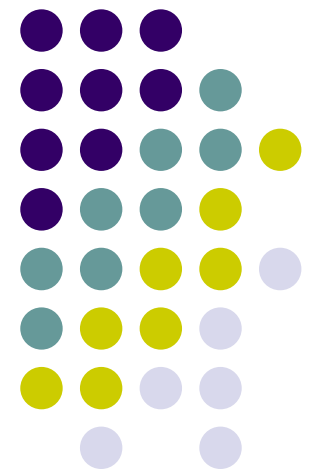


# Impact of the International Financial Crisis on MENA Capital Markets

Forum on the Current International Financial Crisis: Implications and Lessons for Arab Region

Beirut, Lebanon  
December 2-3, 2008

Auguste Tano Kouamé  
The World Bank





# I. Structure of the capital markets in MENA

# MENA Capital Markets

Capital markets is small compared to other developing regions



Indicators on the Size of the Capital Markets, 2007  
(In billions of U.S. dollars)

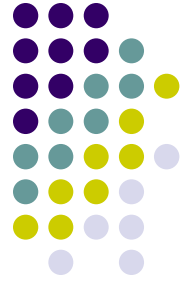
	GDP	Stock Market Capitalization	Debt Securities	Bank Assets	Size of Capital Markets as % of GDP
<b>World</b>	54545.1	65105.6	79821.9	84784.5	421.1
<b>Emerging Asia</b>	7482.4	13782.7	4504.9	9382.3	369.8
<b>LAC</b>	3608.5	2292.2	2084.9	1988.7	176.4
<b>Middle East</b>	1563.8	1275.9	123.8	1166.3	164.1
<b>Africa</b>	1099.8	1181.7	166.2	646.3	181.3
<b>Emerging Europe</b>	3527.2	2417.6	940.2	1820.2	146.8

Source: Global Financial Stability Report, 2008

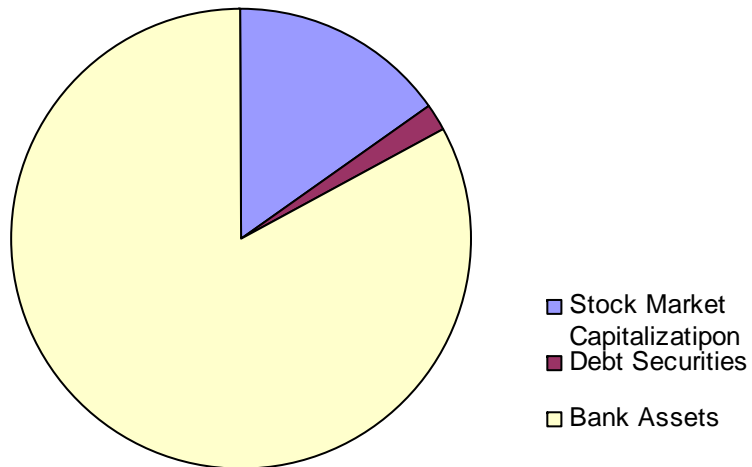
Countires aggregate comprises the group of Other Emerging Market and Developing Countries defined in the World Economic Outlook, together with Hong Kong SAR, Israel, Korea, Singapore, and Taiwan Province of China.

