Roundtable on Effective and Efficient Financial Regulation in the MENA Region

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The Impact of the Global Financial Crisis on the GCC Region: Lessons and Reform Priorities

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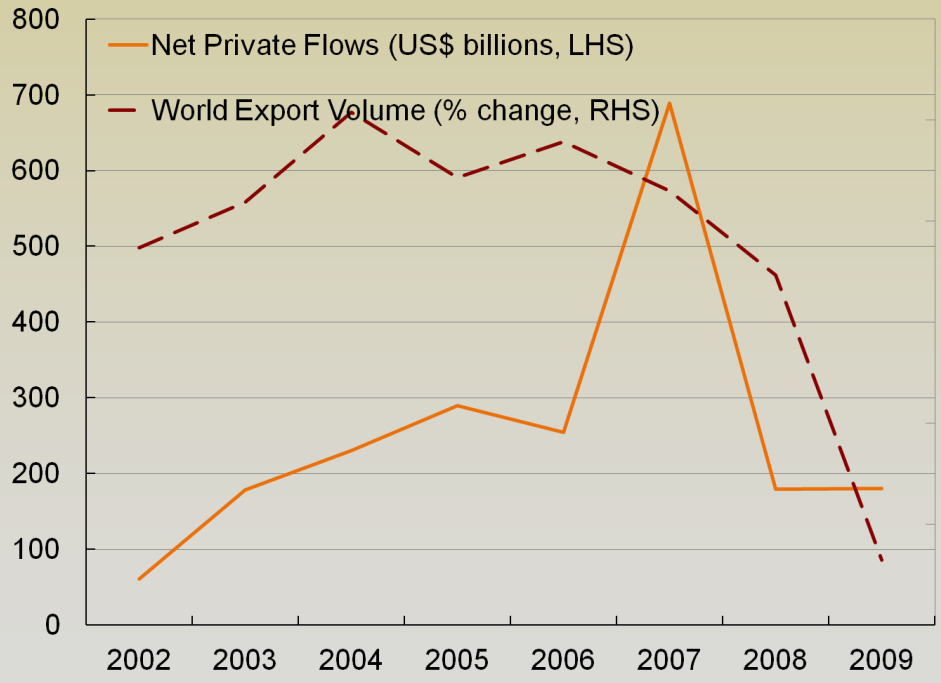
The global economy has suffered a “big bang” of synchronized shocks

GCC banks were less affected by the crisis than their counterparts in advanced economies

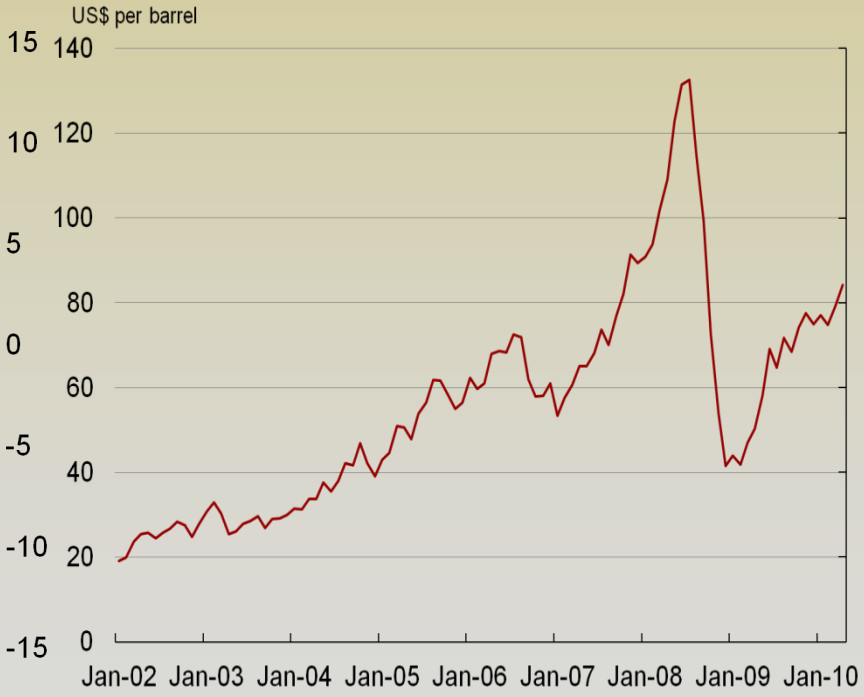
- Limited exposure to sub-prime assets
- Focused on traditional lending and savings mobilization, and generally less integrated in global financial markets
- Prompt and forceful policy action helped contain the impact of the crisis.

Transmission to the GCC was through the contraction in global economic activity and the decline in oil prices, plunging asset prices, and financial deleveraging

