CFA INSTITUTE RESEARCH FOUNDATION / **BRIEF**

MIDDLE EAST CAPITAL MARKETS
CHALLENGES AND OPPORTUNITIES

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EDITORS

AFCM ARAB FEDERATION OF CAPITAL MARKETS

CFA Institute Research Foundation

MIDDLE EAST CAPITAL MARKETS

Challenges and Opportunities

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Luis Garcia-Feijóo, CFA, CIPM
Editors

CFA Institute
Research
Foundation

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BIOGRAPHIES

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Ali As'ad Abbas is manager of the Training and Development Center at the Iraq Stock Exchange (ISX), Baghdad. He holds a bachelor's degree in business administration from the University of Baghdad.

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Omar Alzaim, CFA, is the vice president of CFA Society Saudi Arabia, where he previously served as both the career consulting chair and the membership chair. He is currently the head of the Investment Banking Division at Goldman Sachs Saudi Arabia. Previously, Mr. Alzaim worked at HSBC and Deutsche Bank. He has spent more than 10 years in investment banking in Saudi Arabia, focusing on the Saudi equity capital markets, mergers and acquisitions, and privatizations. He also has been active in supporting and engaging with regulators in the development of the local capital markets. Mr. Alzaim graduated with first-class honours from King's College London, earning a BEng in engineering with management.

Rasha Dayyat is the director of planning and institutional development at Amman Stock Exchange (ASE), where her duties include preparing the ASE's strategic plan, developing indexes continuously in line with the latest international practices, preparing the ASE's annual report, and managing the ASE's risk exposure. Previously, Dr. Dayyat was an assistant professor in finance at Princess Sumaya University for Technology and before that at Mu'tah University, specializing in monetary policy and capital markets. She also served as an advisor on Oman and Qatar to the IMF Director of the Middle East region in Washington, DC.

Dr. Dayyat has also held different administrative and leadership positions, including vice dean and head of department, at Princess Sumaya University for Technology and at Mu'tah University. She has also been an economic consultant for the Delegation of the European Union, where she drafted the public financial management report. She recently earned an accreditation in sustainability from Social Value International. Dr. Dayyat holds a bachelor's and master's degree in economics from Mu'tah University and a PhD in finance from Coventry University.

Ali Ebrahimnejad is an assistant professor of economics and finance at the Graduate School of Management and Economics, Sharif University of Technology, and also a partner at Parthian Advisors. He received a PhD in finance from the Carroll School of Management at Boston College. Prior to his PhD studies, Professor Ebrahimnejad earned an MSc in finance from Queen's University, Canada; an MPhil in economic and financial research from Maastricht University, the Netherlands; and a BSc in mechanical engineering from Sharif University of Technology. He has served as a member on various companies' boards. Prior to joining Sharif University, Professor Ebrahimnejad worked as an associate for Cornerstone Research in the United States. His areas of interests include financial markets and institutions, corporate ownership and governance, and financial regulation.

Fadi A. Kanso is head of research at the Arab Federation of Capital Markets (AFCM) and a lecturer at the Lebanese International University (LIU). An experienced senior economist and analyst, he has been a lecturer for more than 15 years, with a demonstrated path of working in the banking sector and the higher education industry. Dr. Kanso is an economic commentator, a policy strategist, and author of more than 20 published articles focusing on economic policy affairs. He deals with key macroeconomic and financial markets issues and has in-depth knowledge of Middle Eastern and North African economies. Dr. Kanso is skilled in microeconomics, macroeconomics, statistics, and time-series analysis and holds a PhD in economics from Paul Cézanne University.

Fahad Kordi, CFA, is a treasury professional and the head of investments at Banque Saudi Fransi. During his 10 years with the bank, he has gained experience in both the derivatives and credit spaces. Mr. Kordi holds an honorary MS in finance and investment from the University of Exeter and an honorary bachelor's degree in accountancy and finance from the University of Aberdeen.

M. R. Raghu, CFA, is the CEO of Marmore Mena Intelligence, a research subsidiary of Kuwait Financial Center (Markaz), a leading asset management company based in Kuwait. Mr. Raghu is also an economic advisor to Markaz. In a career spanning more than 33 years, Mr. Raghu has dedicated nearly 22 years of service to the Arabian Gulf region (in Riyadh, Bahrain, and Kuwait). Prior to this stint in the Gulf region, he worked with several leading institutions based in India, including the largest mutual fund, Unit Trust of India. Mr. Raghu was the founding board member of CFA Bahrain Society and the founding president of CFA Kuwait Society, and he has served on the CFA Institute Education Advisory Committee. He holds a certified Financial Risk Manager (FRM) designation from the Global Association for Risk Professionals (based in the United States) and is a Fellow of the Institute of Cost Accountants of India. He obtained a bachelor of commerce degree from Loyola College, Chennai, India, in 1986.

Amir Sajedian, CFA, CIPM, is a buy side analytics specialist at FactSet, which provides leading financial analytical applications and information to global investment professionals. Before joining FactSet, he worked in the quantitative analytics and performance analytics departments of Alberta Investment Management Corporation, which manages the assets of provincial pension plans, endowments, and foundations across Alberta, Canada. Mr. Sajedian serves as vice president of CFA Society Edmonton, where he has also served on the board of directors and as secretary and director of candidate relations and university outreach. He is currently promoting and supporting the CFA Institute brand both in the local region and abroad by voluntarily consulting and advocating for Iranian candidates. Mr. Sajedian has been awarded the FRM certificate.

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FOREWORD: ARAB FEDERATION OF CAPITAL MARKETS

The Middle East continues to face one challenge after another, from political unrest to economic crises and default, along with a costly and destructive war that has no clear path to peace.

Around the world, monetary policies are shifting gear, affecting the markets; waves of inflation are rising; and commodities and oil prices are surging. The markets in the Middle East are by no means isolated from these global trends.

The CFA Institute Research Foundation has partnered with the Arab Federation of Capital Markets to help produce this fantastic publication. The long-standing partnership between CFA Institute, the Research Foundation, and local CFA societies has proven crucial to developing local talent and quickly improving capacity-building measures.

I would like to thank all who worked on this publication and look forward to many other contributions from them in the future.

Rami El-Dokany
Secretary General at
Arab Federation of Capital Markets

FOREWORD: CFA INSTITUTE

My generation has never lived in a world of double-digit inflation, and we are about to witness how the global economy deals with this new era of high inflation, high interest rates, and most probably a recession. Oil prices are inordinately high and may continue to increase on the back of the war in Ukraine and the sanctions placed on Russia.

The world of investing is in a state of shock as the previous era of abundant liquidity comes to an end, progressively giving way to an era of expensive financing. How will investments, consumption, and economic growth survive in this scenario?

The Middle East, specifically the oil-producing countries, will benefit from high oil prices and thus will be able to support their economies. Non–oil producing nations in the region, however, will have insufficient resources to bail out their economies from recession.

We have witnessed several oil-rich economies (members of the Gulf Cooperation Council) previously supporting other economies in times of crisis, and we hope this generous behavior will continue in the coming months to protect the region from further disruption and conflicts.

The Middle East has been investing heavily in diversifying its growth model away from fossil fuel. This effort has been reinvigorated with a strong commitment to better practices in ESG, and the tone is being set from the top. The next UN Climate Change conferences, COP 27 and COP 28, will be hosted by Egypt and the United Arab Emirates, respectively. These summits will put the region on the global agenda in a major effort to build capacity through renewable energy solutions, innovation, and cutting-edge technologies in the transition toward a green economy and carbon-neutral world. The Middle East's ESG disclosure score doubled in the last four years!

A deliberate and tireless pursuit of higher education, ethical standards, and professional excellence will fuel the regional flywheel of knowledge and investor confidence in developing Middle Eastern markets.

I congratulate the Research Foundation for this timely and valuable contribution to the body of knowledge surrounding the Middle Eastern economies. At different stages of development, each of these markets provides a mix of domestic fundamentals and connectivity to the global markets. This collection of detailed, country-level perspectives from highly qualified, in-country experts should catalyze greater understanding and inclusion of these economies in the global investment arena.

William Tohmé, CFA
Senior Regional Head,
MENA, CFA Institute

INTRODUCTION

The Middle East economies and their respective capital markets are a unique combination of extremes—from the vibrant, trade-based United Arab Emirates and resource rich Kuwait and Qatar to ones like Iraq and Lebanon that are currently experiencing challenging times.

This brief covers the history, current characteristics, and challenges and opportunities of ten capital markets from the Middle East. Each chapter is written by local authors familiar with the corresponding market: Bahrain, Iran, Iraq, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, and UAE.

The selected capital markets vary in terms of size and stage of development. However, in aggregate, a few general attributes of the capital markets in the region are worth highlighting:

- The major companies are government owned.
- Oil and gas exports are the main source of revenue.
- The region is cash rich, so the main function of the equity market is to privatize state assets/share the national wealth with citizens, rather than to raise funds to finance business.
- There is a strong preference for Islamic finance, one of the consequences being that the equity market is much more developed than the debt market.
- The capital market institutions are relatively young and in the process of development.
- Many countries have dedicated "free zones"—jurisdictions that encourage and incentivize various sectors, including the financial sector.

As Middle East economies work to diversify away from oil and gas, the capital markets will become more and more important to fund this diversification. In turn, their sophistication will gradually increase, adding new instruments and increasing liquidity. These developments will offer a unique set of opportunities for investors, especially for active managers that understand the particularities of the region.

Bogdan Bilaus, CFA
Vice President
CFA Society Doha

Luis Garcia-Feijóo, CFA, CIPM
Research Director
CFA Institute Research Foundation

BAHRAIN

1987 — The Bahrain Stock Exchange (BSE) was established through Amiri Decree No. 4.

1989 — The BSE officially commenced operations.

2006 — The legislative and regulatory authority and supervision of the BSE was transferred from the Ministry of Commerce to the Central Bank of Bahrain (CBB).

The Central Bank of Bahrain and Financial Institutions Law was promulgated.

2009 — Bahrain Bourse was established as a licensed closed Joint Stock Company, officially called Bahrain Bourse B.S.C.(c).

2010 — The BSE restructured to a closed shareholding company.

2014 — A new NASDAQ OMX platform was launched.

2015 — The first tradable sukuk in the Middle East were issued.

REIT listing rules were established.

2016 — The Treasury bill market was launched.

2017 — The first REIT was listed.

The Investment Academy was launched.

Bahrain Clear opened.

Source: Bahrain Bourse.

BAHRAIN

Dalal Aassouli
Assistant Professor of Islamic Finance, Hamad Bin Khalifa University (HBKU)

Equity Market Capitalization (USD)	**25** Bn
Domestic Equity Market Cap/GDP	69.87%*
Daily Average Value of Shares (USD)	**2.3** Mn
Number of Listed Companies	43

N.A.	Debt Market Capitalization (USD)
N.A.	Domestic Debt Market Cap/GDP
N.A.	Debt Market Instrument Total Nominal Traded
14	Number of Issuers (Bonds and Sukuk)

Note: Data as of 31 December 2020.
* Bahrain Bourse (2019).

The Bahrain Stock Exchange (BSE), launched in 1987 by Amiri decree, officially began operations in 1989. In 2010, the exchange was licensed as a joint stock company, and a year later, it was restructured into a closed shareholding company. The exchange was then renamed Bahrain Bourse (BHB).[1] As of December 2020, the market capitalization of BHB stood at USD65,213.5 million, and listed securities included 43 equities, 9 bonds, 5 sukuk, 34 Treasury bills, and 9 mutual funds.

Bahrain Bourse launched Bahrain Clear in 2017, a fully owned subsidiary of BHB that is licensed by the Central Bank of Bahrain (CBB) as a Clearing, Settlement, and Central Depository System. In 2016, Bahrain Bourse launched Bahrain Investment Market (BIM), an innovative equity market that enables fast-growing companies in Bahrain, the Gulf Cooperation Council (GCC), and the wider Middle East and North Africa (MENA) region to raise capital via direct offering.[2] Compared with the other markets operated by BHB, BIM offers more relaxed requirements, such as a lower capital limit and lower fees. BIM also improves access to financing for small and medium-size enterprises (SMEs) that do not meet the listing criteria for BHB's main board (Oxford Business Group 2017). In 2018, Bahrain Clear launched an eIPO system with an APM Terminals Bahrain offering, which played a major role in the modernization of Bahrain Bourse.

The CBB is Bahrain's only regulator. Regulation and oversight of Bahrain's capital markets falls under the responsibility of the CBB's Capital Market Supervision Directorate, which oversees both the primary and secondary markets.

[1] www.bahrainbourse.com/resources/files/profile_brochure.pdf.

[2] www.bahraininvestmentmarket.com/what-is-bim.

The CBB also regulates and supervises crypto-asset service licensees.

In 2016, SICO Bank launched a USD112.7 Bahrain liquidity fund with a goal of enhancing the Bahraini capital markets and improving Bahrain Bourse's average daily trading volume. The fund plays a market-maker role, with SICO Bank providing two-way quotes on most listed securities and lower spreads (Oxford Business Group 2019). In 2020, BHB adopted new listing rules reflecting amendments to the corporate actions timeline to provide shareholders with additional time and flexibility in conducting their trading transactions. In addition, Bahrain Bourse implemented new procedures related to listed companies with accumulated losses of 20% or more of their share capital based on financial results from Q3 2020.[3]

In keeping pace with the innovations in the major financial centers around the globe, Bahrain introduced new rules and policies relating to crypto-assets in line with its Economic Vision 2030 to promote innovation and develop a fintech ecosystem supporting Bahrain's position as a leading financial hub in the region.

In 2021, Bahrain Bourse announced a plan to adopt the Global Industry Classification Standard (GICS) for listed companies, which covers 11 sectors representing the first level of GICS.

EQUITIES

The two major BHB indexes are the Bahrain All Share Index (BAX) and the Bahrain Islamic Index. The BAX is a capitalization-weighted index that tracks the performance of shareholding companies listed on BHB. The Bahrain Islamic Index tracks the performance of 16 listed shari'a-compliant BHB stocks.

The BAX closed at 1,489.78 points at the end of 2020, a drop of 748% compared with the previous year. It reached a record low of 1,009.8 points in March 2003 and an all-time high of 2,880.8 points in February 2008. **Figure 1** shows the historical equity market capitalization of BSE.

Commercial banks dominate market capitalization, as shown in **Figure 2**. In 2020, the commercial bank sector accounted for 52.97% of the total market capitalization, followed by the investment sector (19.14%), services sector (16.96%), industrial sector (8.02%), insurance sector (1.73%), and hotel and tourism sector (1.18%).

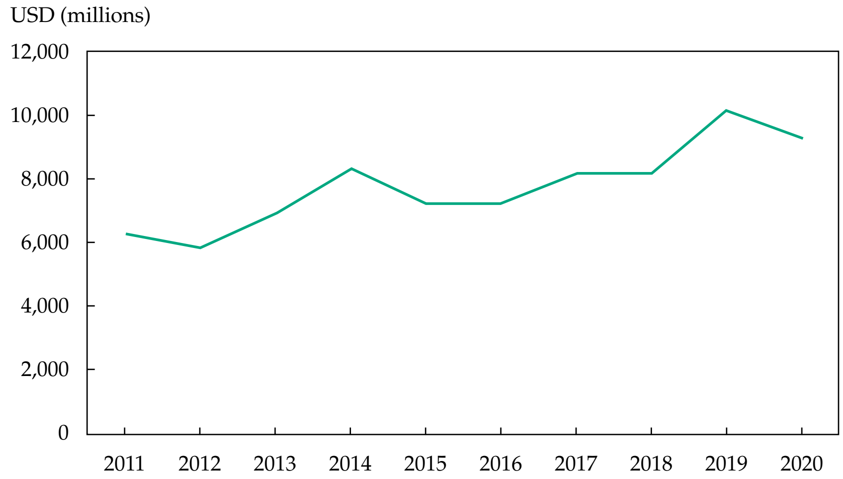
As of December 2021, 43 companies were listed on Bahrain Bourse in nine different sectors: materials, industrials, consumer discretionary, consumer staples, financials, communication services, real estate, non-Bahraini companies, and closed companies. The value of traded shares grew from USD858.9 million in 2018 to USD932.52 million in 2019 and experienced a drop of USD564.51 million in 2020, which could be a result of an 8.25% drop in trading volume during the year. The first two quarters of 2021 had a traded share value of USD272.28 million—10.2% lower than that for the first two quarters of 2020.

Trading activity on Bahrain Bourse can be described as constrained, however, because of the low levels of free-floating stock among listed firms. According to regulations, it is mandatory for listed firms to set 10% of their shares as free float.

