

# Middle East and North Africa financial systems

A comparative  
approach

Union des Banques  
Maghrébines Meeting

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## Overview

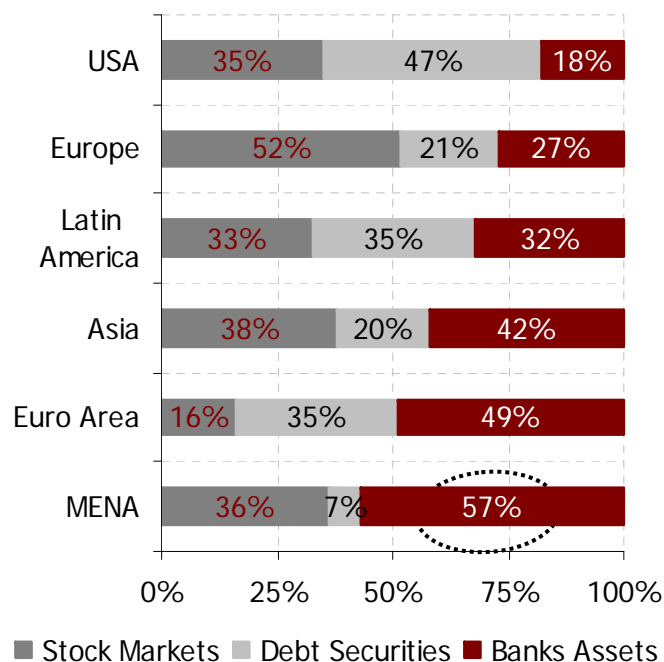
- Present situation
- How resilient can it be?
- The way forward and challenges ahead

# MENA banking Systems, a worldwide perspective

- MENA banking systems play an overwhelming role in funding the economy
- However, the largest MENA bank (NCB in Saudi Arabia) ranks 216<sup>th</sup> worldwide (total assets wise), while the aggregated Tier 1 capital of the 100 largest MENA banks represents no more than 1.3 times that of Bank of America

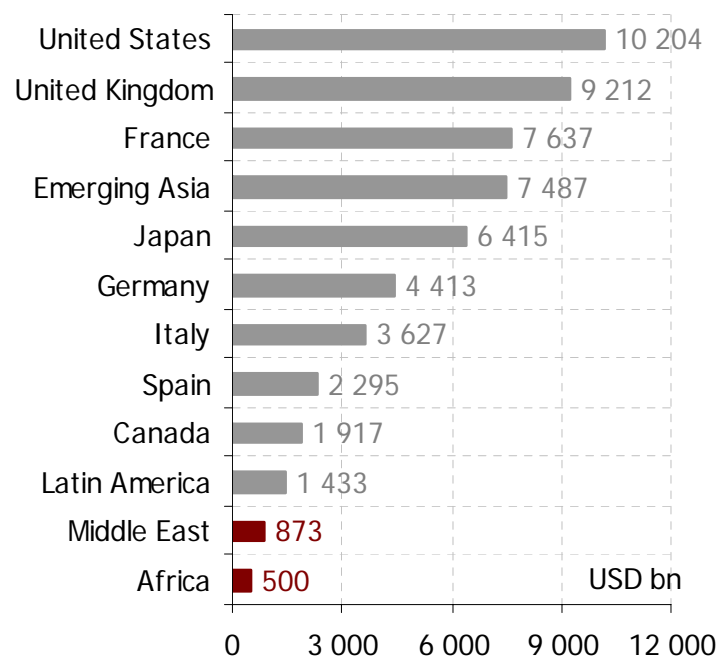
## Structure of financial markets

(Sources : IMF)