Global trade and net financial flows



Price of Crude Oil

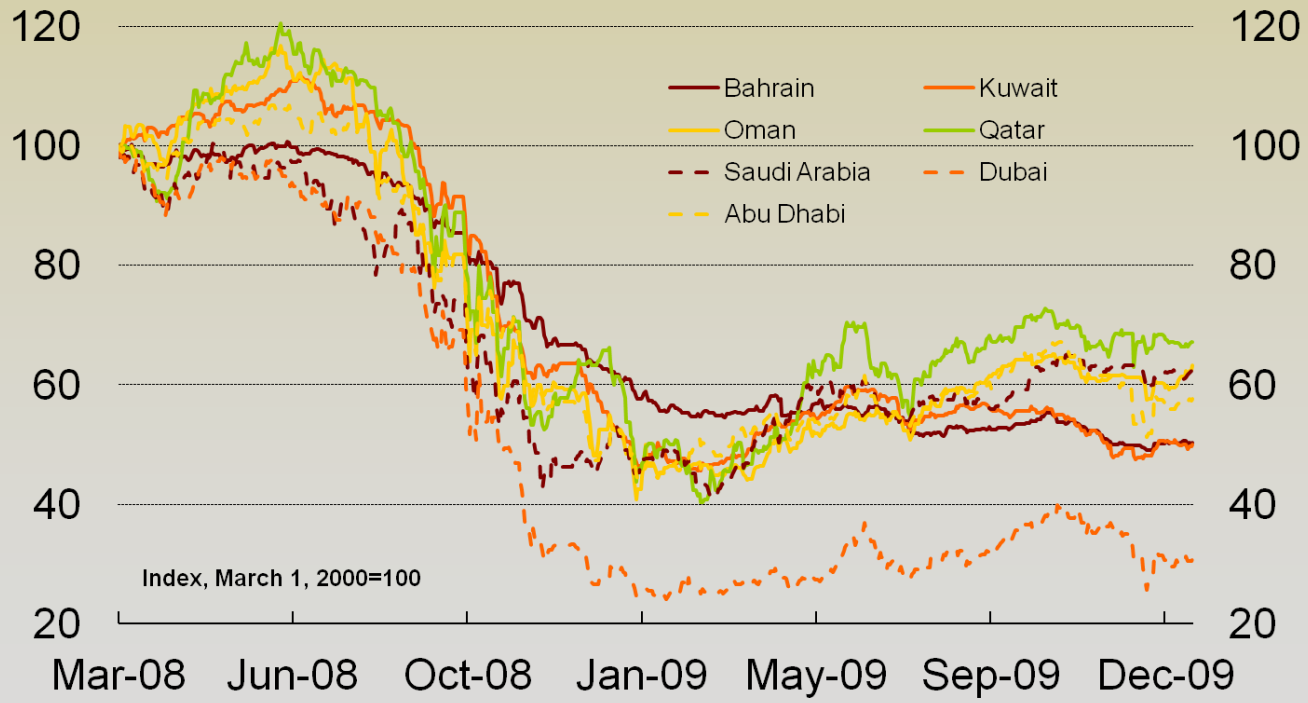


GCC economies have not been immune to global financial dislocations

Equity Market Indices

Average correlation within GCC:	
Jan. 1, 2007–Sep. 10, 2008	0.86
Sep. 10, 2008–Jun. 17, 2009	0.90
Average correlation with S&P:	
Jan. 1, 2007–Sep. 10, 2008	-0.56
Sep. 10, 2008–Jun. 17, 2009	0.85

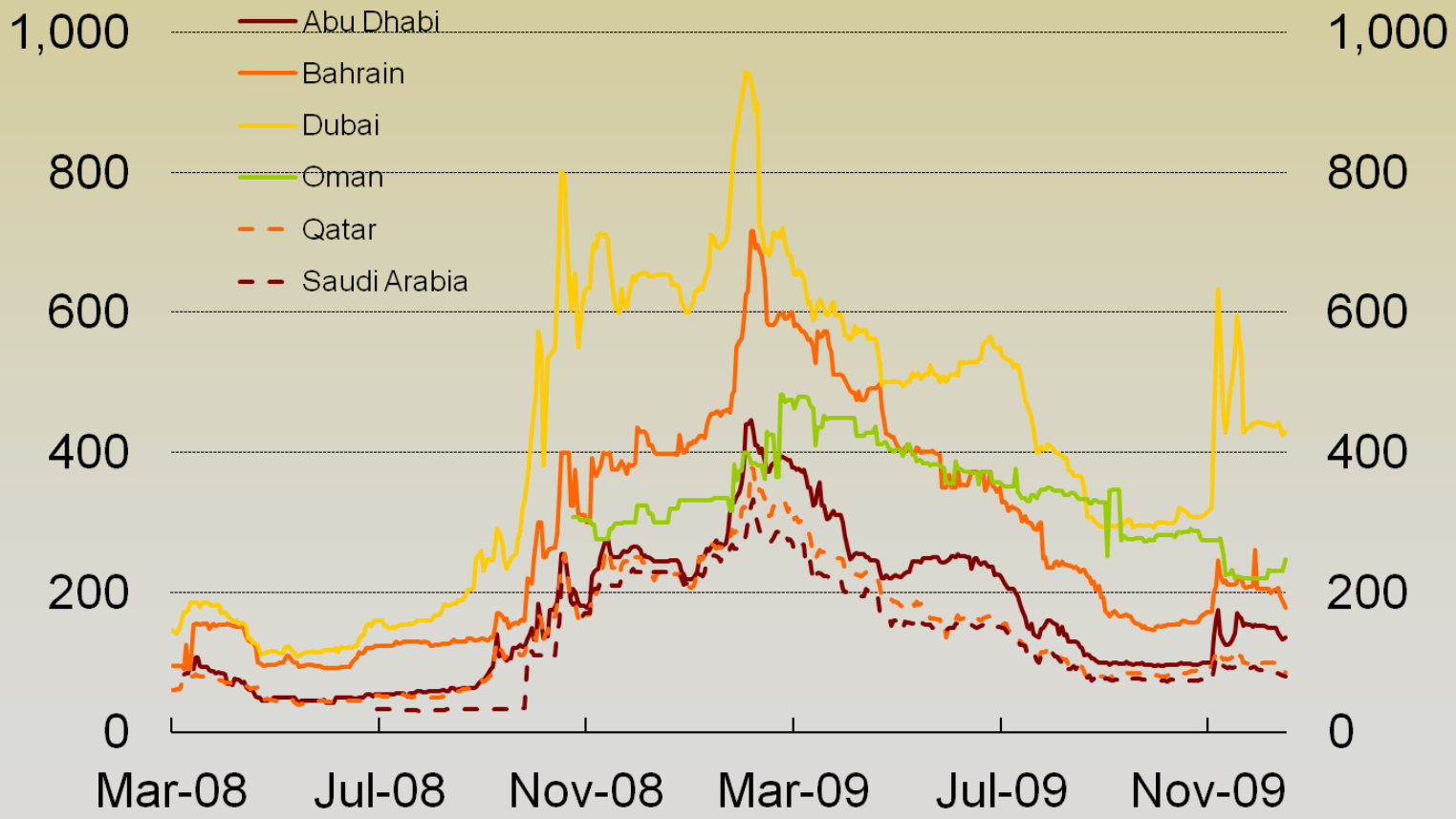
Sources: Bloomberg; and IMF staff estimates.