Trading activity witnessed a 25.70% decrease in the value of shares traded in 2020 compared with 2019, as depicted in **Figure 3**. The number

[3]Bahrain Bourse (2020).

FIGURE 1. TOTAL BSE EQUITY MARKET CAPITALIZATION, 2011–2020 (USD MILLIONS)



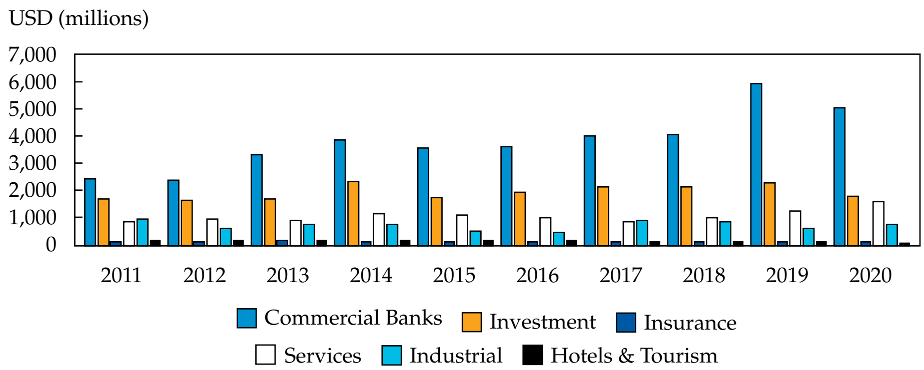
Source: Refinitiv.

of transactions in 2020 also decreased by 6.77% compared with 2019, while the volume of shares traded increased by 4.49%.

In 2020, the commercial banks sector represented 44.14% of the total trading value, followed by the services sector (27.20%), investment sector (17.03%), industrial sector (7.28%), insurance sector (0.44%), and hotel and tourism sector (0.06%). **Figure 4** shows the breakdown of trading value by sector between 2011 and 2020.

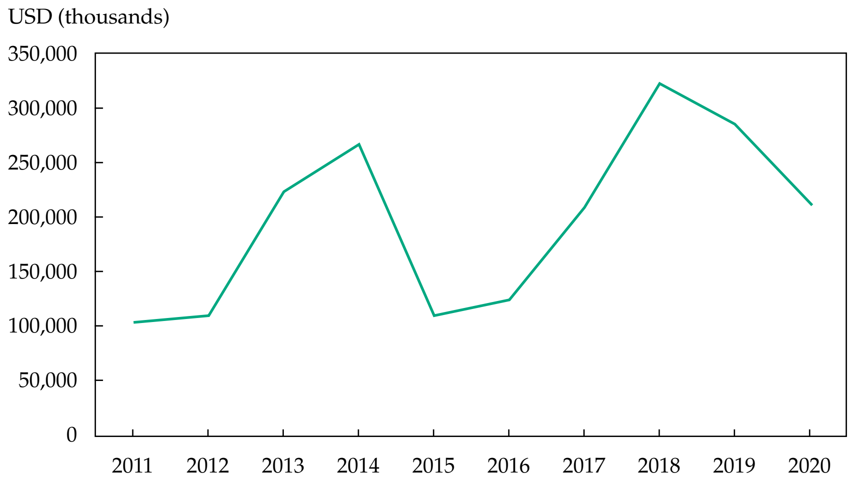
In terms of the volume of shares traded, the commercial bank sector was first, with 36.16%, followed by the services sector (11.57%),

FIGURE 2. MARKET CAPITALIZATION BY SECTOR, 2011–2020 (USD MILLIONS)



Source: Refinitiv.

FIGURE 3. VALUE OF SHARES, 2011–2020 (USD THOUSANDS)



Source: Bahrain Bourse annual reports.

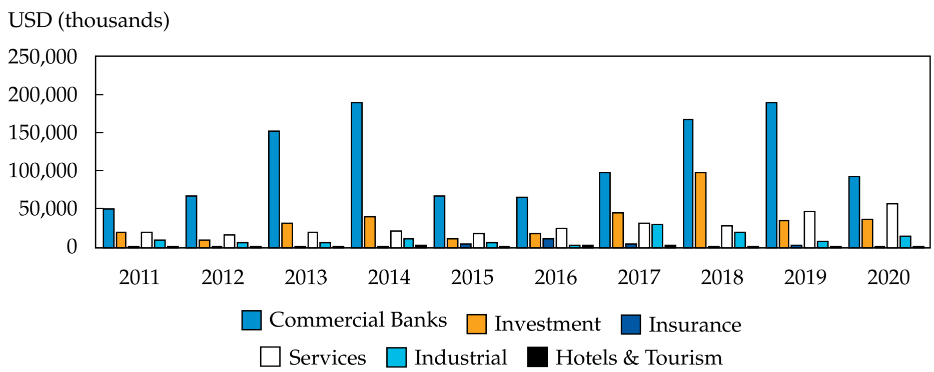
industrial sector (3.15%), insurance sector (0.31%), and hotel and tourism sector (0.05%).

DEBT MARKET

The Bahraini debt market faced low oil prices and a number of downgrades by international rating agencies in 2016. It still produced a return of 8.7% during the year, however—growth that can be attributed to the country's willingness to diversify and expand the economy during a challenging environment. The listed debt instruments are bonds, sukuk, and Treasury bills, as shown in **Figure 5**.

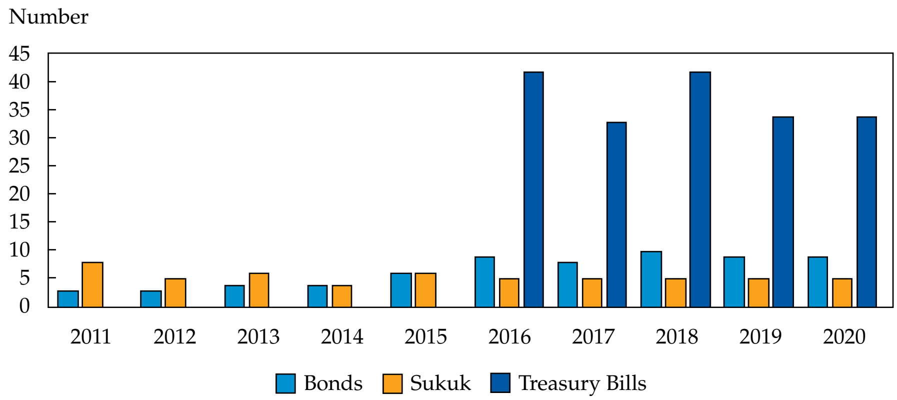
The demand for Bahraini government-issued bonds increased in September 2017, when a

FIGURE 4. BREAKDOWN OF TRADING VALUE BY SECTOR, 2011–2020 (USD THOUSANDS)



Source: Bahrain Bourse annual reports.

FIGURE 5. NUMBER OF LISTED DEBT INSTRUMENTS, 2011–2020



Source: Refinitiv.

bond issuance of USD3 billion was oversubscribed five times following a bond issue of USD1.75 billion during the first quarter of the same year. Some of the reasons for Bahrain's successful debt market are related to having a diversified bond maturity spectrum and an investor base that is largely local and liquid, consisting of pension funds, local banks, and real-money accounts. Another factor improving the demand for bonds is Bahrain's higher yield-to-maturity rate compared with its peers.

Bahrain is working on developing a secondary market for fixed-income instruments. In this regard, a mechanism supported by the Central Bank of Bahrain launched in 2015 to offer retail investors access to government debt issuances. This mechanism is the first of its kind in the Middle East (Oxford Business Group 2019). Additionally, debt market expansion also included the launch of the Treasury bills market in 2016, which aimed at supporting banks in managing their short-term liquidity issues. As a result, 42 T-bill issues were listed on BHB, with a total value of USD7.48 billion.

The listing of T-bills allowed individual investors to invest in the primary and secondary markets of those instruments. Prior to that, investing in T-bills was limited to financial institutions only through the primary market. In 2018, the debt market was downgraded to B2 by Moody's Investors Service. The rating agency attributed the downgrade to the impairment of the country's ability to issue bonds internationally, citing a case in which a conventional and long-date sukuk issuance was abandoned (Oxford Business Group 2019).

According to Bloomberg, as of February 2019, Bahraini bonds had an average return of nearly 5%. Later that year, the CBB issued 10 Treasury bills, valued at USD1.5 billion, with discount rates of 3.18%–4.39% for 3–12 months. The debt market growth continued; the Central Bank of Bahrain reported 165% oversubscription on 91-day Treasury bill issuances. By the end of September, the debt market had Treasury bill issuances on Bahrain Bourse valued at USD1.7 billion, along with 13 bonds and sukuk worth approximately USD6 billion.

The government of Bahrain has also been a prolific sukuk issuer, in both the long- and short-term markets, with about 24% of its total financing needs fulfilled through Islamic instruments (International Islamic Financial Market 2021). Between 2001 and 2020, Bahrain issued a total of 384 short-term sukuk and 109 long-term sukuk amounting to USD20,018 million and USD15,589 million, respectively.

MUTUAL FUNDS

BHB also has a very dynamic mutual fund segment. The first overseas mutual fund was marketed in Bahrain during the 1980s, and the first Bahrain-domiciled scheme launched in 1984.[4] As of 2020, the country had 9 listed open-ended mutual funds, a decrease from 31 funds in 2011.

REITs

Real estate investment trusts (REITs) were introduced in 2016 with the first REIT IPO—Eskan Bank Units of the Eskan Bank Realty Income Trust—listed in 2017.

REIT structures are regulated by the CBB and must be authorized before they can be listed on Bahrain Bourse.

THE WAY FORWARD

There are two key trends that can promote the development of Bahrain's capital markets:

- Fintech: Bahrain is aiming to become a fintech hub in the region, with more than 90 active fintech companies and a dedicated regulatory sandbox for fintech startups. Fintech has the potential to accelerate the development of capital markets in Bahrain in various ways, include financing mobilization with access to capital through crowdfunding platforms and bond and sukuk issuance platforms, cost efficiencies and enhanced trading security, improved security through automation, and data analytics.
- Sustainability: In June 2020, BHB launched its voluntary environmental, social, and governance (ESG) reporting guideline for listed companies and other stakeholders, based on a set of 32 key performance indicators aligned with international standards as recommended by the World Federation of Exchanges and the UN Sustainable Stock Exchanges (SSE) initiative (Bahrain Bourse 2020). BHB has also been a partner of the SSE initiative since 2019. These initiatives can facilitate attracting a growing investor base of impact investors, estimated at USD715 billion according to a 2020 survey by the Global Impact Investing Network (GIIN). Sustainability integration can also promote the development and listing of new sustainable finance instruments at BHB, such as green and sustainable bonds and sukuk.

[4]Overseas mutual funds are overseas-domiciled collective investment undertakings (CIUs) offered by overseas operators to Bahraini residents. See www.cbb.gov.bh/collective-investment-undertakings/.

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IRAQ

1921	The modern nation-state of Iraq was created. The first joint stock company was founded.
1923	Iraq's first oil field was discovered.
1936	The first stock exchange–related law was issued.
1992	The Baghdad Stock Exchange was established.
2004	The Iraq Stock Exchange (ISX), which replaced the Baghdad Stock Exchange, and the Iraqi Securities Commission (ISC) were established.
2006	The Foreign Investment Law was passed.
2009	The ISX adopted electronic trading.
2015	The ISX60 market index was launched.
2018	National bonds started trading on the ISX.

IRAQ

Ali As'ad Abbas
Manager, ISX Training and Development Center, Baghdad

Equity Market Capitalization (USD)	**9.677** Mn
Equity Market Cap/GDP	N.A.
Equity Market Share Average Daily Value Traded (USD)	**0.7** Mn
Number of Listed Companies	104

N.A.	Debt Market Capitalization (USD)
N.A.	Domestic Debt Market Cap/GDP
N.A.	Debt Market Instrument Total Nominal Traded
N.A.	Number of Issuers (Bonds)

EQUITIES

Since its inception as an independent nation-state in 1921, Iraq has demonstrated a genuine determination to establish an active financial market. In that same year (1921), the first joint stock company was formed, and a stock exchange law was issued 15 years later. The Iraq Stock Exchange (ISX) was created in 2004 when the Interim Law on Securities Markets (Order No. 74) was issued, establishing two important capital development bodies within the Iraqi financial sector: the ISX and the Iraqi Securities Commission (ISC). Unlike its predecessor, the Baghdad Stock Exchange, the ISX is a self-regulated organization modeled after the New York Stock Exchange, which is owned by some of its member brokerages. The ISC, which provides oversight of the ISX, also was modeled after a US institution, the Securities and Exchange Commission.

A council called the Board of Governors heads the ISX and consists of nine members, who are elected by the General Assembly. Their mission is to formulate an overall policy for the ISX, to adopt necessary rules, and to list companies after discussing technical reports submitted by the ISX's specialized departments.

The Iraqi Depository Center operates the Nasdaq Technologies' Equator central securities depository (CSD) system for fulfilling its duties, which revolve around registering and depositing securities, transferring their ownership and safekeeping them, placing or releasing a pledge against them, providing freezing or unfreezing services on them, authenticating or releasing a lien upon them, and executing clearance and settlement transactions. As of 31 December 2020, shareholders had deposited 79% of the overall listed shares of the ISX.

The ISC is a governmental institution that possesses a legal personality linked to the Iraqi Council of Ministers. It maintains a sound investment environment; develops and upgrades the regulations governing the capital market; and regulates, monitors, and supervises the business operations undertaken by the elements of the latter.

The securities listed on the ISX—namely, the shares of Iraqi shareholding companies—are traded during a pre-open session from 9:30 to 10:00, a continuous trading session from 10:00 to 13:00, and a block and cross-trade session from 13:00 to 13:30. The ISX organizes five trading sessions per week, from Sunday through Thursday, and it adopts the following principles:

1. Avoiding cash transactions to fund the purchase of securities and adopting a same-day funds settlement (T + 0)

2. Buying and selling shares of the ISX-listed companies—their nominal share capital—by using the Nasdaq OMX Group's X-stream trading system and adopting a same-day trade settlement (T + 0)

The ISX has 103 listed companies as of May 2022, and shares are traded through two trading platforms according to their established listing categories, as follows:

1. The Regular Market platform, which requires that a company issue final financial statements for at least two consecutive fiscal years, that its financial position is good, and that it has practiced its activities.

2. The Second Market, which requires the submission of final financial statements for at least one fiscal year.

Table 1 shows the ISX-listed shares by sector.

The ISC has licensed 41 brokerage companies that are spread throughout the province of Baghdad. In addition, two branches are located at the Erbil and Sulaymaniyah provinces; those companies buy and sell securities on a daily basis through remote access to the ISX's trading floor.

TABLE 1. ISX-LISTED SHARES AS OF 31 DECEMBER 2020

Sector	Market Capitalization (USD millions)
Telecom	4,528
Banks	4,022
Industry	626
Hotels	249
Agriculture	112
Services	94
Money Transfer	31
Insurance	9
Investment	3
Total	9,674

Source: Iraq Stock Exchange's 2020 Yearbook.

FOREIGN INVESTORS

In November 2006, the Iraqi government enacted the Foreign Investment Law, allowing foreign capital to establish shareholding companies and to deal in ISX-listed securities. The law allowed foreign investors to own securities of the ISX-listed companies, taking into account the following rules:

- All instructions and rules that Iraqi investors must follow also apply to their foreign counterparts. Foreign investors must use a single bank account in their country of residence to trade in securities or deposit dividends in Iraq.

- According to Company Law No. 21 of 1997, the upper limit for foreign ownership is 49% of the capital of a shareholding company. Although no such restrictions are applied to the Iraqi Banking Law, no individual is

TABLE 2. STRUCTURE OF FOREIGN OWNERSHIP OF ISX-LISTED COMPANIES' SHARES AS OF 31 DECEMBER 2020

Legal Capacity	Number of Investors	Number of Companies	Volume Owned (billion shares)
Natural investor	1,091	98	208
Institutional investor	47	47	1,504
Fund	13	25	78

Source: Iraq Stock Exchange's 2020 Yearbook.

entitled to hold more than 9.9% of a banking company's shares.

Table 2 shows the structure of foreign ownership of ISX-listed companies at the end of 2020.

The Iraq Stock Exchange Index (ISX60) launched in 2015. It is included in the X-stream trading system, which automatically calculates its value for every session as a price-weighted index that includes a sample of 60 listed companies, selecting the ones with highest turnover rates that are not subject to trading suspension. The base value of the index has been taken at 1,000 points to accurately perceive price changes—unlike other exchanges that have their index base value at 10,000 points, demonstrating their broad representation.

