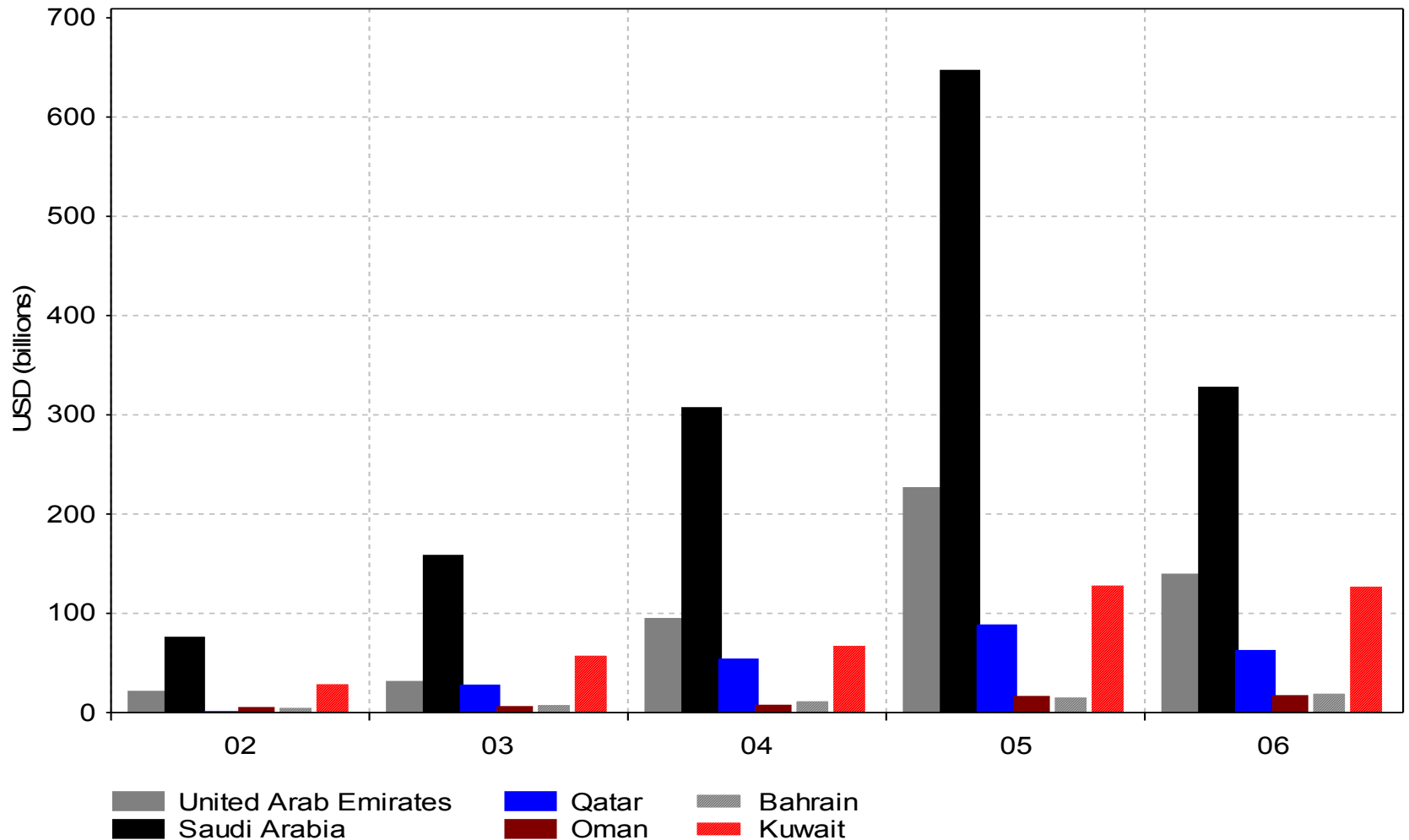


- United Arab Emirates, Shuaa, UAE Index
- Saudi Arabia, Saudi SE, All Share Index
- Qatar, Doha Securities, General Index
- Oman, Muscat Securities, MSM 30 Index
- Kuwait, Kuwait SE, General Index
- Bahrain, Gulf Investment Corporation, Inc
- Lebanon, BLOM, Lebanese Stock Index
- Morocco, Casablanca SE, MASI (All Shar
- Tunisia, Tunis SE, All Share Index
- Jordan, Amman SE, Main Share Index
- Egypt, EFG, Hermes Index