Source: Bloomberg.

GCC economies have not been immune to global financial dislocations

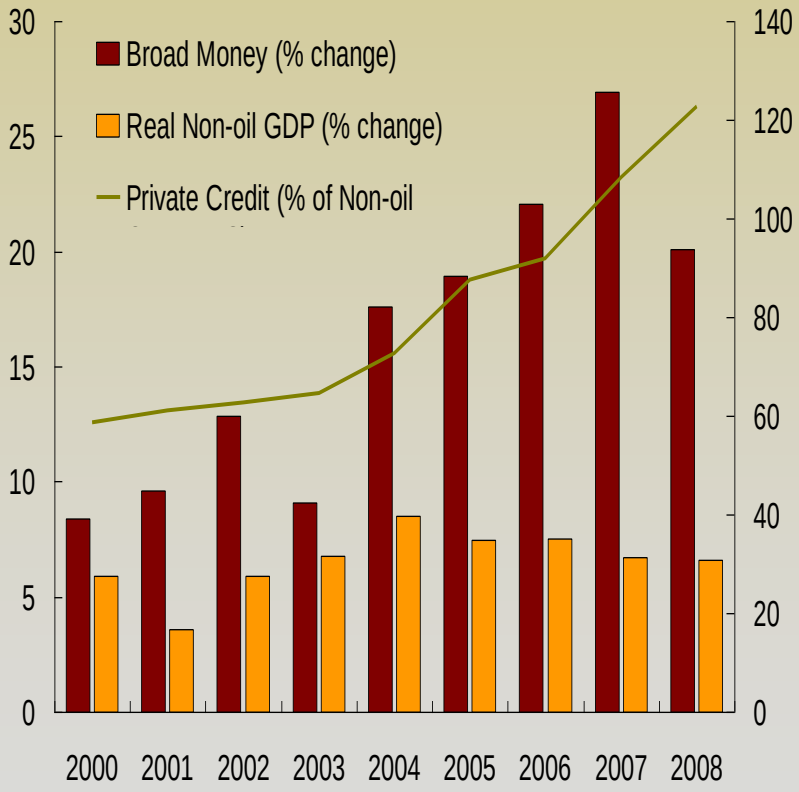
Credit Default Swap Spreads



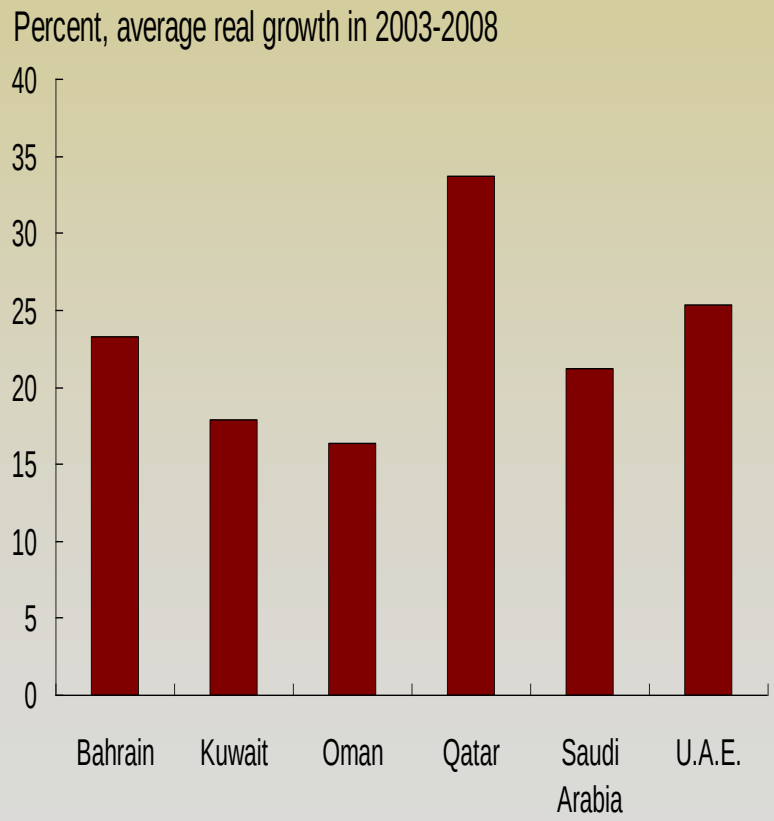
Source: Markit.

The external shock has also exposed domestic financial sector vulnerabilities arising from rapid credit growth

