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GCC

FINANCE AND INVESTMENT SECTOR OUTLOOK

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GCC

**FINANCE AND INVESTMENT SECTOR
OUTLOOK**

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1. Executive Summary

The World Bank describes the financial sector as 'a set of institutions, instruments, markets, as well as the legal and regulatory framework that permit transactions to be made by extending credit. Fundamentally, financial sector development is about overcoming "costs" incurred in the financial system. This process of reducing the costs of acquiring information, enforcing contracts, and making transactions resulted in the emergence of financial contracts, markets, and intermediaries.'

The basic role of the financial sector is to provide payment services to the economy. It provides a medium of exchange by issuing notes, holding demand deposits, honoring checks drawn upon the latter, mobilizing financial savings, and allocating credit, among others. The absence of the sector would result in limited specialization in production and constrained economic growth, thus playing an instrumental role in any country's growth.

The financial sector generates much revenue from mortgages and loans and flourishes in a low-interest-rate environment. Economists often tie the economy's overall health with the financial sector's health. If financial enterprises are frail, it's detrimental for the average consumer. Financial companies provide business loans, homeowners mortgages, and insurance to consumers. Growth is stunted in small businesses and real estate if the aforementioned activities are restricted. Financial stocks are also prevalent investments to own within a portfolio. Most enterprises within the sector issue dividends and are assessed on the overall strength of their financial health. A weak financial sector typically means the economy is weakening. This sector comprises many industries, including banks, investment companies, insurance companies, and real estate firms.

1.1 Gulf Cooperation Council (GCC)

GCC countries have a well-developed and highly regulated banking sector. It comprises local and international banks providing banking services, such as retail banking, corporate banking, and Islamic banking. A few of the prominent local banks include Emirates NBD, Qatar National Bank (QNB), Saudi Central Bank, National Commercial Bank (NCB), and Central Bank of Oman. Further, each GCC country has its regulatory authorities overseeing the financial industry. These bodies implement regulations and guidelines to ensure stability, transparency, and investor protection. For example, the UAE has four different regulators authorizing and supervising banks, insurers, and other financial organizations. These include the Central Bank of the UAE (CBUAE), the Securities and Commodities Authority (SCA), and the Dubai Financial Services Authority (DFSA).

The GCC has established capital markets facilitating trading equity, bonds, Sukuks (Islamic bonds), and other financial instruments. Major stock exchanges in the region include Dubai Financial



Market, Abu Dhabi Securities Exchanges, and Saudi Stock Exchange (Tadawul). In contrast to the declining global capital market activity since 2022, the GCC region continued strongly in Q1 2023 with the significant initial public offering (IPO) activity, which earned it the second biggest Q1 proceeds since 2015. In Q1 2023, 9 IPOs earned US\$ 3.3 billion in proceeds, compared to US\$ 4.9 billion in Q1 2022 and US\$ 7.2 billion in Q4 2022 from 15 IPOs each. The UAE accounts for over 90% of GCC IPOs.

Islamic finance plays a significant role in GCC's financial sector, aligning with the region's cultural and religious preferences. Islamic banks and financial institutions provide Sharia-compliant products and services, including banking, Takaful (Islamic insurance), and investment funds in services. In recent years, the central monetary authorities of various GCC countries, which also tighten prudential standards, have implemented several regulatory measures to achieve social and economic objectives. Asset classifications and provisioning requirements in these countries are becoming more consistent with international standards. Local banks follow International Accounting Standards. The Bank of International Settlements (BIS) mandates banks in the GCC to maintain capital-to-risk-weighted-assets ratios at 8%. Although central monetary authorities in the GCC countries are engaged in supervising and monitoring their financial institution rules, they are yet to pick up pace like that in other developed and developing countries.

Several GCC countries have substantial sovereign wealth funds (SWFs) that invest in diverse assets globally. These SWFs are vital to the region's economic development, as they support strategic investments in diverse sectors. A few of the major SWFs in the GCC include the Abu Dhabi Investment Authority, Kuwait Investment Authority, Public Investment Fund, SAMA Foreign Holdings, Qatar Investment Authority, and Investment Corporation of Dubai.

The GCC countries aim for closer economic integration, with initiatives such as the Gulf Common Market and the establishment of a unified currency (Gulf Cooperation Council Monetary Union). These efforts promote trade, investment, and financial cooperation among the banking system in the region. Overall, the GCC's financial, banking, and investment industry offers a range of opportunities for investors. Moreover, strong economic fundamentals, a focus on diversification, and a supportive regulatory framework contribute to the region's attractiveness as an investment destination.

The ascent of the e-Commerce sector in GCC have also prompted higher adoption of digital payment in the region. While growth of eCommerce in the GCC region have mirrored global patterns, penetration had been relatively low, comprising only a few percent of retail sales before 2020. However, the pandemic resulted in a rapid migration of consumers to online shopping. For instance, a leading Saudi retail group reported a 400% rise in downloads of its shopping app, and a 200% increase in online sales in March 2020. The regional market has been responding swiftly to such demand for digital payments in eCommerce sites and have also led to a surge in financial apps and fintech start-ups.

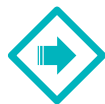


1.1.1 Potential Future Outlook – GCC



Focus on economic diversification creates tremendous potential for the growth of the banking sector in GCC countries.

Vision documents, framed by each GCC nation, are expected to aid in promoting financial investments within GCC nations.



Economic digitalization would significantly contribute to the GDP of most GCC nations. It will promote the growth of digital solution uptake. The countries are also expected to reduce dependence on traditional banking methods and replace them with digital-only options.

GCC is anticipated to increase its focus on sustainable investment options, including the green economy, which would create diverse opportunities for banks in the region.



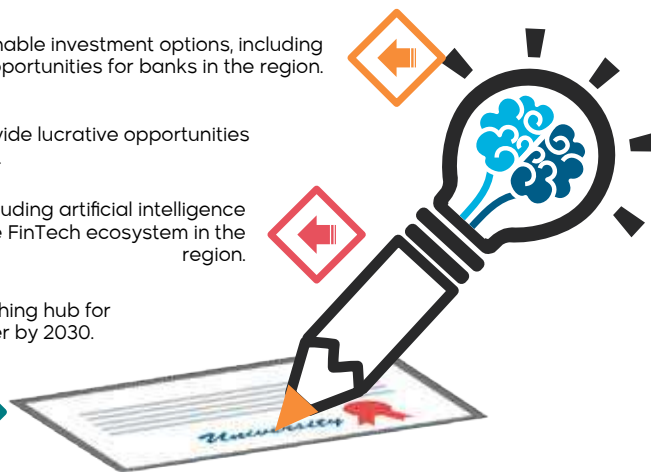
The development of rural banks is expected to provide lucrative opportunities for GCC banks to diversify their liquidity and assets.

Increased adoption of innovative technologies, including artificial intelligence (AI) and machine learning (ML), would boost the FinTech ecosystem in the region.



GCC has succeeded in positioning itself as a flourishing hub for FinTech, with plans to consolidate its position further by 2030.

Rise in e-Commerce is expected to promote further growth of digital payments and netbanking solutions



1.2 Financial Development Index (2020) Comparison

Table 1. Financial Development Index (2020) Comparison

2020		Saudi Arabia	Qatar	Kuwait	UAE	Oman	Bahrain
Financial Development Index		0.45	0.53	0.37	0.46	0.37	0.41
Financial Institutions	Overall	0.34	0.48	0.48	0.35	0.41	0.32
	Depth	0.18	0.60	0.19	0.22	0.19	0.30
	Access	0.38	0.24	0.50	0.32	0.34	0.00
	Efficiency	0.38	0.35	0.71	0.47	0.69	0.74
Financial Markets	Overall	0.54	0.74	0.25	0.55	0.32	0.48
	Depth	0.74	0.70	0.42	0.63	0.36	0.66
	Access	0.56	0.89	0.13	0.83	0.49	0.71
	Efficiency	0.25	0.17	0.15	0.16	0.08	0.03

Source: IMF



According to IMF, Financial Development (FD) Index is a relative ranking of countries in terms of the depth, access, and efficiency of their financial institutions and financial markets. It is an aggregate of Financial Institutions Index and Financial Markets Index. Financial Institutions Index is an aggregate of Financial Institutions Depth (FID) Index, Financial Institutions Access (FIA) Index, and Financial Institutions Efficiency (FIE) Index. Financial institution depth sub-index adds to the standard banking sector depth measure while access and efficiency measures are more bank specific. Financial Markets Index is an aggregate of Financial Markets Depth (FMD) Index, Financial Markets Access (FMA) Index, and Financial Markets Efficiency (FME) Index. Financial market indicators focus on stock market and debt market development. Private credit to GDP ratio and stock market capitalization to GDP ratios do not account for the complex multidimensional nature of financial development. Financial Development index tries to account for such complexities and provide an indication about each country's financial institutions and markets status.

1.3 GCC Countries Opportunities

GCC countries have their own strengths and weaknesses, with respect to the finance and investment sector. Forming alliances and agreements can aid both to develop their respective sectors while creating deeper economic and political ties. Some of the possible collaboration opportunity areas are:

- Digital Banking
- Central Bank Digital Currency (CBDC)
- Wealth Management of High-Net-Worth Individuals (HNWI)
- Digital Asset Management
- Joint Banking Consolidation
- Islamic Finance Consolidation



2. GCC

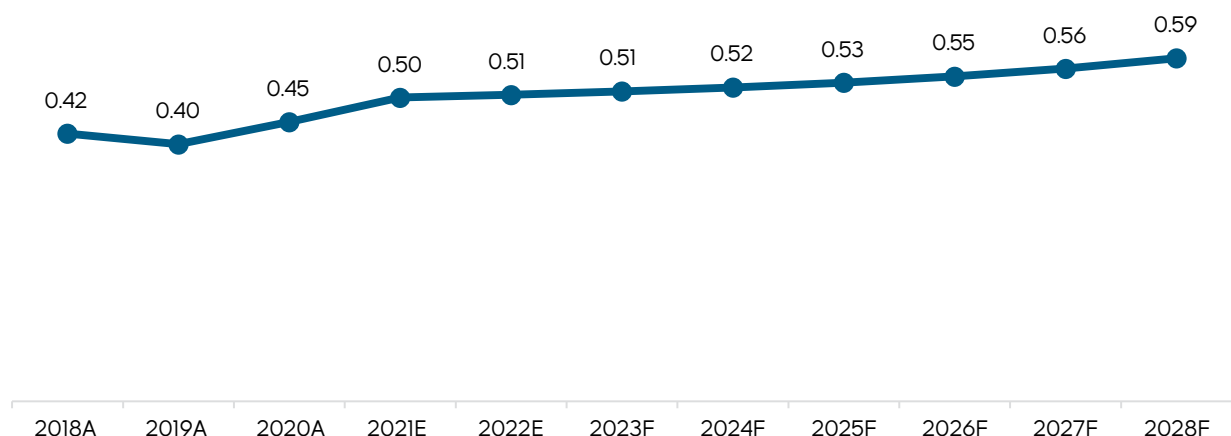
2.1 Introduction to GCC's Finance and Investment Sector

The Gulf Cooperation Council (GCC) finance and investment sector has a positive outlook despite looming challenges surrounding Gulf economies, such as a slowdown in global oil & gas demand and inflationary pressures. Banking industry in GCC countries has seen several headlines over the past year. Several banks have reported improvements on year-on-year and quarter-on-quarter growth, revenues, and profits, and there are clear signs this will continue for the foreseeable future. Triggered primarily by improving macroeconomics, shifting demographics, and positive regulations, impacts of the financial crisis is declining and a more diverse banking landscape is coming to the forefront. Retail banking is growing faster than corporate banking in most GCC countries, while well-off young population are increasingly consuming banking services. Compared to global benchmarks, especially in developed markets, GCC banks continue to be highly profitable and are consistently investing in infrastructure and energy. Such factors are expected to strongly aid the GCC nations in improving their Financial Development Index score during the forecast period.

2.1.1 GCC Financial Development Index Forecast (2018–2028)

2.1.1.1 Saudi Arabia

Figure 1. Saudi Arabia's Financial Development Index Forecast



A - Actual, E-Estimated, F-Forecasted || Source: A - IMF, E & F - Analyst Team

The above graph showcases the forecasted growth of the country in FD Index. Tadawul, the Saudi stock exchange, is the largest stock exchange in the Middle East, with a well-developed capital market. The stock market of Saudi Arabia experienced the most initial public offerings

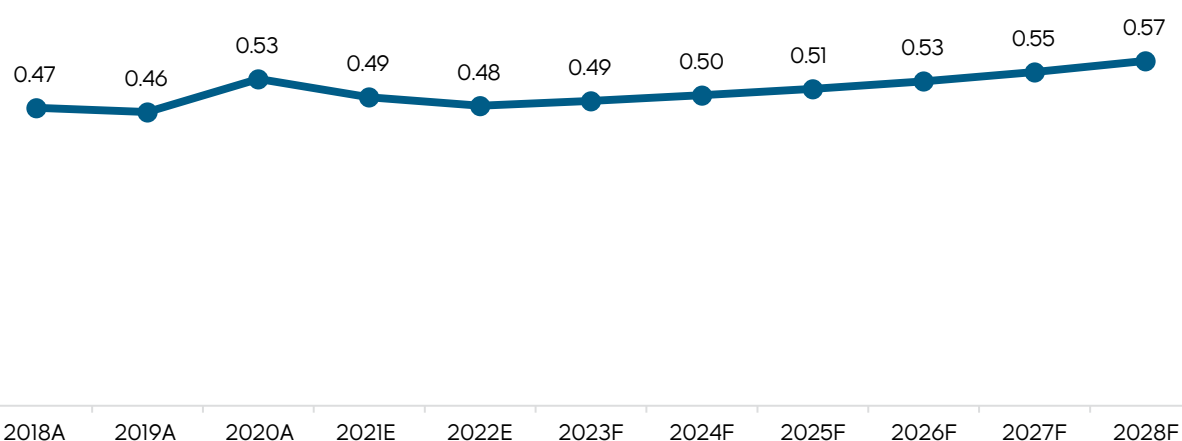


(IPOs) and the largest overall offering value among GCC stock markets from 2016 to 2022. It raised a total of US\$ 38.9 billion through 60 IPOs. The Saudi government has been encouraging the development of FinTech and digital banking to increase financial inclusion and access to financial services. In Saudi Arabia, cashless payments surpassed cash transactions for the first time in 2021, reaching 57% of the total transactions. In 2021, the number of FinTech companies licensed by the Saudi Central Bank reached 18.

Saudi Arabia has brought leniency in rules and introduced initiatives such as formation of the Saudi Arabian General Investment Authority in a bid to draw in international investments. As a result, foreign direct investments (FDIs) have increased significantly in the country. The Investment Ministry reported FDI inflows totaling SAR 7.2 billion (US\$ 1.9 billion) in Q3 2022. In 2021, Saudi Arabia had ~US\$ 1.7 billion worth of investment in the said quarter, which indicates a substantial rise.