Fundamentals Driven Capital Markets

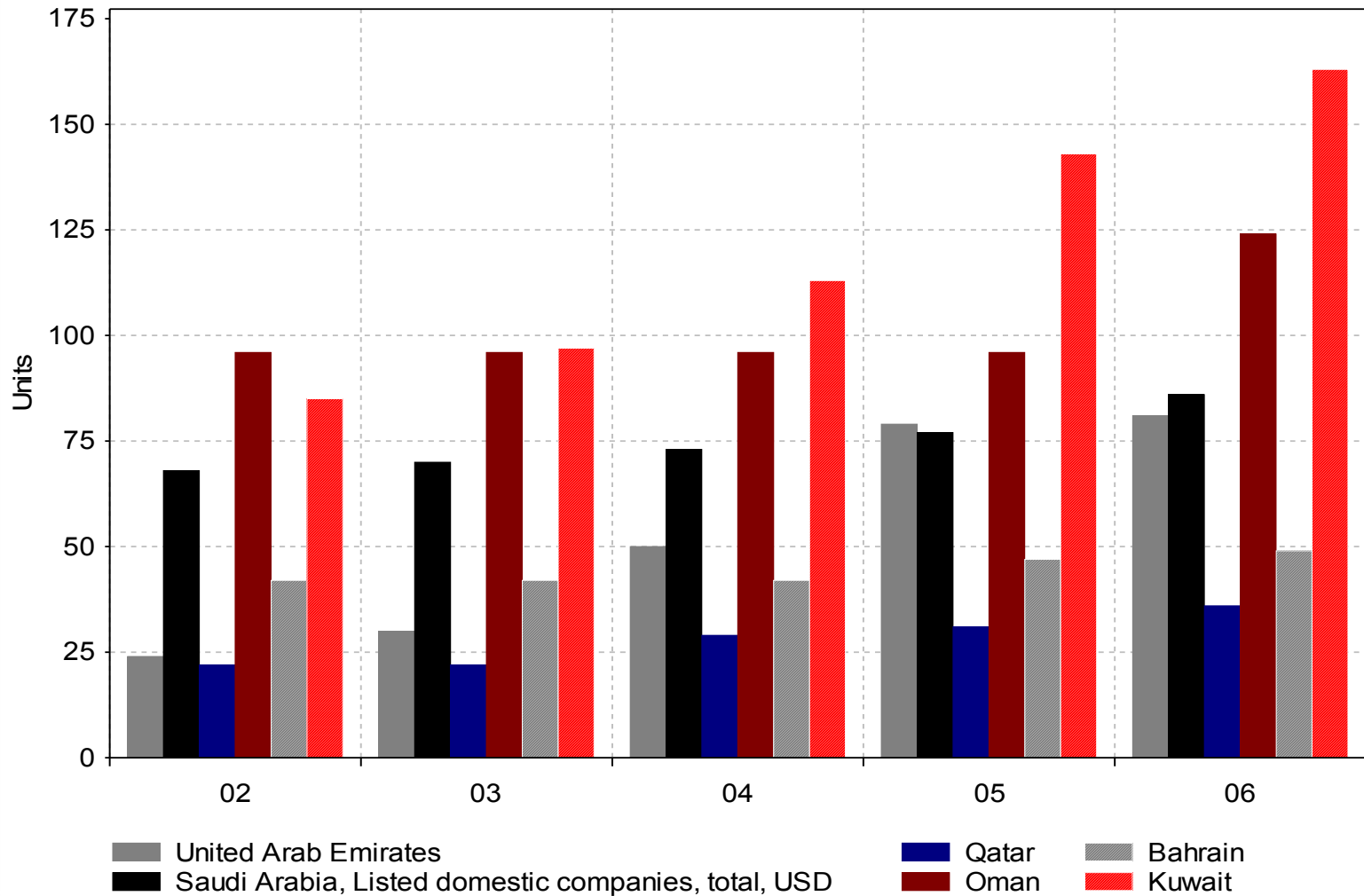
Market Capitalization of Listed Companies, Current Prices, USD





