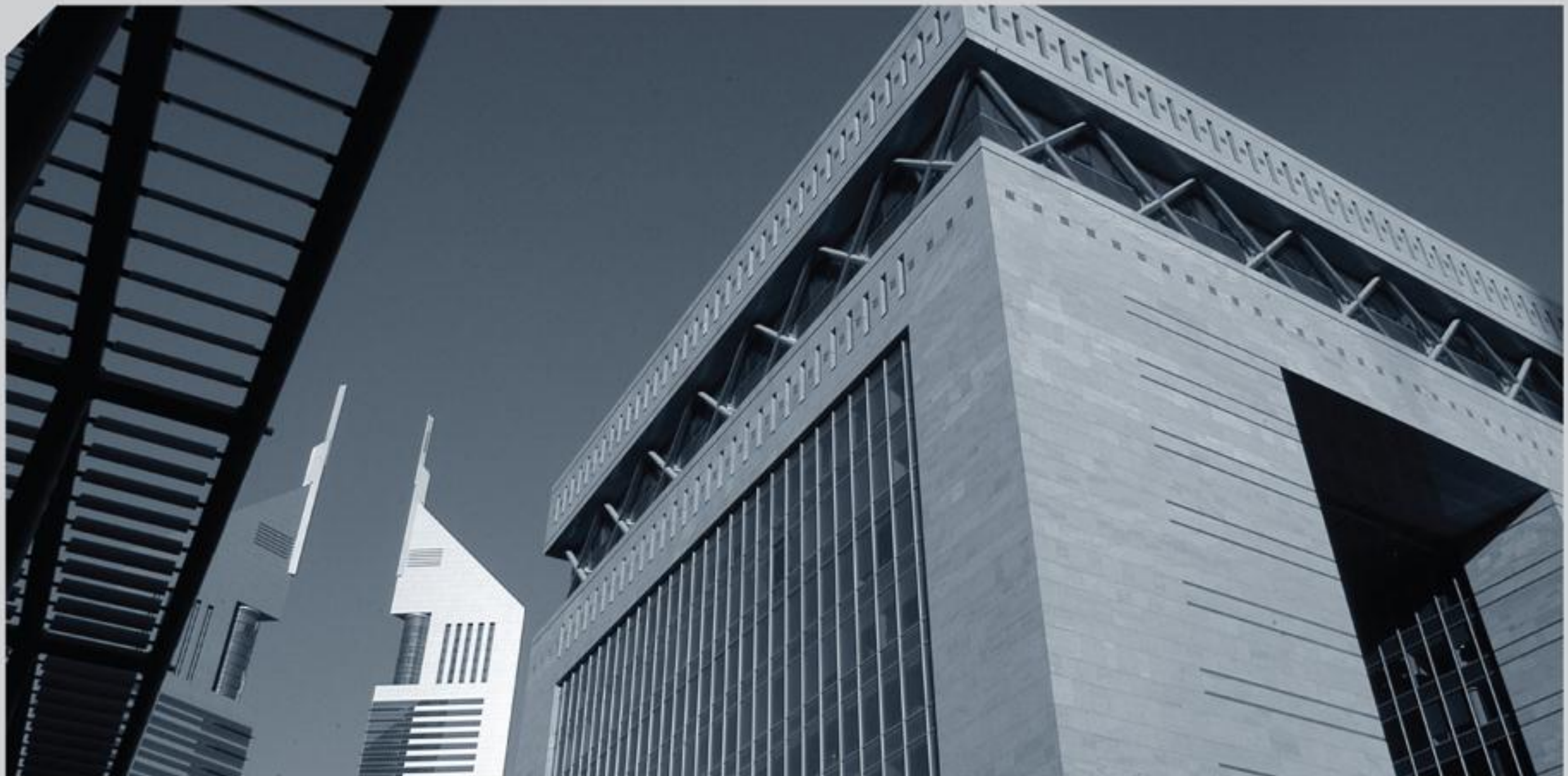

Reappraising Risk in the Current Global Downturn: New models of governance and regulatory cooperation?

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Re-appraising Risk in the Current Downturn

- ❑ **Impact of the Financial Crisis**
- ❑ **Policy Measures in the GCC**
- ❑ **Corporate Governance Moving Forward**