2.1.1.2 Qatar

Figure 2. Qatar's Financial Development Index Forecast



A - Actual, E-Estimated, F-Forecasted || Source: A - IMF, E & F - Analyst Team

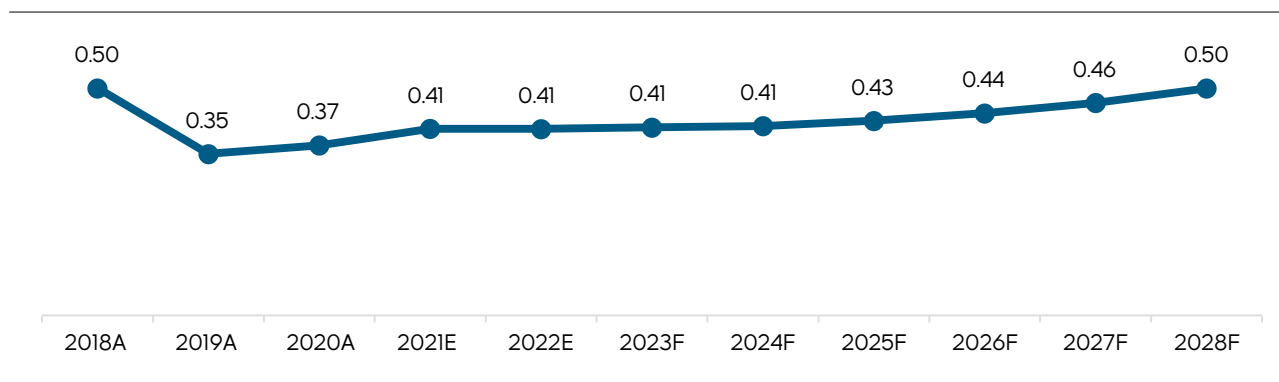
The above graph showcases the forecasted growth of the country in FD Index. In order to be ready to host the FIFA World Cup in last year, Qatar spent a massive amount of ~US\$ 200 billion in total on infrastructure projects, such as roads, stadiums, and real estate. These initiatives brought in foreign capital and provided growth opportunities to regional and global businesses in the finance and investment sector. The Qatar Stock Exchange (QSE) is the major operator of the security and commodity exchange, which provides a platform for investors to trade in the Qatari markets as well as allows businesses to raise funds.

Qatar promotes Islamic finance, which follows Sharia law. The country has Islamic banks and financial organizations that provide a variety of Sharia-compliant products and services. Banking is the largest subsector in Islamic finance; it accounted for 87% [~US\$ 150.56 billion] of the Islamic financial assets in Qatar in 2022. Sukuk made up 11.3% of all assets [~US\$ 19.6 billion], while takaful and Islamic assets under management together accounted for 0.8% [US\$ 1.4 billion] of the Islamic finance in Qatar in 2022.



2.1.1.3 Kuwait

Figure 3. Kuwait's Financial Development Index Forecast



A - Actual, E-Estimated, F-Forecasted || Source: A - IMF, E & F - Analyst Team

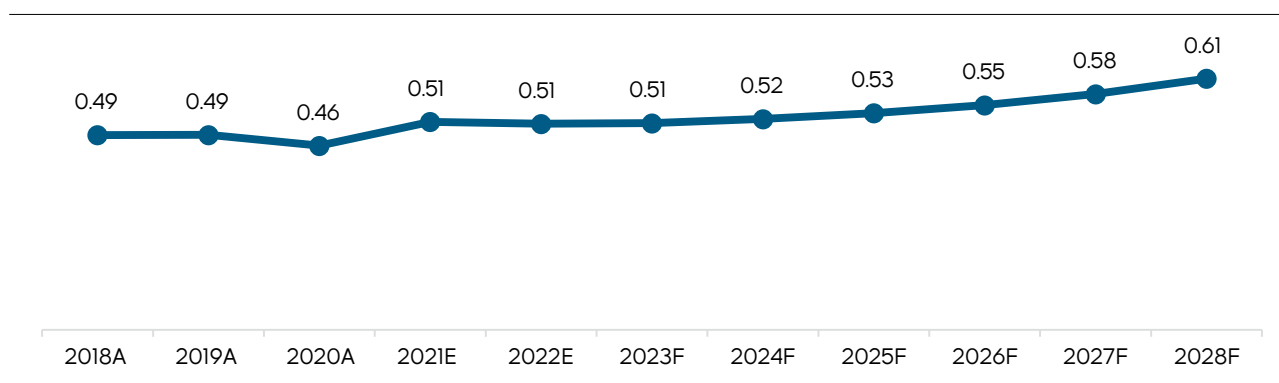
The above graph showcases the forecasted growth of the country in FD Index. Kuwait has one of the most efficient and rapidly rising banking sectors among all GCC countries. The Kuwait Central Bank supervises the banking sector in the country. The country had 11 local commercial banks as of 2022, including 5 Islamic banks. The National Bank of Kuwait is the largest in the country. To achieve the aims of the National Vision 2035, Kuwait provides interested investors investment opportunities in categories such as digital banking services, insurance, consumer finance, and brokerage services, which are likely to boost the financial services and banking sector.

The number of ATM transactions increased from 94.9 million in 2017 to 99.2 million in 2019, while the value of ATM transactions increased from US\$ 40.1 billion in 2017 to US\$ 41.2 billion in 2019. However, as a direct impact of the COVID-19 pandemic, Kuwait recorded a drop in the number of ATM transactions to 75.8 million in 2020 and 22.4 million in 2021. Furthermore, the total value of ATM transactions decreased to US\$ 33.6 billion in 2020 and US\$ 8.9 billion in 2021.

Kuwait has several stockbroking firms that cater to the local and worldwide capital markets—10 of them are listed on Boursa Kuwait. In 2021, the total number of securities traded on Boursa Kuwait was 84.6 billion shares, up from 52 billion in 2020 and 39 billion in 2019.

2.1.1.4 UAE

Figure 4. UAE's Financial Development Index Forecast



A - Actual, E-Estimated, F-Forecasted || Source: A - IMF, E & F - Analyst Team

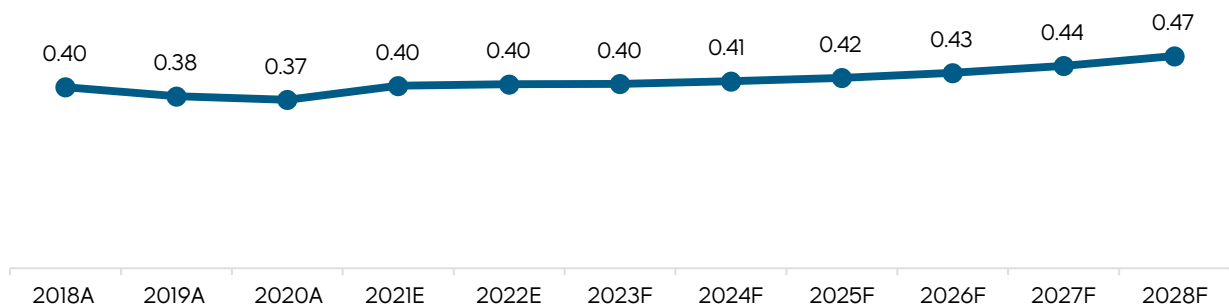


The above graph showcases the forecasted growth of the country in FD Index. Banks in the UAE benefit from a substantial pool of money and high-net-worth consumers. The country's thriving economy and favorable business environment continue to attract significant amounts of international investments. Moreover, the banking sector is greatly benefited from the government's commitment to regulatory reforms; it recorded a ~10.6% year-on-year increase in the total assets of the top 10 banks in 2022 to reach a total valuation of US\$ 898.89 billion, owing to robust growth in deposits, loans, and advances.

According to the Central Bank of the UAE, the nation's economy grew by 7.6% in 2022 after expanding by 3.9% in 2021, reporting the highest growth in the last 11 years. According to the World Investment Report 2022 by the United Nations Conference on Trade and Development (UNCTAD), the total value of FDIs in the UAE was US\$ 20.67 billion in 2022, up from US\$ 19.88 billion recorded in 2020. The UAE government has taken several initiatives to encourage the development of FinTech. In May 2021, the country opened the DIFC Innovation Hub, the region's first ecosystem dedicated to bringing together FinTech and innovation.

2.1.1.5 Oman

Figure 5. Oman's Financial Development Index Forecast



A - Actual, E-Estimated, F-Forecasted || Source: A - IMF, E & F - Analyst Team

The above graph showcases the forecasted growth of the country in FD Index. The banking sector in Oman includes both domestic and international banks. Bank Muscat, the National Bank of Oman, and Bank Dhofar are the major domestic banks. Retail banking, corporate banking, and investment banking are among the services provided by banks in this country.

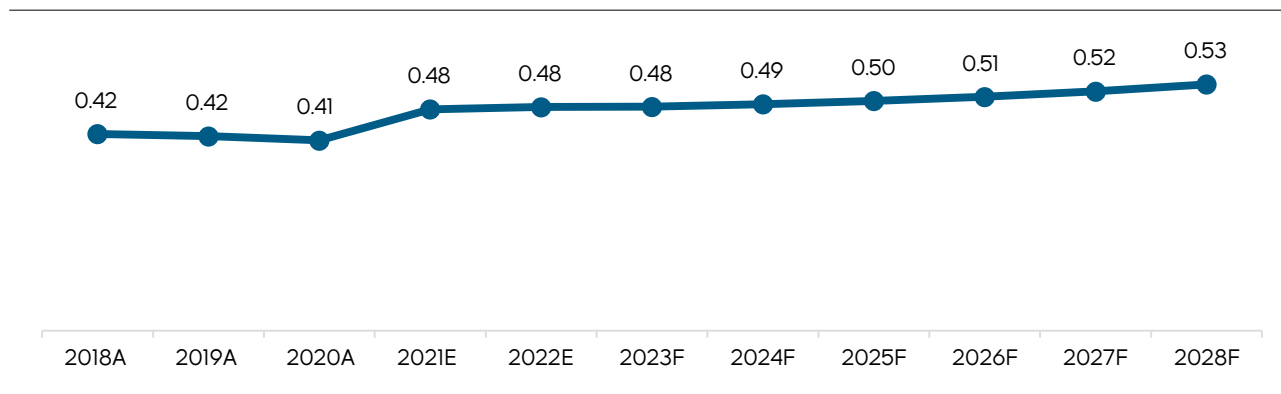
After reaching 16.4% of total sector assets at the end of 2022, the share of the Omani Islamic banking sector is projected to expand significantly in 2023-2024. Growth will be aided by widespread public demand for Islamic products, supportive legislation, an expanding branch network, and a push from the Islamic windows of mainstream banks. The total assets of Omani Islamic banks reached US\$ 16.6 billion in 2022.

To attract international investors to invest in Oman, the authorities overhauled the economic environment with a new set of rules levied in 2019, including a foreign capital investment law that now enables 100% foreign firm ownership, up from the previous ownership levels of 70%. Thus, a foreign investor no longer requires a local partner, and the government has ruled out the minimum capital requirement of US\$ 390,000.



2.1.1.6 Bahrain

Figure 6. Bahrain’s Financial Development Index Forecast



A - Actual, E-Estimated, F-Forecasted || Source: A - IMF, E & F - Analyst Team

The above graph showcases the forecasted growth of the country in FD Index. Bahrain is a major financial center in the Middle East. The banking and insurance sector in the country is regulated by the Central Bank of Bahrain. The country is recognized to have one of the most open economies in the Middle East & North Africa (MENA). Additionally, free trade agreements, great infrastructure, and powerful financial institutions, among others, give traders and investors access to regional and worldwide markets. During the first three quarters of 2022, the Bahrain Economic Development Board, with the assistance of Team Bahrain, secured US\$ 72.7 million in direct investments from 9 financial services companies, which were either establishing or expanding their operations in the country.

The financial sector is the largest non-oil contributor to the real GDP of Bahrain. It contributed 18.6% to its GDP in 2022 and had total assets of US\$ 225.2 billion in February, 2023. Bahrain FinTech Bay, the largest FinTech hub in the country, has a specialized coworking space, innovation laboratories, consultancy services, and more. Changes in the regulatory framework in Bahrain have fostered the evolution of the FinTech ecosystem, paving the way for emerging robo-advice and crypto-asset platforms. The country’s flexible markets and strong technical infrastructure allow FinTech companies to further grow their industry offerings.

2.2 Finance and Investment Sector in Details

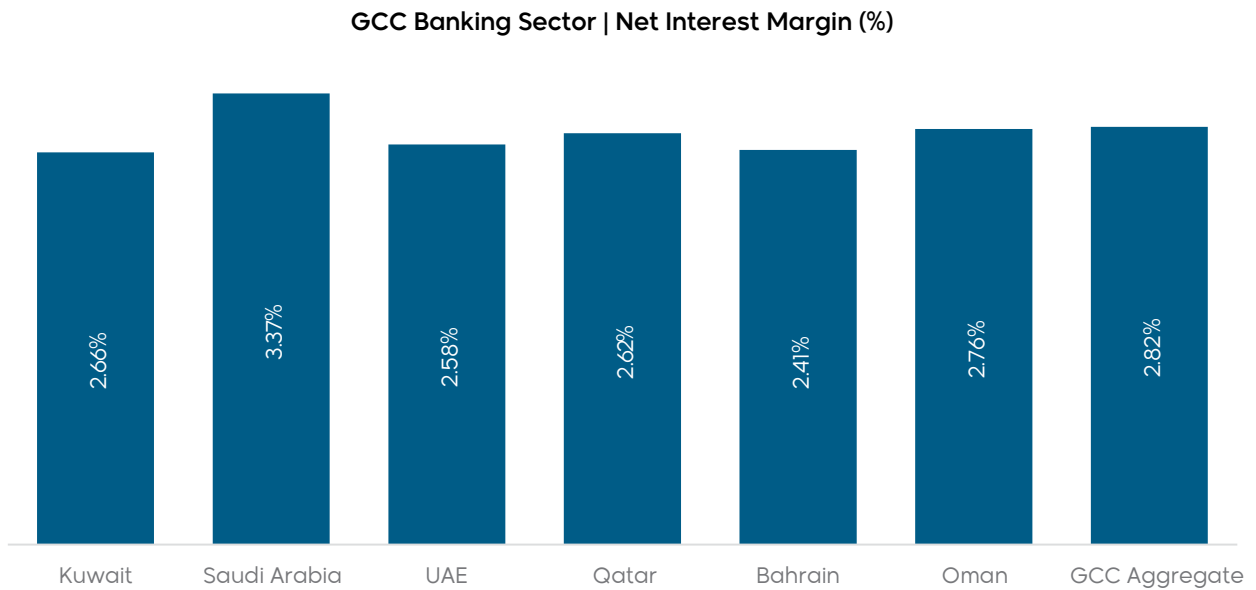
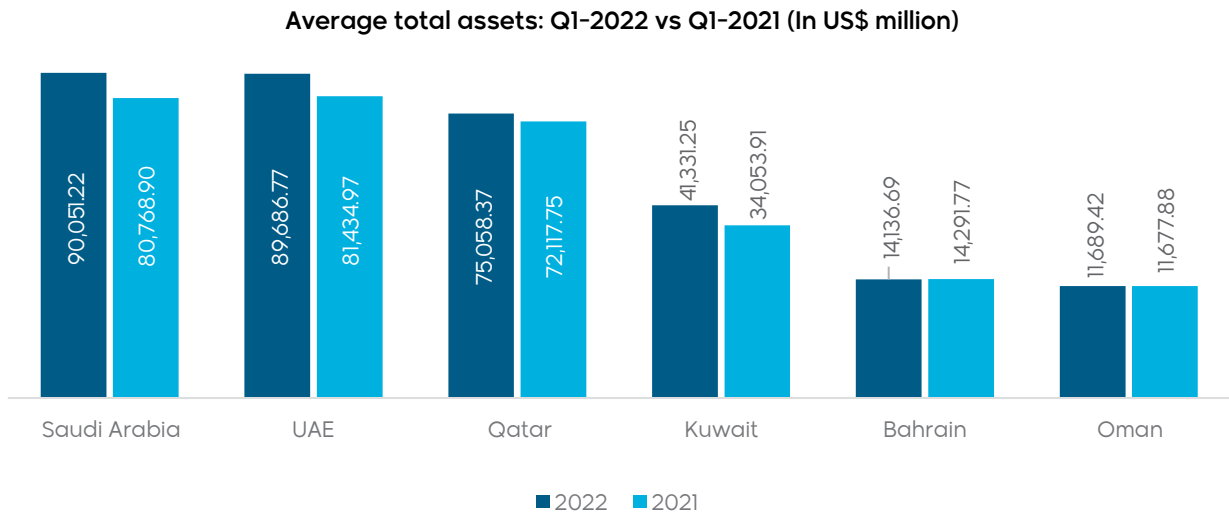
2.2.1 Types of Banks

In GCC, the banking sector is led by large banks, with the top 5 banks accounting for about 65-95% of total assets. The nonbank financial institutions (NBFIs) sector, comprised of asset management, finance companies, pension funds, and insurance, is relatively small and is generally not concerned with credit intermediation. Debt market development has stayed limited, although there are variations, with few countries making strides in strengthening their sovereign debt markets. Banks remain at the core of financial intermediation, including firms’ foreign exchange (FX) borrowing. Intersectoral lending and borrowing have increased considerably over the past



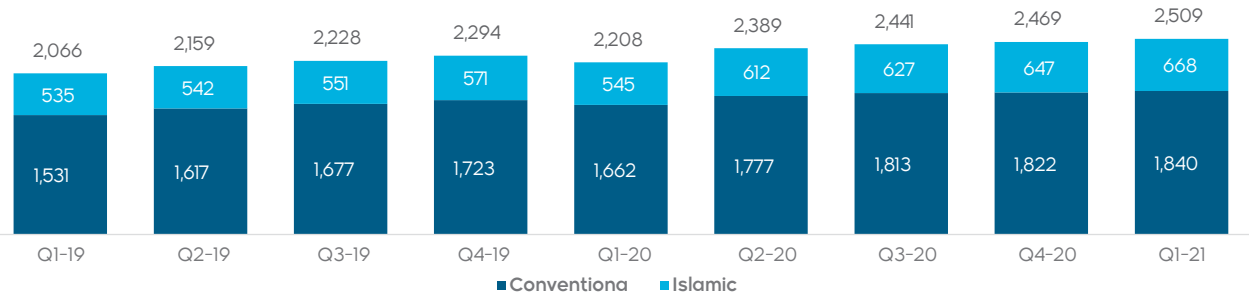
decade, intensifying a powerful transmission channel for shocks such as potential worsening in asset quality and surges in nonperforming loans (NPLs) once regulatory forbearance and other extraordinary support measures expire. Furthermore, the pandemic-related initiatives have deepened the nexus and increased the sensitivity of public finances to future corporate and financial sector developments.

