SIBOS ISSUES

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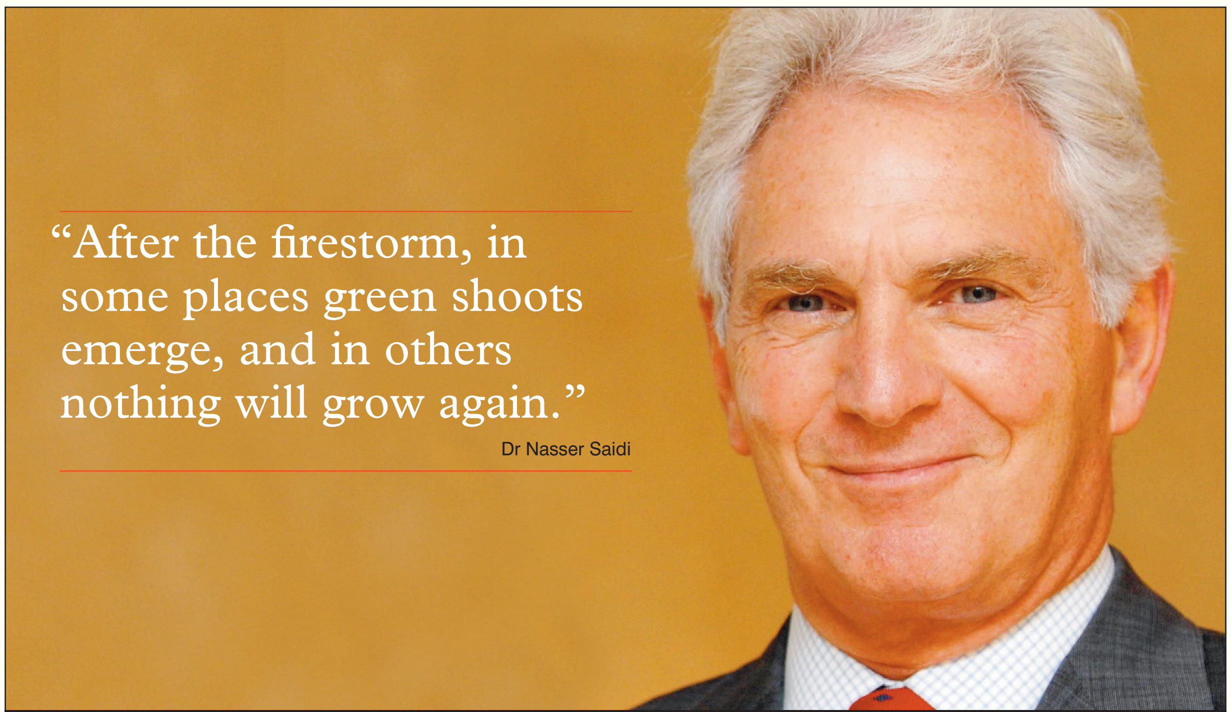
Welcome to this pre-summer edition of Sibos Issues which highlights some of the themes that will be making the headlines at Sibos 2013 in Dubai. Look out for the full preview edition of Sibos Issues, with additional session previews and crucial 'week at a glance' guide, when you arrive in Dubai.

Best wishes

Sven Bossu, head of Sibos

IN BRIEF



Dr Nasser Saidi, former chief economist of the Dubai International Financial Centre and a member of the IMF's Regional Advisory Group for MENA

"We need an Arab Bank for Reconstruction"

Renowned economist Saidi welcomes Sibos as an opportunity for Middle East & North Africa to show its potential to establish sustainable financial markets.

But warns of challenges ahead from standardisation of Islamic finance to improvements in corporate governance to coordinated response to "firestorm".

For Dr Nasser Saidi, former chief economist of the Dubai International Financial Centre (DIFC) and a member of the IMF's Regional Advisory Group for MENA (Middle East and North Africa), Sibos in Dubai is a long time

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FINANCIAL INCLUSION

They're banking on your support

Technology can help banks help the unbanked, says Gates Foundation.

About 2.5 billion people globally are excluded from financial services; an exclusion that perpetuates their poverty. Without access to financial services, says Rodger Voorhies, director of financial services for the poor at the Bill & Melinda Gates Foundation, the poor can fall deeper into poverty and miss opportunities.

The Gates Foundation's Financial Services for the Poor programme focuses on solving problems in access to formal financial services for the world's poorest people. It estimates that about 80% of the world's poor adults do not have a bank account or use other formal financial services – not only because of poverty but also due to costs, travel distance and other barriers.