## Total assets of commercial banks

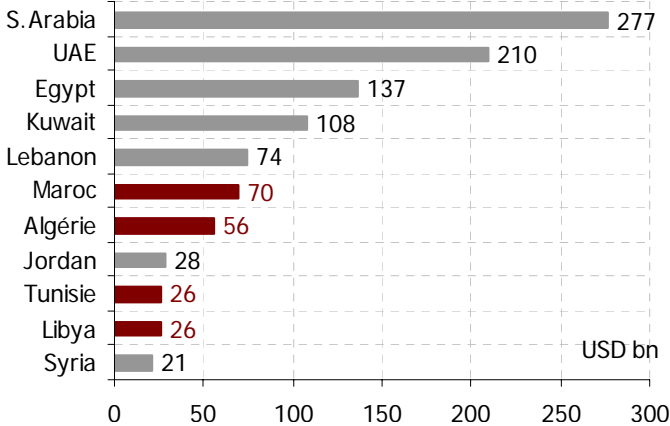
(Sources : IMF)



# MENA banking systems exhibit major disparities

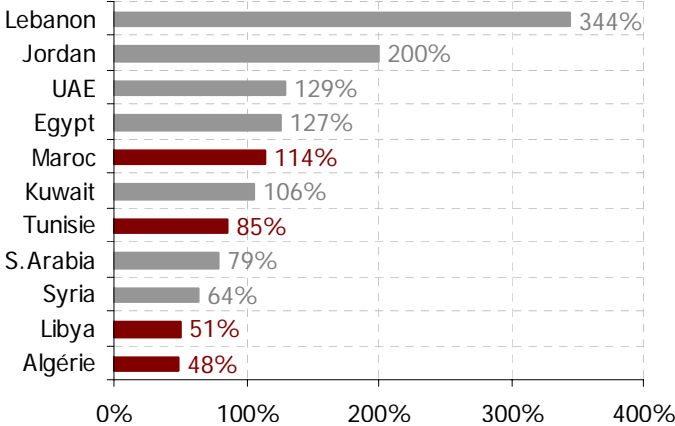
**Total banks' assets (USD bn)**

(Source : IMF)



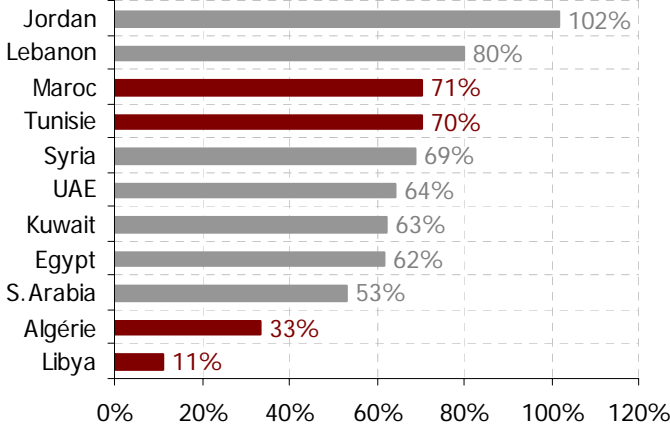
**Total banks' assets (% of GDP)**

(Sources : IMF)



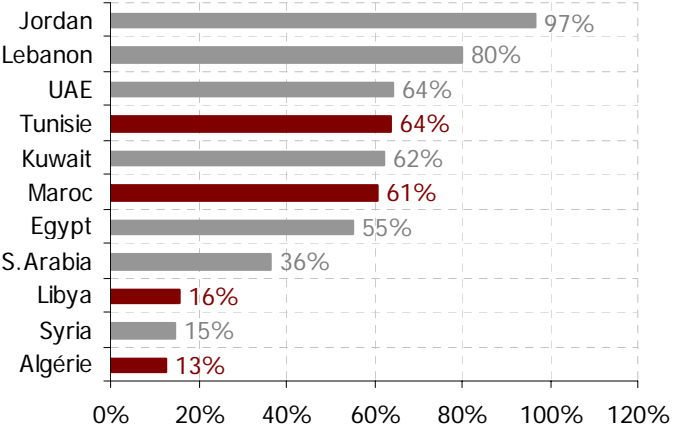
**Domestic credit (% of GDP)**

(Sources : IMF)



**Private sector credit (% of GDP)**

(Sources : IMF)