Figure 7. Finance Sector Statistics

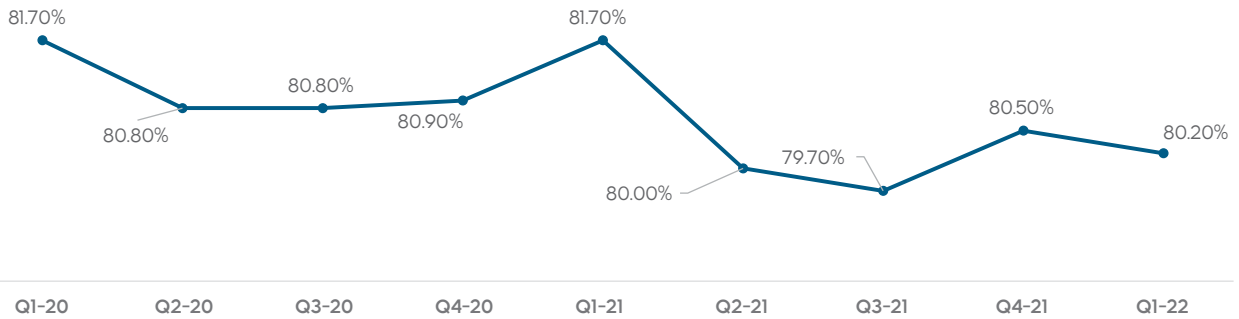




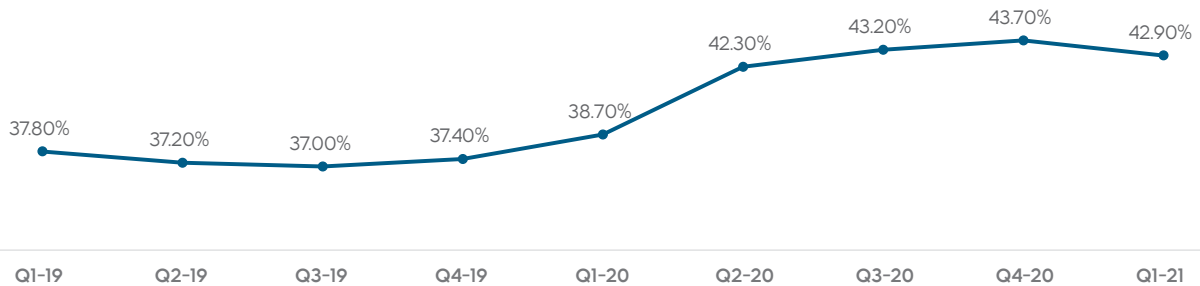
GCC Banking Sector | Total Assets (USD Bn)



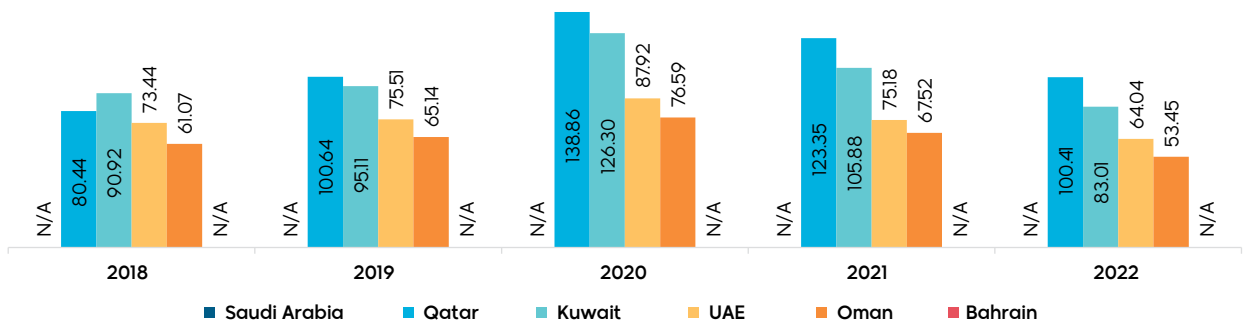
GCC Banking Sector | Loan-to-Deposit Ratio (%)



GCC Banking Sector | Cost-to-Income Ratio (%)



Monetary Sector Credit to Private Sector (% of GDP)



Source: Country Authorities, Company & Banks Financials, and the Analyst Team

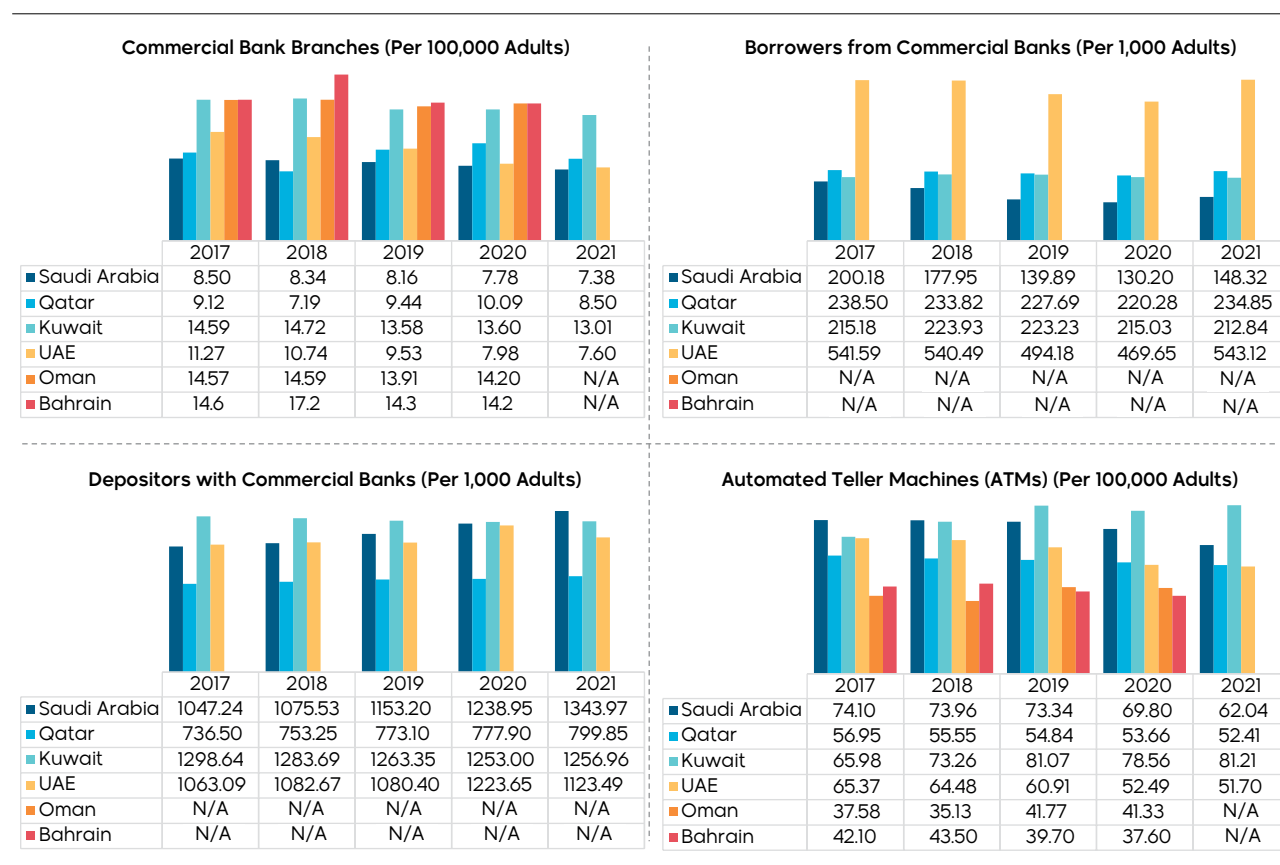


As depicted, the finance and investment sector grew further in 2022. The banking sector's assets rose significantly in 2021, while cost-to-income ratio also grew. However, the economic downturn has led to lower consumer spending and domestic consumption.

2.2.1.1 Commercial Bank

Commercial banks in the GCC have been vulnerable since the onset of the COVID-19 pandemic. The pandemic has led to the contraction of the economy, adversely impacting commercial banks in the region. However, such disruptions allowed the sovereign banks to strengthen their links with the economy. During this period, bank credit and capital inflows financed the expansion plans of enterprises from nonhydrocarbon sectors and allowed governments to smoothen business operations during oil price downturns. The region has several large commercial banks holding significant assets, and they continue to be key stakeholders in intermediating funds between creditors and debtors.

Figure 8. Commercial Bank Statistics of GCC



Source: International Monetary Fund (IMF) and World Bank; N/A – Not Available

As depicted, the commercial bank sector was significantly larger than the industrial banking sector of GCC. The statistics for commercial bank clearly convey the steady rise while several GCC nations have also witnessed a rise in finance related infrastructure, leading to higher demand for banking services.



2.2.1.2 Industrial Bank

The industrial banking space in GCC involve of a plethora of services such as brokerage, debt capital markets, equity capital markets, loans, mergers & acquisitions (M&A), private equity, and others. Industrial banks in the GCC aim to create value for their customers and enhance their financial position through custom-designed solutions in project and procurement finance, and other special fields. They strive to support projects that aid in the sustainable growth of the domestic economy and support the financial health of their customers to accomplish high creditworthiness abroad. These banks are prioritizing investments in renewable energy, infrastructure, manufacturing plants, and asset purchases as GCC nations are focusing on higher economic diversification. The focus to branch out from predominantly oil-based economies, GCC countries have begun to focus on infrastructure development. GCC allocation to infrastructure-spending is anticipated to cross US\$ 1 trillion by 2030. Liberalization of the GCC capital markets and lower oil demand are some of the factors that are likely to impact positively on the industrial banking sector.

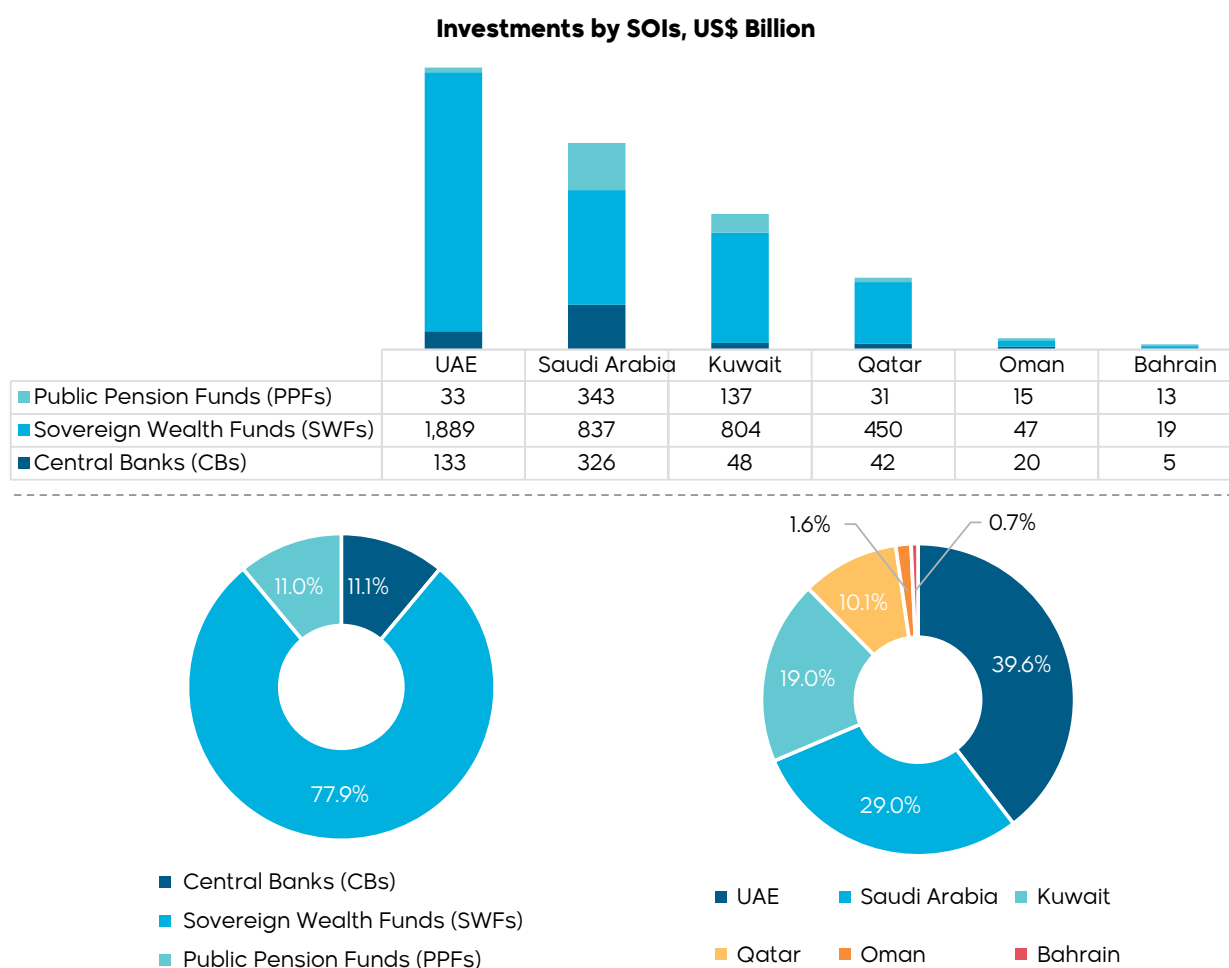
2.2.2 Other Financial Institutions

Other financial institutions include asset management companies, leasing companies, factoring companies, finance companies, and insurance companies. Asset management institutions are major contributors to the other financial institutions segment. They aim to provide qualified and professional fund related services to institutional and individual investors in line with their risk and return preferences. Saudi Arabia has 16 of the 30 largest asset management companies in the Middle Eastern region, indicating the Saudi Stock Exchange's position as the most developed exchange in the Middle East. The UAE has five such companies, and Bahrain and Kuwait have three. Asset management companies can consistently generate healthy and long-term earnings above inflation and benchmarks while protecting investors against the risks of financial markets. Thus, such institutions play a key role in promoting economic growth and development of the business environment within the region. Similarly, the insurance sector contributes to the growth of businesses in GCC by providing coverage against various risks such as liability claims, property damage, or business interruption. This enables businesses to emphasize their core operations without fearing substantial financial losses, promoting stability and growth.