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“We need an Arab Bank for Reconstruction”
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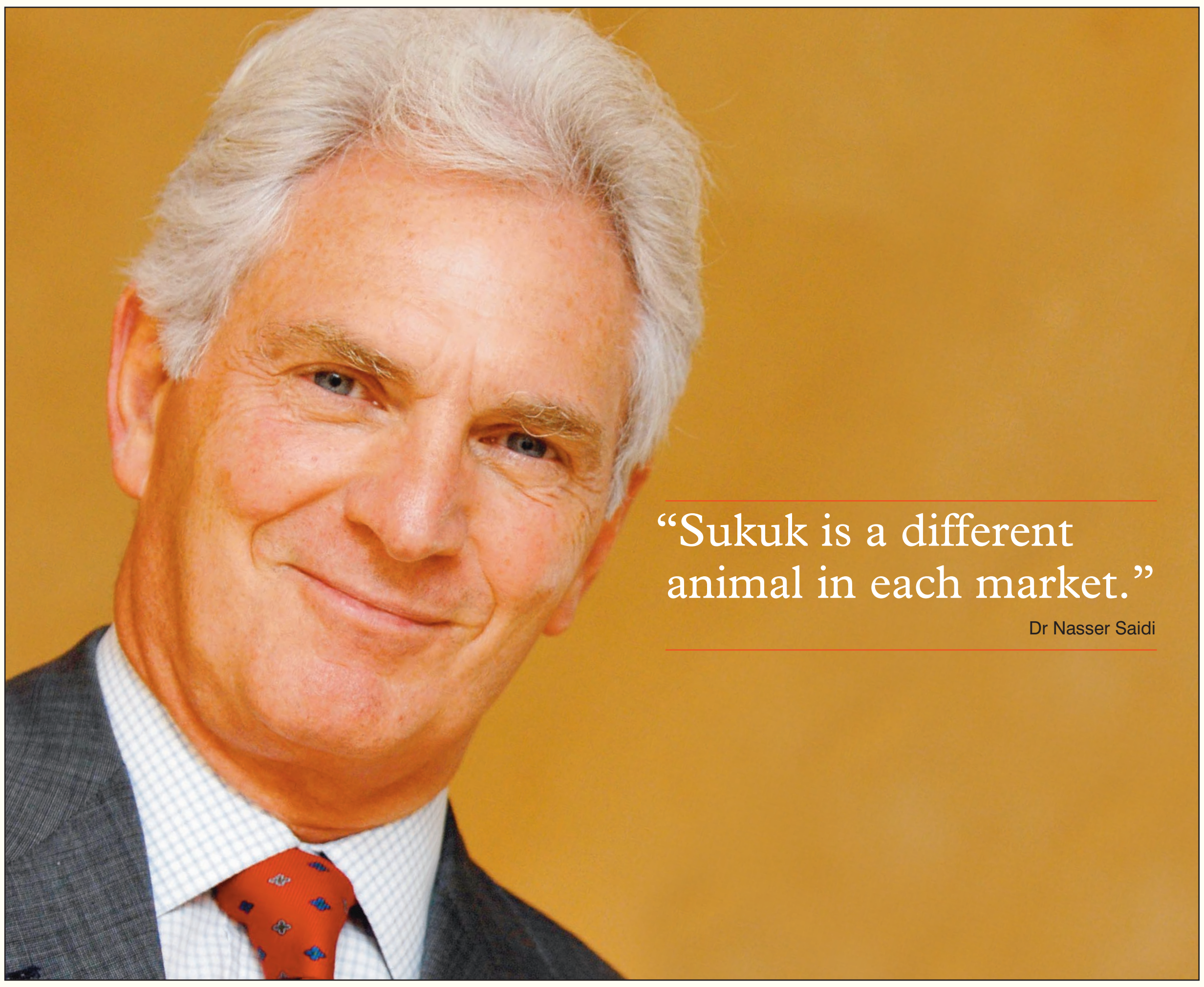
coming. “[Sibos] is about the potential of the region, which has yet to be realised,” he remarks. While the BRIC countries have captured the imagination and wallets of global investors, the Middle East is a region in transition, both politically and economically speaking.

The oil-rich Gulf Cooperation Council (GCC) countries – Saudi Arabia, Qatar, UAE and Kuwait – continue to attract the highest levels of foreign inward investment in the region, having suffered some capital outflows following the 2008 global financial crisis. According to figures published in May by Deutsche Bank, MENA markets attracted around US$2 billion of net inflows since the beginning of 2013, compared to an outflow of US$192 million during the same period a year earlier. The Kingdom of Saudi Arabia led the way with US$308 million of inflows followed by Qatar and Dubai with US$131 million and US$129 million respectively.

Having devoted most of his career to studying Middle Eastern economies either as an economist or politician (Saidi is a former minister of economy and of industry in his native Lebanon and the first vice-governor of the country’s central bank) the biggest change Saidi has witnessed in the last few years is how Middle Eastern economies manage and control their own wealth.

Historically, petrodollars from the Middle East were invested in more mature financial markets – London or New York. “Then the Gulf countries realised there are more efficient ways of managing and controlling their own wealth by growing their own financial centres,” says Saidi. “Instead of investing their reserves in US treasury bills, they need to deploy that capital in their own markets.” Saidi says Middle-Eastern economies could also better deploy their capital internationally by growing their local exchanges and telling companies that want to tap their liquidity to list locally.



