Preliminary Thoughts on E.U.-G.C.C. Financial and Investment Co-operation

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Sharaka Workshop

Centre for European Policy Studies

17 December 2012

Brussels

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MIDDLE EAST, SHARIAH-COMPLIANT AND GLOBAL FINANCE

Identifying E.U. Interests & Priorities

- Long-term and consistent supply of energy (oil and oil products, gas and gas products) at a reasonable price.
- Economies which are open to our exports and offer good export opportunities.
- Political stability.
- Governments which are sympathetic/receptive to E.U. interests.

None of these points are inconsistent with the interests of G.C.C. governments or broader populations, although there may be differences of emphasis. (e.g. G.C.C. countries want secure outlets for their energy exports worldwide, not just to the E.U.)

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Relevant features of GCC financial markets

- Commercial Banks dominate financial intermediation (but banks are small in global terms and relative to G.C.C. financing needs)
- “Shadow banking” is insignificant.
- Equity capital markets are underdeveloped but reflect the poorly diversified nature of G.C.C. economies.
- Local debt capital markets are poorly developed.
- Insurance penetration is low, but improving.
- The quality of financial sector regulation reflects the state of development of the various financial sectors.
- G.C.C. sovereign ratings are high.
- G.C.C. economies are poorly diversified, yet appear unable to absorb excess capital funds (both sovereign and private).

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Priorities for financial and investment co-operation (An initial view)

- Ensure that long-term $ funding is available for large scale energy projects.
- Facilitate the development and diversification of G.C.C. economies.
- Facilitate the development of G.C.C. financial sectors, with priority given to:
  - Capital Markets (and particularly debt capital markets)
  - Insurance
  - Regulation (particularly non-bank financial regulation)
  - Corporate Governance of small, medium and also large companies.

Possible work streams to promote the priorities

- Governance training for large companies (state-owned and private) to enhance transparency and open the way to public debt issuance.

- Identify factors within the corporate sector (and the legal/regulatory environment) that are impeding individual and collective access to financial markets. (So, to be clear, address the “access to finance” issue from the borrower end, not the lender end.) Promote “borrower/lender agreement” on value/consequences of removing those impediments.

- Provide assistance to G.C.C. bank regulators on “home-host” regulation (to facilitate intra-G.C.C. banking).

- Improve information/understanding on composition and drivers of G.C.C. insurance markets (life & non-life, corporate and individual). Strengthen G.C.C. trade bodies for insurance and insurance regulators. Facilitate training for actuaries.

- Review tax regime/incentives for listed/non-listed companies on G.C.C. exchanges.

- Strengthen enforcement of capital market regulations (i.e. actual enforcement actions, not regulations.)

G.C.C. Sovereign Credit Ratings, with investment grade comparisons

Moody's rating	GCC	Eurozone 17	E.U. non-Eurozone	Other Major Economies
AAA		Austria, France, Germany, Finland, Netherlands	Denmark, Sweden, U.K.	Canada, Switzerland, U.S.
AA+				
AA	Kuwait, Qatar, UAE			
AA-	Saudi Arabia	Belgium		Australia, China, Japan, Korea
A+	Oman	Estonia		
A		Slovakia		
A-		Malta		
BBB+	Bahrain			Mexico, Russia
BBB		Italy, Slovenia		Brazil
BBB-		Spain		India, Indonesia

Bank asset size % National GDP

(e.g. A Saudi bank's end 2010 assets % Saudi 2010 GDP in current $)

Biggest 10 GCC banks, by end-2010 assets		
1	Emirates NBD	40
2	Nat. Comm. Bank	20
3	Qatar Nat. Bank	63
4	Nat. Bank Abu Dhabi	25
5	Samba	13
6	Al-Rajhi	13
7	Abu Dhabi Comm. Bank	21
8	Riyad Bank	12
9	Nat. Bank Kuwait	31
10	Kuwait Fin. House	20

Biggest 10 E.U. banks, by end-2010 assets		
1	BNP Paribas	103
2	Deutsche	77
3	HSBC Holdings	107
4	Barclays	102
5	Credit Agricole	90
6	Royal Bank Scotland	99
7	ING Group	212
8	Santander	116
9	Lloyds	68
10	Société Générale	59

Bank asset size % Regional GDP

(e.g. A Saudi bank's end 2010 assets % combined GDP of GCC 6; or E.U. bank's assets % combined GDP of E.U. 27)

Biggest 10 GCC banks, by end-2010 assets		
1	Emirates NBD	8.5
2	Nat. Comm. Bank	8.2
3	Qatar Nat. Bank	6.7
4	Nat. Bank Abu Dhabi	6.3
5	Samba	5.4
6	Al-Rajhi	5.4
7	Abu Dhabi Comm. Bank	5.3
8	Riyad Bank	5.0
9	Nat. Bank Kuwait	5.0
10	Kuwait Fin. House	4.9

Biggest 10 E.U. banks, by end-2010 assets		
1	BNP Paribas	16.3
2	Deutsche	15.6
3	HSBC Holdings	15.0
4	Barclays	14.2
5	Credit Agricole	14.1
6	Royal Bank Scotland	13.8
7	ING Group	10.2
8	Santander	9.9
9	Lloyds	9.4
10	Société Générale	9.2

Structure of G.C.C. banks' balance sheets (Aggregate figures)

June 2011	Claims on Public Sector % Assets	Claims on Private Sector % Assets	Foreign Assets & Assets	Pvt. Sector Credit % Pvt. Sector Deposits
Bahrain	6	27	48	94
Kuwait	5	66	17	109
Oman	10	61	8	135
Qatar	30	34	17	90
Saudi Arabia	17	54	13	97
U.A.E.	11	42	15	91

Source: All figures based on publicly available Central Bank reports

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Insurance Density (Premiums (life & non-life) per capita)

(Source: Sigma/Swiss Re. "World Insurance in 2010")

	$
Bahrain	527
Kuwait	236
Oman	261
Qatar	619
Saudi Arabia	178
United Arab Emirates	1,248
Egypt	19
Jordan	89
Lebanon	236
Morocco	80

	$
Czech Republic	763
Malaysia	421
South Korea	2,339
Thailand	199
South Africa	1,055
Turkey	122
Belgium	3,783
France	4,187
Germany	2,903
United Kingdom	4,497

Insurance Penetration (Premiums (life & non-life) % GDP)

(Source: Sigma/Swiss Re. "World Insurance in 2010")

	%
Bahrain	2.8
Kuwait	0.5
Oman	1.3
Qatar	0.8
Saudi Arabia	1.1
United Arab Emirates	2.1
Egypt	2.8
Jordan	2.1
Lebanon	2.8
Morocco	0.7

	%
Czech Republic	4.0
Malaysia	4.8
South Korea	11.2
Thailand	4.3
South Africa	14.8
Turkey	1.3
Belgium	8.8
France	10.5
Germany	7.2
United Kingdom	12.4

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