DEVELOPMENT OF THE ISX

The ISX launched electronic trading on 19 April 2009. Working with the ISX Board of Governors, the ISC changed the following mechanisms, instructions, and rules when switching to electronic trading:

I. The number of weekly sessions held for trading securities increased from three to five.

II. Same-day funds settlement takes place through a clearing bank. Thus, unless the buyer's cash balance is within the trading parameters of a given session, no buying orders shall be approved.

III. With the application of the same-day share settlement, a stock can be bought and sold more than once at any given session. Ownership transfer of those securities takes place at the end of that session. Therefore, the volume of securities offered to sell must be deposited and registered at the central depository system (CDS).

IV. Trading in securities of a shareholding company shall be suspended three days prior to the meeting date of its general assembly, allowing for closing the company's register of shareholders in accordance with the decisions made by the ISC and the requirements of the Ministry of Trade's Registration of Companies Department (Tasjeel).

The ISX has adopted the measurement and calculation formulas for trading indicators based on the principles of Arab and international measurement and on the accumulated experience of the manual trading activity that took place at the Baghdad Stock Exchange. The ISX harnessed all those lessons when choosing and implementing electronic systems in 2009. The ISX has two important periods in its history: the manual trading period (2004–2008) and the electronic trading and central depository systems period (2009–present).

1. Manual Trading Period, 2004–2008

Dealing in securities from 2004 to 2008 was carried out using traditional whiteboards under manual trading mechanisms. The transfer of share ownership took place according to manual deeds, and stock buyers could not conduct transactions without obtaining certified paper or cardboard share certificates from the shareholder relations department of any given listed shareholding company within a period of six working days. Despite the limitations of a manual system, however, indicators of stock trading witnessed remarkable developments for reasons such as the following:

A. The number of trading sessions increased from one per week to three in 2005, which continued until the end of 2008.

B. The number of companies listed on the ISX increased from 15 at the ISX's opening in 2004 to 80 at the end of the same year. It then rose to 94 companies in 2007 and 2008.

C. The volume and value of traded securities multiplied and increased between 2004 and 2008, from 14 billion shares and IQD128 billion to 151 billion shares and IQD301 billion, respectively. That increase can be attributed to the growth in the number of listed companies and their mounting capital, in addition to a higher turnover of shares.

   Note that it is necessary to take into account that market capitalization evaluates the volume of listed shares and not the current trading volume, and it is measured according to the following equation:

$$\left(\begin{array}{c}\text{Number}\\\text{of listed}\\\text{shares}\end{array}\right)\times\left(\begin{array}{l}\text{Stock's closing price at}\\\text{the last trading session}\\\text{during any given year}\end{array}\right).$$

   The market value of a stock should have been calculated on the basis of recognizing the free float shares, excluding the number of reserved and pledged ones because they are restricted from trading. Nevertheless, relevant instructions have not differentiated among share types, considering all these securities as tradable.

D. Non-Iraqi investors were allowed to trade in securities of the local ISX-listed companies.

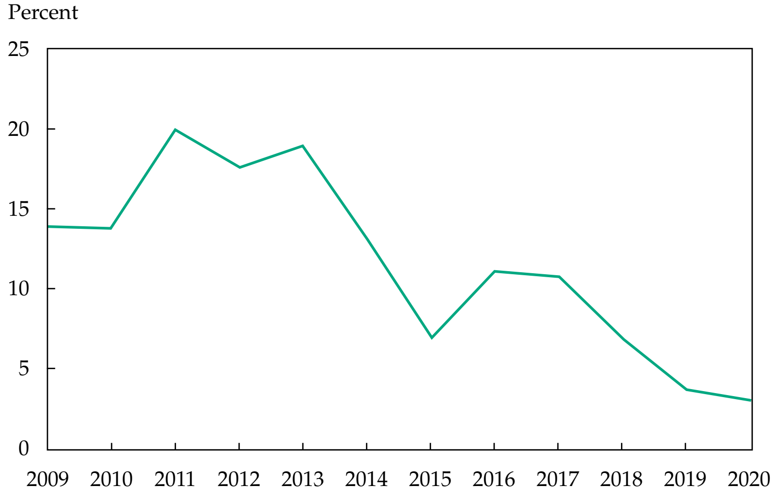
2. Electronic Trading and Central Depository Systems Period, 2009–Present

This period is considered the most important in the ISX's history, when it adopted two electronic systems in cooperation with the Nasdaq OMX Group in 2009. The first system is for trading, and the other is dedicated to central depositing.

It is relevant to note the following:

A. All trading indicators at the ISX between 2009 and 2017 went up as they were influenced by the effects of using electronic systems: increasing weekly trading sessions from three to five, building foreign investment portfolios, a rise in stock turnover rates because of the growth in both capital and listed shares of companies in the banking sector from 2011 to 2013, and having an optimistic outlook on the future of Iraqi economic performance, as shown in

FIGURE 1. TURNOVER RATIO, 2009–2020



Source: Iraq Stock Exchange's Yearbooks for 2009–2020.

Figure 1. Signs of securities circulation registered a downturn in 2018 and 2019, however, in the wake of worldwide economic crises and their repercussions on the Iraqi economy through dropping oil prices.

B. Despite the obstacles to inward capital flows, when Iraq was placed on the global grey list for money laundering before it managed to adhere to international anti-money laundering (AML) and combating the financing of terrorism (CFT) regulations in 2018, indicators of foreign trading at the ISX were generally acceptable. Stock investment by foreign investors rose from less than 1% in 2008 to 18% by 2013, fluctuating between 15% and 18% thereafter.

In 2008, the ISX held the highest number of manual trading sessions when it reached 139. After launching electronic trading and central depository systems in April 2009, that number ranged between 227 sessions as a minimum in 2014 and 241 at its high in 2019, with an average of five trading sessions per week.

The number of listed companies at the ISX increased from 80 in 2004 to 104 in 2018, within a continuing process to admit new companies to the ISX or remove others from it. Among the most important reasons for delisting a company's security from trading are its net worth falling below a certain percentage and a merger between a listed company and an unlisted one to form a new business entity.

A number of factors influence trading of a stock of a listed company, the most important of which is the latter's compliance with quarterly and annual disclosure requirements. Despite the fact that Law No. 74 of 2004 granted the ISC the right to suspend trading shares of any non-adhering company for a maximum of 10 days for the purpose of ensuring commitment to those obligations, such decisions by the ISC tend to halt trading activity for an indefinite period, which can be terminated only by the company submitting the required quarterly and annual disclosure statements. That situation makes the number of companies whose shares are traded always less than the overall listed ones by a margin in the range of 25–30, limiting trading activity on ISX-listed securities to less than 80% of the total.

A direct annual increase in trading volumes occurred from 2011 to 2017 as a result of admitting new companies to the ISX and raising capital of the originally listed ones.

The value of traded shares witnessed a steady increase from 2004 to 2014, resulting from rises both in the number of listed companies and securities as well as in trading volumes, which are attributed to raising capital of the ISX-listed banking companies. That value began to decline in 2018, however, driven by falling prices of traded shares between 2015 and 2018, for several reasons detailed clearly in the ISX's monthly reports and yearbooks.

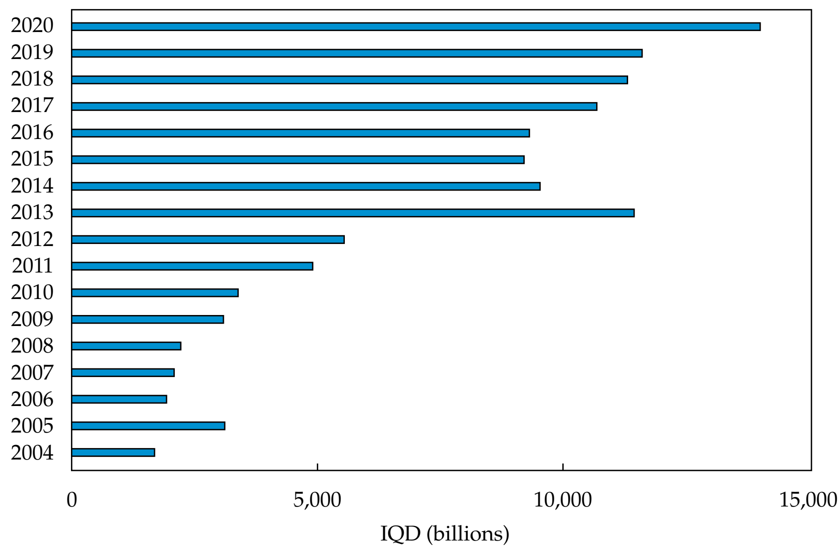
The number of executed contracts increased by more than 100% after 2008 in response to the ISX adopting electronic trading mechanisms in 2009. The number of listed companies and securities rose, and the number of weekly trading sessions also increased. The ISC allowing non-Iraqi investors to trade in the ISX-listed securities as of 2010 with the issuance of Investment Law and Trading Instructions for Non-Iraqi Investors also contributed to the increase in the number of executed contracts.

The value that clearly reflects the size of a stock market is the market cap-weighted index for listed shares, which recorded a steady rise during the aforementioned periods—from IQD1,716 billion in 2004 to IQD11,662 billion in 2019, as shown in **Figure 2**. That index can be calculated as follows:

$$\begin{pmatrix}\text{Number of}\\ \text{listed shares}\end{pmatrix} \times \begin{pmatrix}\text{Their annual}\\ \text{closing prices}\end{pmatrix}.$$

The ISX therefore recommends the adoption of a more realistic option for expressing a market's depth: multiplying the number of free float (tradable) securities by their annual closing prices.

FIGURE 2. EQUITY MARKET CAPITALIZATION, 2004–2020



Source: Iraq Stock Exchange's Yearbooks for 2004–2020.

NATIONAL BONDS

Amid financial crises, as well as its resorting to internal and external borrowing, Iraq's economy needs an overall modernization. Updates and improvements are especially needed for its financial system overall as well as the government bond (GB) market in particular to generate much-needed funds.

Although the ISX has listed, deposited, and traded national bonds since 2018 (when trading in all categories of the second issuance of government bonds commenced on 21 November 2018), trading was soon suspended on 20 March 2019 because of their imminent maturity date. Trading in these bonds did not generate strong demand because of shrinking supply, investors' lack of willingness to sell, and the desire of companies and institutions, especially banking ones, to retain national bonds and keep them out of trade to secure annual interest rates as guaranteed returns on investment.

Any developments in the national bond market will similarly affect Iraq's financial system. In that regard, the ISX should be afforded the ability to play a central role in circulating such vital instruments.

MAIN CHALLENGES CONFRONTING THE ISX

1. The Impact of Suspending Companies from Trading in Shares as a Result of Poor Corporate Disclosures

In spite of the ISX Board of Governors' reservations about suspending companies from trading their shares for a period that exceeds 10 business days, pursuant to Section 12, Paragraph 17, of Order No. 74 of 2004, and despite the Board's demand to make any defaulting party personally liable for neglect or malpractice of providing quarterly and annual disclosures, any poor corporate disclosure seriously affects a company's ongoing operations.

2. Poor Communication with Shareholders and Investors

Companies have to pay attention to the investor relations (IR) outreach mechanisms with their shareholders and investors worldwide. Weak relations, which bind some companies with their shareholders and potential investors, adversely affect a company's capacity to maintain current investments and attract new ones.

3. The Effect of Investment-Attracting Regulations and Rules

The failure to develop legal parameters—such as issuing rules to manage investment funds and investment portfolios, adopting regulations to issue global depositary receipts (GDRs) for Iraqi shares, issuing regulations that allow companies to repurchase a proportion of their shares when being undervalued in line with their Arab and international counterparts, and endorsing rules of corporate governance and discipline—is partly responsible for not generating positive expectations for an increased volume of liquidity available for investment in securities. As a result, the ISX lacks the investment needed to enhance its depth, which led to a change in the volume and composition of some foreign investment portfolios and an adverse effect on share prices.

4. The Absence of a Global Custody and the Role It Plays to Attract Investment in International Funds

Globally, the ISX is the only emerging stock market that still lacks a third-party custodian bank.

5. Technical Factors Regarding the Type and Size of a Company's Activity, Which Affect the Demand for Shares

Potential investors are typically concerned with the financial position of any company in which they will invest their assets. That includes the company's capacity to practice its activities and to distribute dividends, on the one hand, and its expected development plans, on the other.

6. Weak Incentives to Invest in Securities

Iraq has a dire need to adopt new regulations to support share trading and attract capital. This legislative effort will work, together with more efficient and modern infrastructures, to develop the Iraqi economy by opening up more promising investment opportunities.

7. An Economy That Is Still Rent-Seeking and Heavily Dependent on the Country's Oil Wealth

Just like its counterparts under the banner of OPEC, the Iraqi economy is characterized by being one-sided and reliant entirely on the black gold contained in its lands. As a result, government expenditures are affected by oil price fluctuations, reflected in budgetary surpluses or deficits.

8. The Disaster Caused by the COVID-19 Pandemic

Even more influential than natural disasters (e.g., earthquakes, volcanoes, tsunamis), the COVID-19 pandemic prompted nations worldwide to completely or partially close their borders. A series of measures has been taken to address the Iraqi economy amid the paralysis of world markets.

OPPORTUNITIES AND PROPOSALS

Globally, Iraq ranks fifth on the list of countries with the largest proven oil reserves. Holding more than 140 billion barrels as of 2016, it has 8.7% of the world's total reserves.

Iraq Reconstruction

The growth of non-oil sectors must rely on the reconstruction and infrastructural development of the war-torn country. At the forefront of this growth is a renewed interest in company IPOs, whether local, foreign, private, or public.

Attractiveness

For multiple reasons, the Iraqi equity market still enjoys great investment attractiveness compared with its counterparts globally. It has just emerged from a period of lower annual investment during a time when most other markets have surpassed their all-time highs despite recovering from losses.

It is of the utmost importance to issue a new law governing the Iraqi capital market and to formulate the instructions needed for the ISX to encourage companies to build their assets, while amending the Company Law in light of experiences elsewhere in the world in terms of issuing shares and establishing shareholding companies. Such efforts will help the ISX attract new shareholding companies representing sectors such as aviation, oil, and others, activating the financial and developmental roles of the ISX.

IRAN

- **1962** The initial agreement on stock market establishment occurred.
- **1966** Parliament passed the Securities Market Formation Law.
- **1967** The Tehran Stock Exchange was established.
- **2005** A new securities market law was passed.
- **2006** The Securities and Exchange Organization (SEO) of Iran was established.
- **2008** The Fara Bourse Exchange was established.

IRAN

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Assistant Professor of Economics and Finance, Sharif University of Technology
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Amir Sajedian, CFA, CIPM
Buy Side Analytics Specialist, FactSet
Vice President, CFA Society Edmonton

Equity Market Capitalization (USD)	**255** Bn
Domestic Equity Market Cap/GDP	133%
Equity Market Share Average Daily Value Traded (USD)	**400** Mn
Number of Listed Companies	535

4 Bn	Debt Market Capitalization (USD)
2%	Domestic Debt Market Cap/GDP
8 Mn	Debt Market Instrument Total Nominal Traded (USD)
37	Number of Issuers (Bonds)

Note: Data as of 20 March 2020.

THE STOCK MARKET

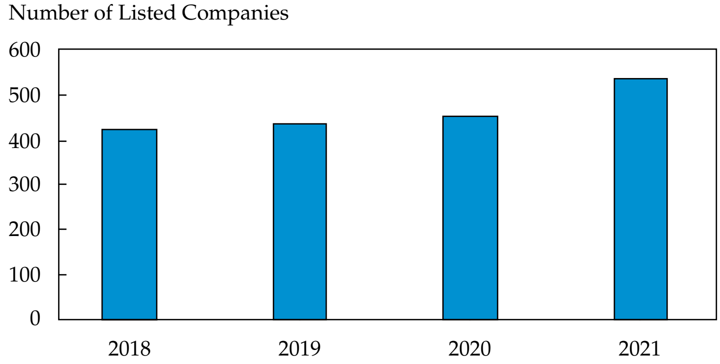
The Tehran Stock Exchange (TSE) is Iran's major equity exchange, established in 1966 with only 10 listed companies. The number of listed companies had grown to 142 before the 1979 revolution, when market operations halted because of the nationalization of various industries and banks, followed by eight years of the Iran–Iraq War. The number of listed companies has been increasing since the 1988 Budget Act, which re-established activity on the TSE following the war. Currently, more than 500 companies are listed on the exchange, as shown in **Figure 1**. The privatization wave provided a significant tailwind to this growth rate.