# MENA's Capital Markets:

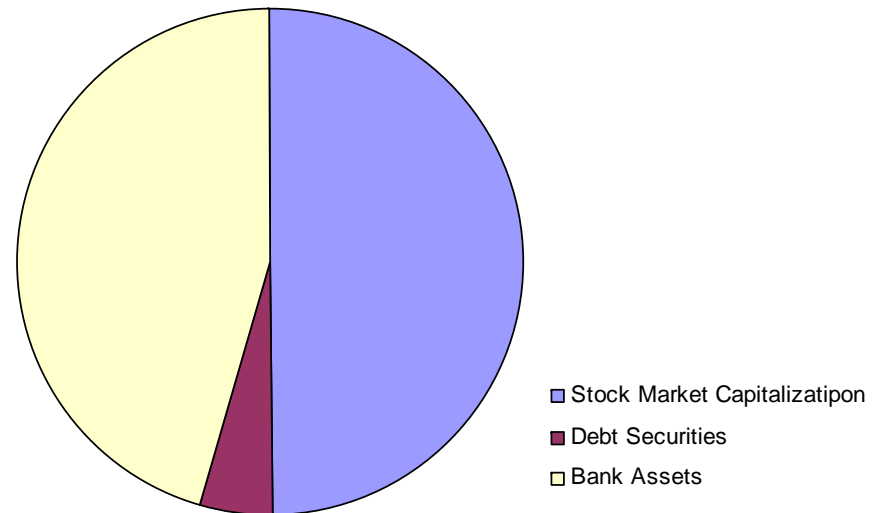
## From bank dominance to stock market emergence



Middle East Capital Markets Structure, 2003



Middle East Capital Markets Structure, 2007



# Debt Securities

Continue to play a relatively small role compared to banks and stocks and compared to other developing regions



Indicators on the Size of the Capital Markets, 2007  
(in % of total size of Capital Market)

	Stock Market Capitalization	Debt Securities	Bank Assets
World	28.3	34.7	36.9
Emerging Asia	49.8	16.3	33.9
LAC	36.0	32.8	31.2
Middle East	<b>49.7</b>	<b>4.8</b>	<b>45.5</b>
Africa	59.3	8.3	32.4
Emerging Europe	46.7	18.2	35.2

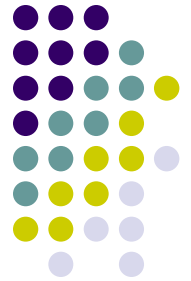
Source: Global Financial Stability Report, 2008

Countries aggregate comprises the group of Other Emerging Market and Developing Countries World Economic Outlook, together with Hong Kong SAR, Israel, Korea, Singapore, and Taiwan

# Stock Markets

Market capitalization remains low compared to other developing regions

Market activity is low, with large market participants driving volatility



**Market Capitalization: Regional Comparison, 2007**

	<b>MC, % of GDP</b>	<b>MC % of EMC</b>	<b>MC % of WMC</b>
<b>MENA</b>	58.1	6.2	1.3
<b>LAC</b>	75.2	16.6	3.6
<b>Africa</b>	..	6.9	1.5
<b>Emerging Europe</b>	45.1	5.9	1.3
<b>Emerging Asia</b>	148.2	64.4	13.9

Source: World Bank data

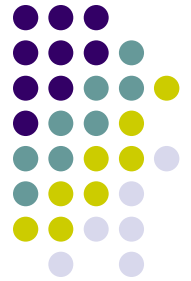
**Value traded: Regional Comparison, 2007**

	<b>VT, % of GDP</b>	<b>VT % of EMC</b>	<b>VT % of WMC</b>
<b>MENA</b>	19.5	1.0	0.1
<b>LAC</b>	25.6	6.9	0.8
<b>Africa</b>	..	4.0	0.5
<b>Emerging Europe</b>	8.0	3.8	0.4
<b>Emerging Asia</b>	136.6	84.4	9.5

Source: World Bank data

# Stock Markets

High concentration on a few dominant market participants



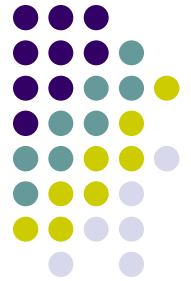
Equities-Concentration, selected countries,  
2007

	Market Cap. of Top 10 companies	Turnover Value of Top 10 companies
Tokyo SE Group	18.5	17.2
Bombay SE	28.2	18.0
Korea Exchange	31.5	21.4
Singapore Exchange	32.0	35.0
Taiwan SE Corp.	35.8	21.0
Malaysia	37.9	24.8
Hong Kong Exchanges	42.1	35.9
Indonesia SE	48.4	46.7
Tehran SE	49.3	64.2
Thailand SE	49.3	38.8
Egypt	50.3	39.6
Istanbul SE	52.8	48.2
<i>Amman, Jordan</i>	68.5	48.0
<i>Mauritius, SE</i>	69.2	91.3