Fundamental Driven Capital Markets

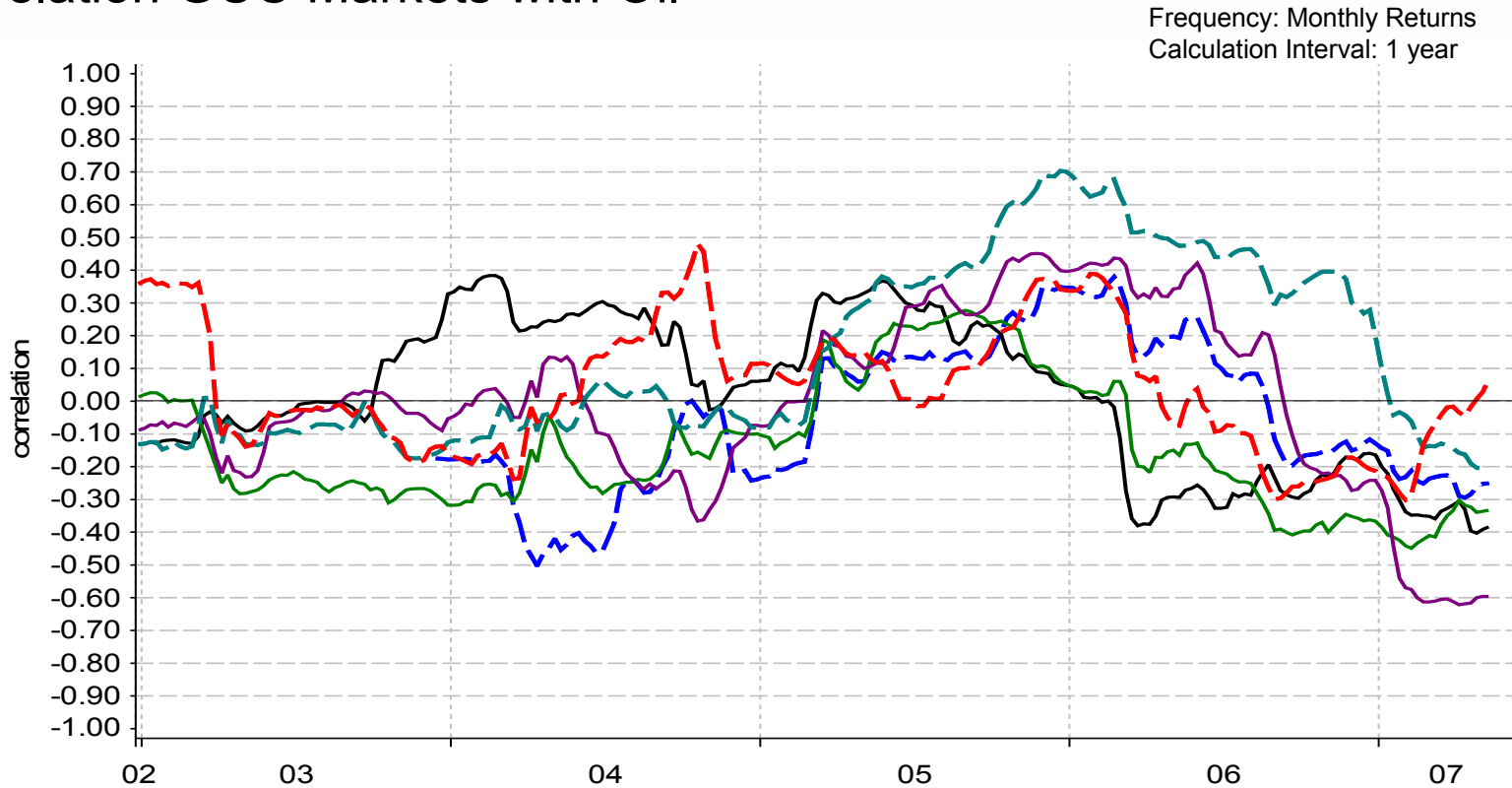
Total Listed Companies





Fundamental Driven Capital Markets

Correlation GCC Markets with Oil



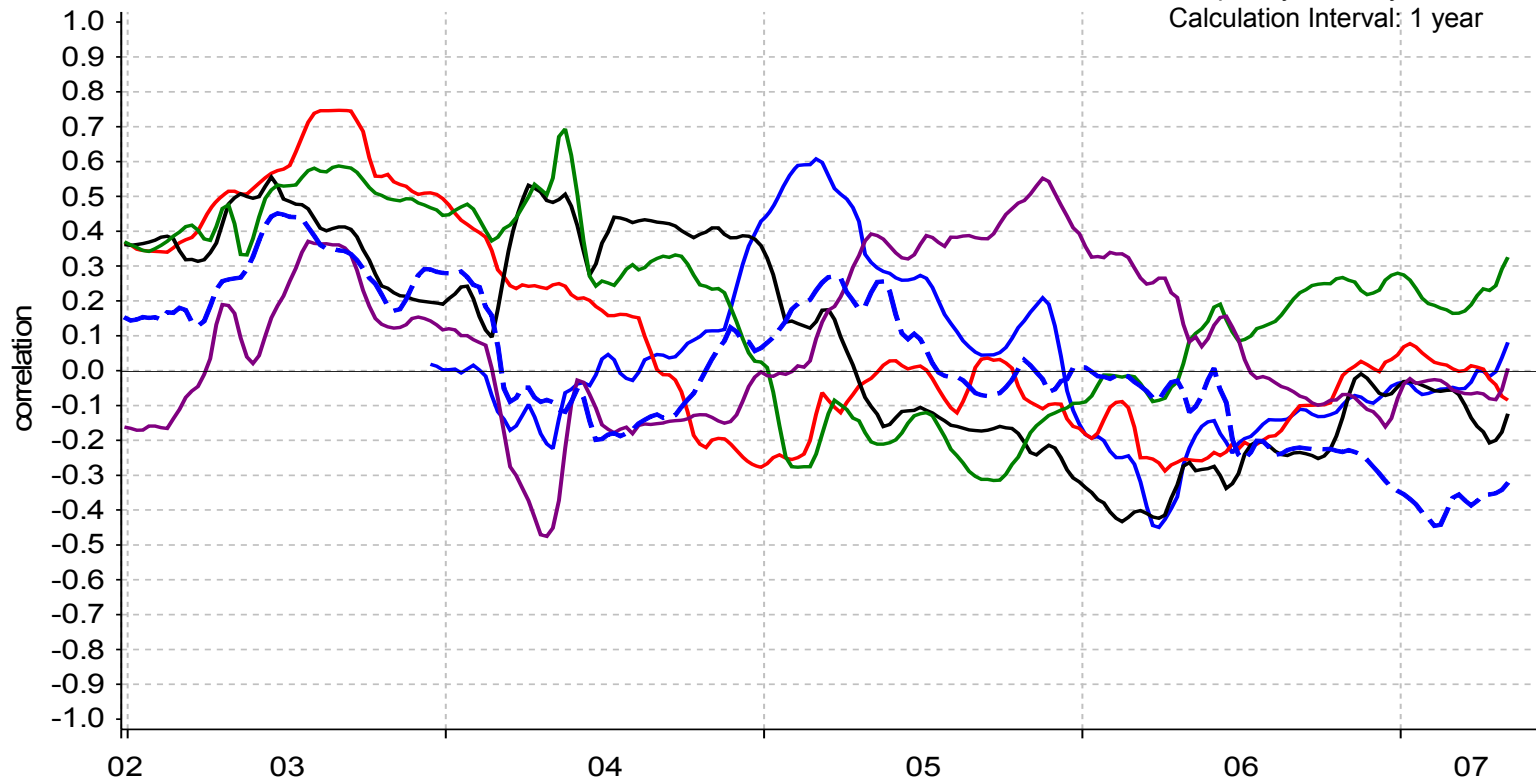
- United Arab Emirates, Shuaa, UAE Index [c.o.p 4 obs, correlation, len. 52]
- Bahrain, Gulf Investment Corporation, Index [c.o.p 4 obs, correlation, len. 52]
- Kuwait, Kuwait SE, General Index [c.o.p 4 obs, correlation, len. 52]
- Oman, Muscat Securities, MSM 30 Index [c.o.p 4 obs, correlation, len. 52]
- Qatar, Doha Securities, General Index [c.o.p 4 obs, correlation, len. 52]
- Saudi Arabia, Saudi SE, All Share Index (TASI) [c.o.p 4 obs, correlation, len. 52]