MENASA/GCC: pre-Lehman maelstrom

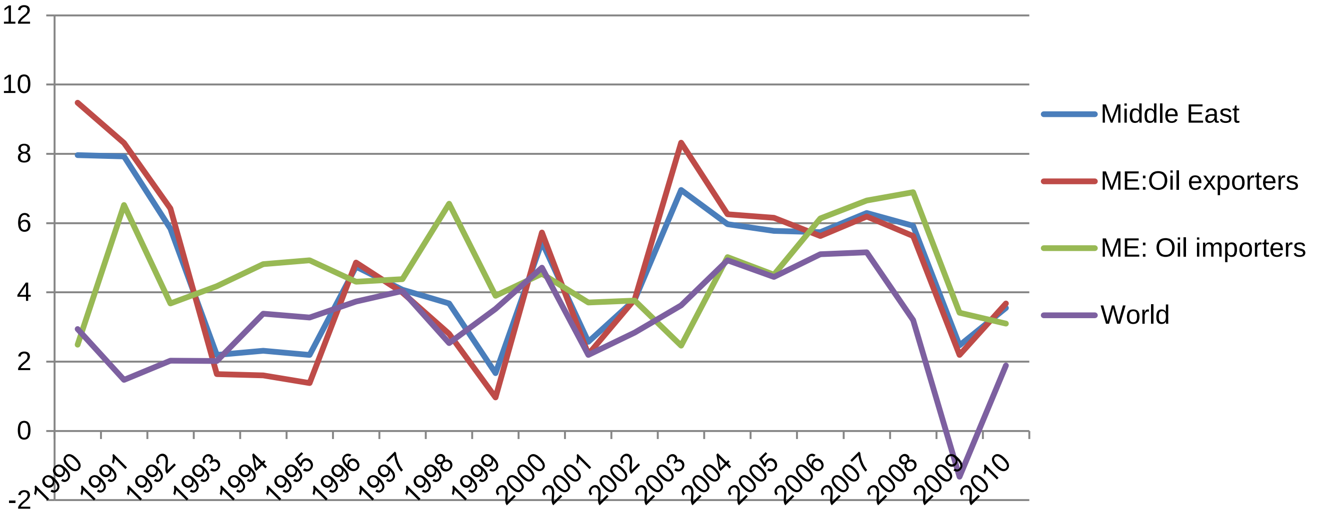
- **Emerging markets have contributed 2/3 of global growth since 2002.**
- **Investment-led growth with strong private sector participation and record FDI levels.**
- **Investment & infrastructure leading to an increase in productivity growth, economic diversification and absorptive capacity.**
- **Positive demographics & migration sustaining low labour costs & output growth**
- **Remittances main form of growth spillover to labour exporters**
- **MENA countries achieved above trend average real GDP growth (5.8%[e] over 2004-2008).**
- **GCC achieved average real GDP growth of 6.9%[e] over 2004-2008 vs. 4.6% in 1998-2003, with increased diversification of economic activity, while in nominal terms growth has averaged over 25% p.a.**

Financial Crisis – Impact on MENA & Gulf

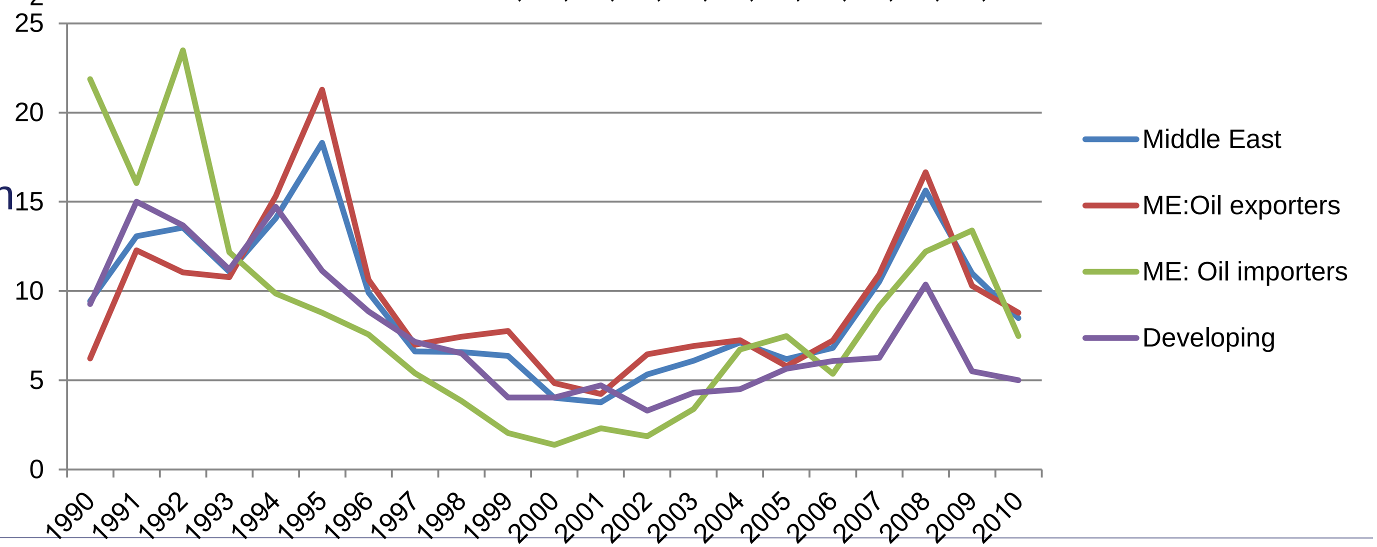
- **MENA, especially the Gulf region, has not been as severely hit by toxic assets and financial turmoil thanks to:**
  - Limited direct & cross border exposure due to profitable domestic markets
  - Small stock of outstanding domestic securitised/structured products
  - Limited expertise in managing structured investment products
  - Regulatory/prudential requirements limited exposure to sub-investment grade investments & instruments
  - Growing importance of Islamic banking & compliance with Shari'a principles
  - Ample liquidity from accumulation of current account surpluses
  - Fiscal discipline
  - Monetary, Fiscal & Financial Policy measures
- **However, real effects of global crisis (oil prices, trade, tourism) will cloud the economic outlook and put strains on public finances**
- **Financial contagion resulted from** cut in trade credit lines and equities slump as a result of deleveraging, the ensuing global credit crunch, and -- needless to say -- a drop in commodity prices