Source : World Federation of Exchanges members

# Stock Markets

Dominated by two regional giants with  $\frac{3}{4}$  of market cap



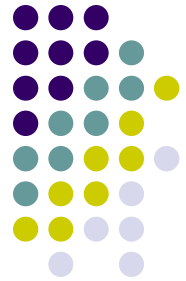
Market Capitalization: Countries Comparison, 2007

	<b>MC, % of GDP</b>	<b>MC % of EMC</b>	<b>MC % of MENA</b>
<b>Egypt, Arab Rep.</b>	108.7	1.0	16.1
<b>Iran, Islamic Rep.</b>	16.8	0.3	5.3
<b>Jordan</b>	260.3	0.3	4.8
<b>Lebanon</b>	45.2	0.1	1.3
<b>Morocco</b>	103.0	0.5	8.7
<b>Saudi Arabia</b>	135.0	3.7	59.7
<b>Tunisia</b>	15.3	0.04	0.6

Source: World Bank data

## External Financing: MENA is weakly integrated with international financial markets...

MENA cross-border bank lending in 2007 was less than \$10 bn, lower than in Africa (about \$15bn, South Asia (about \$25bn), East Asia and Latin America (over \$50bn), and Europe and Central Asia (about \$250bn)



**Emerging Market External Financing by Region**  
(as % of total external financing)

	2002	2003	2004	2005	2006	2007	2008 -- H1
<b>MENA</b>	7.4	3.7	6.7	8.5	9.2	6.4	8.4
<b>Emerging Asia</b>	49.0	48.0	49.0	45.6	47.1	45.9	43.7
<b>Emerging Europe</b>	19.0	21.6	22.6	24.4	25.9	24.0	30.8
<b>Africa</b>	4.2	4.2	3.5	2.8	3.0	4.2	1.7
<b>LAC</b>	20.4	22.5	18.2	18.7	14.8	19.4	15.6

Source: Global Financial Stability Report, 2008



# External Financing:

...But perhaps 2008 was to mark a shift

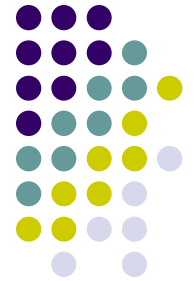
International Loans issues in Emerging Markets, \$bn

Total in complete year				
Region	2005	2006	2007	2008-H1
East Asia and Pacific	35.8	36.4	61.5	28.2
Europe and Central Asia	80	97.5	166	69.9
Latin America and Caribbean	45	76.2	84.2	32.6
Middle East and North Africa	16.1	11.5	12.7	16.6
South Asia	12.8	20.2	44	27.2
Sub-Saharan Africa	12.5	22.7	28.7	7.9

# Sovereign Wealth Funds

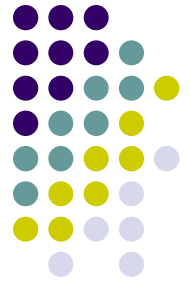


- Becoming important players on MENA capital markets as providers of project finance
- Estimated \$1.5 trillion in assets, larger than bank assets, larger than stock market capitalization (but there are accounting overlaps)
- SWFs have significant investments abroad and at home