Fundamental Driven Capital Markets

Correlation GCC Markets with NYSE

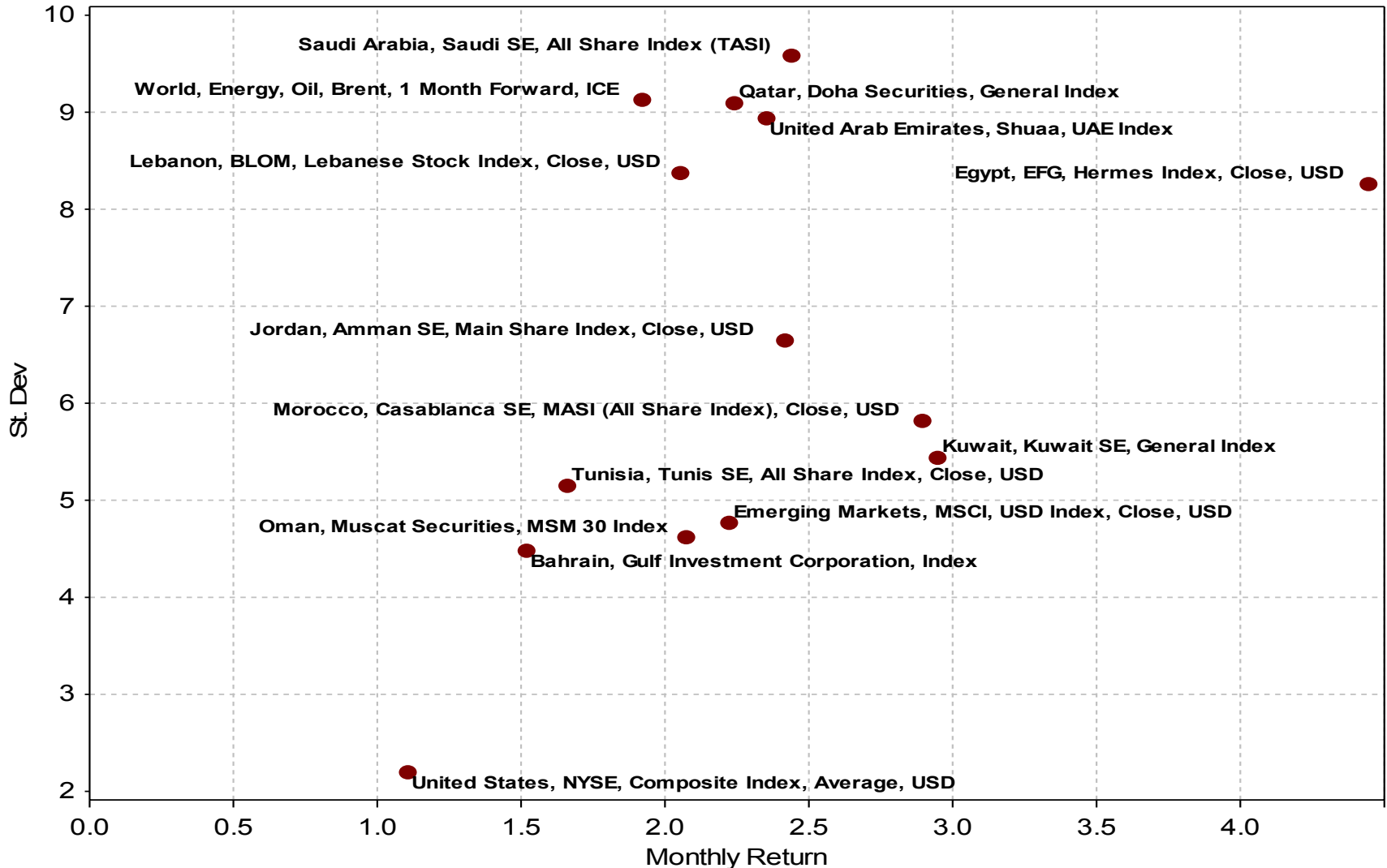
Frequency: Monthly Returns
Calculation Interval: 1 year