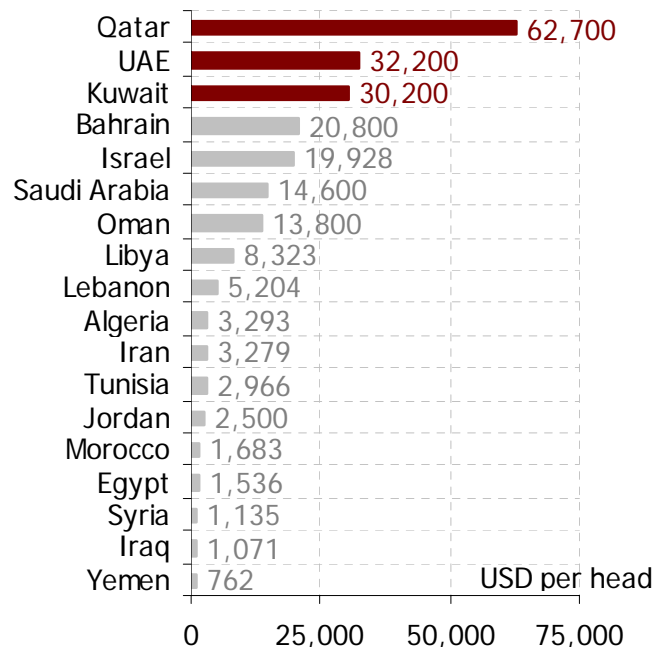


# MENA countries: haves and have-nots...

- MENA region includes 18 countries, which exhibit significant revenue and development disparities
- The region possesses almost 70% of global oil reserves and 45% of Gas reserves but the wealth is very unevenly distributed

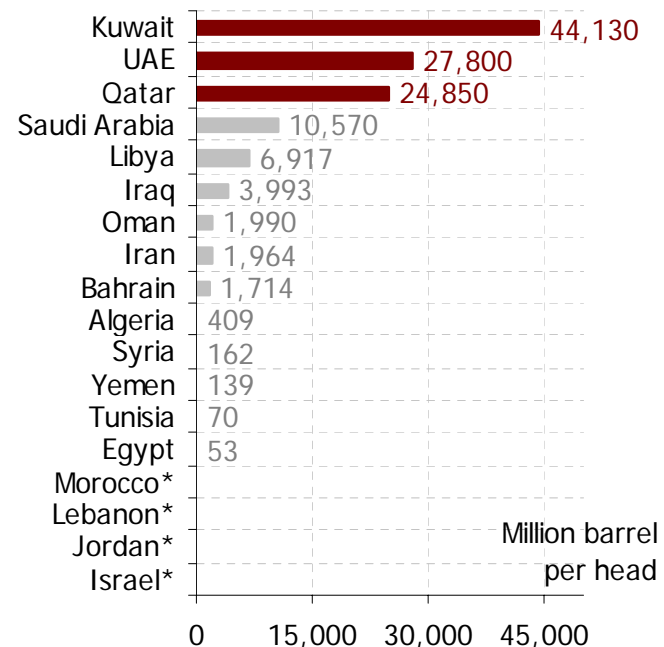
## GDP per capita

(Sources : National statistics and IMF)



## Oil reserves per capita

(Sources : BP Amoco and World Bank)



(\*): Net oil importers

# ... but all doing well

- With the past years' sustained rise in crude prices, MENA hydrocarbon exporters have done even better than during the previous oil shocks
- MENA oil importers went through rough times (inflation, higher energy import bill) but have proven resilient (tourism, remittances and privatisation receipts)