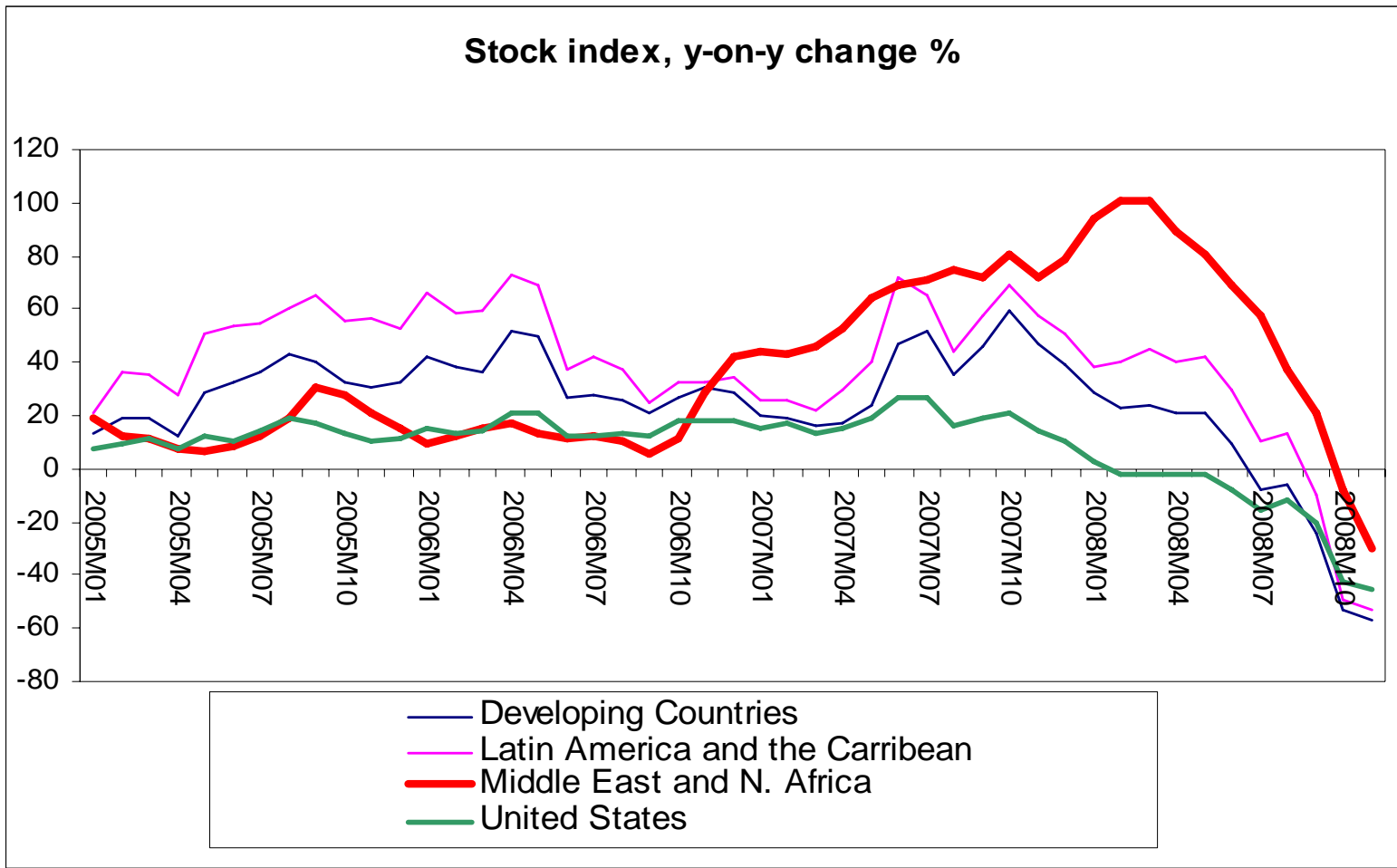
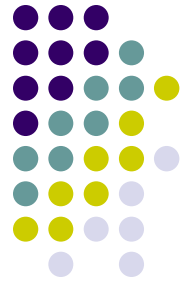
## II. Impact of the financial crisis