The TSE has enjoyed outstanding performance during the past decade. The TSE30 Index, which tracks 30 major companies on the TSE, has had an annual return of 51% (in domestic currency) from the beginning of 2010 to the end of 2020. That index slowed down until 2017 but then jumped by 14 times during the three-year period from 2017 to 2020.

The TSE's market capitalization in US dollars has been volatile, as shown in **Figure 2**, because of currency exchange volatility compared with the market capitalization in domestic currency.

In terms of market valuations, the TSE's P/E has historically hovered between 4 and 7, despite the strong profitability growth by the listed companies—many of which are commodity

FIGURE 1. NUMBER OF LISTED COMPANIES ON THE TSE



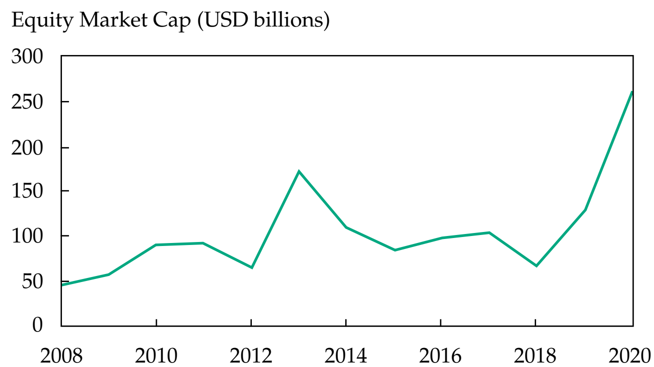
Source: TSE (www.tse.ir).

producers exporting to global markets. This underpricing can be attributed to the historically high inflation in the economy. As such, although the listed companies' earnings growth has on average exceeded inflation, this high growth has generally not been reflected in equity prices.

This historical underpricing reversed temporarily with a sharp increase in 2020, when the turnover ratio skyrocketed by three to four times compared with the long-term average of 0.19, as illustrated in **Figure 3**. Nonetheless, the stock market crashed in late 2020 and early 2021, losing approximately half of its value and reverting to its historical average.

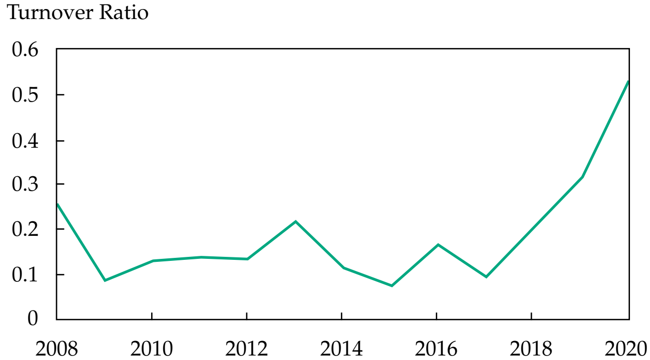
Market participation by Iranian households grew remarkably after they were allowed to sell their Justice Shares in the market in 2020. This growth followed a long-term trend of increased market participation by Iranian households. The trading volume of individual investors doubled compared with that of institutional investors from 2011 to 2020 and is currently sitting around 80% of the total value of trades (see **Figure 4**).

FIGURE 2. TSE EQUITY MARKET CAP (USD BILLIONS)



Source: TSE (www.tse.ir).

FIGURE 3. TSE TURNOVER RATIO



Source: TSE (www.tse.ir).

The Iranian equity market is segmented into different sub-markets based on a variety of minimum listing requirements—such as free float, equity-to-asset ratio, and minimum capital—to promote further competition, transparency, and liquidity among market participants as well as to facilitate IPOs from smaller companies.

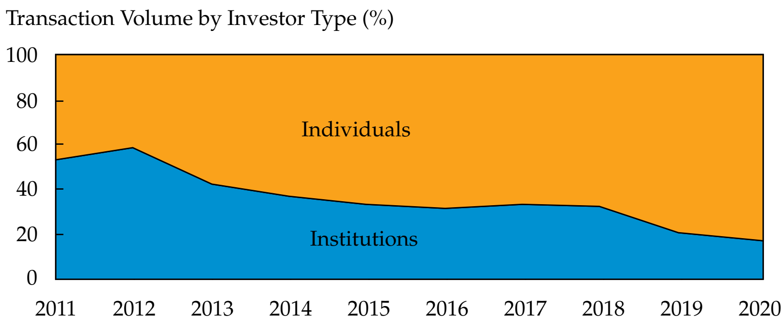
Commodity producers, including base metal and petrochemical producers, largely dominate the equity market. **Figure 5** depicts the TSE's breakdown of top industries' market capitalizations as of May 2021.

THE BOND MARKET

After the significant drop in oil prices in 2014 and the US sanctions on Iran, the bond market expanded because the Iranian government had to tap into that market to cover its budget deficit (see **Figure 6**).

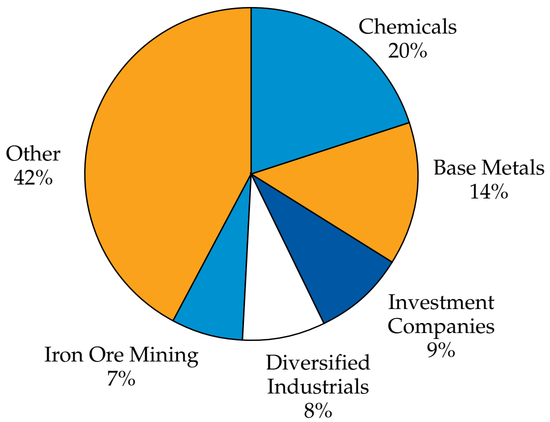
The bond market has five main types of issuers: government, state-owned enterprises (SOEs), municipals, commercial banks, and corporates. The leading issuer is the government. Based on the total number of new issues, government,

FIGURE 4. SHARE OF MARKET VALUE OF TRANSACTIONS BY INVESTOR TYPE



Source: SEO (www.seo.ir).

FIGURE 5. TSE INDUSTRIES' MARKET CAP SHARE, MAY 2021



Source: TSE (www.tse.ir).

SOEs, and municipals represent 90% of total issues. Commercial banks' share of the total is decreasing because the Central Bank of Iran has not allowed them to participate in the bond market since 2015 (see **Figure** 7).

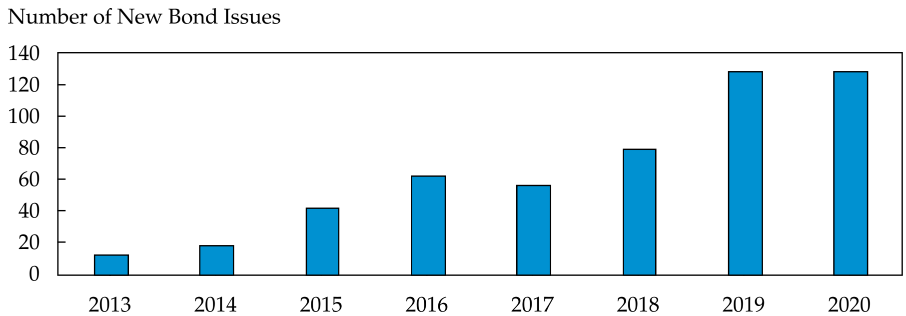
Although there are no legal limits on bond maturities, all issuances tend to have maturities of less than five years, primarily as a result of investors' reluctance to invest in long-term bonds given inflation and interest rate volatility. As of March 2021, 1% of outstanding bonds had a maturity of five years, 26% of four years, 30% of three years, 26% of two years, and 18% of one year.

Although the bond market has not been a major source of capital for corporations so far, the Iranian government's current plan to issue long-term bonds with maturities of more than five years could pave the way for more fundraising by corporate entities.

OPPORTUNITIES AND CHALLENGES

Iran's capital market has undergone a major transformation during the past two decades. Nevertheless, further developments hinge on the market addressing the internal and external challenges it faces. The SEO, for example, needs to upgrade its regulatory infrastructure in order to cope with the speed and complexities of today's markets. This endeavor entails attracting top talent and training these individuals with international standards. Furthermore, in

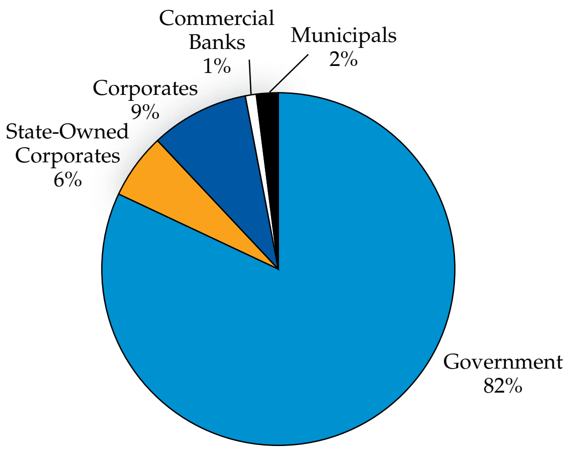
FIGURE 6. NUMBER OF NEW BOND ISSUES



Note: Data as of March 2021.

Source: SEO (www.seo.ir).

FIGURE 7. SHARE OF TOTAL NEW BOND ISSUES BY BOND TYPE, MARCH 2021



Source: SEO (www.seo.ir).

many instances, readjusting past regulations can be very costly and sometimes impossible. For example, daily price limits have been imposed on listed stocks in the past two decades, and loosening or removing these daily limits has proven extremely challenging—because of both the political and popular pressure as well as the fear of market crashes or volatility.

Financial institutions also face major obstacles to growing and playing a more effective role in the market. During the past decade, the SEO has been extremely cautious about granting license to new institutions, which has led to a lack of competition and quasi-monopolistic behavior by these institutions. Political lobbying by existing financial institutions has also contributed to a static and non-competitive environment that leaves little incentive for innovation and cost efficiency. This dynamic has changed in the past two years—the SEO has finally opened up to granting licenses to new institutions and, in turn, revoking licenses in cases of fraud or major violations.

For investors, the major challenge tends to be the conflict of interest between controlling shareholders and minority shareholders. Most listed companies are owned by major semi-governmental and parastatal business groups through a complex and multi-layered ownership structure. As a result, minority shareholders have little or no control over important corporate decisions, making them vulnerable to expropriation by the controlling shareholders through different practices, known as "tunneling." Very little, if any, protection is provided for minority shareholders by the Commercial Law or SEO regulations.

Finally, listed companies also struggle with a number of challenges, such as raising capital at competitive rates. Both the equity and bond markets offer few options for financing, even for listed firms. The equity market has low valuations, which, in turn, make equity financing very expensive. Issuing bonds is also challenging, because most types of bonds (or Islamic fixed-income instruments called "sukuk") are asset based. Hence, they are not ideal for companies with few physical assets or those that have already used up their physical assets as collateral in the banking system. The cost of financial intermediation is also very high in the bond market, with investment banks charging 2%–4% in annual fees for issuance, underwriting, and market making—partly as a result of the oligopoly in the investment banking industry.

Despite these challenges, the capital markets in Iran provide numerous opportunities for growth and can potentially play a more significant role in financing Iran's economy while complementing the banking system.

JORDAN

1930 — Public shareholding companies were established and trading in securities started informally.

1976 — The Amman Financial Market Law was issued.

1978 — The Amman Financial Market (AFM) started operations.

1997 — The Securities Law—Capital Market Restructuring was issued.

The Jordan Securities Commission (JSC) was established.

1999 — The Amman Stock Exchange (ASE) was established.

The Securities Depository Center (SDC) was established.

2002 — The new Securities Law was issued.

2017 — The ASE was registered as a public shareholding company fully owned by the government.

JORDAN

Rasha Dayyat
Director of Planning and Institutional Development, Amman Stock Exchange

Equity Market Capitalization (USD)	**22.4** Bn
Domestic Equity Market Cap/GDP	51.30%
Equity Market Share Average Daily Value Traded (USD)	**12.6** Mn
Number of Listed Companies	173

Debt Market Capitalization (USD)	N.A.
Domestic Debt Market Cap/GDP	N.A.
Debt Market Instrument Total Nominal Traded (USD)	**2.08** Mn
Number of Issuers (Bonds)	5

Note: Data as of 29 July 2021.

INTRODUCTION

Public companies in Jordan have had their shares traded since the early 1930s, with transactions handled in individual brokerage offices on the unregulated market. Corporate bonds began to be issued in the early 1960s. The need for a well-organized financial market led to the establishment of the Amman Financial Market (AFM) in 1976 as a regulated market, acting both as a regulator and as a traditional stock exchange. The AFM started operations in 1978.

In 1997, the Jordanian government established a comprehensive capital market reform program aimed at promoting the private sector, diversifying and developing the national economy, and upgrading securities market regulation in line with international standards. Accordingly, three separate institutions replaced the AFM: the Jordan Securities Commission (JSC), the Amman Stock Exchange (ASE), and the Securities Depository Center (SDC).

The JSC was founded to act as the regulatory body in the Jordan Capital Market and assumed its duties on 1 September 1997. The JSC supervises the ASE, the SDC, issuers of securities, financial services companies, and mutual funds.

The Securities Depository Center (SDC) of Jordan is a public utility institution established in the Kingdom. Registration of securities; deposit of securities; transfer of ownership and safekeeping of securities; and clearance and settlement of securities trading are all responsibilities of the SDC, which has a legal personality and financial and administrative autonomy.

It was necessary to create a central registry and depository of authenticated shareholders, as well as a central settlement process, for the SDC to function. This assures that all public shareholding companies' shareholders' registrations are held and maintained in electronic form at the SDC. (www.sdc.com.jo)

Established in 1999, the ASE is a non-profit, independent institution authorized to operate as a regulated exchange for trading securities in Jordan. After being registered as a public shareholding company completely owned by the government, the ASE became a for-profit firm in 2017, now called the ASE Company. The ASE Company's mission is to operate, manage, and grow the securities, commodities, and derivatives markets both inside and outside Jordan. The ASE Company strives to create a strong and safe environment in which supply and demand factors for securities trading can interact properly and fairly. Jordan's 58 brokerage firms make up the ASE membership.

EQUITY

The ASE has two markets for trading corporate shares: the First Market and the Second Market. These markets are divided according to the liquidity and company profit criteria.

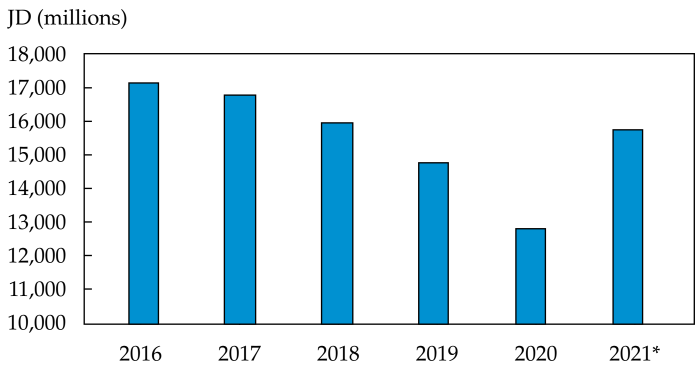
A company must achieve certain requirements to be listed on the ASE, including disclosure of specific statements and information as well as all company-related reports. After meeting the listing conditions, the shares of an ASE-approved company will be listed on the Second Market. Stocks are the most traded securities on the ASE.

The ASE had 195 listed companies at the end of 2018, compared with 173 at the end of July 2021. Market capitalization decreased by 7.5% at the end of 2019 and by 13.5% at the end of 2020. It increased by 23.3% at the end of July 2021 compared with the year 2020, however, as shown in **Figure 1**.

In 2019, the trading value decreased to JD1,585 million—a 31.6% drop from 2018. In 2020, the trading value decreased to JD1,049 million, a 33.9% drop from 2019. In July 2021, however, the trading value had increased to JD1,253.4 million from JD517.1 million for the same period in 2020—a 142.4% increase—as shown in **Figure 2**.

In 2019, compared with 2018, the number of traded shares increased by 0.10% while the number of executed transactions decreased by

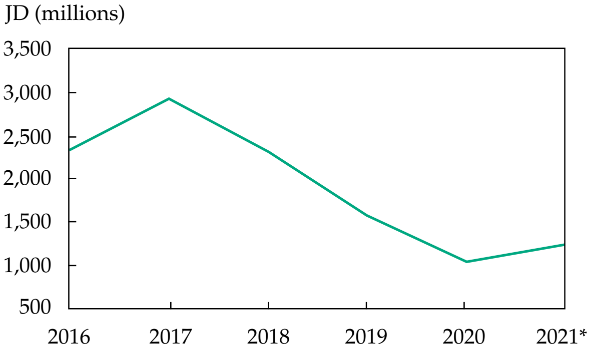
FIGURE 1. MARKET CAPITALIZATION



*Data as of 29 July 2021.