Credit and Non-Oil Growth

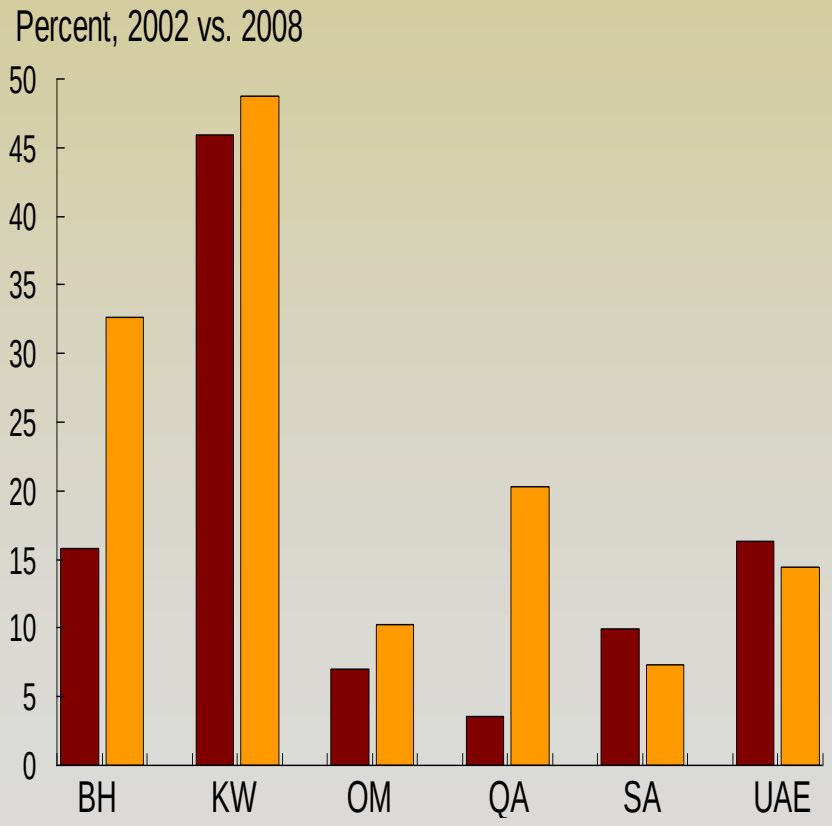


Bank Lending to the Private Sector

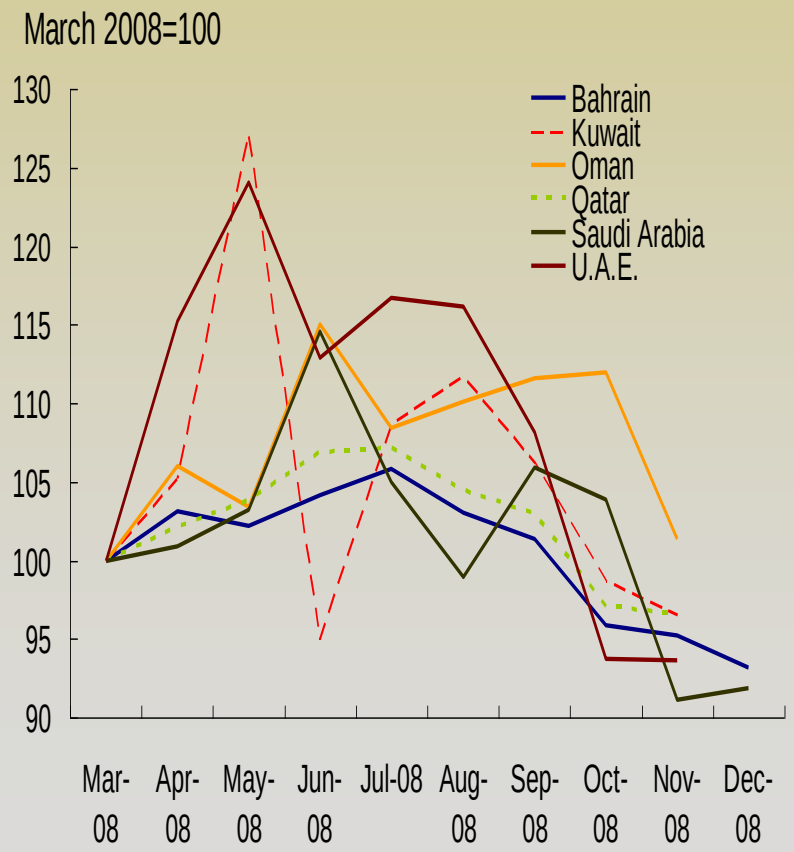


The boom was associated with large exposures to real estate and construction

Share of Construction and Real Estate Loans

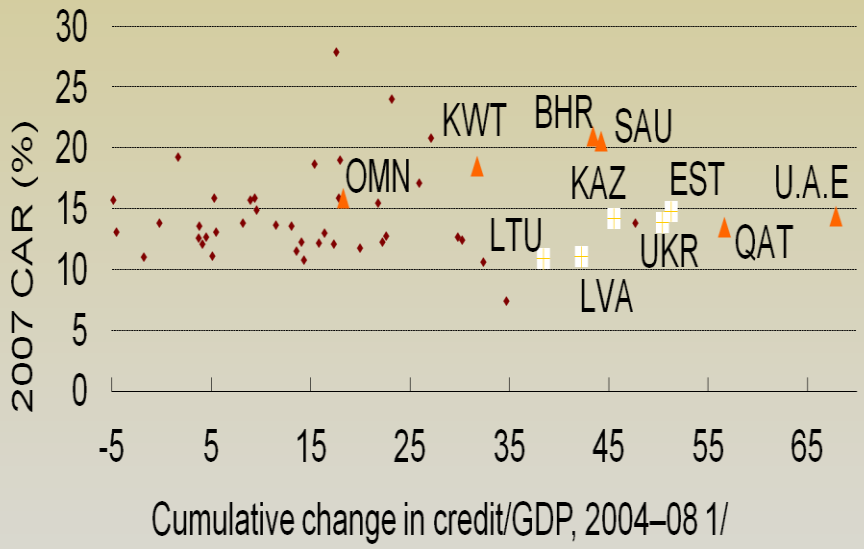


Real Estate Prices



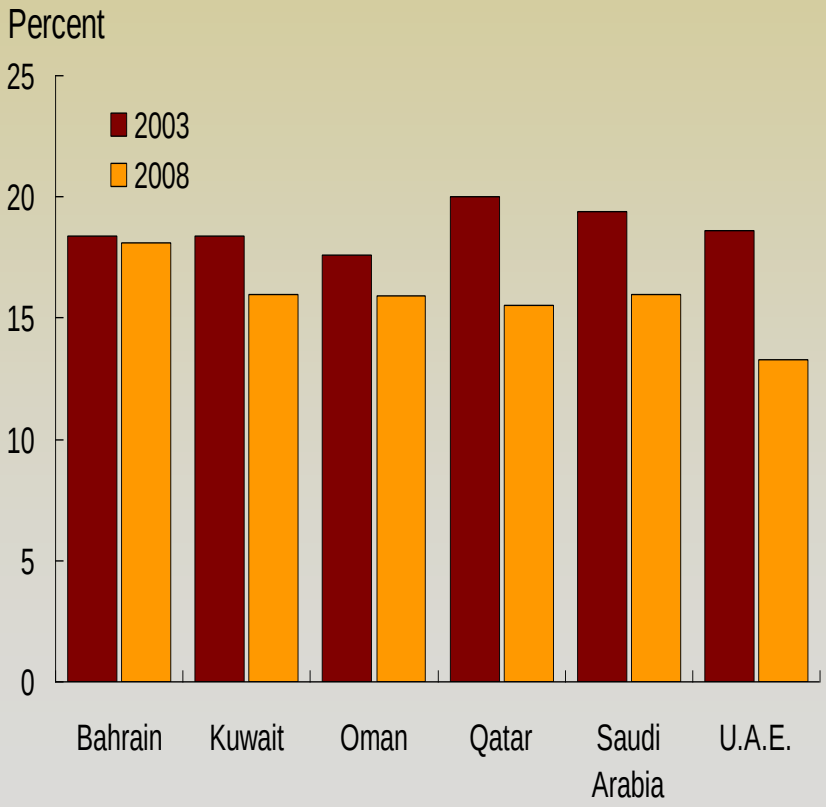
. . . and increasing leverage of banks