# Impact of the financial crisis: The end of decoupling?

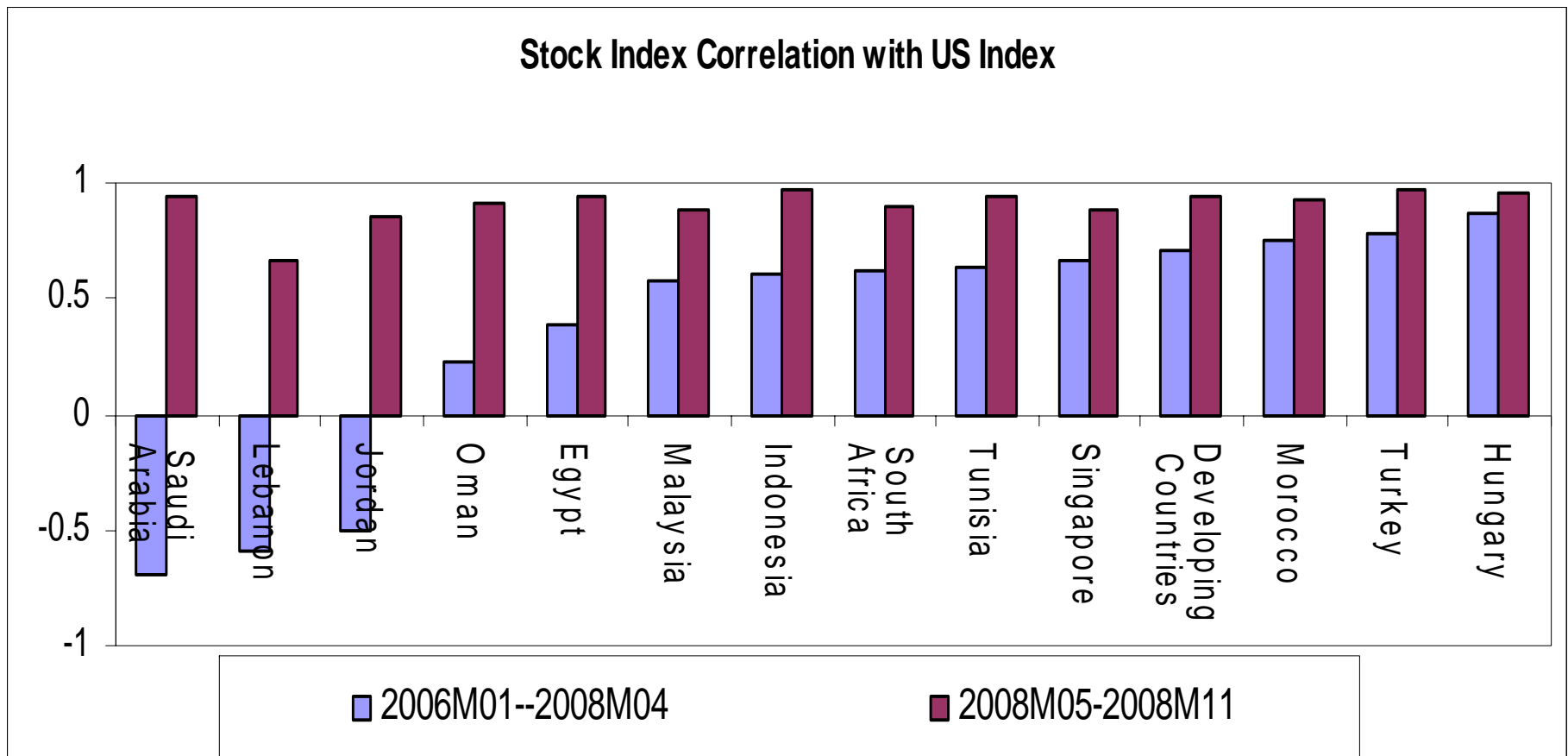
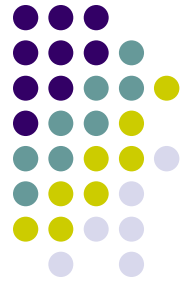


- In June 2008, RASMALA on its website: “Market action in June once again emphasized the lack of correlation between MENA equity markets and their global peers. The past month witnessed one of the worst environments for global market investors on record, while MENA markets fared much better.”
- In October 2008, RASMALA on its website: “October was nothing short of a meltdown across MENA equity markets as the global financial crisis was felt across the world, with almost nowhere for investors to hide.”

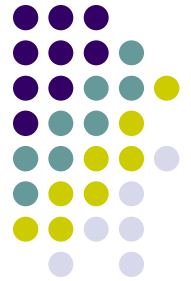
# Stock market decoupling and recoupling?