Post Russian invasion of Ukraine, demand for oil from the Gulf region rose at a staggering pace. This allowed the assets of sovereign wealth funds (SWFs) to rise by ~20% in GCC and touched US\$ 4 trillion, as per a leading industry specialist company focused on Sovereign Wealth Funds (SWFs) and Public Pension Funds (PPFs). The assets under management (AUM) held by sovereign funds in the GCC region are equivalent to 37% of the total assets of global sovereign wealth funds and have been growing by an average of 20% in recent years. The position and momentum of GCC SWFs is strongly supported by an average oil price of US\$ 99 per barrel. State-Owned Investors (SOIs), including SWFs, Central Banks (CBs), and Public Pension Funds (PPFs), have been increasing their investments across different countries, promoting the growth of this sector. The below charts demonstrate each GCC nation's SOI's investment values till June 2023:



Figure 9. Statistics of GCC's State Owned Investors (SOIs)



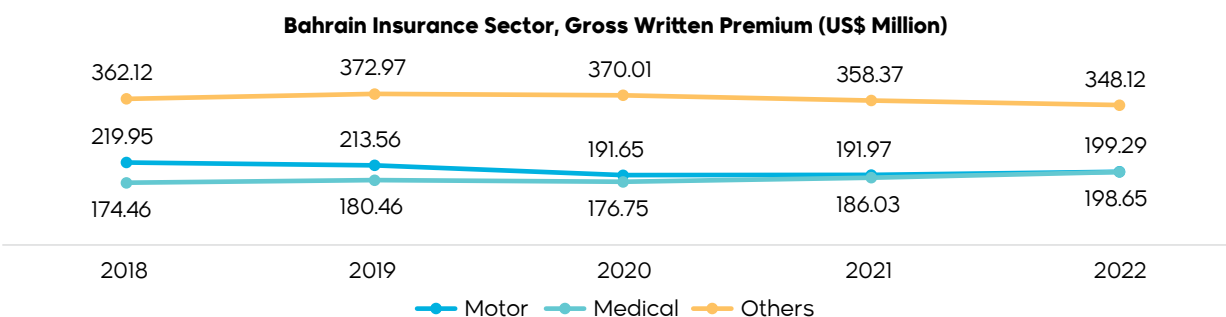
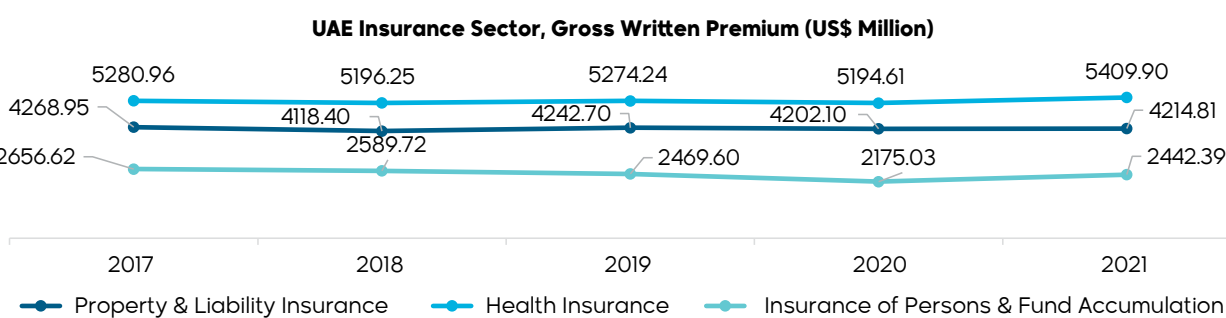
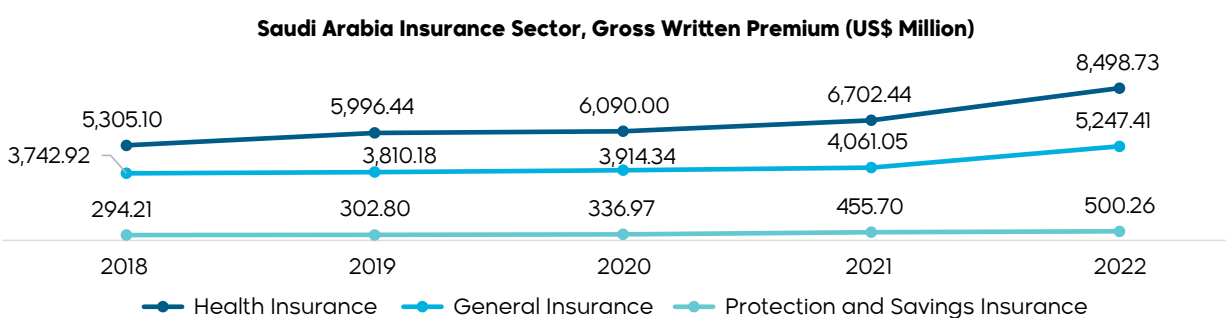
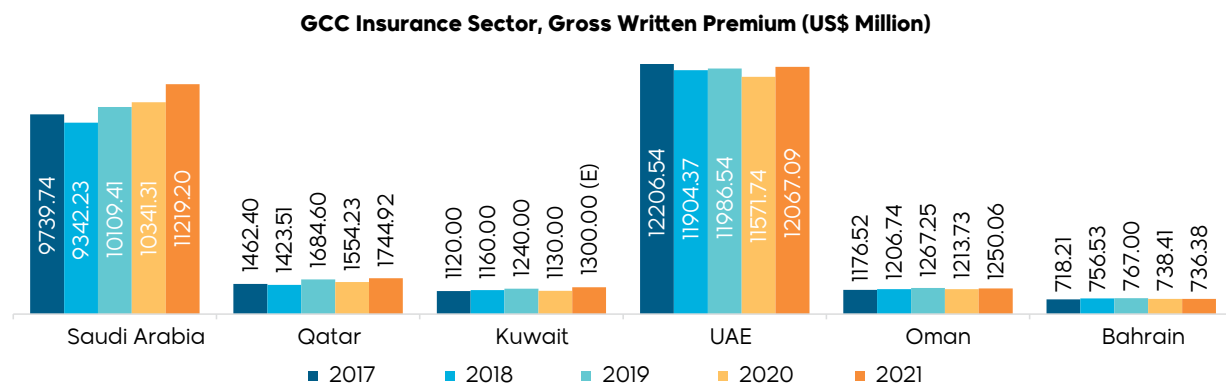
Source: Company Financials and The Analyst Team

As can be seen from the line graphs, UAE's SOIs had the largest investment portfolio, totaling US\$ 2,055.00 billion, followed by Saudi Arabia and Kuwait, with US\$ 1,506.00 billion and US\$ 989.00 billion, in June 2023. SWFs of GCC nations have largely gained from external surpluses generated by the recent energy revenue windfall across the region. It has allowed them to increase their global footprint and deepen their foray into global markets through diversified sectoral buys. The countries are also anticipated to recycle part of their oil & gas revenue inflows towards neighboring economies needing external financing. The surpluses accumulated by higher oil & gas prices is expected to allow for continuous inflows of fund into various SWFs, providing additional investment opportunities domestically and abroad. The SOIs of GCC have thus been leading the global investment trend and have invested ~US\$ 83 billion of fresh capital during 2022. Five of the world's ten largest investments on behalf of SOIs during 2022 were from GCC, of which 62% were from the UAE, 28% from Saudi Arabia, and 10% from Qatar. Additionally, GCC SWFs are not relying solely on the government's capital injections for strategic purchases but also undertaking asset sales. Such trends and factors are collectively driving the growth of the sector.



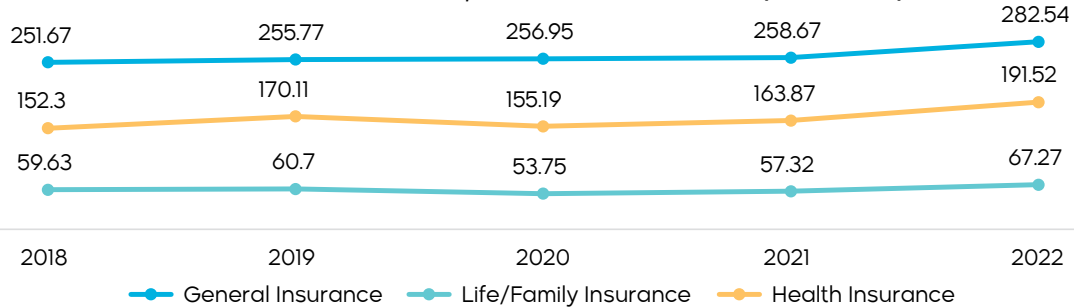
The insurance sector is also a large non-banking sub-segment of the financial sector. The below images depict a few such statistics for the sector:

Figure 10. Statistics of GCC's Insurance Sector

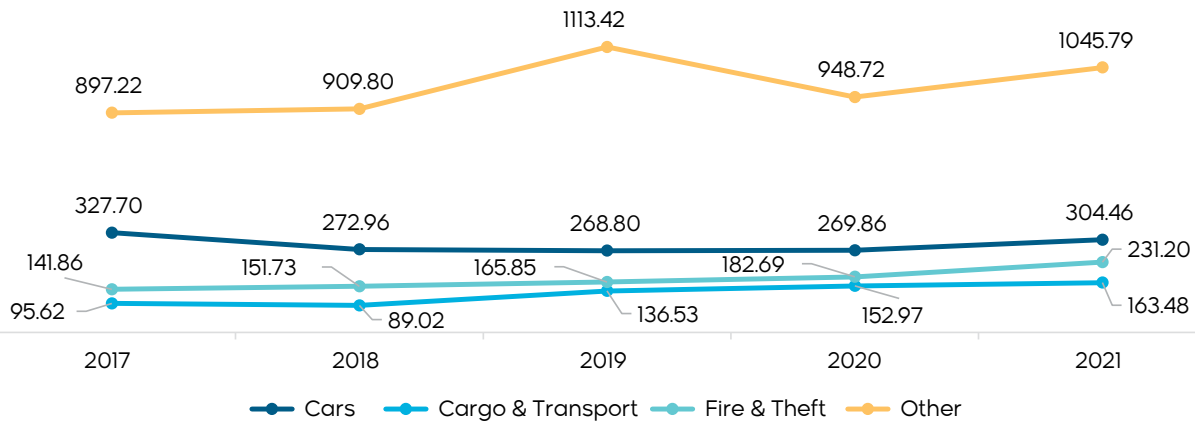




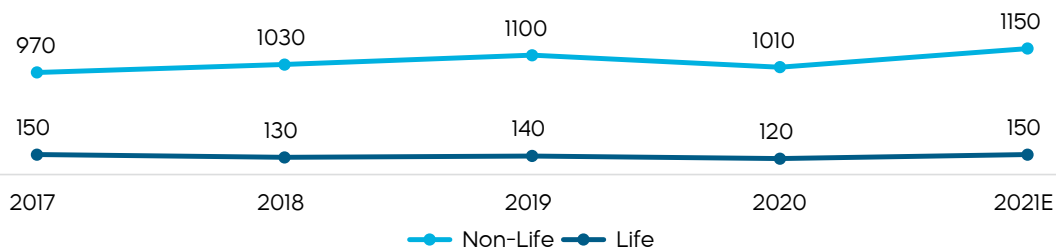
Oman Insurance Sector, Gross Written Premium (US\$ Million)



Qatar Insurance Sector, Gross Written Premium (US\$ Million)



Kuwait Insurance Sector, Gross Written Premium (US\$ Million)



Source: SAMA, CBUAE, CBB, Oman Stat, and IMF

As can be seen from the line graphs, most GCC nations are witnessing an upward trend for premiums being paid for various insurance schemes. Such a rise can be attributed to several factors including the increasing awareness among the population about the benefits of insurance, rising income levels, and presence of large expatriate population.

Additionally, certain policies by different government bodies, mandating insurance in varied sectors and the expanding demand for Islamic insurance is leading to further growth. Major emirates in the UAE, such as Dubai and Abu Dhabi, have already mandated health insurance before the issuance of any type of resident visa. In July 2023, UAE's General Pension and Social Security Authority (GPSSA) launched a unified campaign for raising awareness on the insurance protection extension system for registered GCC nationals employed in the UAE.



The campaign was being conducted in collaboration with the rest of the GCC nations as part of efforts amongst all pension and social security authorities in the region. The campaign aimed at ensuring citizens are offered the right type of insurance protection, regardless of whether it is within their own country or elsewhere in the GCC.

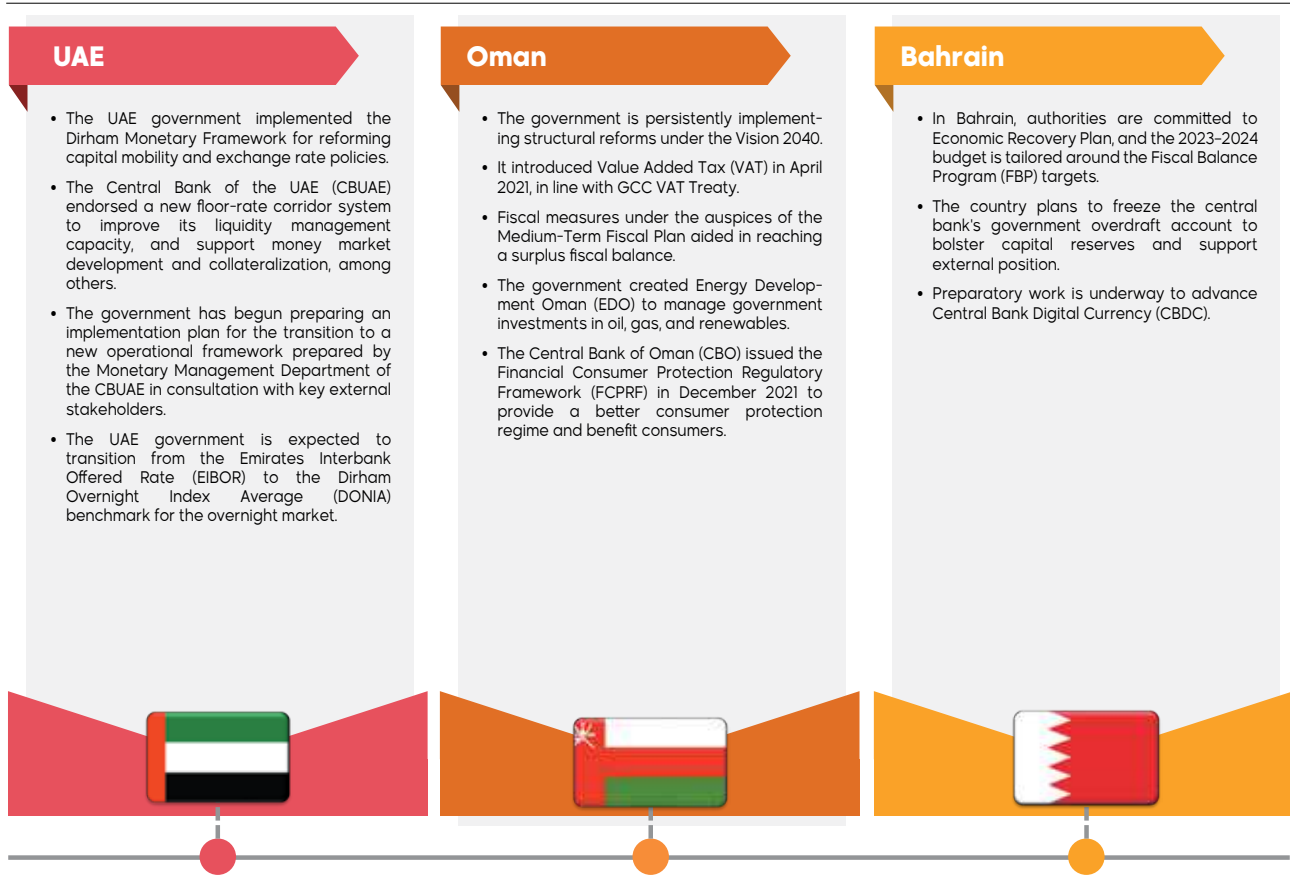
Similarly, since 2019, Oman begun rolling out Dhamani, its mandatory health insurance scheme for more than 2 million people including expatriates, private sector employees, and foreign visitors. The plan mandates employers to pay the premium. In Qatar, Ministry of Public Health (MoPH) mandated health insurance for all visitors from February 2023. Such trends and factors are boosting the insurance sector in GCC, and with it, the overall other financial institutions segment.