- United Arab Emirates, Shuaa, UAE Index [c.o.p 4 obs, correlation, len. 52]
- Bahrain, Gulf Investment Corporation, Index [c.o.p 4 obs, correlation, len. 52]
- Kuwait, Kuwait SE, General Index [c.o.p 4 obs, correlation, len. 52]
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- - Saudi Arabia, Saudi SE, All Share Index (TASI) [c.o.p 4 obs, correlation, len. 52]



Fundamental Driven Capital Markets





Strong Economic Fundamentals driving markets

- Strong macroeconomic fundamentals imply low macro risks:
 - High growth rates driven by higher oil prices, diversification and economic liberalization policies imply high expected corporate profits and investment returns
 - Investment-led growth with large infrastructure component → increased productivity growth & ↑ private sector investment
 - Conservative fiscal policies: more than 2/3 oil revenue increases have been saved, while debt has been reduced
 - Large current account surpluses: 20-25% GDP
- Demographics: young, fast growing native populations; liberal labour migration policies
- Gradual Market de-segmentation & liberalization of access to real assets and financial markets, de jure & de facto: free zones, property freehold
- Safe haven: attracting capital and elites from neighbouring countries
- Expectations of GCC Regional Economic Integration: lower the cost of equity capital and lead to convergence of asset prices

IIF-Hawkamah Recommended GCC CG Reform Measures

- ✓ Strengthen regulatory structure by clearly separating and defining the roles of the regulator and the stock exchange
- ✓ Increase effectiveness of regulators by making them independent of government
- ✓ Issue meaningful corporate governance codes and require mandatory compliance
- ✓ Build institutional capacity and strengthen surveillance and enforcement mechanisms to ensure compliance
- ✓ Legal reforms
- ✓ Introduce corporate governance best practices for state-owned and family-owned companies
- ✓ Grant foreign investors full access to equity markets and promote shareholder activism by foreign and domestic institutional investors and the media
- ✓ Promote convergence and harmonization of laws and codes among GCC countries