Source: ASE.

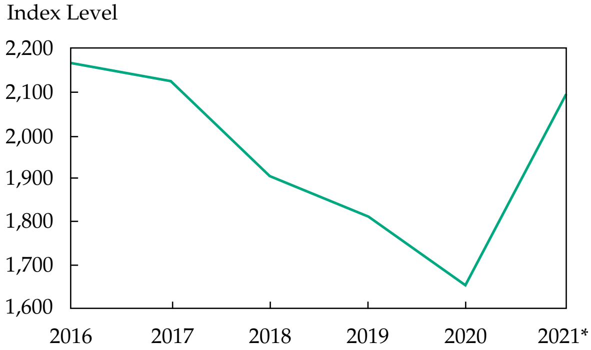
FIGURE 2. VALUE TRADED



*Data as of 29 July 2021.

Source: ASE.

FIGURE 3. ASE100 INDEX



*Data as of 29 July 2021.

Source: ASE.

1.7%. In 2020, compared with 2019, the number of traded shares decreased by 8.4% and the number of executed transactions decreased by 16.3%. However, in July 2021, the traded shares increased by 90.7% and the number of executed transactions increased by 133.4%.

ASE100 Index

In 1980, the ASE established an unweighted price index, and in 1992, it began calculating a market capitalization–weighted price index. Furthermore, in 2006, the ASE started calculating a new index based on free float shares. The General Index (ASE100), the ASE20 Index, and the market indexes (first and second) are calculated using weighted free float market capitalization. The ASE indexes' constituents are reviewed and adjusted quarterly. Non-periodic adjustments are made for stocks whose trading will be suspended for an extended period or permanently, which might be because of an increase or decrease in the company's capital, delisting companies, etc.

The performance of the ASE100 Index, weighted by market capitalization of free float shares, showed a decline at the end of 2019 by 4.9% compared with 2018, closing at 1,815.2 points. The index showed a decline at the end of 2020 by 8.7% compared with 2019, closing at 1,657.2 points. Then, it increased by 26% compared with 2020, reaching 2,087.6 points at the end of July 2021, as shown in **Figure 3**.

ASE20 Index

In 2019, the ASE launched the ASE20 Index, a weighted index based on the market capitalization of free float shares available for trading. The ASE20 is made up of the ASE's leading companies—the 20 listed companies that are the most active and have the highest market capitalization.

In 2019, the ASE20 showed a decline of 3.8% compared with 2018, closing at 891.0 points. In 2020, it decreased by 9.5% compared with 2019, closing at 806.5 points. At the end of July 2021, however, it had increased by 31.4% compared with 2020, reaching 1,059.4 points.

By the end of 2019, non-Jordanian ownership in listed companies formed 51.6% of the total market capitalization of the ASE, compared with

51.7% by the end of 2018. As for 2020, non-Jordanian ownership in listed companies formed 51.1% of the total market capitalization of the ASE. For the end of July 2021, it was 48.8%.

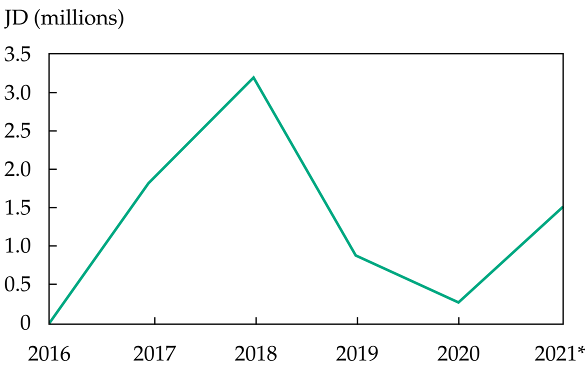
FIXED INCOME

The ASE had 160 listed bonds by the end of 2018, compared with 176 by the end of 2019. In 2020, the number increased to 188 bonds and then grew to 195 bonds as of the end of July 2021.

The listed bonds are classified into Treasury bonds, Treasury bills, and public and private institution bonds. In 2014, in collaboration with the JSC, the ASE established the necessary procedures to regulate the listing and trading of Islamic sukuk on the ASE, including issuing directives to list and trade these sukuk.

In terms of trading, in 2019 the value of bonds traded registered JD885,200, compared with JD3,194,400 in 2018. In 2020, the value of bonds traded amounted to JD258,400 and increased in July 2021 to reach JD1,476,001, as shown in **Figure 4**.

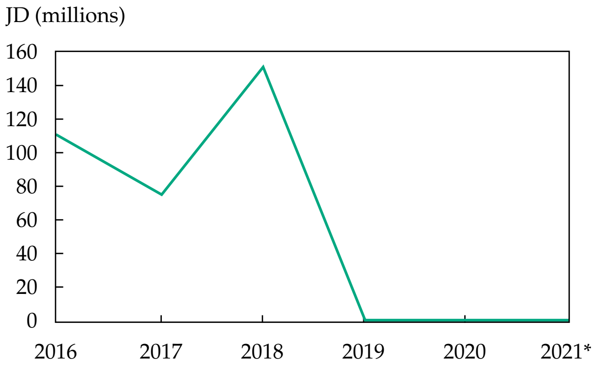
FIGURE 4. VALUE OF TRADED BONDS



*Data as of 29 July 2021.

Source: ASE.

FIGURE 5. ISSUANCE OF ISLAMIC SUKUK



*Data as of 29 July 2021.

Source: ASE.

Islamic Sukuk

In 2018, Islamic sukuk were listed for the first time on the ASE for the Jordan Islamic Sukuk Company for Financing Governmental Projects (special purpose vehicle). The total number of these sukuk is 34,000 sakk worth JD34 million over a period of 5 years, with an annual return of 3.01% (see **Figure 5**).

ASE'S OPPORTUNITIES

The ASE has continued to implement projects and efforts to improve the investment climate and enhance confidence in the market. In 2020, the ASE launched the XBRL-based electronic disclosure system in collaboration with the JSC. The XBRL is a standard language recognized worldwide that provides the possibility of publishing important information and disclosures from companies electronically in both Arabic and English, which reduces time and effort spent on providing such information, enhances transparency, and raises market efficiency. In 2021, the ASE launched a new electronic trading system, Optiq, based on the latest international specifications and standards. It aims to develop trading operations by updating the technical infrastructure and increasing the capacity of the trading system, in addition to supporting new financial instruments. The ASE's strategic plan for 2021–2023 includes a set of goals that would contribute to strengthening the role of the stock exchange in the economy.

ASE is also broadening its regional and international efforts for sustainability. It joined the Arab Federation of Capital Markets in a new regional index concerned with low-carbon companies: the Refinitiv AFCM Low Carbon Select Index. This index consists of the companies in nine markets that meet the requirements and standards of the index, including the ASE, which might be a good opportunity for the ASE to expand its collaboration with other international institutions and improve its reputation. Moreover, the ASE joined the UN Sustainable Development Initiative, which aims to raise awareness of sustainable development goals related to environmental protection, social responsibility, and governance. In 2020, the ASE's annual report included its first sustainability report.

ASE'S CHALLENGES

Stock exchanges are vulnerable to the political and economic challenges of their countries as well as those of surrounding countries. Although Jordan's political situation is stable, many other countries in the region are less so. The Jordanian economy faces its own challenges, primarily as a result of a large budget deficit and public debt, and the political instability in the region has aggravated them. The government is working hard to restore these indicators to acceptable levels, but these circumstances continue to affect the ASE market indicators and performance in a variety of ways, including the following:

1. Liquidity in the market has decreased and is moving toward low-risk and less expensive investments, such as deposits in banks, land, and real estate.
2. Many of the main national economic performance indicators have declined in light of the continued vulnerability to the surrounding political and security conditions.
3. There are current and expected repercussions from the COVID-19 pandemic on the national economy and the performance of the companies listed on the ASE.
4. There is competition with other markets in light of the difficult conditions facing the national economy as well as the high cost of investment in the market.
5. IPOs have been decreasing (no new public shareholding company has been established on the ASE since 2009).
6. Confidence in the financial market has decreased.

Moreover, one of the challenges ASE is facing relates to taxes. There is a transaction tax on the market, and ASE is trying to remove this tax to attract investments and enhance liquidity in the market.

Despite these circumstances and challenges, the ASE continues to implement its projects and efforts toward improving the investment climate and enhancing confidence in the market.

KUWAIT

- **1977** — A formal Kuwait stock market, the Boursa, begins functioning.
- **1982** — The Souk-Al-Manakh, Kuwait's unofficial market, crashes.

  The Kuwait Clearing Corporation is established.
- **1985** — The new Kuwait Stock Exchange is established.
- **1995** — The first electronic trading system begins.
- **2003** — Trading in futures is allowed.
- **2005** — An options trading platform is introduced.
- **2010** — The Capital Market Authority, the independent regulator, is established.
- **2014** — Boursa Kuwait is established.
- **2016** — Boursa Kuwait takes over the management of the Kuwait Stock Exchange.

  The market-maker model launches.
- **2017** — The first phase of market development reforms—T+3 settlement cycle, delivery versus payment system, standard tick sizes—begins.

  FTSE upgrades Kuwait to a secondary emerging market (EM).
- **2018** — The second phase of market development reforms—market segmentation, market cap-based indexes, and the introduction of circuit breakers—begins.
- **2019** — Boursa Kuwait enters its final phase of privatization.

  S&P Dow Jones upgrades Kuwait to EM status.

2020

The Boursa Kuwait Main 50 Index launches.

Kuwait is included in the MSCI Emerging Markets Index, a key milestone.

Boursa Kuwait Securities Company (the company that manages the operations of Boursa Kuwait) lists itself in the local exchange (Boursa Kuwait).

The exchange's first REIT (real estate investment trust) fund is listed.

KUWAIT

M.R. Raghu, CFA
CEO, Marmore Mena Intelligence, Chennai, India

Equity Market Capitalization (USD)	**129** Bn	**29** Bn	Debt Market Capitalization (USD)
Domestic Equity Market Cap/GDP	102%	23%	Domestic Debt Market Cap/GDP
Equity Market Share Average Daily Value Traded (USD)	**175** Mn*	N.A.	Debt Market Instrument Total Nominal Traded (USD)
Number of Listed Companies	165	24	Number of Issuers (Bonds)

*Past 30 days.
Note: Data as of 10 August 2021.

HISTORICAL EVOLUTION OF KUWAIT STOCK MARKET

The first public offering in the Kuwait capital market was made in 1968. The oil boom of the 1970s led to the accumulation of substantial wealth in the hands of individuals who dabbled in speculative trading, leading to a market crash. The government had to bail out investors from the losses. Bruised by this experience, the government tightened trading norms; hence, the speculative activity shifted to the informal market, the Souk-Al-Manakh, which led to another market crash in 1982 in what is now infamously known as the Souk-Al-Manakh crisis. The government once again bailed out retail investors.

In 1985, the Kuwait Stock Exchange (KSE) was formally established to act as both an exchange and a regulator. The KSE, the oldest exchange in the region, is currently going through several modernization efforts. The KSE introduced electronic trading in 1995, which was, again, another first in the region. The futures and options market commenced in 2003, also a first for the region. Establishing the Capital Market Authority (CMA) in 2010 would count as the key milestone for the Kuwait capital market, as it paved the way for an independent regulator to effectively regulate a growing market. In 2014, Boursa Kuwait was formed to take over the management of the KSE. The year 2017 witnessed the first phase of recent market development through a series of reforms, including the launch of a T+3 settlement cycle and a delivery versus payment mechanism (a securities settlement process that requires that payment be made either before or at the same time as the delivery of the securities). In the very next year, the second phase of market development began through the introduction of market segmentation, market cap–based indexes, and circuit breakers. The market segmentation rules divided the market into two segments, namely, a Premier Market (25 companies) and a Main Market (140 companies). The Premier Market hosts the largest and most liquid stocks and accounts for approximately 75% of the total market. These reforms paved the way for the inclusion of Kuwait in several international EM indexes, including the FTSE (2017), S&P (2019), and MSCI (2020) indexes.

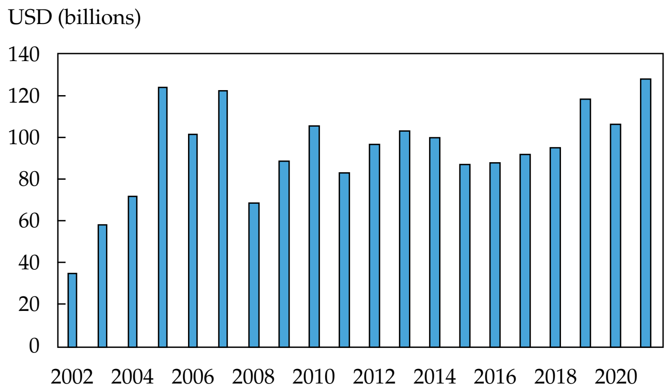
In 2019, Boursa Kuwait was privatized by offering shares to the general public. In 2020, Boursa Kuwait Securities Company was listed on the Boursa Kuwait exchange and Boursa Kuwait launched the Kuwait Main Market 50 Index, a market cap-weighted index that reflects the top 50 liquid companies in the Main Market. The Kuwait Investment Authority (KIA), which is among the world's largest sovereign wealth funds, and the Public Institution for Social Security, Kuwait's pension fund, are the major institutional investors in Kuwait apart from the government. They hold sizable stakes in several listed and nonlisted companies in and outside Kuwait. Kuwait has a well-developed asset management industry in the Gulf Cooperation Council (GCC) region, thanks to the pioneering role played by the KIA.

EQUITY MARKET

Kuwait's economy is highly dependent on oil; it is counted among the biggest oil exporters in the world. Kuwait's equity market is dominated by financials, especially banking stocks. Kuwait has been one of the better performers in the past few years when compared with its GCC peers and the other emerging and frontier markets.

The historical performance of the Kuwait stock index reads like a fascinating fairy tale. **Figure 1** shows the fluctuations in Kuwait's market capitalization since 2002. Like other regional stock markets, the oil boom rally led to the index reaching its peak in 2007 at 12,559, after which the Global Financial Crisis produced huge losses for investors. This crisis affected the stock market ecosystem, including investor sentiment.

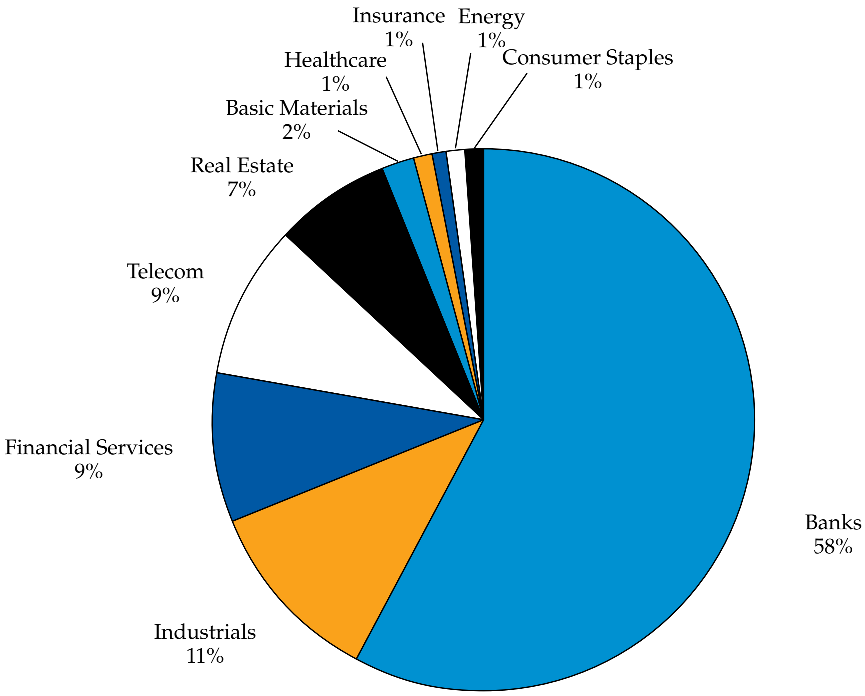
FIGURE 1. KUWAIT MARKET CAPITALIZATION (USD BILLIONS), 2002–21



Notes: Data prior to 2018 are based on an earlier index (KSE), and data post-2017 are based on the Boursa Kuwait All-Share Index (BKA). For 2021, data are as of the close on 16 August.

Sources: Boursa Kuwait; Refinitiv; CEIC.

FIGURE 2. KUWAIT SECTORAL INDEXES BY SHARE OF MARKET CAPITALIZATION, 10 AUGUST 2021



Source: Refinitiv.