2.2.3 Economic Contribution

The GCC countries have a fairly large number of banks with extensive networks of branches. Most such institutions are financially strong and well-capitalized, with total assets higher than international standards. By traditional methods of financial deepening, the region is well monetized. In most countries, the ratio of GDP to the money supply is high, ranging between 50 – 90%, and has been relatively stable over the years, exhibiting the banking sector’s ability to attract higher deposits. The high degree of monetization is a testimony to the heightened confidence in banks and the latter’s capability to employ advanced consumer banking technologies. Automated teller machines (ATMs) and point-of-sales (PoS) technologies are widespread while net banking services and the usage of debit and credit cards are expanding. Advanced computerized payment and settlement mechanisms have supported such technologies. Thus the sector is enabling the entire region’s faster economic growth while promoting the adoption of the latest technologies.

2.2.3.1 Government Initiatives and Programs

Saudi Arabia	Qatar	Kuwait
<ul style="list-style-type: none">• Saudi Arabia is recovering robustly following a pandemic-induced recession. Liquidity and fiscal support, Vision 2030-guided reforms, and a better hydrocarbon market have been helping the economy recover and develop a resilient financial sector while improving the fiscal and external positions.• The government of Saudi Arabia implemented BASEL III standards to enhance supervisory scrutiny of credit risks and risk management of banks.• The government also implemented International Financial Reporting Standards (IFRS) 9 requirements for banks and rolled out a risk-based supervisory framework that relies on regular Internal Capital Adequacy Assessment Process (ICAAP) results.• Loans to the private sector grew by 15.4% in 2021, primarily driven by mortgages and small & medium enterprise (SME) lending.• The government plans to establish a sovereign-asset liability management framework owing to the increasing importance of the Public Investment Fund (PIF).	<ul style="list-style-type: none">• The Government of Qatar initiated the 3rd National Development Strategy as a step toward achieving the goals of Qatar National Vision 2030.• Strong progress was made toward technical compliance with the Financial Action Task Force (FATF) standards.• Qatar Central Bank implemented several macroprudential measures to decrease dependence on non-resident deposits.• The Ministry of Finance developed a Sovereign Green Financing Framework to strengthen the domestic debt market.	<ul style="list-style-type: none">• The Central Bank of Kuwait (CBK) lowered the discount rate and deployed measures to support the liquidity of the financial system.• CBK formed guidelines on sustainable financing, and environmental, social, and corporate governance (ESG) standards in line with the principles of the Bank for International Settlements for efficient management and control of climate-related financial risks.• The Government of Kuwait established the Disciplinary Board under the Competition Protection Agency to handle business complaints regarding fair competition.• The Government of Kuwait enacted the new Bankruptcy Law in 2020 to provide insolvency related protection for corporates.• The government further plans to develop and implement a medium-term fiscal framework to support long-term reforms.



2.2.4 Capital Investments and Major Investors

Financial establishments in the GCC have been increasing their funding initiatives, supported by the Government's drive to promote economic diversification. In July 2023, Saudi Central Bank (SAMA) issued the Annual Performance Report of the Saudi Finance Companies Sector, showcasing the sector's growth by 10.8% in 2022. The paid-up share capital increased by 0.6%, net income by 3.3%, and total assets by 6.5%. The retail sector held the largest share of 76% in terms of loan portfolio classification, followed by the MSME sector with a 21% share and the corporate sector at 3%. The CBUAE's May 2023 report showcased that bank investments in UAE hit ~US\$ 147 billion by the end of February 2023, recording the country's historically highest levels. The year-on-year growth was 15.2% compared to February 2022. Securities accounted for ~46% of bank investments, while bank stock investments rose by 1.7% from January 2023. As per the FinTech Saudi Annual Report 2022, funds received by FinTech companies in Saudi Arabia increased by 11% in 2022 to reach US\$ 402 million from Sep-2021 to Aug-2022. As per the data published by a renowned research company dedicated to studying a start-up ecosystem, venture capital investments in Bahrain increased by 167% in 2021, reaching US\$ 52 million, compared to the previous year. Further, in May 2023, Oman Future Fund announced plans to establish an investment fund with a capital of US\$ 5.2 billion to stimulate the venture investment system in small, medium, and emerging companies registered with the SMEs Development Authority of Oman.



Several foreign entities have holdings in private-sector commercial banks. Enterprises from the US, the UK, and European nations are prominent shareholders in these banks, albeit in small percentages. For instance, one of the most prominent banks in Saudi Arabia has shareholders from the US, the UK, the Netherlands, Sweden, and Hong Kong. Their shares vary from 1.911% to 0.0751%. In Bahrain 17 foreign banks had branches till 2022. A credible regulatory framework in line with international standards aided to cement Bahrain's position as a regional banking hub and supported establishment of numerous foreign banking organizations. Qatar Central Bank has permitted Qatar banks to be 100% foreign owned which has created a lot of investment opportunities for the country's financial sector. In April 2021, the Qatari cabinet approved a draft law allowing foreign investors to own up to 100% of companies listed on the local stock exchanges. In March 2022, a leading commercial bank's shareholders approved a proposal to increase the foreign ownership limit to up to 100% following approval from the Ministry of Commerce and Industry in February 2022. Kuwait is witnessing several mergers and acquisitions amongst banks, and such consolidation is aiding lenders expand revenues and achieve cost synergies in the medium term. The trend is set to increase the dominance of the biggest banks in the country, and also attract investors from abroad.

2.2.5 Foreign Direct Investments – Sectoral Analysis

The finance and investment sector in the GCC receives comparatively low FDIs, when compared to other verticals of the economy, such as oil, gas, and energy. Rather, these nations primarily invest in various sectors of other foreign countries. While several banks have foreign shareholders, the exact value of FDI in the finance and investment sector cannot be ascertained. However, an upsurge in FinTech start-ups in the region has attracted several venture capitalists willing to invest in such firms. Additionally, most GCC nations have prioritized the FinTech sector, whose development has also been a part of their Vision documents. For example, the Vision 2030 of Saudi Arabia included the Financial Sector Development Program (FSDP), which focuses on the promotion of open banking. This has led to the development of several FinTech start-ups promoting open banking. In August 2022, Saudi Arabian Monetary Authority (SAMA)—now known as the Saudi Central Bank—granted permits for two Saudi-based FinTech start-ups to provide open banking solutions.

In June 2023, a leading bank in Saudi Arabia started offering open banking services after receiving necessary clearances from Saudi Central Bank. Dubai has also been attracting large amounts of interest from investors planning to invest in FinTech start-ups. In March 2023, a UAE-based FinTech start-up raised US\$ 0.75 million. Similarly, in November 2022, an expense management platform start-up raised US\$ 10 million. The Dubai FinTech Summit, held in May 2023, further aided the flourishing of this trend of FinTech startups. The summit contributed to raising awareness regarding the country's bustling ecosystem of FinTech start-ups.

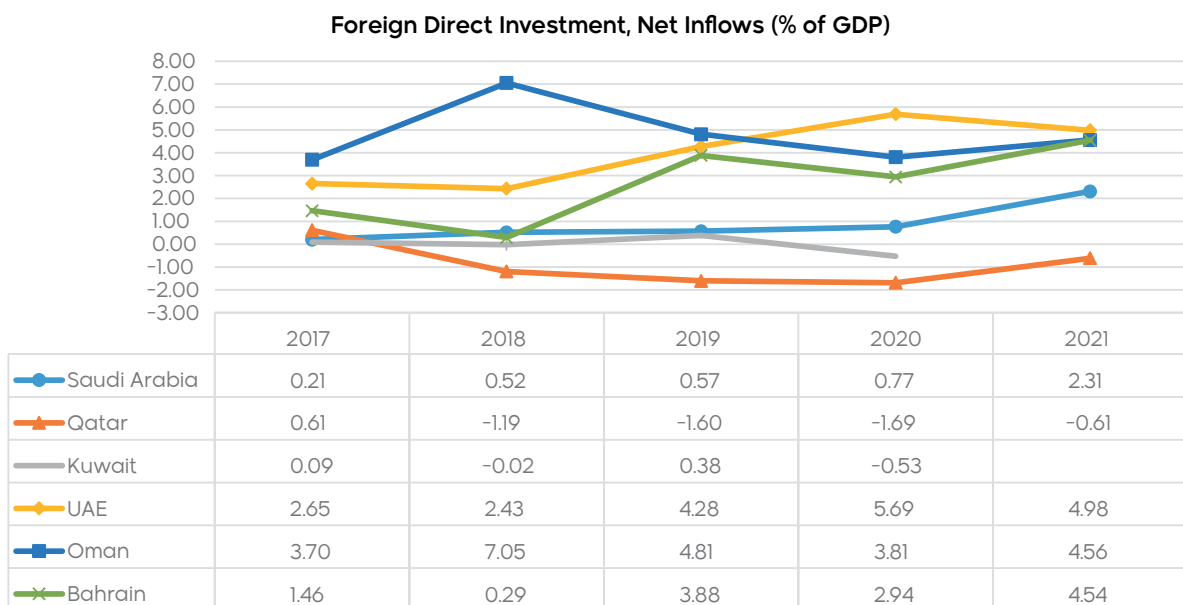
In February 2023, the Central Bank of Oman (CBO), in collaboration with a 51%-state-owned telecommunications company, selected five fintech start-ups to join its six-month accelerator program dedicated to empowering them through mentorship, training, networking, and fundraising support. Selected start-ups are also expected to gain access to a network of ~100,000 investors, mentors, and corporates. They will also be eligible for perks worth over US\$ 250,000 in accounting, cloud computing, legal services, and other areas.



One of Qatar's managed IT services and solutions providers and Qatar Development Bank (QDB) signed a partnership agreement in September 2022 to advance the FinTech industry in the State of Qatar. It is also expected to boost foreign investments in the fintech startups. The trade agreement signed by Qatar with the UK in August 2022 included two new MOUs between Qatar's Investment Promotion Agency and Department for International Trade (DIT) to help British businesses enter the Qatari market. It is also expected to boost FDI in Qatari fintech startups.

Such trends are expected to prevail across most GCC nations over the next 5 years as they focus on boosting the start-up ecosystem and diversifying economic activities. In September 2022, the Al Waha Fund of Funds (managed by the Bahrain Development Bank) and a UK-based international investment firm launched a FinTech venture studio to invest directly into next-generation FinTech start-ups. In February 2023, a Bahrain-based FinTech start-up, offering banking APIs to enable simplified and quick launch of digital solutions, raised US\$ 5 million in a bridge funding round. In September 2022, Boubyan Bank (a Kuwait-based Islamic lender) and Hive (the Dubai International Financial Centre's FinTech company) initiated a new accelerator program to support the advancement of start-up companies in the Gulf state and the wider region.

Figure 11. Foreign Direct Investment, Net Inflows (% of GDP)



Source: World Bank, UNCTAD, and ITA

World Bank Definition: Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors, and is divided by GDP.

The above line graph depicts the amount of FDI attracted by each GCC nation from 2017 to 2021. As is evident, UAE, Oman, Bahrain, and Saudi Arabia have consistently attracted large amounts of FDI, primarily due to favorable policies. The other countries in the GCC are undertaking several steps to boost FDI since it can strongly boost the country's economy and promote employment and skill development. Additionally, it can aid the nation's diversification efforts while promoting the industrial sector and achieving the goals stated in Vision documents.



2.2.6 Ongoing and Upcoming Financial and Investment Projects

July
2023

In July 2023, Bahrain signed a Memorandum of Understanding (MoU) for strategic investments and collaborations with the UK. The MoU is expected to promote Bahrain's private sector to invest ~US\$ 1.3 billion in the UK through a Bahraini sovereign wealth fund named Mumtalakat, and some private asset and wealth management organizations.

July
2023

In July 2023, a leading bank from Greece announced its plans to expand its operations across Asia and the Middle East, including Saudi Arabia and UAE. With this move, the bank aims to increase profits from its international operations and broaden its presence in developing wealth management markets.

July
2023

In July 2023, Saudi Arabia provided US\$ 2 billion in financial support to Pakistan to achieve an economic turnaround. The support was committed in April, but the money was deposited with the State Bank of Pakistan only after IMF committed a bailout package of US\$ 3 billion for the distressed country.

June
2023

In June 2023, the Hong Kong Monetary Authority (HKMA) and the Central Bank of the United Arab Emirates (CBUAE) set up a working group to promote cross-border payments, yuan trading, ESG, virtual assets regulation, and wealth management.

June
2023

In June 2023, Qatar Investment Authority (QIA) initiated talks with the Sovereign Wealth Fund of Egypt (TSFE) for investing in 7 historic hotels in Egypt with the acquisition of up to 30% stakes in them.

May
2023

In May 2023, a Dubai-based open-banking platform start-up raised US\$ 32 million from Series A funding. The company plans to invest the raised amount to attract talent and form new partnerships in Saudi Arabia. The start-up has already reached more than 60% market coverage in Saudi Arabia by partnering with the country's leading banks.

May
2023

In May 2023, the Central Bank of Bahrain granted a Class 2 investment Company license to a financial services subsidiary of a Bahrain-based technology group, allowing it to introduce new services for its customers.

May
2023

In May 2023, the Central Bank of Kuwait (CBK) and the Kuwait Direct Investment Promotion Authority (KDIPA) signed an MoU for increasing coordination mechanisms between both sides and aiding Kuwait in attracting higher direct investments. The MoU is also expected to aid in determining the roles of each organization, develop and streamline the investment environment, remove barriers faced by investors, and so on.



**April
2023**

In April 2023, the Ministry of Finance of the UAE, in collaboration with the CBUAE as the issuing and paying representative, launched a Dirham-denominated Islamic Treasury Sukuk (T-Sukuk) with a benchmark auction size of ~ US\$ 275 million. With this move, the ministry aims to strengthen the Islamic economy and develop a new investment infrastructure for the same. As per the ministry, T-Sukuks are Sharia-compliant financial certificates, which can be traded to reflect the local return on investment. It is expected to support economic diversification and financial inclusion, along with aiding in achieving comprehensive and sustainable socio-economic development goals.

**April
2023**

In April 2023, a leading bank in Oman proposed a merger with another Omani bank, which is partly owned by a Bahrainian bank. The former had US\$ 11 billion worth of assets, while the latter owned assets worth US\$ 8 billion.

**March
2023**

In March 2023, a British, multinational bank and a leading German energy company jointly issued the first Green Guarantee in Qatar. It was issued for a solar power project being developed in the country, which is expected to play a major role in the country's national climate change action plan and its objective to reduce the national carbon footprint while increasing its energy independence. This green instrument is meant to support the project's successful completion and long-term sustainability.