2009 IMF WEO Real Growth & Inflation

Real GDP Growth ME/GCC lower growth but better than global



Inflation: strong decline in inflation



Regional Policy Responses to the Financial Crisis

- Monetary Policy Measures
- Fiscal Policy Measures
- Financial Policies

Regional Policy Responses to the Financial Crisis

- **Bahrain** cut the repo rate by 25bp and the overnight rate by 50bp. The Central Bank raised the guarantee on bank deposits for commercial banks from 15,000 dinars (instituted since 1994) to a maximum of 20,000 dinars.
- **Kuwait** cuts the repo rate by 100bp and the discount rate to 3.00%. A series of other measures included 1bn USD investment by KIA in local stock market, liquidity injections, increase in the loan/deposit ratio, extensive deposits guarantee – latest being guarantee on half of the new loans created by local banks (~ 2 million dinars).
- The Central Bank of **Oman** slashed its repo rate by 220 bps to 1.96% in Nov. The government set up a $390 million fund, along with private sector partners, to act as a market-maker for the turbulent Muscat Securities Market.
- **Qatar** has instructed QIA to buy 10-20% of local banks' capital. No action by the Central Bank to either inject cash or reduce interest rates.
- **KSA** reduced its repo rate five times since Oct08 to 2% (reverse repo rate was reduced to 0.75% from 2.0%), and set up a 36bn USD liquidity facility (only 2-3 bn have been used) and reduced reserve requirements from 13% to 10%. Saudi authorities announced plans to spend $400 billion on development projects over the next 5 years, a portion of which not announced earlier.
- **UAE** guaranteed all deposits (including interbank) and set up a 50bn USD emergency liquidity facility (little used so far), while the government deposited 70bn USD in local banks. The repo rate was reduced to 1.0%. Abu Dhabi injected AED 16 billion into 5 local banks. The first tier of Dubai's UAD 20bn bond issue was taken up by the UAE Central Bank and helped the market rally and sentiment. Abu Dhabi bond issue of USD3bn was oversubscribed.

Smoothing the economic cycle

- Contra-cyclical fiscal policies have a major role to play in mitigating the effects of global financial crisis
- The GCC governments have spent heavily to launch infrastructure projects; these should be continued.
- Oil price shock => governments should manage their debt effectively especially in the current environment
- An efficient public debt management policy would allow governments to smooth the boom and bust cycle induced by oil price fluctuations
- Reforms in public finance management and transparency in the use of resources are necessary to efficiently tap the markets
- Role of the GCC Monetary Union and common currency

GCC In Turmoil

- Although the real economy in the Gulf has not been seriously affected, contagion lurks and complacency would be fatal
- So the governments must show that they are ready to act decisively. A **clear communication policy backed by actual data and transparency** should stress that
    - ✓ The public and private sector in the GCC have enough resources to offset adverse conditions and contagion effects
    - ✓ The main infrastructure and development projects will continue as planned despite the financial crisis because funding is unaffected
    - ✓ The authorities will take a series of measures aimed at cushioning the financial intermediaries and improve project management, resources allocation, data disclosure, and corporate governance

Corporate Governance Issues to be Addressed

- Board Composition and Competence
- Risk management process and governance
- Incentive and compensation structures
- Accounting and Disclosure issues
- Role and regulation/oversight of credit rating agencies
- Corporate governance in the banking and financial sector
- Scope of the regulatory frontier
- Role of central banks as lenders/rescuers of last resort and the nature of collateral
- The Basel II framework & Liquidity Risk Management
- Macro-prudential risk management

Corporate Governance in the midst of the crises

- CG Policy has lagged: development and refinement of corporate governance standards has followed the occurrence of corporate governance failures
- Political backlash
- Corporate governance deficiencies facilitated or did not prevent practices that resulted in poor performance
- GCC are not immune to risks and crisis has impacted the markets of the region: stock market value losses, credit cost increased, liquidity tightening, reduced lending, international investors offloading GCC and MENA positions due to financial crisis
- Pressing CG issues: related party ownership, related party lending, stock market regulations, disclosure and transparency, accounting standards


Thank You!
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