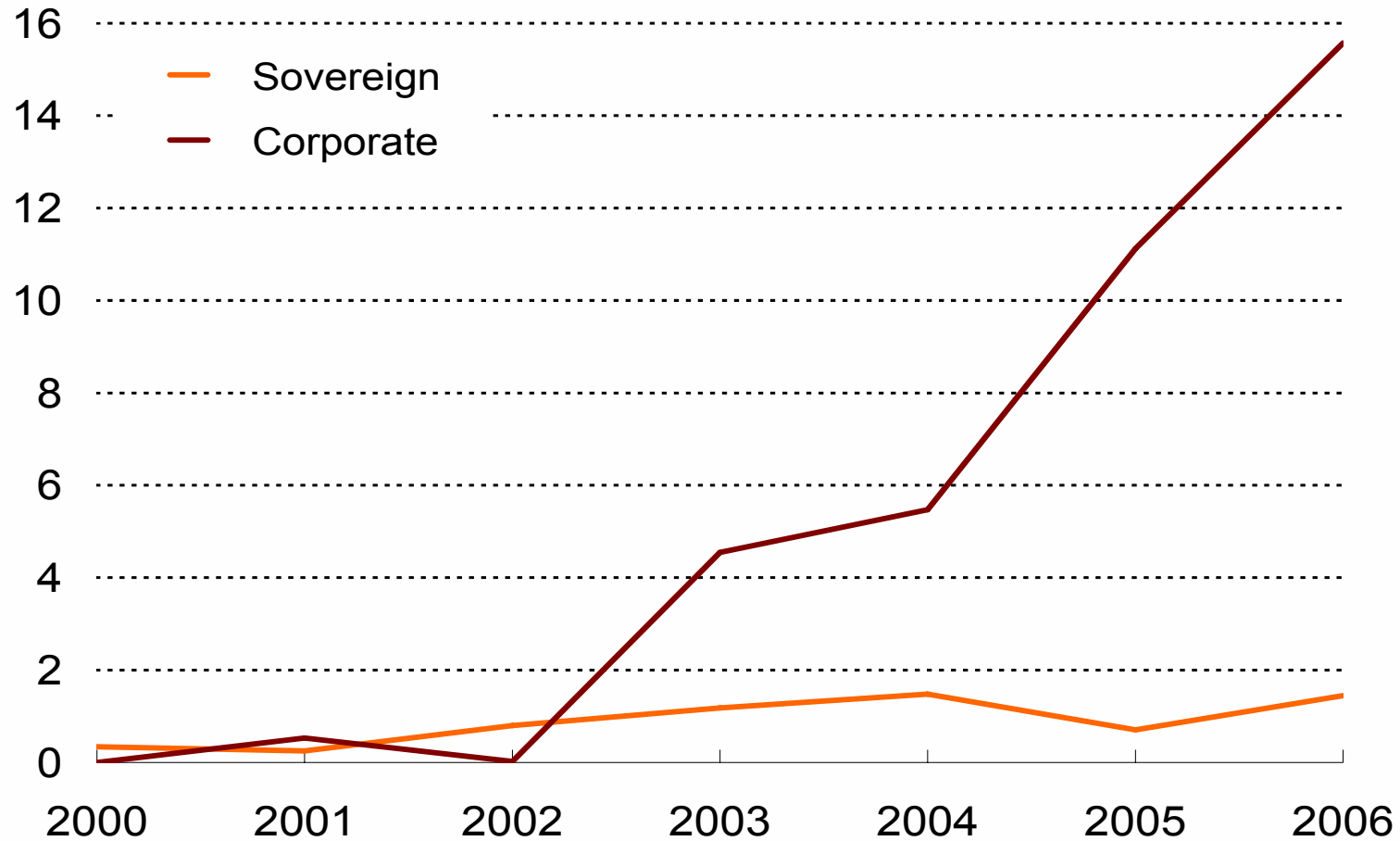
New Developments

Growth of the Islamic Finance Market

- Strong Macroeconomic fundamentals & demographic factors underlying growth in demand of Shari'a compliant financial services.
- Sharia-compliant assets worldwide are worth an estimated \$500 billion and have grown at more than 10% per year over the past decade.
- Oversubscription of Sukuk to date indicative of demand and huge potential.
- Market for Sukuk growing at a rate of 45% a year. With global issuance estimated at \$70 billion.