**March
2023**

In March 2023, the CBUAE and the Reserve Bank of India (RBI) signed an MoU to augment cooperation and enable innovation in financial products and services. The two central banks are expected to collaborate on various emerging areas of FinTech, especially Central Bank Digital Currencies (CBDCs), along with exploring interoperability between the CBDCs of the two countries.

**February
2023**

In February 2023, the Central Bank of Oman approved the merger between an Omani bank and an Omani subsidiary of a British bank. Upon completion, the British bank would transfer all of the assets and liabilities to the Omani bank.

**February
2023**

In February 2023, Egypt and Qatar started exploring opportunities to set up a joint investment fund to aid Egypt in recovering from the disruptions caused due to the Russia-Ukraine war. Qatar plans to raise its investments in Egypt in accordance with an agreement signed by both countries to eliminate double taxation to boost investments. In 2022, Qatar initiated talks to invest ~US\$ 2.5 billion to buy stakes owned by the Egyptian government in several companies, including the biggest mobile operator in Egypt.

**January
2023**

In January 2023, Qatar initiated a proactive drive to strengthen the domestic debt market by announcing US\$ 75 billion in investments in sustainable finance for the year. In line with the National Vision 2030 strategy, the drive is anticipated to be a part of a broader strategy to create a greener future by enhancing the country's capital market infrastructure.





2.3 Industry Dynamics

2.3.1 Driver

2.3.1.1 Surging Foreign Direct Investments (FDIs)

Governments of GCC countries have been easing restrictions on foreign investments, enhancing business accessibility, and establishing free zones to attract foreign investors. These investments are majorly facilitated and managed by the finance and investment sectors in these countries. The UAE ranked 17th internationally in terms of FDI outflows, which reached US\$ 22.5 billion in 2021 and represented a 19% increase from the previous year (2020). According to the World Investment Report 2022 of the United Nations Conference on Trade and Development (UNCTAD), the value of FDI in the country rose from US\$ 19.884 billion in 2020 to US\$ 20.667 billion in 2021. The “Projects of the 50” is one of the comprehensive strategic initiatives launched by the UAE, which has the potential to promote the nation’s economic development on a domestic and international level, keeping with its goal of long-term, sustainable growth.

The most recent World Investment Report cites the actions taken by the UAE as a result of the Abu Dhabi government’s introduction of the virtual license. The virtual license enables foreign investors to apply for an economic license to conduct business in Abu Dhabi from anywhere outside of the UAE without the need for prior residency requirements. According to figures from the Ministry of Investment, Saudi Arabia recorded a 10.7% increase in FDIs in the third quarter of 2022. Aiming for US\$ 100 billion in FDI annually by 2030, the Kingdom has campaigned for a rise in FDI in recent years as part of the Vision 2030 goal to reduce reliance on fossil fuels.

Major foreign investors in Saudi Arabia are from the UAE, the US, France, Singapore, Japan, Kuwait, and Malaysia. The chemical sector, real estate, fossil fuels, vehicles, tourism, plastics, and machinery are the main targets of the investments. Such factors are expected to collectively boost the growth of the finance and investment sector during the forecast period.

2.3.1.2 Surge in e-Commerce

Digital payment is witnessing a tremendous surge in the GCC owing to rising shopping by millennials on e-commerce platforms. The pandemic was instrumental in boosting such adoption, owing to temporary movement restrictions enforced by governments to curb the spread of the virus. For instance, the eCommerce market in UAE jumped by 53% in 2020 with a record of US\$ 3.9 billion in sales, representing 10% of total retail sales. Additionally, the Dubai Chamber of Commerce and Industry forecasts US\$ 8 billion worth of sales through e-commerce by 2025, as the citizens have almost 100% of the population with internet and mobile phone access. Similarly, in most GCC nations, traditional brick-and-mortar retailers are turning quickly to an additional online retail platform for customers to augment their revenues. E-government services have also been migrated to online platforms. They are being integrated with online payment platforms to provide residents with faster and more effective public services such as traffic services, utility billing, licensing, and visa issuance. Such factors have increased consumers’ trust in online transactions, boosting the adoption of digital payments. All such factors have collectively aided in boosting fintech growth and improving the financial sector’s technology adoption.



2.3.1.3 Islamic Finance

Islamic banking, takaful (Islamic insurance), sukuk (Islamic bonds), and other financial goods and services that adhere to Sharia law are in high demand in GCC countries. Despite the economic slump, Islamic financing has a significant impact on banking, with sukuk issuance gaining traction. In 2022, the GCC countries recorded 92% of the growth in Islamic banking assets, with Saudi Arabia and Kuwait leading the way. The larger and more developed Islamic finance markets, such as the six GCC countries, continuously engage in improving their industries and attain a leading position in categories such as Islamic FinTech, regulations, and sustainability. From US\$ 1.2 trillion in 2012 to US\$ 4 trillion by the end of 2022, the total value of Islamic bank assets increased by more than 200%. According to the Arab Monetary Fund, Islamic finance in the Arab region has seen the most growth, accounting for 55% of global activity. The GCC alone is home to 11 of the world's top 20 Islamic banks, and accounts for half of the world's Islamic banking assets. The GCC is a global hub for Islamic finance, and the business is expanding, attracting both regional and international firms. Thus, Islamic finance is a prime factor fueling the growth of the finance and investment sector in the GCC.

2.3.1.4 Wealth Management

The GCC has a high concentration of high-net-worth individuals (HNWIs) and ultra-high-net-worth persons (UHNWIs). Dubai is the world's 23rd most popular city for ultra-wealthy people; it recorded an 18% rise in high-net-worth individuals in the first 6 months of 2022. The city's HNWI population reached 67,900 in 2022 from 54,000 in 2021. Dubai's centimillionaire population increased to 202 from 165 in 2021. The number of multimillionaires surged to 3,170 by 2022 from 2,480 in 2021. UHNWIs in Saudi Arabia, with a net worth of US\$ 30 million or more, grew by 17% in 2022. UHNWIs are expected to own 44% of overall financial wealth in Bahrain by 2025 while UHNWI numbers are expected to reach 9,100 by 2025 in GCC. 30 Qatari HNWI's were cumulatively worth ~US\$ 155 million at the end of 2022, while Oman's wealth derived from UNHWI stood at 12% in 2021. Overall, GCC's financial wealth is expected to rise from US\$ 2.7 trillion to US\$ 3.5 trillion from 2021 to 2026, as per a leading consulting group.

Wealth concentration triggers the demand for wealth management services such as investment counseling, asset management, estate planning, and succession planning. Locally and internationally, the banking sector caters to the needs of these wealthy individuals. In May 2023, a leading bank of Kuwait launched "Premium" account for HNWIs and UHNWIs, to provide them with a distinctive set of services and tailored products inside and outside Kuwait. Such trends are expected to be replicated throughout the GCC region and is expected to strongly drive the financial sector.

2.3.2 Challenge

2.3.2.1 Regulatory Frameworks, Investor Protection, and Sharia Compliance

In GCC countries, regulatory agencies such as central banks and capital market authorities oversee the operations of the financial and investment sectors. These organizations prioritize investor protection by setting laws and regulations to preserve financial stability and safeguard investors. They require financial institutions to offer clear information about the risks of investment products and to treat investors fairly. Nevertheless, GCC countries have also implemented processes for addressing disputes and protecting investor rights.



Islamic finance principles are prevalent in the GCC countries. Financial institutions offering Islamic financial products and services must adhere to Sharia principles and guidelines set by regulatory bodies such as the Sharia Supervisory Boards. These guidelines ensure compliance with Islamic law in banking and finance operations, in turn, limiting their exposure to banking and finance laws.

Additionally, Sharia-compliant banks refrain from issuing interest-based loans and are forbidden from making interest payments or 'riba'. Instead, Islamic banks use their customers' money to acquire assets such as property or businesses and profit when the loan is successfully repaid. They, however, avoid derivative instruments such as futures or options and prefer to have assets grounded in the real economy. However, during economic downturns, such assets have a high depreciation, which in turn reduces the value of the investment, and hence acts as a challenge for the sector.

2.3.2.2 Inflation

In the GCC, inflation rose from 0.7% year-on-year in July 2021 to 3.2% year-on-year in July 2022, owing primarily to increasing food prices. Foreign direct investments (FDI) fluctuate with the rise and fall of commodity prices in the GCC. Foreign investments are a valuable source of money. They encourage connections between local suppliers and consumer markets and stimulate human capital through financial aid provided for training local workers and hiring international personnel. While Oman (1.9%) and Bahrain (2.2%) had relatively low inflation rates, the average inflation is expected to reach 3.6 in 2022–2023, with Saudi Arabia reporting 2.7%, Qatar and Kuwait with 4.5% each, and the UAE recording more than 5% inflation. Hence, it is expected to cause fluctuations in FDI, challenging the growth of the finance sector. Subsidies and price caps on certain products (e.g., some food products, gasoline, electricity, and water), a strong dollar that reduces import costs, subdued rent prices despite higher supply in some segments (e.g., villas), a limited share of food in the consumer price index basket, and continued slack in the labor market (e.g., in Saudi Arabia) have all contributed to supply-side shocks and higher inflation in trading partners in the GCC. Such compound challenges, arising from inflation, is hindering the finance and investment sector.

2.3.3 Opportunities

2.3.3.1 Profitability Rebound

Banks in GCC countries experienced near-pre-pandemic profit levels in 2022 owing to the economic recovery and measures taken by central banks to tighten monetary policies. Net interest income, which is the difference between interest revenues gained from lending activities and interest paid to depositors, has surged in recent quarters as banks could pass on rate hikes to customers. The 20 largest GCC banks reported net interest income of US\$ 14.66 billion in the third quarter of 2022, up from US\$ 13.61 billion in the second quarter and US\$ 12.25 billion in the first quarter of 2022.

A leading bank of Qatar reported the highest net interest income of around US\$ 2.11 billion in the third quarter of 2022. A leading bank of Saudi Arabia earned US\$ 1.74 billion, while a leading bank in Dubai earned US\$ 1.67 billion. A leading bank in Kuwait posted a profit of US\$ 1.7 billion for the twelve months that ended in December 2022. It was up by 40.5% from the previous year. One of Oman's largest lenders by assets reported the first half of 2023's net profit of ~US\$ 270 million, 5% higher than the first half of 2022. A large Bahrani bank's net profit increased by 26% for the financial year 2022, and the total comprehensive income attributable to its shareholders increased by 73% to ~US\$ 207 million compared with ~US\$ 120 million in 2021. Lending in Saudi Arabia is expected to increase, supported by projects linked to the government's Vision 2030 framework. Higher interest



rates are expected to have an impact on new mortgage initiations. As the economic situation reaches back to the pre-COVID-19 levels, the GCC economy would get stronger owing to cash flows in the market, which is likely to improve the overall profitability of banks.

2.3.3.2 Initial Public Offerings (IPO) Boom

GCC is expected to record higher capital market activity in 2023 as more companies seek public listings, following a year in which this region experienced no significant downturn despite a slowdown in other regions. The collective value of initial public offerings (IPOs) in the region reached US\$ 21.4 billion in the first 11 months of 2022, which was the highest level since 2019 when Saudi Arabian Oil Co. floated. In terms of transaction volume, 2022 was the strongest year since 2008, with 46 IPOs noted in the region.

The IPO of Dubai Electricity and Water Authority PJSC, in April 2022, was the largest deal to date in terms of value, which raised more than US\$ 6 billion. A petrochemical business went public in June 2022 raising gross proceeds of US\$ 2 billion. When a regional operator of an American fast-food chain went public in November 2022, it raised more than US\$ 1.80 billion. Some other examples include:

- In June 2023, a leading Bahrani alternative asset managing company announced its plans to raise up to US\$ 600 million from the listing of an investment vehicle in Abu Dhabi.
- In March 2023, a leading Omani oil and gas corporation set the price for its IPO at US\$ 0.65 per share, and will be selling 49%, equivalent to 377.4 million shares.
- In January 2023, a Qatari Insurance company began trading on the Qatar Stock Exchange (QSE). It had announced its plans in December 2022
- In August 2022, a Kuwaiti conglomerate announced its plans to sell a minority stake in the company through an IPO.

Hence, the rise in IPO would attract more investors to invest in the stock market in various GCC countries, thereby contributing to their finance and investment sector.

2.3.3.3 Surging Real Estate Investments

The real estate market in GCC countries is flourishing as a result of the region's quick urbanization and infrastructure growth. Most countries in the region focus on expanding their urban capacities by promoting the initiation and completion of different dwelling projects. Additionally, the growing trend of smart cities is expanding the horizon for smart and green buildings. Real estate investment trusts and real estate investment corporations empower opportunities in real estate development, asset management, property management, and finance. In 2023, the real estate market in the GCC is anticipated to expand as a result of solid macroeconomic fundamentals. From January 2022 to September 2022, the value of real estate transactions in Saudi Arabia increased by 12.2% year over year to reach ~US\$ 46 billion. The real estate market in UAE recorded significant progress in 2022, with rising rents and home values. Moreover, the commercial sector in Kuwait grew by 241.6% year over year to reach the valuation of ~US\$ 404.09 million, and ~US\$ 830 million were invested in the sector in the third quarter of 2022.

With Qatar's selection as the host of the 2022 FIFA Men's World Cup, the construction industry became the largest non-minerals industry in Qatar, accounting for ~15% of its national GDP. The country quickly and steadily built a network of new hotels for guests and developed a state-of-the-art transportation system/infrastructure to meet tourists' and expatriates' needs.



In Kuwait, an upsurge in demand for public housing is projected to drive long-term residential construction growth. The Public Authority for Housing and Welfare of the Kuwaiti government plans to build 250,000 housing units by implementing a public-private partnership model in the next 15 years. This plan includes 11,000 units under the Sabah Al-Ahmad project and is expected to house up to 100,000 people upon completion. The South Al-Mutlaa City project will have the capacity to house 28,000 families upon completion.

The Nonprofit City of Prince Mohammed Bin Salman is expected to have 6,000 flats with floor layouts, 500 villas and townhouses, and residential spaces with room for 18,000 people. More than 306,000 sq. m. area is likely to be devoted to commercial space in this city, and 20,000 people are anticipated to work there. 99,000 sq. m. of area has been set aside for retail, entertainment, and food & beverage establishments that would cater to residents and guests.

The region's rapidly expanding population, and subsequently increasing demand for housing and other infrastructure projects are among the factors boosting the real-estate sector. Saudi Arabia alone has planned, developed, and carried out construction projects worth US\$ 895.8 billion or more to date to meet these demands. Further, projects worth US\$ 830.6 billion are in various stages of planning, development, and execution in the UAE.

All such projects have led to higher loan applications and finance requirements, from both buyers and developers. Hence, as real estate continues to grow in the GCC, it generates ample opportunities for investors to invest in these countries.

2.3.3.4 Technology Trends







GCC countries are expected to adopt new business models to match the pace with the digital revolution in the finance sector. Women, as well as Generation Z, are increasingly entering into workforces. Further, the population of ultra-wealthy people is increasing notably in GCC countries. The millionaire class is predicted to rise by 60% in the UAE alone during 2019-2030. Businesses and governments, alike, are being compelled to produce increasingly personalized products and services that cater to this exclusive class of demography.

Further, the scarcity of indigenous high-tech talent is fueling the region's investments in the upskilling of workforces. The UAE government has taken many steps to promote the growth of FinTech. Its DIFC Innovation Hub, inaugurated in May 2021, is projected to play an important role in fostering collaboration among early-stage and growing companies, tech unicorns, and large technology firms. The center is also expected to connect companies with commercial partners and actively implement financial initiatives. In September 2021, it reached full capacity with tenants, which included early - to growth-stage businesses.