Kuwait has picked up smartly since then, however, by launching an independent regulator to govern the market as well as introducing several reforms with an aim to become part of global indexes. As a result, Kuwait was the best performing market among GCC countries during the past few years until the COVID-19 induced crash in March 2020. Kuwait's rally before the pandemic was fueled by a series of capital market reforms and successive emerging market upgrades by globally renowned index providers.

The relaxation of lockdown restrictions put in place during the COVID-19 pandemic and the commencement of the vaccination drive aided the recovery of economic activity in 2021. Rising oil prices as a result of supply cuts from OPEC+ and the recovery of global oil demand sparked a rebound in regional equity markets during 2021, after a year of underperformance in 2020.[1]

Boursa Kuwait has 13 sectoral indexes covering 165 companies that are part of the Premier and Main markets. Among sectoral indexes, the banking sector accounts for more than 58% of the broad market in terms of market capitalization, as shown in **Figure 2**. The banking index is also the most actively traded. It comprises 10 domestic banks that have their headquarters in Kuwait together with Ahli United Bank and Ithmar Holdings, which are

[1]OPEC+ is 24 oil-producing nations, made up of the 14 members of the Organization of the Petroleum Exporting Countries (OPEC) and 10 other non-OPEC countries.

based in Bahrain. The telecom, financial services, and industrials indexes, with market capitalizations of Kuwaiti dinar (KWD)4.1bn, KWD3.5bn, and KWD3.3bn, respectively, are the next largest.

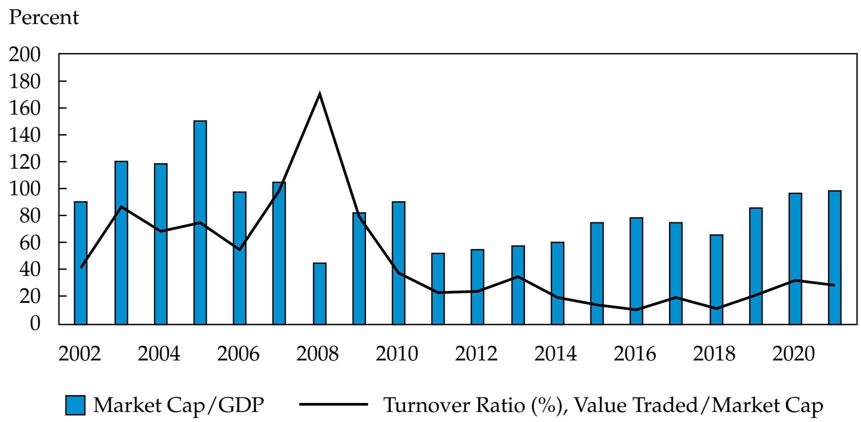
Low liquidity has been a factor of concern for the Kuwait equity markets. The recent inclusion of Boursa Kuwait in the global EM indexes, however, and reforms initiated by the CMA have helped to improve liquidity, as shown in **Figure 3**, which displays Kuwait's stock turnover ratio.

In the first five months of 2021, a noticeable improvement occurred in liquidity levels at the Boursa Kuwait over those in the previous year. Corporate earnings growth over the years had been steady until the pandemic, and despite the fluctuations in oil prices, aggregate earnings grew at an annualized rate of 6% between 2015 and 2019. The year 2020 was painful for most sectors, however, with aggregate earnings falling by nearly 67%. Banking profits in 2020 were reduced to less than half of what they were in 2019 because of the need to hold high reserves to cover bad loans. The sectors holding financial services, real estate, and construction-related companies closed the year with aggregate net losses.

In terms of size, Kuwait's corporate landscape is dominated by the banking sector, which contributed 54% of total corporate earnings in 2019. The Islamic banks in Kuwait that are more retail focused have performed well in recent quarters because of the high uptake of mortgage loans.

Mutual fund assets in Kuwait are small when compared with its GDP. Total assets under management (AUM) in Kuwait stands at KWD1.3bn. In percentage terms, total mutual fund AUM in Kuwait is 3.1% of GDP. Considering that the global equivalent of AUM to GDP is 15.2%, the Kuwait mutual fund industry has plenty of scope and opportunities to grow. **Table 1** reports mutual funds by asset class.

FIGURE 3. KUWAIT MARKET TURNOVER, 2002–21



Notes: Data prior to 2018 are based on the KSE, and data post-2017 are based on the BKA. For 2021, data are as of the close on 16 August.

Sources: Boursa Kuwait; Refinitiv; CEIC.

TABLE 1. MUTUAL FUNDS LISTED IN KUWAIT BY ASSET CLASS, 10 AUGUST 2021

	Bond	Equity	Mixed Assets	Money Market	Real Estate
Number of funds	3	25	3	3	1
AUM as % of total AUM	1%	77%	1%	18%	4%

Source: Refinitiv.

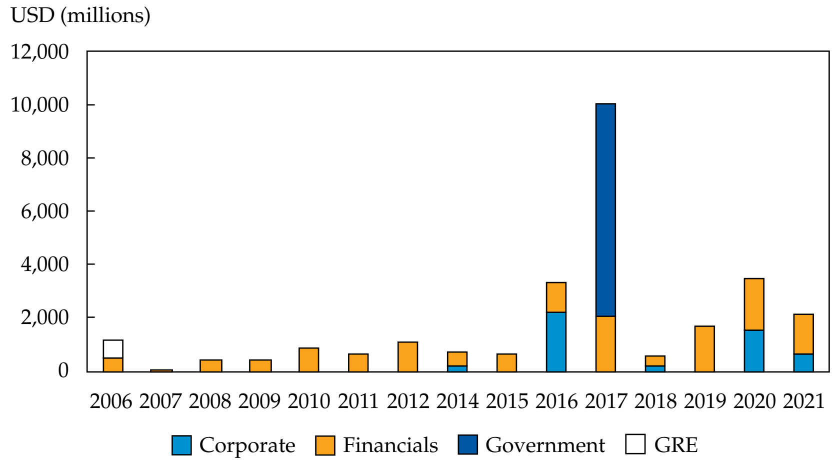
DEBT MARKET

Kuwait's debt market is much smaller than its equity market and is constrained by the lack of an updated debt law; the current law does not permit new sovereign issuances. In contrast, GCC sovereign issuances have surged since 2015 as other GCC countries tapped the international bond markets to support government expenditures instead of drawing down their reserves. GCC countries have exhibited a tendency to tap fixed-income markets during times of low oil prices.

Kuwait's only sovereign issuance took place during 2017, as the government turned to the debt markets to plug a budget deficit caused by falling oil prices. Kuwait raised USD8bn through the sale of 5-year and 10-year bonds. Government issuances constitute the majority of debt issuances, followed by financials, as shown in **Figure 4**. Issuances of sukuk (Sharia-compliant bonds) have been much fewer than conventional issuances, as shown in **Figure 5**.

Currently, the outstanding debt from sovereign and corporate issuers in Kuwait stands at

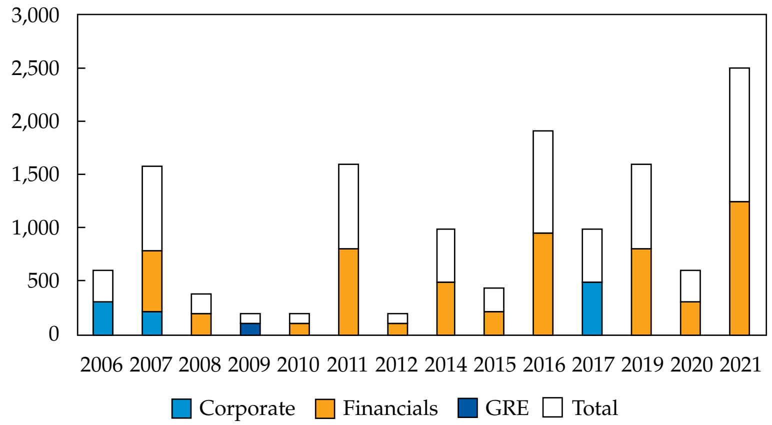
FIGURE 4. BOND ISSUANCES BY TYPE OF ISSUER (USD MILLIONS), 2006–21



Notes: GRE = government-related entity. There were no international issuances in 2013.

Source: Refinitiv.

FIGURE 5. SUKUK ISSUANCES BY TYPE OF ISSUER (USD MILLIONS), 2006–21



Notes: GRE = government-related entity. There were no international issuances in 2013 and 2018.

Source: Refinitiv.

USD29bn, which amounts to only 23% of the country's GDP. Most of the corporate issuances are from domestic banks; other notable issuers are Kuwait Projects Company, KIPCO, and Equate Petrochemical Company. Banks have also been the major issuers of sukuk. The Central Bank of Kuwait issues tawarruq instruments (financial instruments involving a series of sale contracts conducted in succession) to aid liquidity management by domestic banks. These instruments are Sharia compliant and work on the principle of reverse murabaha.[2] Tawarruq aims to provide the bank (buyer) with the liquidity needed by means of buying a resalable commodity at a given price. Later, the bank resells the commodity immediately for cash. Since the expiration of the public debt law in October 2017, no new treasury bonds or tawarruq instruments have been issued. Instruments that have matured are rolled over by the central bank.

Issuances from the GCC of sovereign debt have been met with high demand from investors because the issuances offer better yields than the yields available from other countries that carry a similar credit rating. The case applies to Kuwait also; its attractive yields and large sovereign wealth and central bank reserves make the country appealing from an investor point of view. Because of the high rating of Kuwait debt, issuances of large corporations are also met with high demand from investors because these issues are rated with reference to sovereign ratings.

DERIVATIVES

Derivatives trading in Kuwait is still nascent. In 2001, Markaz, an investment bank and asset

[2]Reverse murabaha is an Islamic financial instrument used to obtain cash immediately. It is similar to a standard murabaha structure, but with an extra leg. The standard part of the structure involves the bank buying the commodity from a goods supplier and selling it on to its customer on a deferred-payment basis. In the liquidation stage, the buyer in the first transaction turns into a seller by selling or liquidating the underlying commodity.

management firm in Kuwait, proposed the establishment of a framework for trading equity options on Kuwait's stock exchange. In 2003, following regulatory approval, Markaz started a fund based on options. Kuwait's CMA suspended trading of financial derivatives at the stock exchange in 2016, and the fund was discontinued. Currently, according to the CMA, the services provided in relation to financial derivatives brokerage and the marketing of derivatives are limited to professional clients and the offering or issuing of financial derivatives in Kuwait is not permitted. Boursa Kuwait plans to reintroduce derivatives trading as part of the fourth phase of its market development plan.

CHALLENGES AND OPPORTUNITIES

At an economic level, the biggest challenge Kuwait faces is to diversify its oil-based economy into a knowledge-based economy. Oil exports contribute more than 90% of the country's total revenues, but the long-term global trend in terms of going green and moving away from fossil fuels will make it dangerous for Kuwait to rely on oil as its main source of income. The future of Kuwait's capital market, therefore, presents the following challenges.

Broadening the Market

Although Kuwait is an oil-based economy, the oil companies (mostly government owned) are barely represented in the stock market, which is dominated by banks and financial services. Additionally, the lack of progress on privatization means that the primary market has not added new companies. Hence, there is a strong need to bring large state-owned entities into the market, which will increase the breadth and depth of the market.

Developing the Debt Market

The current capital market architecture favors equity to the total absence of an active debt market. The bulk of entities' debt-financing needs (both short term and long term) is currently being met only by banks, which, by their nature, are risk averse. Hence, the banks do not participate in risky niches, such as financing for small and medium-sized enterprises and project finance. Also, a vibrant debt market (both primary and secondary) can create the yield curve needed to assist in pricing loans.

Improving Liquidity

The Kuwait stock market has exhibited low liquidity. A low turnover ratio may inhibit serious interest from foreign investors even though Kuwait is part of leading global EM indexes. Although broadening of the market will be a great step to improving liquidity, other factors—such as improving corporate governance, investor relations, and company research—may be important in improving institutional investor interest, which, in turn, can increase liquidity. Low liquidity can be a serious problem for fair price discovery; hence, addressing this challenge should be a priority.

Research

The retail-dominated trading in the Kuwait capital market has not promoted a research culture for listed Kuwait stocks, and large-cap stocks are no exception. This aspect is related to the absence of institutional sell-side brokers, which traditionally provide such research. The stock exchange should start the provision of independent research on listed stocks. Research development will, in turn, motivate companies to provide forward guidance and key strategic information about their businesses.

Derivatives Trading

Presently, the Kuwait stock market does not have the ability to trade options and futures. It existed previously, but it was halted after the CMA was formed. The absence of derivatives makes markets long only, which hampers investors' risk management. This aspect may discourage institutional investors that perceive Kuwait as a new market and, hence, want to use derivatives to hedge their risk.

LEBANON

1920 — The Beirut Stock Exchange (BSE), established by a decree of the French commissioner, was restricted to trading gold and foreign currencies. In the early 1930s, trading was expanded to encompass shares of private companies and manage some public services and sectors.

1983 — Trading activity in the BSE halted until 1996 because of the onset of the Lebanese Civil War.

1993 — Three-month Treasury bills began trading by auction in May, followed by six-month bills in June 1993, one-year bills in September 1993, and two-year bills in November 1994.

1994 — The first sovereign Eurobond issuance occurred, for USD400 million.

1999 — The BSE and Bourse de Paris signed a cooperation agreement in order to replace the outdated fixing system and to provide the BSE with a state-of-the-art electronic trading system, allowing for continuous trading.

2000 — A new amendment was introduced to the BSE by law, allowing the listing and trading of new security types on the BSE: global depositary receipts (GDRs), investment fund shares, preferred stock, priority shares, and other tradable derivatives.

2003 — The BSE launched a new European trading system designed by the European capital markets software company Atos Euronext Market Solutions, branded as NSC-UNIX-EURONEXT.

2006 — The BSE launched a new remote trading system, allowing brokers to trade the securities listed on the BSE "remotely" from their offices.

LEBANON

2011

The Lebanese parliament endorsed a new financial markets law that resulted in the creation of the Capital Markets Authority.

2017

The Lebanese Council of Ministers approved the formation of the Beirut Stock Exchange SAL, a joint stock company to replace the former BSE.

2020

The Lebanese government defaulted on a USD1.2 billion Eurobond issuance that was due on 9 March, the first default in Lebanon's history.

2021

Lebanon was officially removed by MSCI from its "Frontier Market" status and reclassified as a "Standalone Market."

LEBANON

Fadi A. Kanso
Head of Research, Arab Federation of Capital Markets

Equity Market Capitalization (USD)	**11.0** Bn	NA	Debt Market Capitalization (USD)
Domestic Equity Market Cap/GDP	NA	NA	Domestic Debt Market Cap/GDP
Equity Market Share Average Daily Value Traded (USD)	**1.8** Mn	**31.3** Bn	Debt Market Instrument Total Nominal Traded (USD)
Number of Listed Companies	10	4	Number of Issuers (Bonds)

Note: Data as of 31 July 2021 or latest available.

HISTORY

Lebanon's capital market history goes back to 1920, when a decree of the French Commissioner established the BSE, the second-oldest stock market in the Middle East and North Africa (MENA) region (after Egypt). Initially limited to gold and foreign currencies, trading soon expanded to include shares of private companies set up under the French mandate and therefore to operate some public services in the early 1930s.

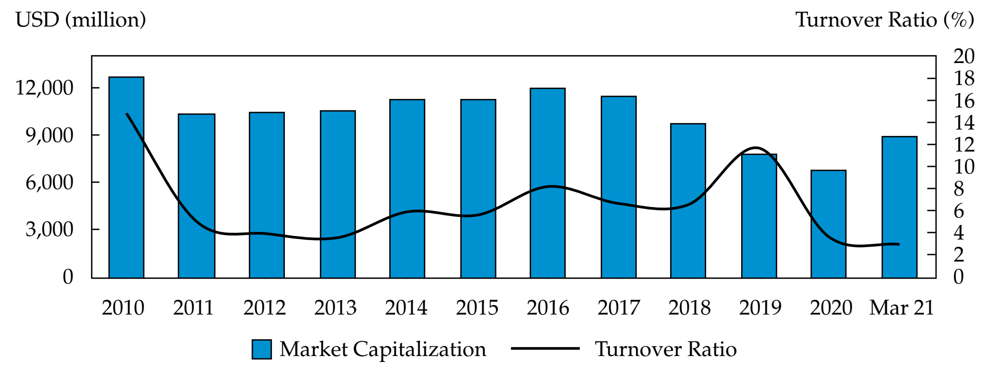
After a halt in trading that began in 1983, the BSE re-launched its trading activity in early 1996. The relatively small stock exchange, lacking liquidity and efficiency, managed to record relatively active performance, mainly during Lebanon's 2007–2010 economic boom, before an inflection point caused by worsening economic and monetary conditions that shaped capital market performance for both equity and bond markets. Notably, although Lebanon has a sizable amount of government bonds outstanding, the secondary market is not very active, while the non-government debt market is very small and fully dominated by banks.