# Stock market decoupling and recoupling?

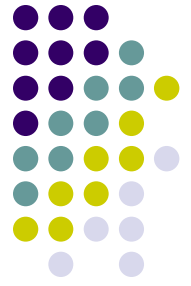


# Impact of the financial crisis on Stock Markets



- Short term funds placed (mostly by hedge funds) in some Gulf countries in expectation of currency appreciation. These funds were repatriated as inflation receded, the dollar appreciated and expectations of de-pegging Gulf currencies became removed.
- Solvency effects – international banks facing liquidity constraints; “rationing” and “hoarding” due to uncertainty about counterparty risks in emerging markets
- “Flight to quality” in the face of uncertainty on the impact of the crisis on emerging markets; Hoarding effect.

# Impact of the financial crisis on Stock Markets



## Jan-Nov Stock Index variation

COMPOSITE	-49%
ABU DHABI SECURITIES MARKET	-52%
AMMAN STOCK EXCHANGE	-31%
BAHRAIN STOCK EXCHANGE	-33%
BEIRUT STOCK EXCHANGE	-9%
CASABLANCA STOCK EXCHANGE	-31%
DOHA SECURITIES MARKET	-27%
DUBAI FINANCIAL MARKET	-55%
EGYPT CAPITAL MARKET	-56%
KUWAIT STOCK MARKET	-57%
MUSCAT SECURITIES MARKET	-57%
PALESTINE SECURITIES EXCHANGE	-20%
SAUDI STOCK MARKET	-56%
TUNIS STOCK EXCHANGE	9%