GCC countries have experienced a significant increase in digital payment volumes over the past two years amid the growing smartphone penetration, the proliferation of new FinTech solutions, and a growing shift from cash to digital payments. According to the Central Bank of Bahrain, the number of digital payments in the country increased by ~50% year-on-year in 2021 to reach 125.5 million transactions. During the same period, the country had a yearly volume rise of 196% in mobile wallet payments. Thus, technology would play a critical role in the proliferation of the finance and investment sector in the GCC in the future.



2.3.4 Macroeconomic Factors Impacting the Sector

GOVERNMENT		<ul style="list-style-type: none"> • Taxation, subsidies, and monetary policies implemented by governments can have a considerable impact on the finance and investment sector. The GCC has been politically stable in general, creating a favorable climate for the financial and investment sectors. • Governments in GCC nations have been updating their laws, incentive measures, and initiatives in recent years to draw foreign investments.
ECONOMICAL		<ul style="list-style-type: none"> • The overall economic expansion of GCC countries, spurred by infrastructure development and diversification efforts, may present opportunities for the financial and investment industries. • Governments have taken many initiatives to attract foreign investors, including relaxing limitations on foreign investment, improving business accessibility, and establishing free zones. The UAE is ranked 17th in the world in terms of FDI inflows in 2021; the investments totalled US\$ 22.5 billion in 2021, with a 19% increase over the previous year.
SOCIAL		<ul style="list-style-type: none"> • Most GCC nations are undergoing social transformations and experiencing profound demographic changes in local societies. Focus on nationalization is supporting social development as well. • The large youth population in GCC countries is highly tech-savvy and seeks new financial services. Islamic finance is important in the GCC as a large percentage of the population prefers Sharia-compliant financial goods and services.
TECHNOLOGICAL		<ul style="list-style-type: none"> • The finance and investment sector in the GCC is undergoing digital transformation with the adoption of financial technologies (FinTech) such as Internet banking, mobile apps, and blockchain technology. • The UAE government has been taking various actions to encourage further developments in FinTech. The DIFC Innovation Hub, the GCC's first ecosystem devoted to uniting the FinTech and innovation communities, was launched in the UAE in May 2021
ENVIRONMENTAL		<ul style="list-style-type: none"> • GCC countries increasingly emphasize investing in ESG issues and sustainable financing. Governments encourage investors to take environmental considerations into account when making investment decisions, which has resulted in green finance projects and sustainability-related products.
LEGAL		<ul style="list-style-type: none"> • Intellectual property rights must be protected to stimulate innovation and ensure fair competition in the finance and investment sector. Islamic finance necessitates a distinct legal framework to ensure Sharia compliance. Each GCC country has its unique foreign investment regulations, including ownership limitations and incentives. Understanding these policies becomes critical for international investors.

Source: The Analyst Team



3. Country Level Impact of COVID-19 Pandemic on Finance and Investment Sector

3.1 GCC

The GCC nations, whose economies mainly rely on oil earnings, saw a substantial decrease in oil prices after the onset of the COVID-19 pandemic and the subsequent lowering of the demand worldwide. The pandemic led to economic growth slowdown and budget deficits, which had a negative effect on government expenditure and investment activities. Financial markets in the GCC have seen an upsurge in volatility because of uncertainty among investors and global market patterns. Significant swings in the stock market caused a loss in the value of many investment portfolios. Thus, the pandemic limited FDI inflows into GCC countries. Further, travel restrictions, supply chain interruptions, and economic uncertainty hampered cross-border investment operations and weakened investor confidence.

The governments of GCC countries encountered financial difficulties because of declining oil revenues, rising healthcare costs, and stimulative policy implementation (for supporting other industries). The pandemic brought a change in investment tactics in these countries, as the governments put a greater emphasis on industries such as healthcare, technology, and e-commerce, which recorded faster growth during the crisis. The finance and investment sector in the GCC intensified its digital transformation, which is apparent through the increased use of digital banking and online investment platforms. This move toward digitization is expected to have a long-term effect on the finance and investment sector in the GCC.

Further, with economic recovery and the central bank's efforts to tighten monetary policies, banks in the GCC reported profits that are nearly at pre-pandemic levels in 2022. The financial policy related measures, which were undertaken to during the pandemic, were as follows:

Table 2. Monetary and Financial Policy Measures in Response to the Pandemic

Country	Reduced policy rates	Liquidity support	Loan payments deferral	Concessional financing	Loan guarantees	Regulatory and prudential
Bahrain	✓	✓	✓	✓	✓	✓
Kuwait	✓		✓	✓	✓	✓
Oman	✓	✓	✓	✓		✓
Qatar	✓	✓	✓	✓	✓	
Saudi Arabia	✓	✓	✓	✓	✓	
UAE	✓	✓	✓			✓

Source: Country Authorities and IMF



Country governments have taken several actions to entice foreign investors, including lowering barriers to foreign investment, improving business accessibility, and establishing free zones. The financial and investment industry plays a significant role in facilitating and managing these investments. Some of the initiatives taken to mitigate such challenges are given in the below table:

Table 3. Monetary and Financial Measures to Mitigate Pandemic Effect

Country	Reduced policy rates	Liquidity support offered	Loan payments deferral	Concessional financing	Loan guarantees	Regulatory and prudential
Bahrain	Yes	BD 4.5 billion zero interest repo	For private sector until December 2021	Redirected Tamkeen (Labor Fund) programs to provide financing to SMEs affected by the pandemic.	Doubled the SMEs liquidity fund to BD200 million.	Reduced cash reserve ratio, LCR and NSFR; relaxed LTV for new residential mortgages; reduced the risk weight of loans to SMEs; allowed the booking of loan deferral-related losses directly to equity and not to P&L; amended IFRS9 classification for Stage 2 and Stage 3 assets.
Kuwait	Yes		For citizens' loans until September 2021	CBK issued guidelines for concessional lending to SMEs	For clients whose businesses are affected by the coronavirus pandemic	Reduced capital requirements, LCR, and NFRS, relaxed LTV for existing homes and home construction; reduced the risk weight of loans to SMEs
Oman	Yes	Repo facility (OMR 1.7 billion) in, FX swap (OMR 1 billion)	For individuals and firms (OMR 1.7 billion), and postponed loan servicing for borrowers (SMEs) of Oman Development Bank and Al Raffd Fund.	Interest-free emergency loans (OMR 19.3 million)		Reduced capital conservation buffer (OMR 4.2 billion) Increased lending ratio from 87.5 percent to 92.5 percent (OMR 1.5 billion) Allowed banks to defer the risk classification of loans related to government project (OMR 1.3 billion) Allowed tolerance up to 25 percentage points in LCR and NSFR Relaxed LTV for first-time buyers;



GCC FINANCE AND INVESTMENT SECTOR OUTLOOK

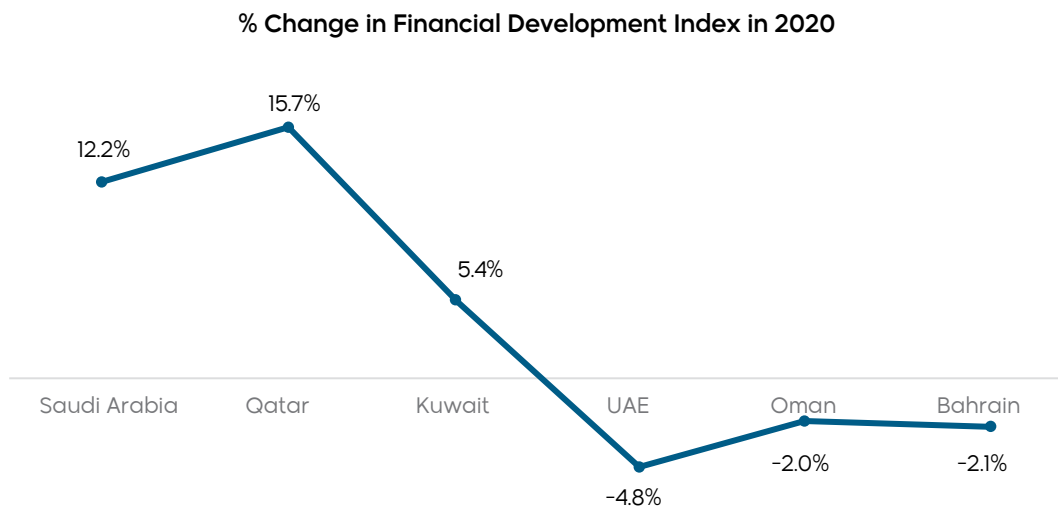
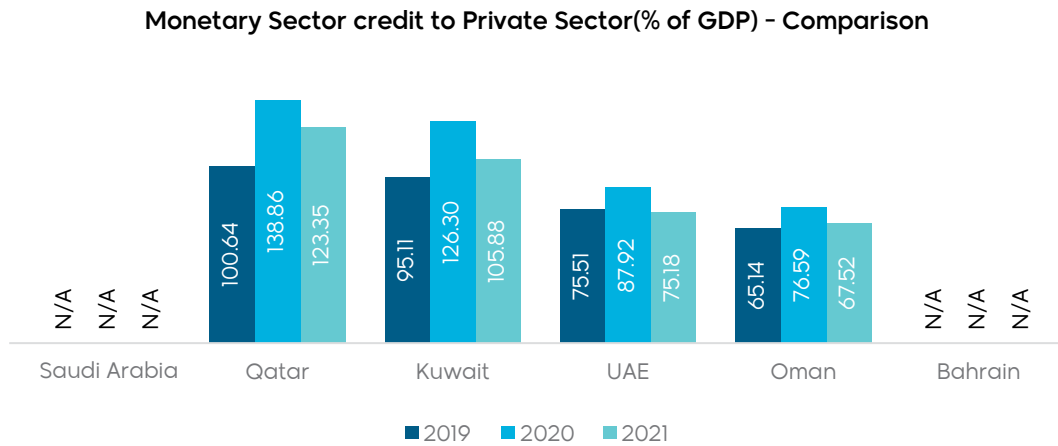
Country	Reduced policy rates	Liquidity support offered	Loan payments deferral	Concessional financing	Loan guarantees	Regulatory and prudential
Qatar	Yes	QR 50 billion zero-interest repo window	For private sector until June 2021	Capped rates for loans to private sector companies for wages and rental payments until September 2021	QR5 billion guarantees for loans to private sector companies for wages and rental payments until September 2021	
Saudi Arabia	Yes	QR5 billion guarantees for loans to private sector companies for wages and rental payments until September 2021	For affected MSMEs until end-December 2021	To SMEs, until March 2022; National Development Fund financing to the private sector	SAR11 billion	
UAE	Yes	AED 50 billion zero-interest rate collateralized loans to banks	No blanket deferral: deferral is on individual bank basis			Reduced reserve requirements; allowed the use of banks' liquidity, stable funding, and capital buffers; introduced a prudential filter; relaxed LTV ratio for first-time home buyers; and adjusted risk weights of loans to SMEs in line with the revised Basel III Standardized Approach for Credit Risk

Source: Country Authorities and IMF



3.2 Impact Assessment of the Pandemic

Figure 12. Impact of COVID-19 Pandemic



Source: IMF and World Bank & OECD estimates

The above images showcase the estimated positive/negative impact of the pandemic on each country's finance and investment sector. The same was deduced from the overall GDP growth, domestic consumption, changes in the financial development index, credit to different sectors, and total reserves' growth/decline, among others. As can be seen, the pandemic led to a rise in credit to private sector. Downturn in business resulted in requirement for loans for the private sector, which boosted borrowing. As indicated by the Financial Development Index graph, the UAE, Oman and Bahrain recorded negative growth, suggesting the negative impact of the pandemic on its banking sector.

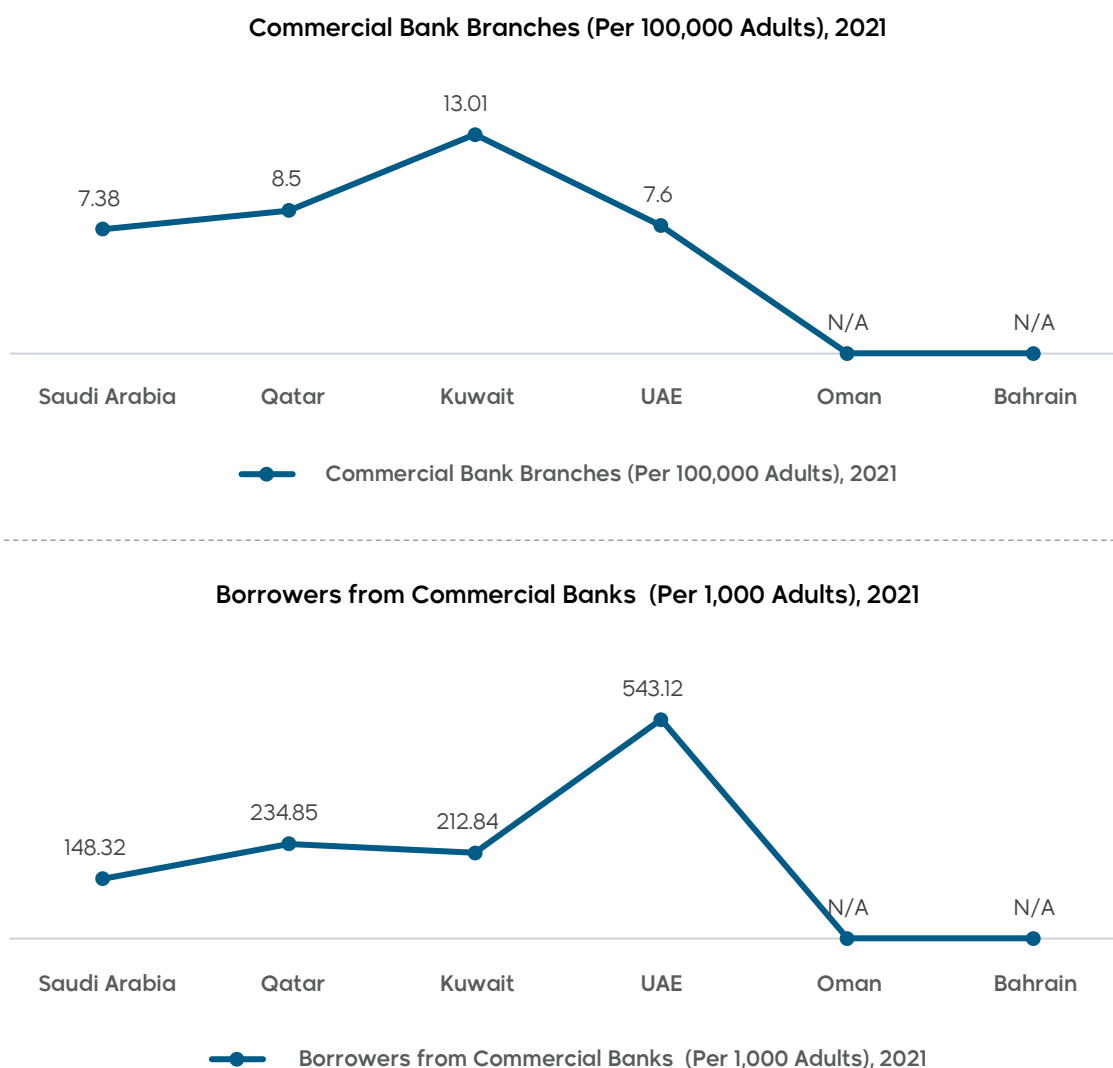


4. GCC Sector Outlook Comparison

4.1 Statistics Comparison Between GCC countries

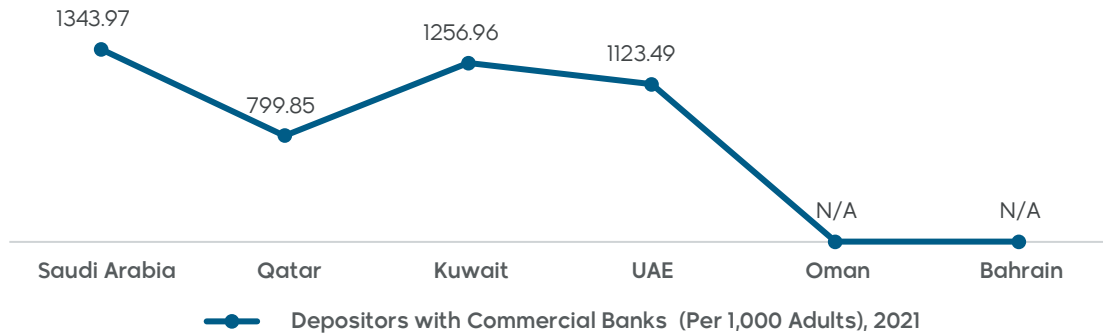
Some of the statistical comparison between GCC nations are as follows:

Figure 13. Statistics Comparison

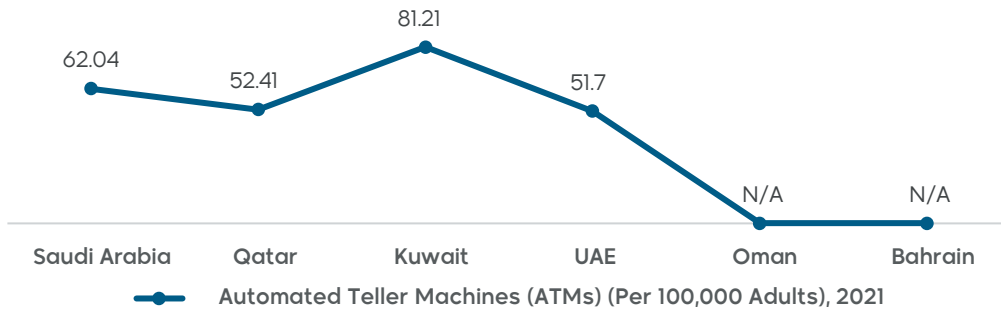




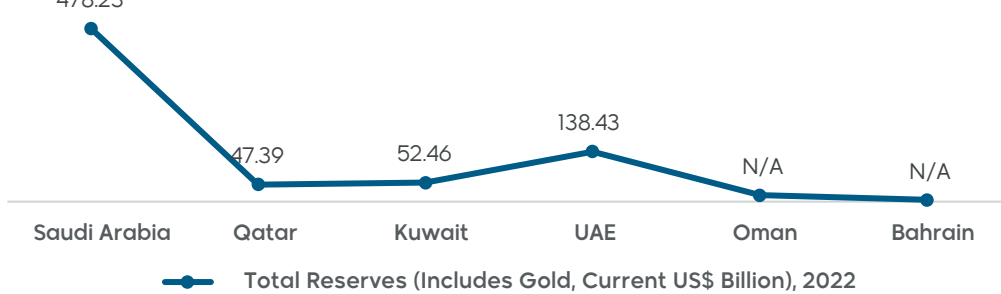
Depositors with Commercial Banks (Per 1,000 Adults), 2021



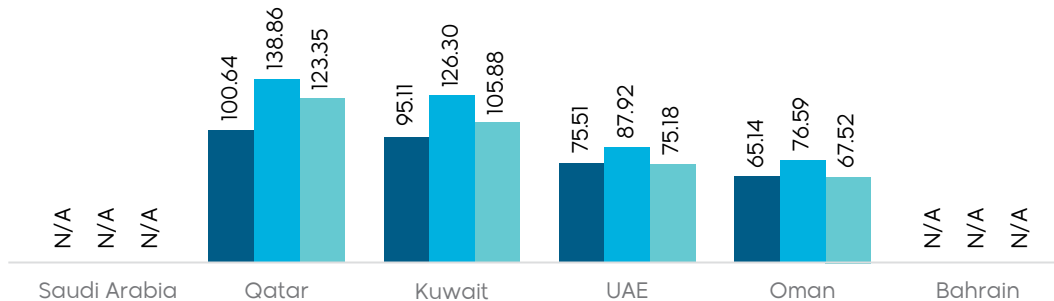
Automated Teller Machines (ATMs) (Per 100,000 Adults), 2021



Total Reserves (Includes Gold, Current US\$ Billion), 2022



Monetary Sector credit to Private Sector(% of GDP) - Comparison

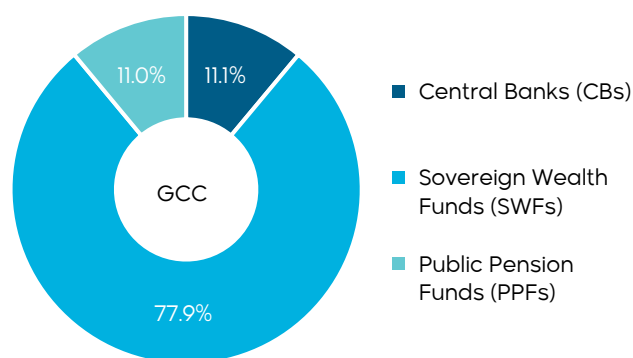
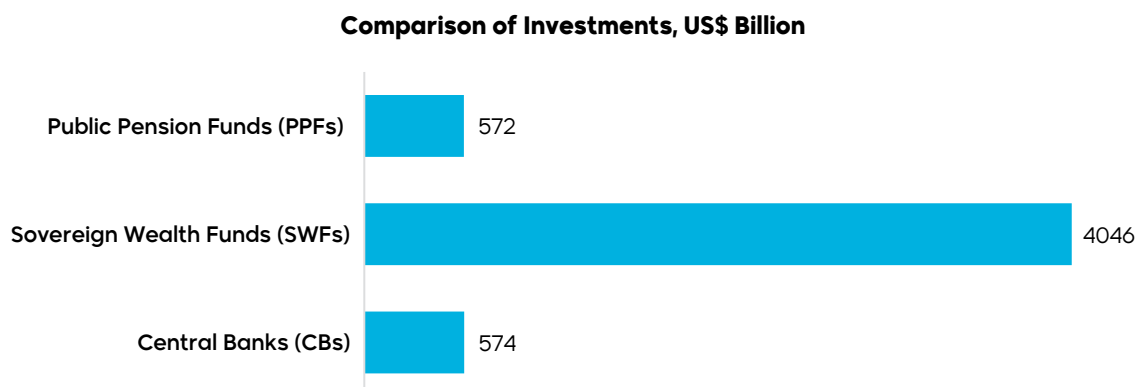


Source: World Bank

The above figures provides a comparison between the GCC nations, with respects to various parameters. As can be seen, GCC nations had larger credit % to private sector.



Figure 14. SOI Investment Statistics Comparison



Source: Company Financials and The Analyst Team

Sovereign Wealth Funds (SWFs) emerge as the dominant investors with a substantial investment of \$4046 Billion, reflecting their significant financial clout and strategic investment activities. Central Banks (CBs) follow with an investment totaling \$574 Billion, indicating their role in managing monetary policy and reserves within the GCC economies. Public Pension Funds hold comparatively lesser investments at \$572 Billion, yet they play a vital role in securing the financial future of retirees and supporting broader economic stability. The SWFs of GCC have more than 75% share of the overall investment from SOIs of the region. This also reflects the dominance of GCC based SWFs globally.

4.2 Opportunities for Cooperation and Investment Between GCC Countries

The financial and investment sector in the GCC has witnessed significant growth and development over the years. The countries have robust financial sectors, and they are attractive destinations for investment. However, various opportunities for cooperation and investment in the banking sector between GCC are still unexplored.



4.2.1 Blockchain-Based Banking

Developments in blockchain technology are creating opportunities for collaboration between the GCC countries for the development of mutual, decentralized financial systems that offer secure and transparent transactions without intermediaries. Further, blockchain technology would automate and streamline loan syndication and lending processes between GCC countries. The financial sector in the GCC countries are undergoing a digital revolution. GCC countries are investigating the use of blockchain to minimize fraud, boost transparency, and speed operations. The UAE has announced the Emirates Blockchain Strategy 2021, which intends to integrate blockchain technology into several government areas, such as health, education, and transportation. Collaborations pertaining to digital banking might include cooperation between financial institutions. Other prospects of digital banking include information sharing, joint ventures and investments in digital payment systems, mobile banking, blockchain technology, etc. Saudi commercial and digital banks have huge opportunities to capitalize on giga projects through debt capital injection, refinancing, and other corporate and treasury solutions.

4.2.2 Central Bank Digital Currencies (CBDC)

CBDCs are a new tool for implementing fiscal policy. They can permit central banks to control the money supply more efficiently, which can facilitate stabilizing the economy besides preventing inflation. CBDCs can also offer central banks real-time data on the state of the market, which can help them make improved policy decisions. Several banks in GCC countries have been exploring the possibilities of issuing digital currencies that can be synced for fast and safe transactions. They have the prospective to improve payment efficiency, accessibility, boost financial inclusion, and raise security and transparency. They offer rapid transactions, which can assist in reducing the time and cost of cross-border payments. CBDCs can provide individuals who do not have access to traditional banking services with a safe, secure, and affordable way to store and transfer money. By introducing central bank digital currencies (CBDCs), central banks in GCC can enhance financial inclusion by providing a secure and accessible digital payment infrastructure.

4.2.3 Underpenetrated Banking and Financial Sector

GCC countries, particularly Qatar and the UAE, have positioned themselves as regional financial hubs with robust banking systems and vast assets. The Kingdom of Saudi Arabia intends to expand the financing choices available for small and medium-sized projects by addressing the major problems faced by financing firms, enabling them to collaborate with international banks and compete more effectively with commercial banks.

4.2.4 Capital Market and Wealth Management Collaboration

Strengthening associations between the GCC countries' financial markets can lead to cross-listings, dual listings, and investment diversification. Enhanced collaborations among stock exchanges, regulatory bodies, and market participants can improve capital movement, promote liquidity, and attract overseas investors. Joint initiatives such as forming cross-border investment



funds, and harmonizing listing and disclosure standards would help both regions in easy capital flow and overall wealth management would be streamlined.

4.2.5 Joint Banking Consolidation

Joint banking consolidation between GCC countries can potentially create a more robust and competitive banking sector in the GCC region. GCC countries have been home to many small, capped banks, which are likely to focus on the consolidation of mergers with internationally recognized banking giants to strengthen their portfolio and global popularity. Banks throughout the GCC have recently joined forces to compete on regional and global levels. This tendency is likely to become a trend in the coming years, which would include banking collaborations with other countries.

4.2.6 Advancements in Islamic Finance

The GCC countries significantly adopt Islamic banking, Islamic bonds known as sukuk, Islamic insurance known as takaful, and so on. Collaborations and joint ventures can aid in the development of innovative Islamic financial products and services.

4.3 Challenges and Possible Solutions

Local banks in the GCC have huge cash and asset deposits. The GCC is one of the largest Islamic banking markets, with ~US\$ 300 billion in financial assets and nearly one-third of global Islamic banking assets. Hence, they prefer local banks to international banks for any investment or finance-related projects. Also, banking sectors in GCC countries have a minimum level of competition, unlike other regions in the world. Stringent licensing requirements; a lack of non-bank financial institutions, and relatively shallow capital markets; low competition from foreign banks due to limits on foreign ownership; and the inability of banks to engage in non-traditional banking activities due to activity restrictions result in a low level of competition in the GCC. However, the effective development of capital markets, including debt markets, can help promote competition in the finance sector in the region to reduce lending rates by allowing investments by cross-border banks, particularly for long-term finance arrangements.

The banking sector in GCC countries is mostly domestically owned. This reflects entry barriers and licensing restrictions for international or cross-border banks. Hence, the cross-border presence of GCC and other foreign banks is limited and is mostly in the form of branches, in many cases as a single branch. However, a majority of the GCC nations are open to FDIs, and this could provide lucrative opportunities for foreign investment firms to invest in GCC for a long-term gain.

The GCC countries are focused on raising funds to support their respective "Vision" plans, which are one-of-a-kind transformative economic and social reform blueprints that allow them to open up to the rest of the world. Under these Vision plans, they are planning to set up their banking subsidiaries in countries that are in need, wherein they can fund them and gain capital flow in their national banks.



5. Appendix

5.1 Word Index

Table 4. List of Abbreviations

Abbreviation	Expansion
AI	Artificial Intelligence
AOAD	Arab Organization for Agricultural Development
APAC	Asia Pacific
BRSA	Banking Regulation and Supervision Agency
BSTDB	Black Sea Trade and Development Bank
CAGR	Compound Annual Growth Rate
CBDC	Central Bank Digital Currency
CBUAE	Central Bank of the UAE
COVID-19	Coronavirus Disease 2019
CSR	Corporate Social Responsibility
DFSA	Dubai Financial Services Authority
EC	European Commission
EBRD	European Bank for Reconstruction and Development
EU	European Union
FDI	Foreign Direct Investment
FinTech	Financial Technology
FTA	Free Trade Agreement
FZ	Free Zone
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GEU	World Bank Gulf Economic Update
HNWI	High-Net-Worth Individual
ICLS	International Conference of Labour Statisticians
IEA	International Energy Association
ILO	International Labour Organization
IMF	International Monetary Fund
IPO	Initial Public Offering



Abbreviation	Expansion
IsDB	Islamic Development Bank
ITA	International Trade Administration
MEA	Middle East and Africa
MOCCAEC	Ministry of Climate Change and Environment
MoCIIP	Ministry of Commerce, Industry and Investment Promotion
MoEWA	Ministry of Environment, Water and Agriculture
MoHRE	Ministry of Human Resources and Emiratization
MSE	Muscat Stock Exchange
MT	Metric Ton
NDP	National Development Plan
NPP	Nuclear Power Plant
OECD	Organisation for Economic Co-operation and Development
PESTLE	Political, Economic, Social, Technological, Legal, and Environmental
PPP	Public-Private Partnership
QNB	Qatar National Bank
QNDF	Qatar National Development Framework
QNMP	Qatar National Master Plan
R&D	Research & Development
SCA	Securities and Commodities Authority
SEZ	Special Economic Zone
SME	Small & Medium Enterprises
SOE	State Owned Enterprises
SWF	Sovereign Wealth Fund
UAE	United Arab Emirates
UK	United Kingdom
US	United States
US\$	US Dollar
WHO	World Health Organization
Y-o-Y	Year on Year

Source: Analyst Team



5.2 Key Sources

Table 5. Key Sources

Bahrain Petroleum Company	International Trade Administration
Boursa Kuwait / Kuwait Stock Exchange	Ministry of Climate Change and Environment, UAE
Central Bank of Bahrain	Ministry of Human Resources and Emiratization, UAE
Central Bank of Kuwait	Ministry of Industry and Advanced Technology, UAE
Central Bank of the UAE	National Center for Statistical Information, Oman
Central Informatics Organisation, Bahrain	Organisation for Economic Co-operation and Development
Central Statistical Bureau, Kuwait	Observatory of Economic Complexity
Federal Competitiveness and Statistics Centre, UAE	Organisation of the Petroleum Exporting Countries
General Authority for Statistics, Saudi Arabia	Planning and Statistics Authority, Qatar
Gulf Cooperation Council	Qatar Central Bank
Gulf Investment Corporation	Saudi Central Bank
Gulf Petrochemicals and Chemicals Association	United Nations Conference on Trade and Development
International Labour Organization	World Bank
International Monetary Fund	World Health Organization
Institute of International Finance	World Trade Organization



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The Gulf Research Center is an independent research institution, whose motto is "Knowledge for All." Its work serves the issues and goals of the peoples and countries of the Gulf region. The center was established in July 2000, and its headquarters are in Jeddah, Saudi Arabia. It has branches in Riyadh, Saudi Arabia, Cambridge University, United Kingdom, and Geneva, Switzerland.

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