Credit Growth and Capital Adequacy



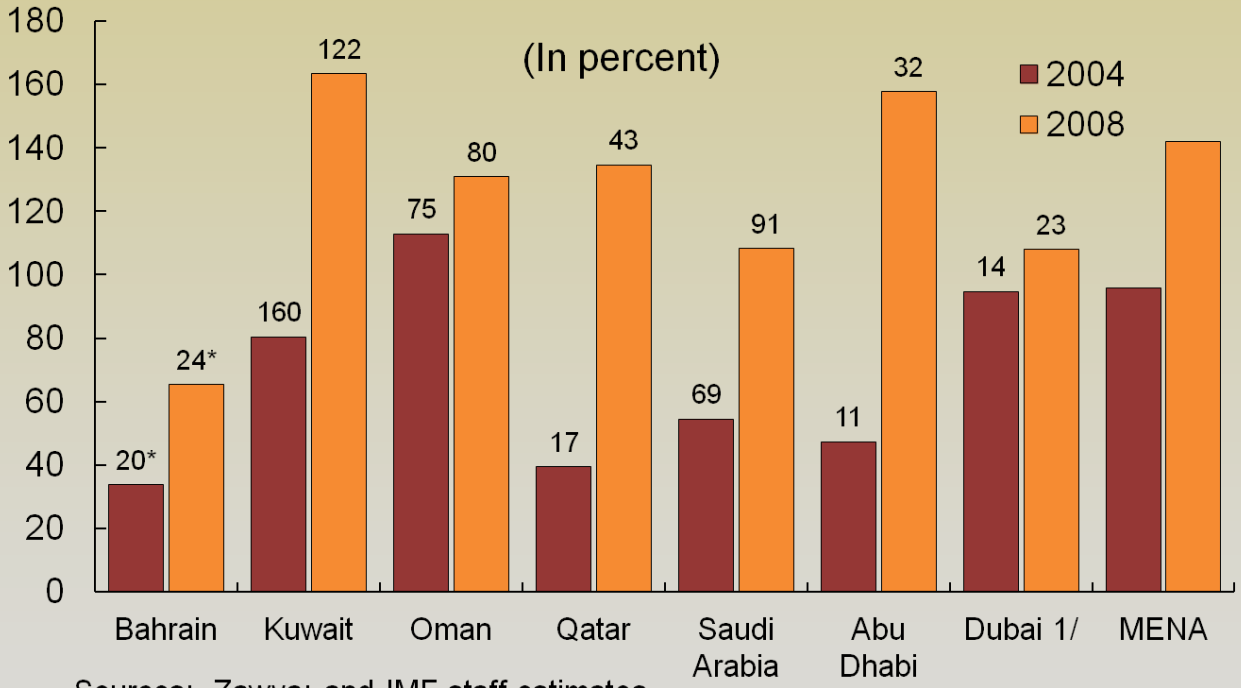
Sources: Country authorities; and IMF staff estimates.
1/ For the GCC, GDP is non-oil GDP. Country abbreviations are as follows: BHR: Bahrain, EST: Estonia, KAZ: Kazakhstan, KWT: Kuwait, LVA: Latvia, LTU: Lithuania, OMN: Oman, QAT: Qatar, SAU: Saudi Arabia, U.A.E.: United Arab Emirates, and UKR: Ukraine.