REGULATORY FRAMEWORK

In 2011, the Capital Markets Authority (CMA) was established to regulate and supervise the capital markets in Lebanon and to build an appropriate legal framework for the development of the Lebanese financial markets, with five essential functions: (1) protecting investors and organizing professional activities, (2) organizing capital markets and reducing systemic risks, (3) licensing, (4) organizing and controlling the work of the stock exchange, and (5) providing legal control and accountability.

Previously, responsibility for regulatory policy belonged to the central bank of Lebanon, Banque du Liban (BDL), with supervisory duties executed by the Banking Control Commission

FIGURE 1. EVOLUTION OF BSE MARKET CAPITALIZATION AND TURNOVER RATIO, JANUARY 2010–MARCH 2021

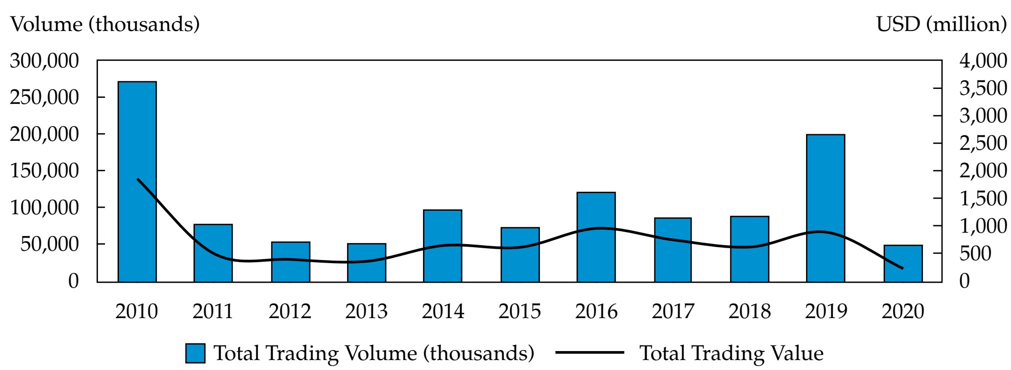


(BCC). The latter oversaw all institutions operating in the capital markets, including non-bank financial institutions and financial intermediaries. Supervision of the BSE was reassigned to the CMA, which also oversees Midclear, the clearing center, central depository, and registrar for securities in Lebanon.

EQUITY MARKET

The BSE is very small, with a total market capitalization of USD6.7 billion at year-end 2020. This market cap declined by almost half during the last decade, dropping from 36.3% of GDP at year-end 2009 to 14.8% at year-end 2019 (**Figure 1**). Liquidity is very low because trading activity is very thin. The total value of traded shares did not exceed USD243 million in 2020, with a volume traded of around 50 million shares (**Figure 2**). As such, the turnover ratio (annual trading value to market capitalization) fell to 3.6% in 2020, down from 14.8% in 2010 and remaining way behind regional and global turnover ratios.

FIGURE 2. EVOLUTION OF BSE TRADED VALUES AND VOLUMES, 2010–2020



With only 10 listed companies, 6 of which are banks representing 50% of total market capitalization, the BSE lacks sector diversification. The exchange has only one other meaningful industry—real estate development and reconstruction (45% of total market capitalization, yet accounting for 77% of total traded value—see **Figure 3**).

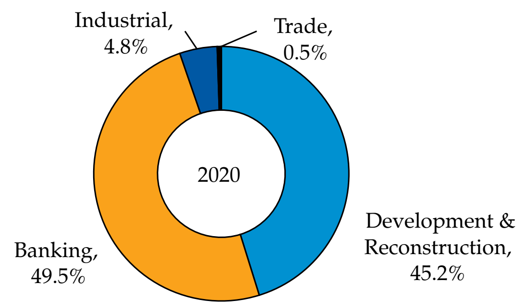
Additionally, a small number of large unlisted companies have shares issued through private placements or trading in the OTC market. Companies trading OTC include those that were de-listed from the BSE as well as companies that issued shares to investors through unregulated private placement mechanisms.

In parallel with the BSE's small size, Lebanon suffers from a very small investor base, and most individual savings are channeled into bank deposits or real estate investments. In fact, although a vast range of foreign funds is offered for Lebanese investors, only a limited number of funds investing in the local capital market are available to individual investors. Pension funds and the insurance sector do not play an important role, because their current choices of investment are still very limited. The only pension fund, the National Social Security Fund (NSSF), invests in government securities and bank deposits—both of which are considered cash equivalents rather than real investments. Insurance companies have grown during the last two decades but remain relatively small in size and have some restrictions limiting their investment scope in the capital markets.

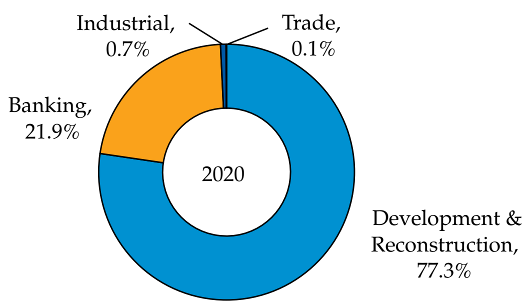
It is worth mentioning that the sociopolitical crisis in Lebanon and the region poses high risks for any investment in the country and contributes to the shrinking market. The relative lack of supervision of the stock market's activities, however, is also a main factor contributing

FIGURE 3. BREAKDOWN OF BSE MARKET CAPITALIZATION, TRADED VALUE, AND TRADED VOLUME BY SECTOR, 2020

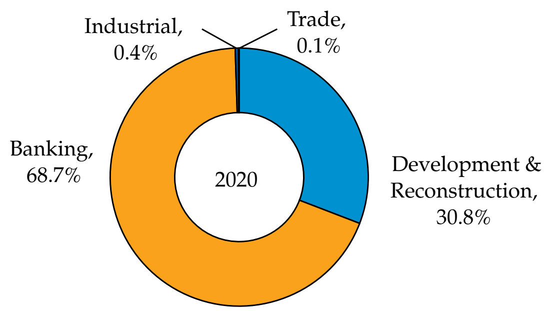
A. Breakdown of Market Cap by Sector



B. Breakdown of Traded Value by Sector



C. Breakdown of Traded Volume by Sector



to investors' and issuers' lack of confidence in the market at large.

BOND MARKET

After a long and devastating civil war, Lebanon embarked on a massive reconstruction effort in 1992, with estimated capital needs of USD14 billion. To support this effort, Lebanon borrowed on the international market, so its foreign debt has been rising since 1993, with returns somehow approaching 40%. The total indebtedness ratio hit record levels after three decades, putting a serious strain on Lebanon's fragile economy.

Lebanon has a sizable amount of government bonds outstanding, with the government debt market comprising both Lebanese pound–denominated instruments (Treasury bills) and US dollar–denominated instruments (Eurobonds). At year-end 2020, the value of total government bonds outstanding was LBP135.5 trillion (or USD90 billion), equivalent to 154% of GDP. About 65% of the government bonds are denominated in Lebanese pounds (the equivalent of LBP88,141 trillion, or USD58.6 billion; see **Figure 4**), and the remaining 35% represent US dollar–denominated Eurobonds (the equivalent of USD31.3 billion; see **Figure 5**). The large majority of Lebanese government bonds were within three-year maturity, but in recent years, the government has increased the portion of longer-tenor bonds.

The majority of Lebanese pound–denominated instruments (or Treasury bills) are held by the central bank (61%) and banks (26%); the remaining 13% are held by public institutions (mainly the NSSF), individuals, and foreign funds. In contrast, the majority of US dollar–denominated instruments (Eurobonds) are held by individuals and foreign funds (54%), while banks and the central bank hold 26% and 14%, respectively, and the remaining 6% are held by international development institutions and foreign governments.

The first quarter of 2020 was critical for Lebanon, which experienced its first ever sovereign default, leading to a sharp fall in sovereign debt prices, bond yields registering new record highs, and credit default swap (CDS) spreads expanding to unprecedented levels. The Lebanese government decided to suspend the payment of a USD1.2 billion bond with the

FIGURE 4. EVOLUTION OF LEBANESE POUND–DENOMINATED INSTRUMENTS (TREASURY BILLS), 2010–2020

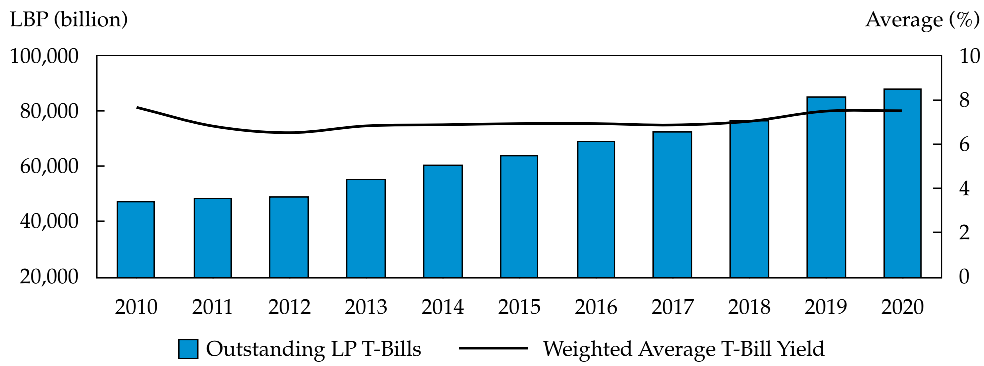
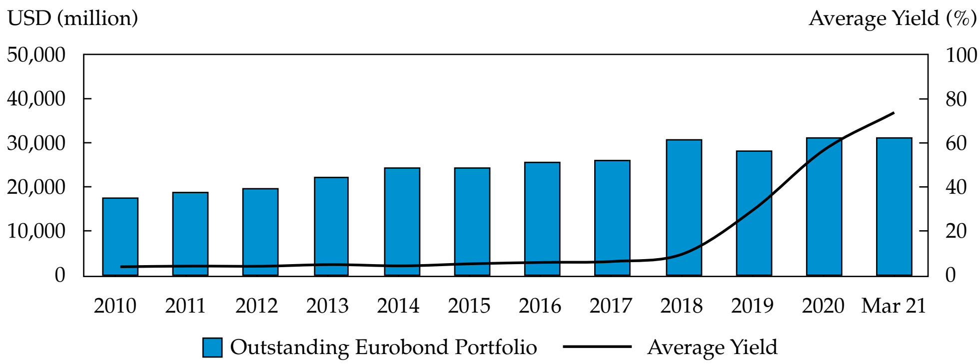


FIGURE 5. EVOLUTION OF FOREIGN-CURRENCY-DENOMINATED INSTRUMENTS (EUROBONDS), JANUARY 2010–MARCH 2021



aim of safeguarding deteriorating foreign currency reserves. Authorities also said that they would discontinue payments on all foreign-currency-denominated Eurobonds until a broad debt restructuring agreement could be reached with creditors. The state default on its foreign currency debt was accompanied by two credit rating cuts by international rating agencies. Standard & Poor's lowered its foreign-currency sovereign ratings on Lebanon to SD/SD from CC/C, and Fitch downgraded Lebanon's Long-Term Foreign-Currency Issuer Default Rating (IDR) to RD from C.

Within this context, the Lebanese bond curve converged to the low teens at year-end 2020. Prices of sovereigns maturing between 2020 and 2037 ranged between 13.0 cents per US dollar and 14.4 cents per US dollar at the end of December 2020, versus 44.75 cents per US dollar at the end of December 2019. The weighted average yield reached 57% at year-end 2020, compared with 30% at year-end 2019, and it moved up to 74% at the end of March 2021.

Lebanon's corporate bond market is very narrow and consists mainly of bank issuances. At year-end 2020, total outstanding non-government bonds stood at USD1.1 billion, representing issuances by banks only. Banks appear to be funding their assets in foreign currencies, including Eurobonds, with a combination of US dollar deposits and US dollar bonds. The dominance of the banking sector reflects a lack of access to capital for the real sector through the capital markets, but it is also a sign of lacking comprehensive information on fundraising activities of non-financial institutions in Lebanon, resulting somewhat from the BDL's market supervisory role that focuses on banks and financial intermediaries activities.

In the last three decades, the authorities' strategy toward managing public debt has been strongly influenced by the need to support currency stability. As such, the central bank of Lebanon took a major role in managing interest rates and liquidity. The BDL sent strong price signals during auctions of government bonds, with any unsold portion being absorbed by the BDL. The BDL often worked on absorbing the remaining liquidity by issuing certificates of deposit (CDs) to banks, some with long maturities. As such, the Lebanese pound CD portfolio grew during the last two decades from LBP600 billion (or USD0.4 billion) to LBP43,783 billion (or USD26.0 billion) at the end of February 2021, after hitting a peak of LBP48,043 billion at year-end 2019.

The year 2020 saw the first rate cuts of Lebanese pound Treasury bill yields in 10 years. Lebanon's Ministry of Finance slashed interest rates across the board to a range of 1.80%–3.00% in an effort to reduce the cost of debt. The financial system's total subscriptions in Lebanese pound Treasury bills amounted to approximately LBP14,000 billion in 2020, compared with LBP17,524 billion in 2019—down by 20%. The central bank of Lebanon continued to play the role of intermediary between banks and the sovereign, as reflected by a LBP3,200 billion expansion in BDL's Lebanese pound securities portfolio in 2020.

Within this context, trading activity of sovereign bonds among banks became very modest to give way for trading between the central bank and the banks. In fact, the objective of preserving currency stability had the unplanned result of contributing to the low level of activity in the domestic fixed-income market. Undoubtedly, tight control over government bond yields is sometimes essential to maintain financial stability. The resulting lack of price detection along with high dollarization rates, however, provided little motivation for domestic issuance of corporate bonds.

LEBANON'S MOVE TO A "STANDALONE MARKET"

MSCI had warned Lebanon about market accessibility issues resulting from the implementation of de facto capital controls since October 2019. Fund repatriation problems arose because international institutional investors became unable to repatriate cash proceeds from equity investments trading at the BSE, but there were also index replicability issues and large disparities between the official and parallel exchange rates for the Lebanese pound.

MSCI confirmed in its February 2021 Quarterly Index Review for its equity indexes that Lebanon had been officially removed from its Frontier Market status and was therefore reclassified to a "Standalone Market."

To facilitate index replicability, MSCI deleted "Solidere A" and "Solidere B" from the MSCI Frontier Markets Indexes at a value 80% below their last traded prices as of the close of Friday, 26 February 2021, after removing BLOM Bank GDR from both the MSCI Frontier Markets Index and the MSCI Lebanon Index at the end of November 2020. Lebanon's downgrade means that three countries will represent the MENA region in the MSCI Frontier Markets Index: Bahrain, Jordan, and Oman. Lebanon and Palestine represent the region as Standalone Market Indexes.

CHALLENGES AND RECOMMENDATIONS

The main challenge facing Lebanon's capital markets relates to the fact that banks have dominated financial intermediation in the country for the last three decades, leaving some sectors underserved and limiting the development of capital markets. Banks did not offer capital market products that could potentially harm their profitability. Their incentive was in general to provide clients financing through loans or to offer such products as preferred shares with even higher yields than deposits, to keep investors away from possible non-bank alternatives. The Lebanese banking sector is currently operating under very challenging conditions, amid continued political tension and a lack of tangible actions to address the acute economic and financial crisis. Banks are directing their efforts instead toward provisioning against potential losses tied to their Eurobond holdings and lending portfolios, while struggling to increase capitalization and meet liquidity requirements, thereby putting further pressure on capital market activity in general.

In parallel, the absence of an institutional investor base in Lebanon's capital markets means no alternative exists for firms to raise capital through the capital markets, which, in turn, further discourages investors. Given the status of Lebanon's pension, insurance, and asset management industries, there is very limited deployment of savings for long-term investments in the local market, because most of the private savings are channeled into bank deposits and real estate and not into productive investments. In addition, the lack of an independent or proper regulatory framework for capital market activity contributes to investors' and issuers' poor confidence, because much of the supervisory emphasis appears to be on prudential issues rather than on market conduct.

Within this context and given the prevailing difficult conditions since October 2019, recommendations for the development of Lebanon's capital markets must be objective and realistic. The main priorities today consist of implementing much-needed reforms, to attract foreign funding, and to create a "soft landing" scenario to lift the country from the most severe economic and financial crisis in its history.