# Impact of the financial crisis on Stock Markets



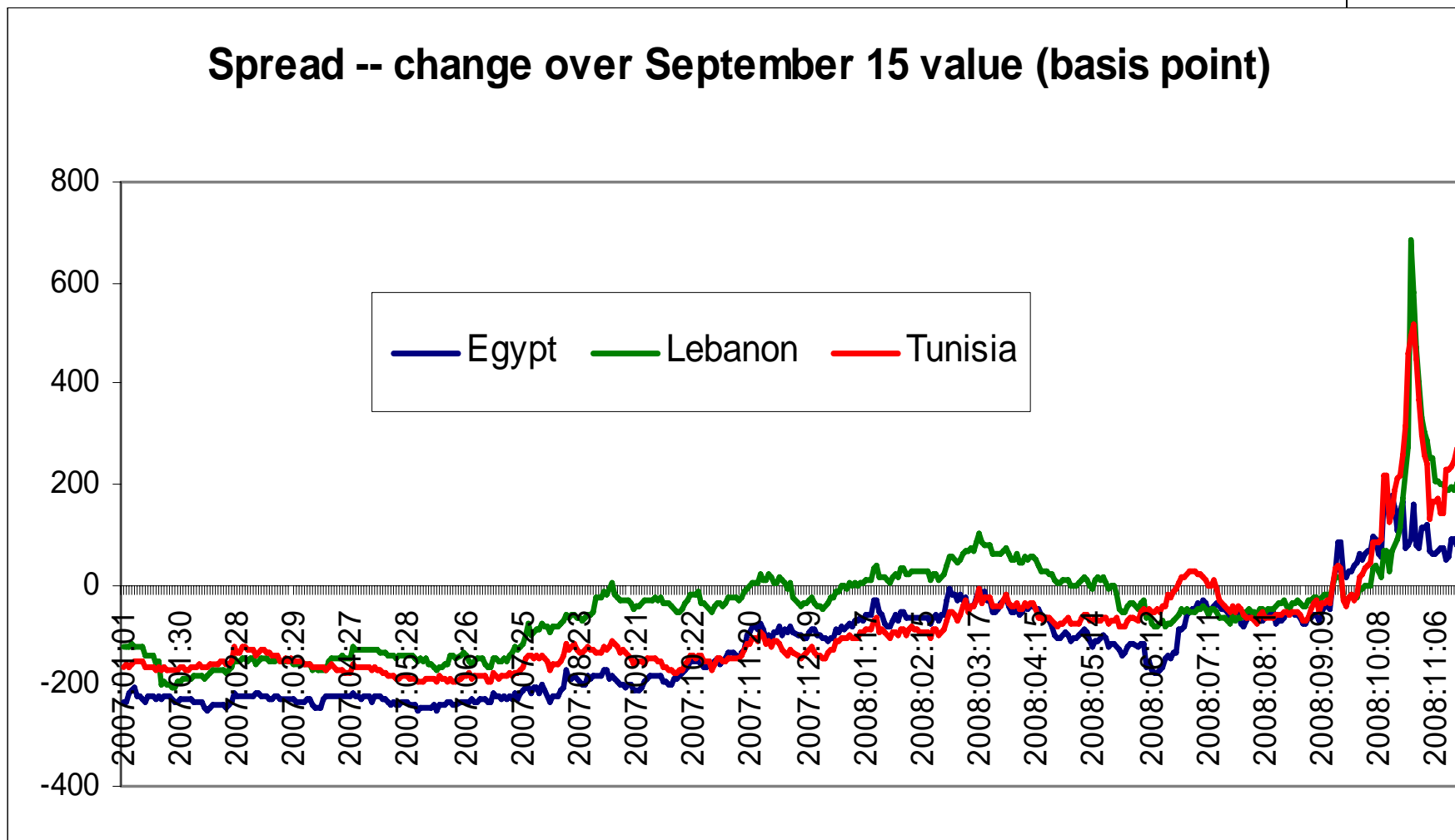
## Losses accelerated after September

	Share of movement that took place during Jan-Aug	Share of movement that took place during Sept-Nov
COMPOSITE MENA	40%	60%
ABU DHABI SECURITIES MARKET	48%	52%
AMMAN STOCK EXCHANGE	-19%	119%
BAHRAIN STOCK EXCHANGE	33%	67%
BEIRUT STOCK EXCHANGE	-177%	277%
CASABLANCA STOCK EXCHANGE	8%	92%
DOHA SECURITIES MARKET	28%	72%
DUBAI FINANCIAL MARKET	38%	62%
EGYPT CAPITAL MARKET	57%	43%
KUWAIT STOCK MARKET	60%	40%
MUSCAT SECURITIES MARKET	45%	55%
PALESTINE SECURITIES EXCHANGE	-19%	119%
SAUDI STOCK MARKET	39%	61%
TUNIS STOCK EXCHANGE	297%	-197%

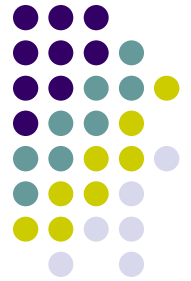
# Impact on Debt and Securities -- tightening financing terms for emerging markets



Spread -- change over September 15 value (basis point)

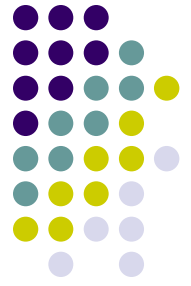


# Impact on Debt and Securities

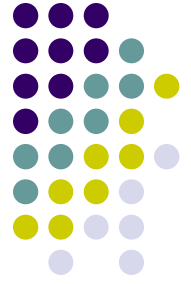


- Sovereigns can go through 2008 but financing picture for 2009 carries uncertainties
- On the corporate side, difficulties caused by increased reliance on syndicated external financing of major projects and some accumulation of foreign liabilities by domestic financial intermediaries

# Impact of Sovereign Wealth Funds



- SWFs may have suffered losses on their equity investments in international banks
  - Citigroup (Kuwait, Abu Dhabi); Merrill Lynch (Kuwait); Barclays (Qatar); Credit Suisse (Qatar)
- However, SWF acquired new assets recently
  - Credit Suisse (Qatar); Barclays (Qatar, Abu Dhabi); Unicredit (Libya)
- SWFs may see crisis as an opportunity to strengthen their relative position as international investors and/or expand investment at home and in the MENA region
  - Small size of equity market may be a constraint or push SWFs to find other ways of deploying their capital (banks?)