Banks' Capital Adequacy Ratios



. . . as well as leverage of the non-financial corporate sector

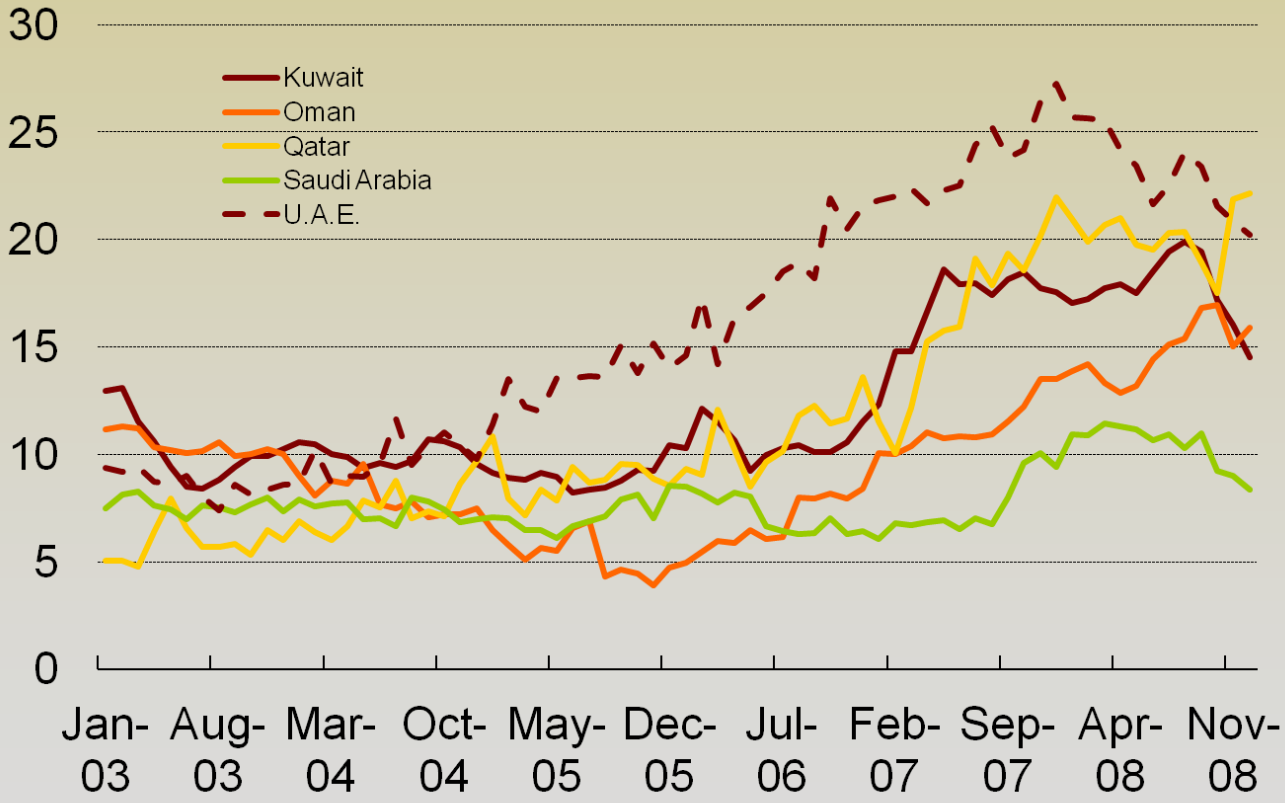
Debt-to-equity ratios for listed companies



Sources: Zawya; and IMF staff estimates.
* Number of companies.
1/ Ratio for Dubai does not include unlisted Government-related companies (GREs). Listed GREs included in the ratio are DP World, Dubai Financial, Emaar, and Tamweel.

. . . and it was funded partly by external sources

Banks' Foreign Liabilities/Total Liabilities
(In percent)



Sources: Country authorities; and IMF staff estimates.

GCC countries have faced the global crisis from a position of strength and used their resources to stabilize the financial sector

Country	Deposit guarantees[1]	Central bank liquidity support	Long-term Government deposits	Capital injections	Bank asset purchases	Stock market purchases	Monetary easing
Bahrain		✓	✓				✓
Kuwait	✓	✓	✓	✓		✓	✓
Oman		✓	✓			✓	✓
Qatar		✓	✓	✓	✓		
Saudi Arabia	✓	✓	✓				✓
U.A.E.	✓	✓	✓	✓			✓

Source: Data provided by country authorities.

[1] Includes expansion of retail deposit insurance and guarantee of wholesale liabilities.

In spite of a series of shocks, there has been no systemic breakdown and the impact on bank profitability has been moderate so far

Banking Sector Performance and Soundness

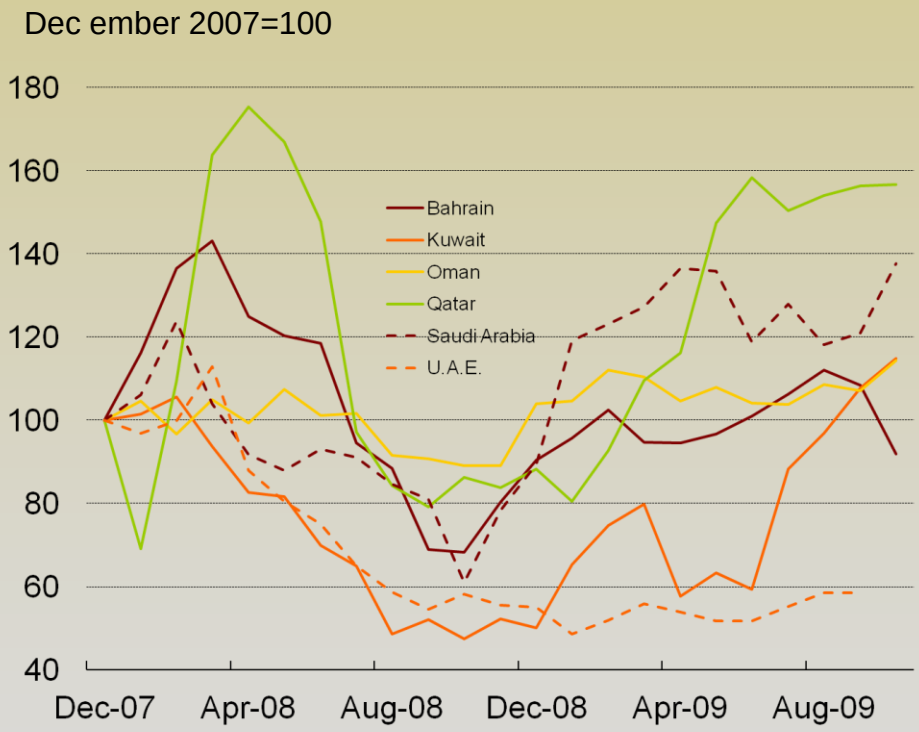
	Nonperforming Loans		Capital Adequacy		Provisioning Rate		Return on Assets		Return on Equity	
	2007	Latest	2007	Latest	2007	Latest	2007	Latest	2007	Latest
Bahrain	2.3	3.9	21.0	19.6	74.0	…	1.2	1.2	18.4	10.6
Kuwait	3.2	9.7	18.5	17.8	77.0	51.1	3.2	0.8	25.0	6.7
Oman	3.2	2.8	15.9	15.5	111.8	113.8	2.1	2.2	14.3	14.2
Qatar	1.5	2.0	12.2	15.7	90.7	83.2	3.6	2.6	30.4	20.7
Saudi Arabia	2.1	3.3	20.6	16.5	142.9	89.8	2.8	2.0	46.5	25.8
U.A.E.	2.9	4.6	14.0	18.6	100.0	79.0	2.0	1.5	22.0	12.1

Source: Country authorities.