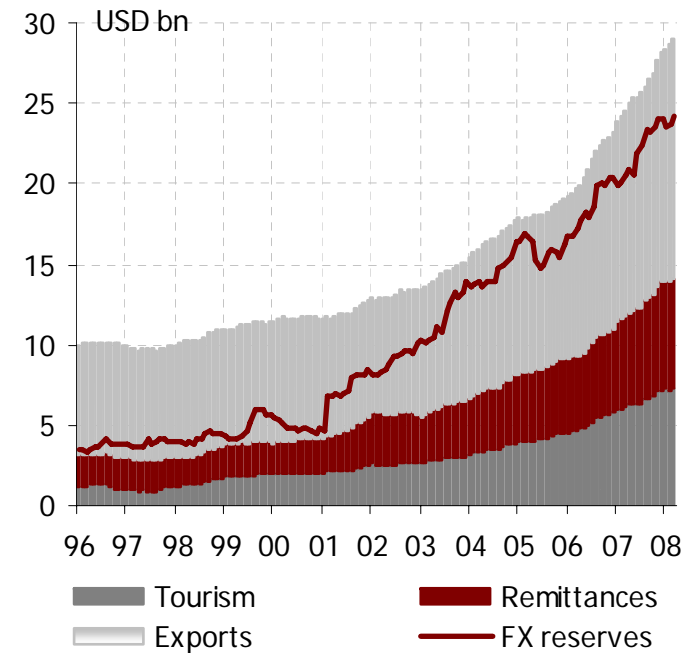
## Current account surpluses, now doing even better than China

(Source: IMF and Bloomberg)



## Morocco's FX revenue and reserves

(Sources : Office des Changes and National Statistics)

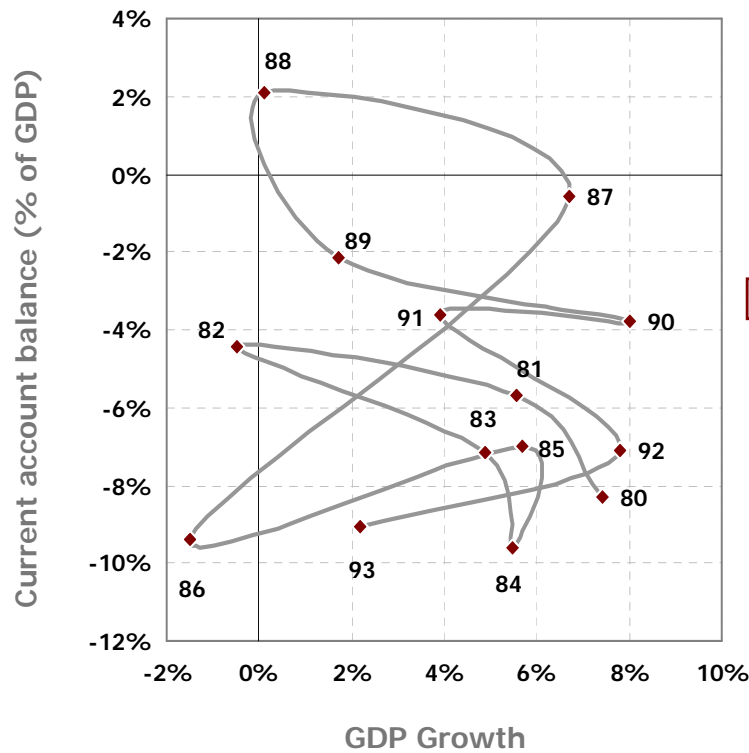


# Tunisia's special mention

- During the 80's, volatile macroeconomic performance made Tunisia look like an unstable environment
- Since the beginning of the '90s, improved macroeconomic management played for lower current account deficits and a sustained GDP growth performance