# III. Policy Responses

# Policy Responses



Country	Monetary Policy	Banking system liabilities	Financial system capital
Saudi Arabia	<p>Liquidity injections to interbank market (\$5 billion during Oct 20-21)</p> <p>Assurance of additional available liquidity through repo facility</p> <p>Lowered reserve requirements from 13% to 10% to 7%.</p>	<p>Deposit guarantee</p>	<p>\$2.5 billion deposit in Saudi Credit Bank (low income household credit provider)</p>
UAE	<p>Special new \$14 billion central bank lending facility for banks</p> <p>Eased reserve requirements (lower penalty rate on reserve shortages)</p>	<p>3 year guarantee on all deposits and interbank loans of UAE banks (Oct 12). Later extended to foreign banks.</p>	<p>\$7 billion in long-term deposits in local banks</p>

# Policy Responses

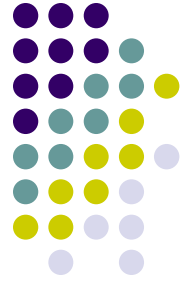


Country	Monetary Policy	Banking system liabilities	Financial system capital
Oman	Lower reserve requirements (additional instruments counted as reserves)	Already had deposit insurance	No known measures
	Postponed planned tightening of loan to deposit ratio	Verbal assurance of banks soundness	
Bahrain	Verbal assurance of liquidity provision if needed.	Already had deposit insurance	No known measures
	Broadened collateral eligibility.	Verbal assurance of banks soundness	

# Policy Responses

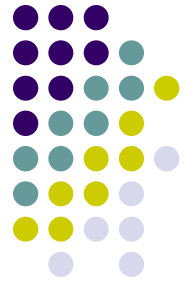


Country	Monetary Policy	Banking system liabilities	Financial system capital
Kuwait	150 bp cut in benchmark discount rate during Oct 7-29.  Introduced new maturity repos (1 day and 1 month) at rates below interbank rates (Nov 19).  Raised loan to deposit ratio from 80% to 85%	Emergency deposit guarantee for Gulf Bank, later extended to all Kuwait banks.  Verbal assurance of banks soundness	KIA allocations to local investment funds
Qatar	Verbal assurance of liquidity provision if needed	Verbal assurance of banks soundness	QIA takes 10-20% stakes in local banks (about \$5 billion total)



## IV. The way ahead

# Capital markets could suffer feedback loop effect from domestic economic slowdown in MENA countries



- Possible feedback loop from real economic slowdown on national banking systems (even if banks are not integrated with international financial system)
- Particular vulnerabilities in countries where banks have large exposure to international trade, tourism, housing and real estate
- Stock markets likely to remain volatile in the region
- Debt and Securities market unlikely to resume in 2009
- SWFs likely to play an important role at home and in the sub-region, but limited equity markets may be a constraint.



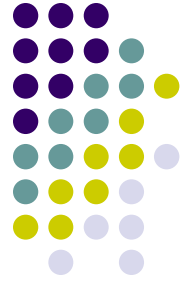
# The Way Ahead

- At the micro level, banks should know their counterparties
- At the macro level, enhance transparency so that banks know their counterparties.
- Take pre-emptive steps to address problems in the banking sector before they blow out; this requires knowing each bank.
- Real economy should receive attention early on
- Fiscal stimulus should be considered – question of financing the fiscal stimulus in non-oil exporters
- Fiscal stimulus should support growth-protecting and job-creating infrastructure as well as safety net programs



# The Way Ahead

- What is World Bank Group doing to help?
- The World Bank has just announced the following :
  - Tripling of the available IBRD envelope this year; and sustaining the increase over three years.
  - Acceleration of IDA disbursements, as needed.
  - Launch or increase of four IFC mechanisms on behalf of the private sector affected by the crisis: (a) enhanced trade finance program; (b) bank recapitalization fund; (c) infrastructure support mechanism; and (d) enhanced advisory services.
- World Bank also works with countries to carry out stress testing of banking sector; identifying vulnerabilities.



The End

Thank You