Local markets

A major priority for regional economic development, says Saidi, is the growth of the Middle East’s bond and money markets. “In the case of Asia, those countries that had well-developed local currency markets fared pretty well after the 1997 Asian crisis,” he explains. “Those countries that were heavily dependent on bank borrowing and foreign financial markets suffered more once there was a withdrawal of capital. We saw exactly the same thing, but perhaps on a smaller scale, in the Gulf following the 2008 global financial crisis. Now we have the euro-zone crisis and you are seeing a retrenchment of Western banks in general, and European banks in particular.”

Saidi estimates that lending by European banks in the Middle East is down to a third from 2011 levels. “That is a combination of the euro-zone crisis and the four Rs: recession, regulation, recapitalisation and restructuring,” he says. Who or what is going to plug the gap left by Western banks? Saidi says regional banks are well capitalised and liquid, with UAE banks boasting Tier 1 capital ratios of 20%. “One thing they lack,” says Saidi, “is the cross-border expertise to stand on their own.” But that is something they could easily acquire, given the wealth of liquidity at their disposal.

Asian banks are also expanding into the Middle East. China’s ICBC has a subsidiary at the DIFC. Saidi says Dubai is now considered a gateway for Chinese companies looking to do business in the Gulf and Africa. “China is now the biggest buyer of Saudi oil, and is also the GCC’s biggest trading partner.” By 2030, Saidi says 95% of oil and gas from the Middle East will be exported to Asia. This creates a policy conundrum for GCC countries as their currencies are still pegged to the US dollar. Saidi says GCC countries could re-denominate the price of oil in renminbi, which he expects will emerge as a major global currency by 2015.

Standardising sukuk

Islamic finance is also expected to play an enlarged role in the region. Last year Qatar issued a US$4 billion dual-tranche sukuk (Islamic bond), its first in almost a decade. And with MENA infrastructure investment and maintenance needs estimated at US$106 billion per year or 7% of annual regional GDP to 2020, sukuk is being used to finance some of these projects. One stumbling block, says Saidi, particularly for cross-border issuance, is the lack of standardisation. “Sukuk is a different animal in each market. You need standardisation of sukuk regionally and globally.”

The Middle East also lacks a well-developed government bond market. The main reason for that, says Saidi, is that unlike the rest of the world, governments in the region are running huge surpluses – in some cases up to 25% of GDP. “Governments need to be convinced to develop their bond markets,” he says. Nothing perhaps could be more persuasive than the fact that future revenues from oil exports are under threat. “There is a big shift that needs to take place in public finances,” says Saidi. By 2035, he projects that Saudi Arabia, the region’s largest oil exporter, will have no more oil to export. “It will all go on domestic consumption, which currently only constitutes a quarter.”

Running out of oil is not really an option for countries where it makes up more than 80% of fiscal revenues, hence why countries in the region are investing in energy efficiency and economic diversification. One of the dichotomies of the Middle East, says Saidi, is that a lot of countries are still classified as frontier markets. These currently include Qatar and the UAE, although they will be reclassified by 2014 as they have undertaken financial sector reforms to improve transparency and corporate governance. Saidi says reclassification will help bring in additional investors but he says further liberalisation across the region is needed. “They have to let foreign investors in and remove barriers to ownership. Local regulators also have to get more serious about corporate governance and listing standards.”

> “Local regulators have to get more serious about corporate governance.”

Saidi has made his own contribution on this front, founding the Hawkamah Institute for Corporate Governance and serving as a member of the private sector advisory group of the World Bank’s Global Corporate Governance Forum.

“No clear vision”

Saidi’s message seems to be one of mixed promise for the Middle East – considerable potential that has yet to be realised, not least because of the mixed blessing of oil dependence. Then there is of course the fall-out from the Arab Spring, which continues to cause unrest throughout the region.

Saidi prefers to call it the Arab Firestorm. “A firestorm,” he explains, “can start anywhere and jump from one place to another. After the firestorm, in some places green shoots emerge, and in others nothing will grow again.” What is happening in Egypt is no surprise, he says. As a result of the uprisings and ongoing political uncertainty, GDP has declined, unemployment is around 13% and the fiscal deficit is expected to widen to at least 12% of GDP as government spending on oil and bread subsidies and public sector wages increases.

Whilst the television images speak of deep-seated political unrest in Egypt, Saidi says it is not about politics but more about job creation. “Egypt has a very young population. There have been 750,000 new entrants into the labour force in the last two years, but there has been a loss of jobs so automatically you have lots of young people unemployed.”

People expected there would be major improvements after former leader Hosni Mubarak was removed, but Saidi says the underlying economic problems have not been addressed. In the wake of the Arab Spring uprisings, the MENA Transition Fund was set up under the Deauville Partnership to provide grants to support economic and political transitions in countries including Yemen, Egypt, Jordan, Tunisia, Libya and Morocco.

However, Saidi says the partnership has not really achieved anything. “There is no clear vision for the Middle East’s future. When the Berlin Wall fell, the European Union, for all its faults, came in and said join us and you saw the creation of the European Bank for Reconstruction and Development. That is what we need in the Middle East. We should have an Arab Bank for Reconstruction.”

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