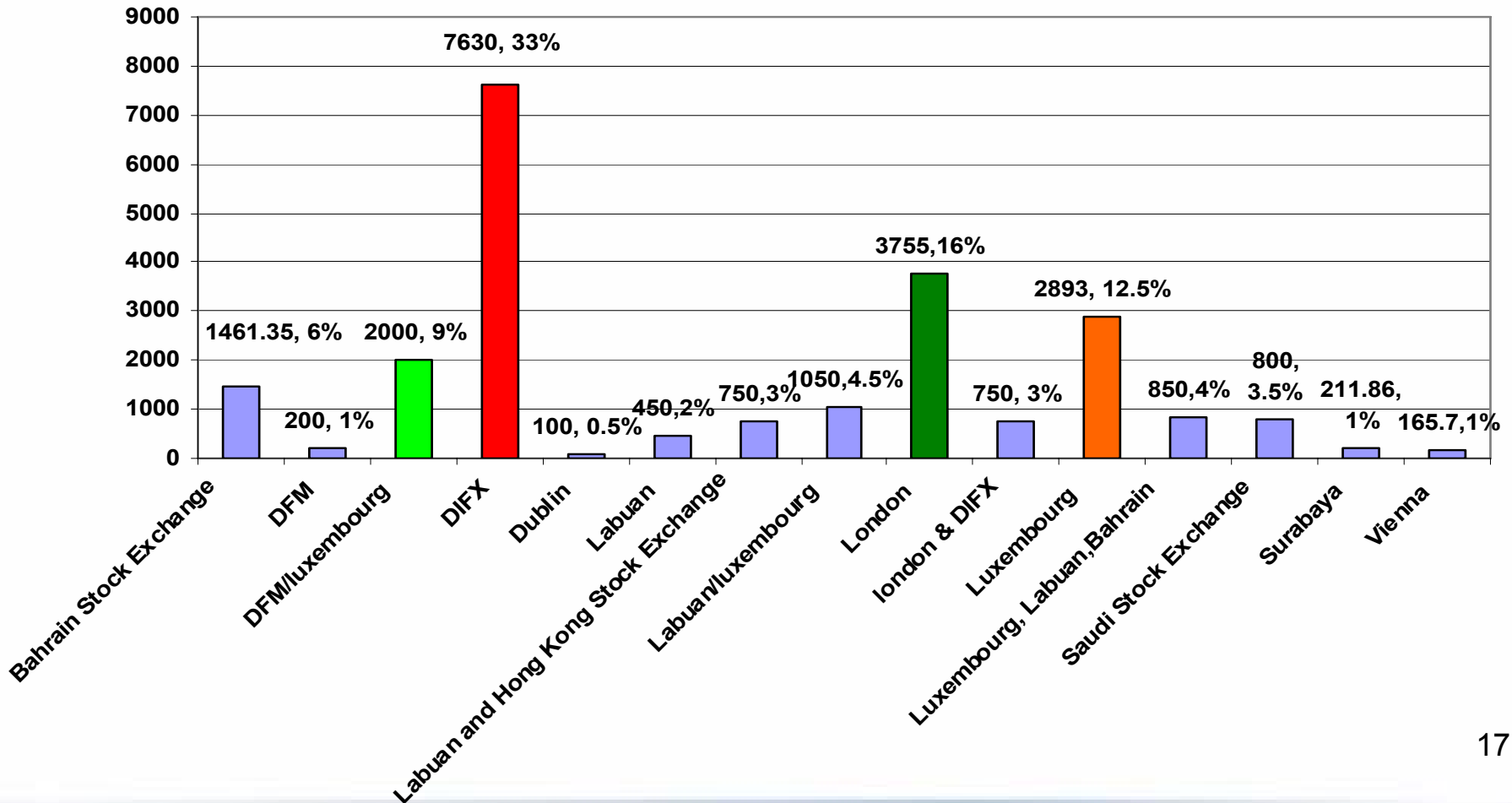


Sukuk issuance surging (\$ billions; IMF)





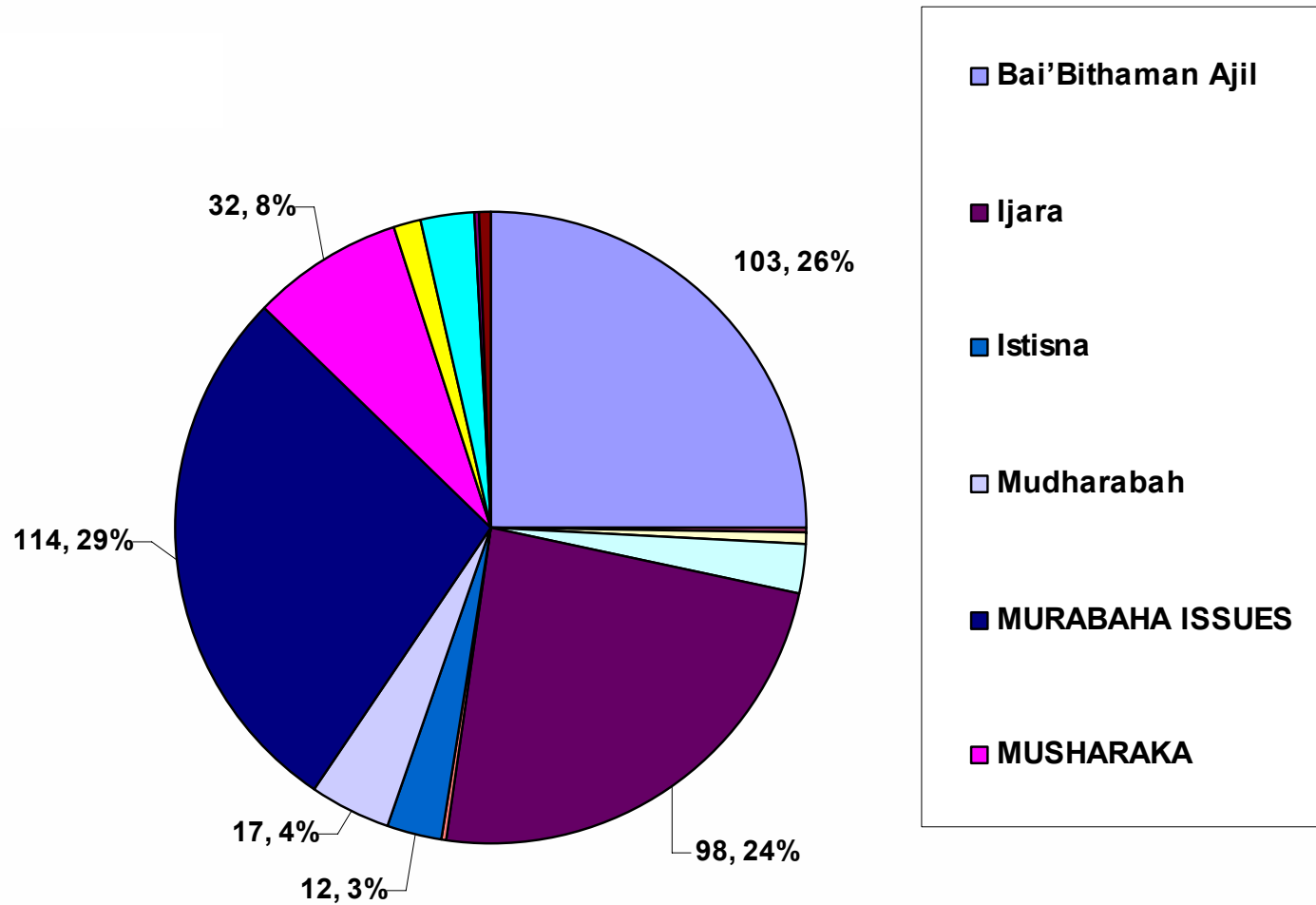
Listed Sukuks by Market: VALUES (USD Millions)