[1] Latest data is as of end-2009 for Bahrain and Saudi Arabia,September 2009 for Kuwait and Qatar, June 2009 for Oman; and November 2009 for the U.A.E.

But financial dislocations and risk aversion have impeded domestic credit intermediation

Banks' Central Bank Reserves

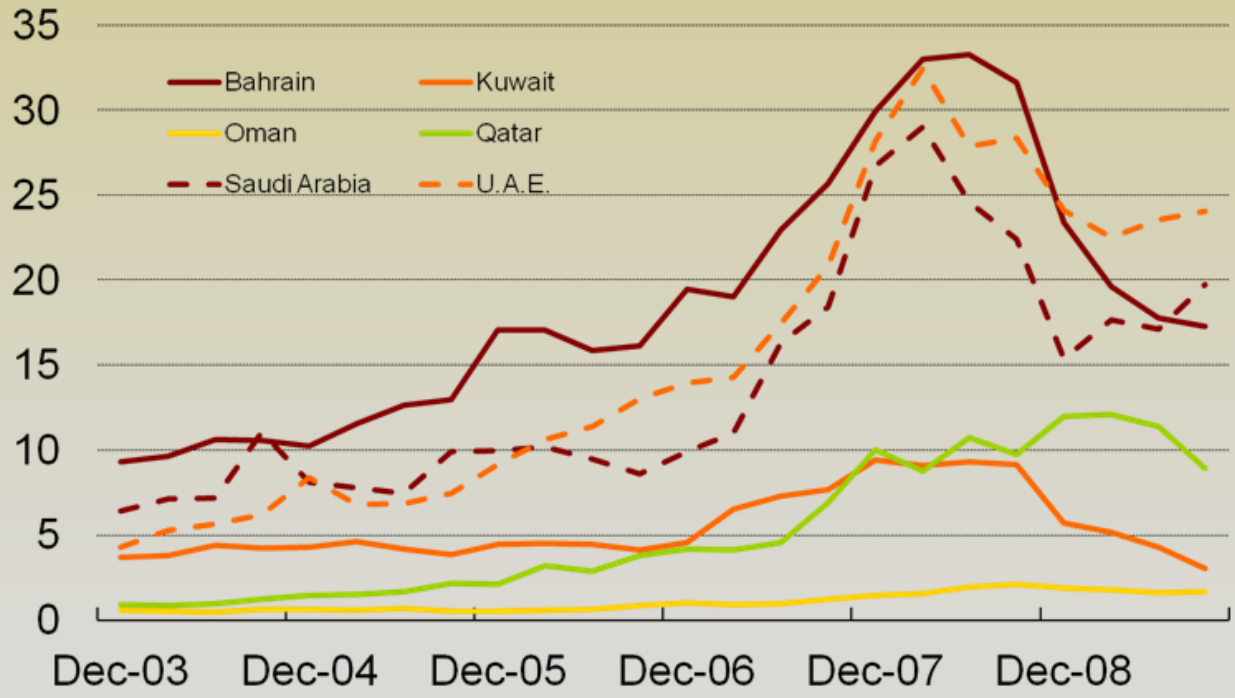


Sources: Country authorities; and IMF staff estimates.

Credit to the Private Sector

. . . and tightened external credit to banks

External financing for the banking sector (US$ billion)

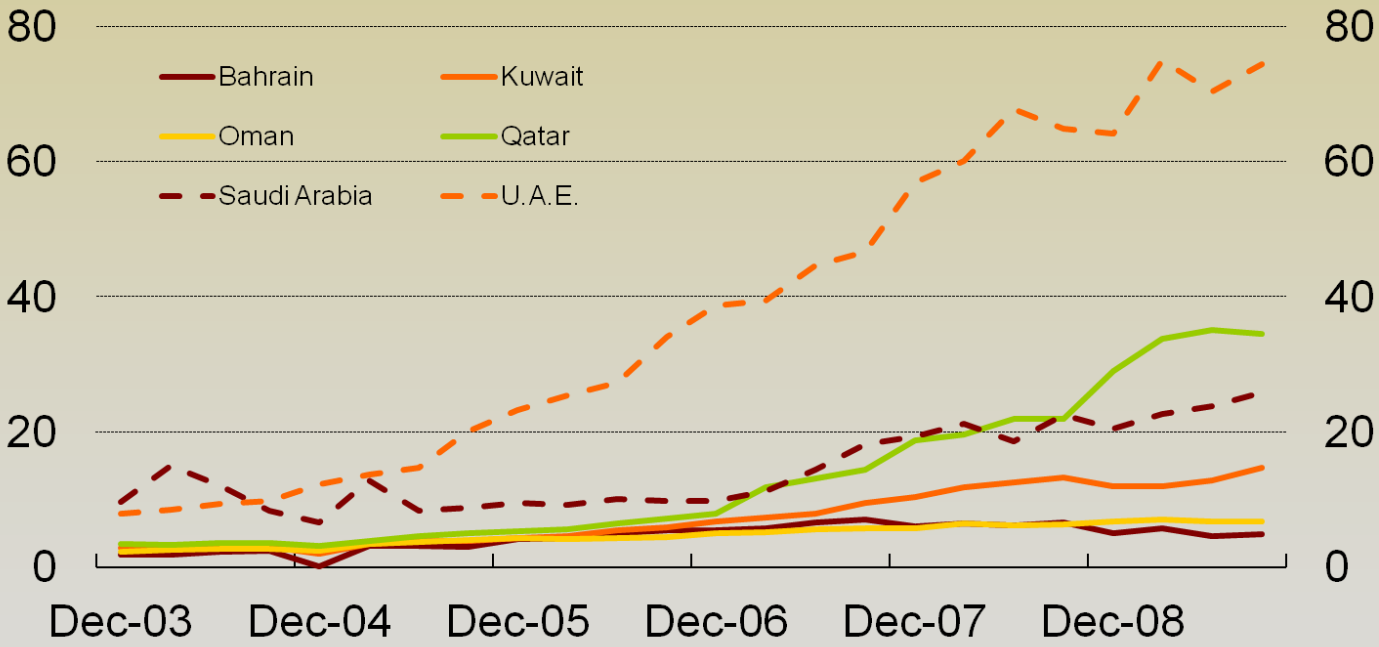


Source: BIS Consolidated Banking Statistics.
1/ Includes foreign currency interbank lending extended by foreign bank branches in GCC countries.