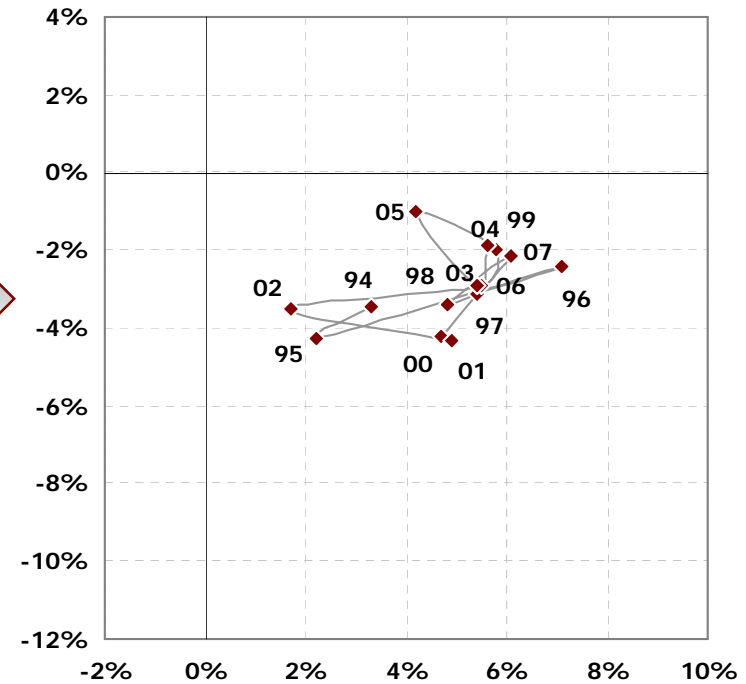
## The 80's random walk

(Sources : IMF and Central Bank of Tunisia)



## The 90's/00's virtuous trajectory

(Sources : IMF and Central Bank of Tunisia)



# The uneven FX liberalisation as a crisis mitigator

- Two main kinds of FX regimes: (i) USD pegs or USD centric regimes for oil exporters and (ii) strictly managed floats (basket pegs) for the others (competitiveness issues).
- Most MENA currencies are closely regulated, with commercially driven flows and mainly trading on spot basis. Some do not even have active inter-bank markets

## MENA currencies at a glance

(Sources : National Central Banks, IMF and Calyon MENA FX Trading desk)

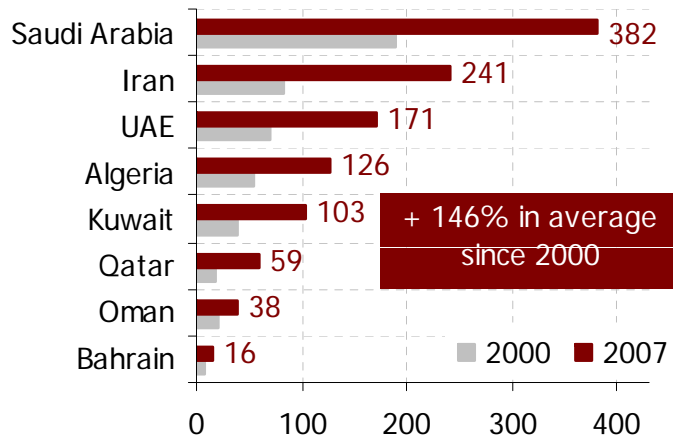
Markets	Currency	FX regime	Product maturity	Ticket limit	Liquidity	Calyon product range
Algeria	DZD	Strictly managed float	-	USD10mn	Highly illiquid	Spot
Bahrain	BHD	USD peg (0.376 BHD per USD)	Up to 2 years	USD40mn	Sufficient	FX Spot, FX Swaps, Deposits
Egypt	EGP	USD-centric managed float	Up to 6 months	USD10mn	Illiquid	FX Spot, forwards and NDFs
Jordan	JOD	USD peg (0.7 JOD per USD)	Up to 1 year	USD10mns	Sufficient	FX Spot and Forward
⚡ Kuwait	KWD	Currency basket peg (May 07)	Up to 3 years	USD50mn	Sufficient	Spot, FX Swaps, Deposits, islamics, CRS
Lebanon	LBP	USD peg within a narrow band	-	USD20mn	Illiquid	FX spot
Libya	LYD	SDR peg (Officially)	-	-	Highly illiquid	FX spot
Morocco	MAD	Trade weighted basket peg	Up to 2 years	USD20mn	Sufficient	FX Spot, FX Swap, Deposits, CRS
Oman	OMR	USD peg (0.384 OMR per USD)	Up to 2 years	USD25mn	Sufficient	FX Spot, FX Swaps, Deposits.
Qatar	QAR	USD peg (3.64 QAR per USD)	Up to 2 years	USD40mn	Sufficient	FX Spot, FX Swaps, Deposits.
⚡ Saudi Arabia	SAR	USD peg (3.75 SAR per USD)	Up to 5 years	Not an issue	Very liquid	Spot, FX-swaps, IRS, Deposits, Vanilla Options
⚡ Tunisia	TND	Managed float against a basket	Up to 2 years	USD15mn	Sufficient	FX Spot, FX swaps, deposits.
⚡ UAE	AED	USD peg (3.6730 AED per USD)	Up to 5 years	USD250mn	Sufficient	FX Spot, FX swaps, Deposits, CRS.
Yemen	YER	USD-centric managed float	-	USD5mn	Highly illiquid	FX spot