Islamic Finance Market: Sukuk types

Major Sukuk Types (2001-2007)





Islamic Finance Market: opportunities & challenges

Opportunities

- Islamic structured products to support project financing needs
- Structuring leasing transactions relating to oil & gas, aviation, marine & cargo among others
- Prospects within Shari'a-compliant securitization
- Real estate investments, REITS and mortgage market to support housing finance

Challenges

- No Standardization
- No Regulatory & Legal Alignment
- Nascent Corporate Governance
- Absence of Debt/Bond Market
- No Secondary Market
- No 'Lender of Last Resort' function
- Creating "breadth, depth & liquidity"



Role of Financial Sector Development for the Region

- Invest, Manage and Control region's financial wealth of \$2+ trillion and growing as a result of high energy prices:
 - Financial sector can be an engine of growth
 - Strategic issue: security and safety of assets
- Financing Infrastructure & Regional Economic Integration
- Develop new markets and instruments
- Enable & support economic and financial reforms:
 - Enable separation of oil revenue management from fiscal policy & investment
 - Privatisation and Private sector Participation in Infrastructure



Building a regional Market: DIFC Strategy

- International Standard Legal & Regulatory Infrastructure with Independent Risk Based regulator (DFSA)
- Efficient & Sound Listing & Trading Platform: DIFX
- Dubai Mercantile Exchange (co-NYNEX): pricing oil and commodities
- Modern, Secure, Multi-currency Payments Infrastructure
- Transparency & Disclosure: IFRS Accounting standards
- Corporate Governance: Hawkamah Institute for Corporate Governance
<http://www.hawkamah.org/>
- Link region's stock exchanges
- Instruments & Financial Technology:
 - **Bond & Sukuk Market**
 - **Securitization,**
 - **Leasing,**
 - **Options & Derivatives,**
 - **Shari'a-compliant finance**



DIFC Investment Funds Regime: Collective Investment Schemes

- **Collective Investment Law- DIFC Law no. 1 of 2006**
- DFSA issued legislation to regulate the managed funds industry within the DIFC and compliant with IOSCO Principles for CIS
- Legislation permits both the domicile of funds in DIFC and or distribution of existing foreign funds (both public and private funds).
- Regulation of fund operators rather than fund, leaving room for product innovation.
- Permits the operation of various types of funds including: Property funds, Islamic funds, Hedge funds, Private Equity funds, fund of funds.



DIFC Investment Funds Regime: REITs

- **The DIFC Investment Trust Law- DIFC Law no. 5 of 2006**
- Legislation permitting setting up Collective Investment Funds in the form of an **Investment Trust**.
- Rules to permit the operation of REITS within the DIFC have also been introduced.
- REITS have become the most favoured method for attracting public ownership in property investments.
- They provide a convenient form for listed and tradable property ownership with transparent pricing and liquidity.
- Under these Rules it will be possible to issue REITS for the first time in the region, utilizing the facilities of the DIFX. Innovation for ME's property markets



Role of DIFC & Shari'a Compliant Finance

- DIFC positioned to be global market for Shari'a compliant finance
- Mainstreaming and creating a market for Shari'a compliant financial services
- Creation of a Government Sukuk market:
 - Financing infrastructure
 - Mainstreaming as public finance instrument
- Develop secondary market in Sukuk and Shari'a compliant funds
- Creation of Shari'a based mortgage market to support housing finance
- DIFC has set clear procedures for authorising Shari'a compliant institutions
- DIFC/DFSA/DIFX have streamlined listing of Shari'a compliant financial instruments
- DIFC has set-up an Islamic Finance Advisory Council (IFAC)
- DFSA issued legislation:
 - to regulate the managed funds industry within the DIFC.
 - permitting setting up Collective Investment Funds in the form of an Investment Trust.
 - to permit the operation of REITS within the DIFC have also been introduced.



Middle East Capital Markets

1. ME financial markets development and reforms are important to:
 - Addressing global imbalances and related risks
 - Sustaining growth, job creation and political stability
2. Driving force of international integration of the region
3. Finance economic diversification
4. Finance Regional economic integration and infrastructure
5. Support GCC exchange rate unification and monetary union
6. Avoid international “investment protectionism”



**Middle East Capital Markets :
A Time for Vision
A Time for Action
A Time for Architects and Builders**

Thank You
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