. . . and to nonbanks

External financing for the non-banking sector

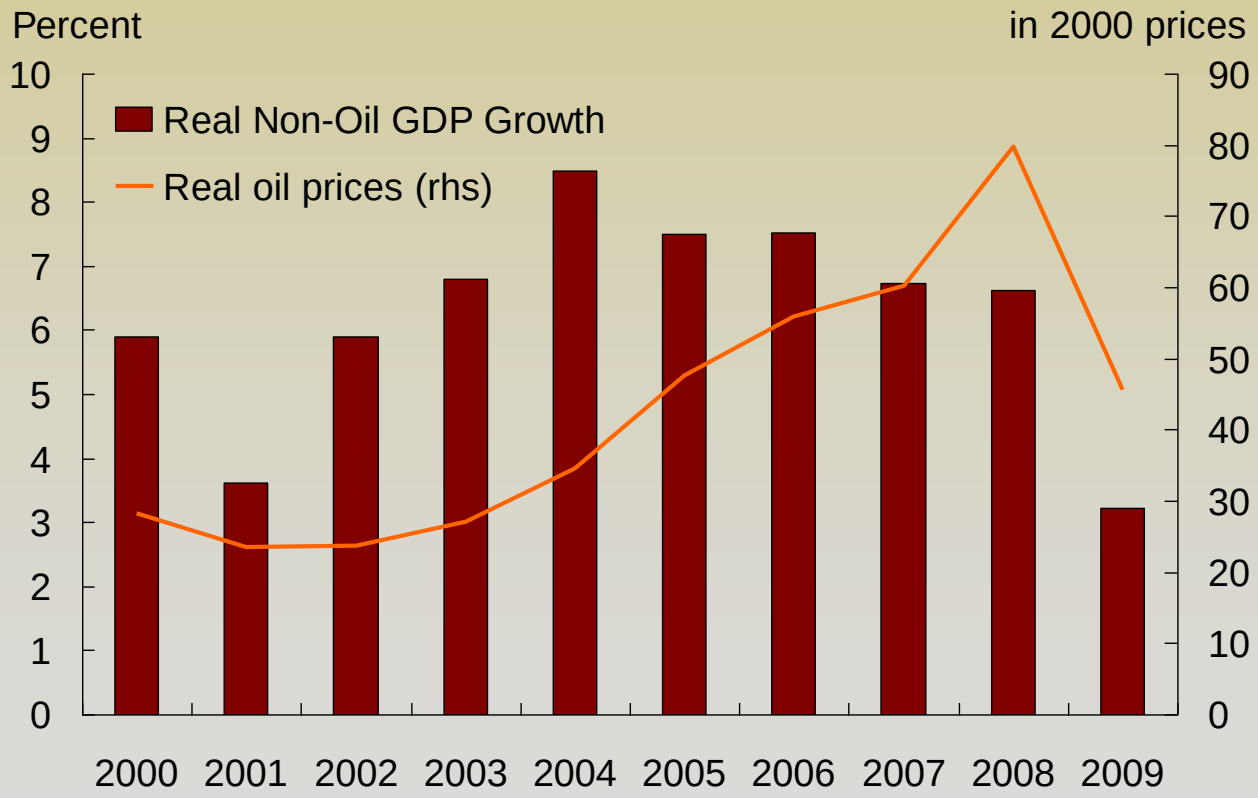
(US$ billion)



Source: BIS Consolidated Banking Statistics.
1/ Includes foreign currency credit extended by foreign bank branches in the GCC to local nonbank financial institutions and corporates.

Non-oil economic activity slowed

GCC Real non-oil GDP growth



The outlook is positive, but there is need for action on a number of fronts

- Cyclicality related to oil prices or other factor (e.g., capital inflows)
  - Supportive fiscal policies are the first line of defense
  - Adopt macroprudential tools to contain the excesses generated by the oil cycle
    - ➢ Prudential tools with a macro overlay that take into account the system's stability and spillover effects across markets and institutions, and to the real economy, rather only the soundness of individual institutions
    - ➢ The GCC region has already had some success in implementing macroprudential policies

The outlook is positive, but there is need for action on a number of fronts

- Supervision
  - Adopt prompt corrective action and enhance compliance by banks
  - question long-standing banking practices, such as name lending
  - Address risk from multiple, unconsolidated exposures for family conglomerates
  - Strengthen corporate financial disclosure

The outlook is positive, but there is need for action on a number of fronts

- Regulation
  - Implement relevant global regulatory initiatives, four of which are particularly germane to the region
    - Reducing cyclicality: countercyclical capital requirements and forward looking provisioning
    - Stronger liquidity standards
    - Addressing risks of systemically important financial institutions
    - Improving bank resolution frameworks, including cross-border

The outlook is positive, but there is need for action on a number of fronts

- Domestic debt markets
  - Provides long term financing for large corporates
  - Improves corporate governance and financial disclosure
  - Diversifies sources of financing for the private sector

The Outlook is positive, but here is Need for Action on a Number of Fronts

- Financial and macroeconomic statistics
  - Much information exists in the internal data and management systems at individual banks
  - The challenge for the authorities on the financial front is to improve data aggregation, timeliness, and interpretation for purposes of policy action
  - Regarding macroeconomic statistics, timeliness, quality, and periodicity need to be improved at the country level, while, simultaneously, efforts should be made to speed up their harmonization at the regional level

Thank You