# Economic giants in the making

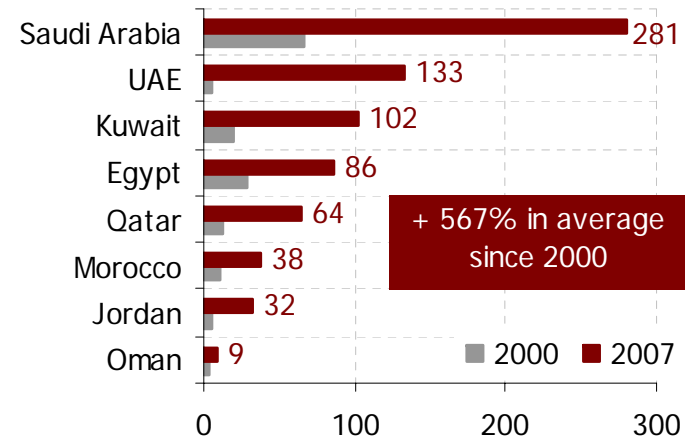
## Nominal GDP (2000/2007, USD bn)

(Sources : National statistics)



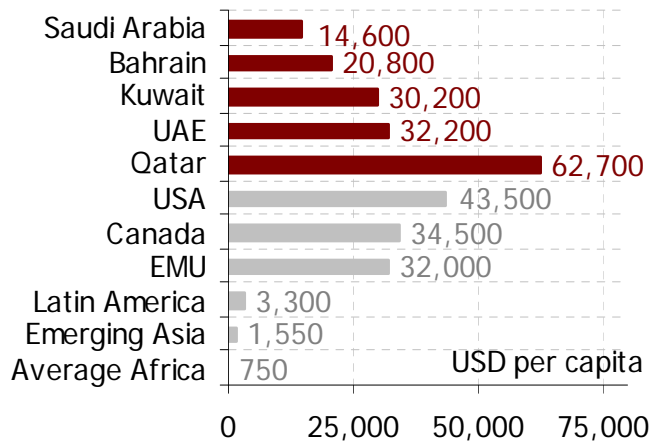
## Stock Markets capitalisations (USD bn)

(Sources : World Bank, AMF)



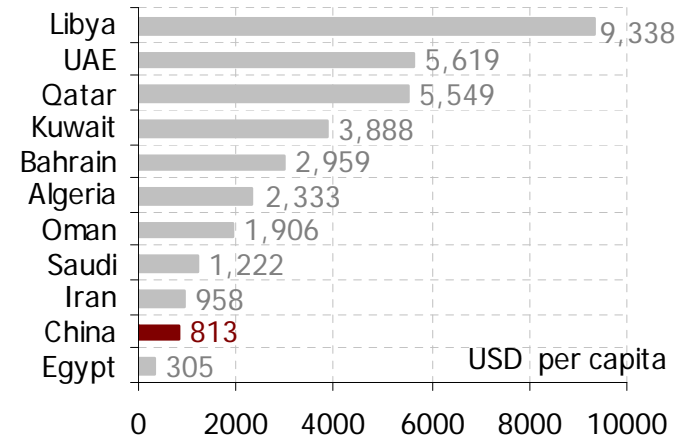
## Comparative GDP per capita

(Sources : IMF and National Statistics)



## FX reserves per capita

(Sources : IMF)



# Developing safely and resisting exuberance

- MENA region is well ahead of all emerging countries in terms of investment plans
- Temptation to recycle windfall domestic liquidity, preventing external funding is huge
- But such a strategy will prove risky for the regional banking systems (currency and maturity mismatches, division risk ratios, lack of know-how for project finance etc)

## Upcoming (or planned) investments in the GCC

(Source: MEED and Calyon Research)