Lebanon's government should focus on establishing a wide-ranging capital market development program, including efforts to intensify supply and demand and reinforce supervision and enforcement. Efforts should be motivated progressively by growing the supply of investable instruments, first through IPOs of state-owned enterprises. Privatization through offerings of state-owned enterprises can have a beneficial effect on capital market development because such institutions tend to be large and renowned. Although privatization could be politically challenging in many markets, in Lebanon the situation is particularly serious because the political environment is characterized by widely dissimilar views. Notably, the aim of privatizing selected state-owned enterprises is not to abandon public ownership but rather to provide chances for the public to directly own shares in desirable companies.

Moreover, the CMA must establish a gentle balance between market regulation or supervision and market development. All these efforts need to be accompanied by the issuance of operative regulations along with proper supervision and enforcement. The CMA may develop a regulatory framework that allows private or hybrid issuance. Public issuance is not always the most cost-effective way to raise funds, because some companies may choose to remain private but may want to raise funds from a small number of non-bank investors. Meanwhile, not all securities may be suitable for retail investors. Some fixed-income instruments, for instance, may be sellable only to institutional investors and not to retail investors.

In addition, an effective campaign to promote Lebanese capital markets domestically and internationally should be directed cooperatively with the public and private sectors. An active and rigorous campaign may be conducted once the private sector signals strong support for such an effort and especially once new IPOs begin to enter the market. Similar campaigns have been demonstrated to be effective in other countries, such as Chile and Brazil. For the moment, promoting the market will need to be not only about investing in the stock market but also about promoting other savings programs appropriate to retail investors, such as investment funds.

The authorities may want to consider connecting local markets with other markets in the region to benefit from a greater number of investors and issuers. The Lebanese financial markets are already somehow incorporated with the markets in the region, and so is commerce. Therefore, connecting the capital markets with other markets in the region may be a natural direction. As such, authorities may consider several possible tracks, such as cross-listing and cross-trading of securities and mutual recognition of the issuance and licensing framework.

Finally, Lebanon needs a crisis exit plan to be shaped by a trustworthy government that would unveil the required structural reforms. When the future of capital markets is discussed, it cannot be detached from the future of the economy in the financial, public, external, and real sectors. The implementation of strategies to address the recent political, economic, and social demands of the Lebanese people, followed by the launch of necessary reforms, could begin to diminish imbalances in the Lebanese economy, deliver backing to monetary and financial stability and therefore to capital markets at large, and thus help to guarantee the much-needed move from an era of economic slowness to an era of gradual improvement in Lebanon's overall standard of living and well-being.

OMAN

- **1988**: Muscat Securities Market (MSM) was established as a government entity.
- **1998**: The Capital Market Law was issued.

  The Capital Market Authority (CMA) was established.
- **2002**: The first corporate governance code was issued.
- **2003**: Investors Trust Fund was established.
- **2004**: Auditor accreditation rules were issued.
- **2009**: Executive regulation of the Capital Market Law began.
- **2011**: Clearance and settlement regulation was issued.
- **2012**: The Issuing Directive for Margin Financing was released.
- **2015**: The first sovereign sukuk was issued.

  Rules were enacted for selling securities for which clients fail to pay their value.
- **2016**: Sukuk regulation was issued.
- **2017**: The transfer of MSM to a company was approved.
- **2018**: Real estate investment funds regulation was issued.
- **2019**: Takeover and acquisition regulation began.

  The Commercial Companies Law was issued.
- **2021**: MSM was renamed Muscat Stock Exchange (MSX).

OMAN

Dalal Aassouli
Assistant Professor of Islamic Finance, Hamad Bin Khalifa University (HBKU)

Total Market Capitalization (USD)	53 Mn	11,019 Mn	Bond/Sukuk Market Capitalization (USD)
Domestic Equity Market Cap/GDP (2019)	22.4%	N.A.	Domestic Debt Market Cap/GDP
		104 Mn	Value of Traded Bonds and Sukuk (USD)
Number of Listed Companies	111	47	Number of Bonds and Sukuk

Note: Data as of 31 December 2020.

Muscat Stock Exchange (MSX) was established as Muscat Securities Market (MSM) in 1988. Ten years later, MSM became a legal entity on its own that is regulated by the Capital Market Authority (CMA), which is responsible for the regulation and supervision of the capital markets and insurance sector in Oman. In 1998, Muscat Clearing & Depository Company (SAOC) was established with a mandate of reporting on dealings in the exchange, contributing to the transparency of operations through providing data, updating investor data, and distributing dividends on behalf of companies. During 2017, Oman implemented a 10% withholding tax on dividends paid to foreign investors. This tax was rescinded in 2019, leading to an increase in foreign investments.

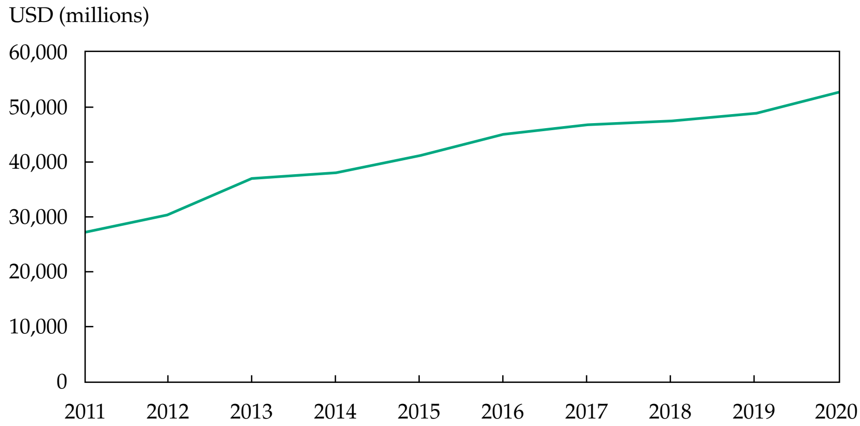
In 2021, MSX was established as a joint stock company to take over all the activities of MSM. The market is divided into a regular market and a parallel market. The former consists of 18 companies with stricter listing requirements, and the latter consists of a total of 88 companies.

EQUITIES

The MSM 30 Index, a major stock market index, tracks the performance of the 30 most profitable companies traded in the MSM (now MSX). MSM suffered its first major dip during 2011, with the exchange falling by 696 points (10.18%), as a result of the Arab Spring. In 2015, a decline in oil prices significantly affected MSM's trading activity, with the MSM 30 Index losing 14.77% of its value during the year.[1] MSM also struggled during 2017,[2] mostly because of a 3% increase in the corporate tax rate[3] and a decrease in a government subsidy,[4]

[1]MSM's 2015 annual report.
[2]Oxford Business Group (2018).
[3]PwC (2017).
[4]KPMG (2017).

FIGURE 1. TOTAL MSM MARKET CAPITALIZATION, 2011–2020 (USD MILLIONS)



Source: Refinitiv.

which increased fuel prices, further affecting firm profitability. Subsequently, COVID-19 severely affected stock markets worldwide, and MSX was no exception. During March 2020, the exchange fell by 16.52%, its greatest dip during the last decade.

Notably, the MSM 30 is a price index, and its performance improves considerably when payouts to shareholders, including dividends, are accounted for. The average dividend yield for equities in Oman tends to be around 7%. Therefore, the total return index offers a better indicator of performance than the MSM 30 price index.

The market capitalization amounted to USD52.57 billion in 2020, an increase of 7.86% relative to 2019. **Figure 1** shows the historical market capitalization of MSM.

In 2020, closely held corporations represented 57% of the market capitalization, bonds and sukuk represented 21%, and the financial sector 15%, as depicted in **Figure 2**.

In terms of trading value among the financial, industrial, and service sectors, the financial sector ranks first with USD622.70 million in 2020, representing 54.36% of the total trading value, followed by the services sector and the industrial sector, with 22.65% and 13.40% of the total value, respectively. This trend held in 2016–2019 as well (see **Figure 3**).

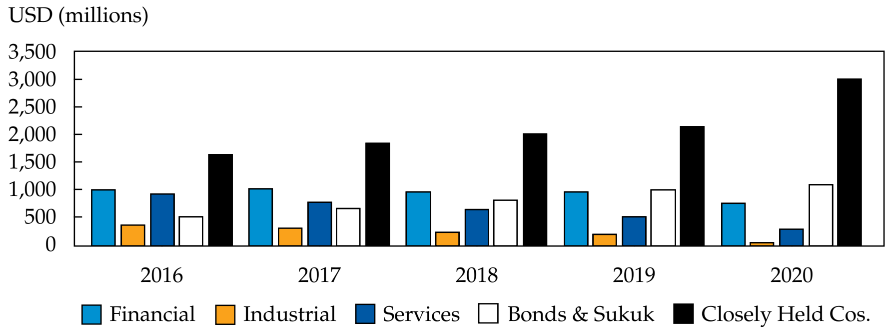
MSM faces two main challenges: price performance and trading activity. Trading activity has seen a steady decline since 2013, as shown in **Figure 4** and **Figure 5**, although this deficit has been reduced in recent times.[5]

DEBT MARKET

The Omani bond market has been described as "historically underutilized." As of 2019, there have been 40 recorded bonds and sukuk listed, half of which are corporate issuances and half being government issues. **Figure 6** shows the volume of bonds traded between 2011 and 2019. Most corporate issuers are banks, with perpetual bonds being the most popular security.

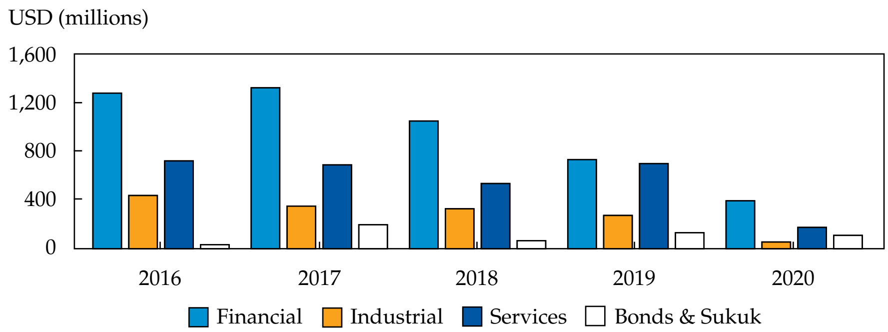
[5] www.msx.om/downloads.aspx?b1=Publications&b2=MSX-Annual-Report&c=13&ti=MSX-Annual-Report.

FIGURE 2. MSM MARKET CAPITALIZATION BY SECTOR, 2016–2020 (USD MILLIONS)



Sources: Refinitiv; Muscat Securities Market annual reports, yearly bulletins, and annual statistical bulletins.

FIGURE 3. MSM TRADING VALUE BY SECTOR, 2016–2020 (USD MILLIONS)



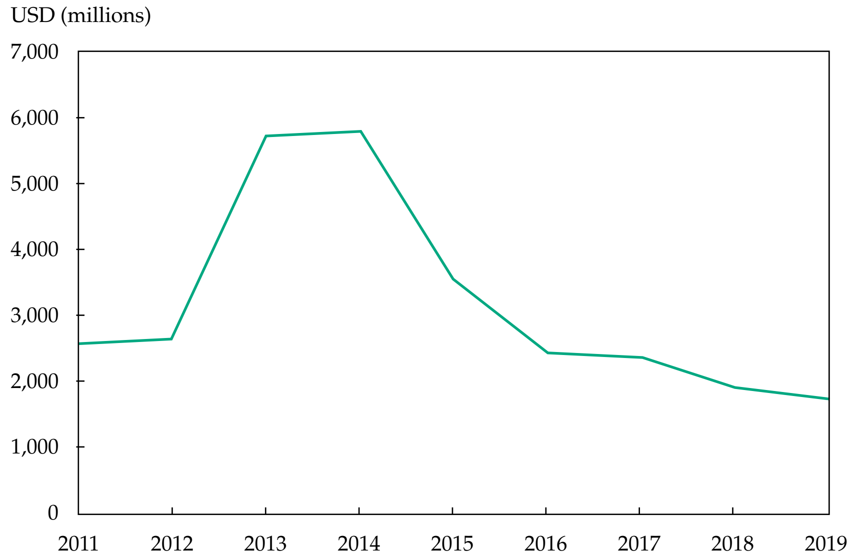
Sources: Refinitiv; Muscat Securities Market annual reports, yearly bulletins, and annual statistical bulletins.

Government issues since 2016 have been used to finance the budget in response to falling oil prices. International issuances, such as the government's USD3 billion issuance in 2019, are not listed on MSM. The 2019 issuance was oversubscribed by more than four times, which demonstrates the demand for these bonds even with Oman's existing economic challenges.

At the end of 2020, the total value of government bonds and sukuk listed on MSM was estimated at USD9.09 billion, including USD1.9 billion in sukuk and USD7.27 billion in bonds. The total number of listed sovereign issuances was 20 bonds and 5 sukuk. Total issuances of corporate bonds listed on MSM at the end of 2020 were 16, at a value of USD1.43 billion, and the number of issuances of listed corporate sukuk was 6, at a value of USD449.4 million.[6]

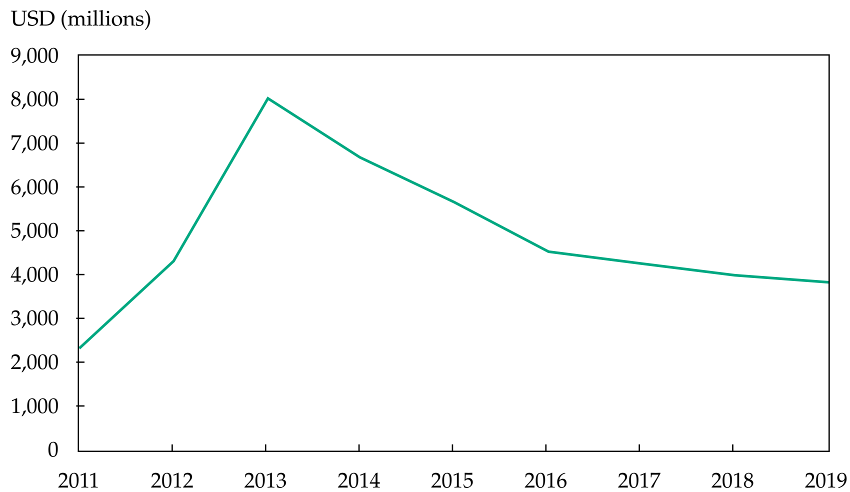
[6]CMA (2020).

FIGURE 4. VALUE OF SHARES TRADED, 2011–2020 (USD MILLIONS)



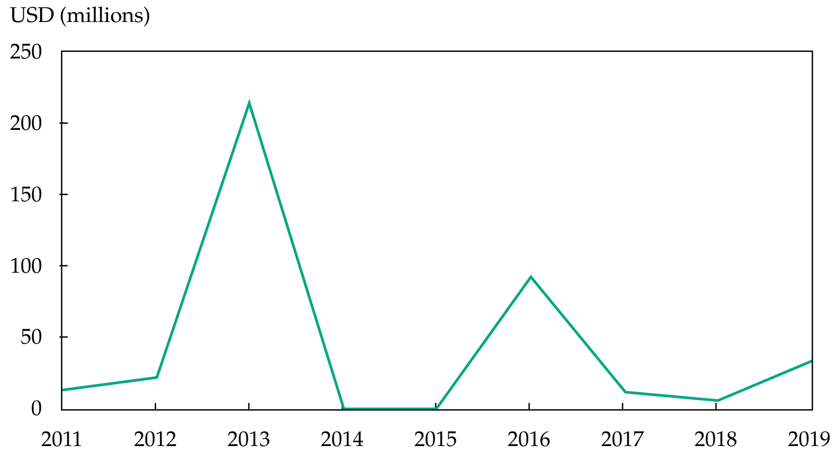
Source: Refinitiv.

FIGURE 5. VOLUME OF SHARES TRADED, 2011–2019 (USD MILLIONS)



Source: Refinitiv.

FIGURE 6. VOLUME OF BONDS TRADED, 2011–2019 (USD MILLIONS)



Source: Refinitiv.

THE WAY FORWARD

Capital market development is important for Oman's economic diversification. Developed financial markets contribute to making the economy more robust to shocks by enabling risks to be allocated appropriately. As Oman tries to attract more international investors and accelerate its economic diversification, four key areas require its consideration:

1. *Innovation*: Innovation in product development and investment opportunities can promote the liquidity and diversification of the country's capital markets. Currently, capital market instruments are dominated by equities, bonds, and sukuk. The development of other instruments, such as T-bills, REITs, exchange-traded funds (ETFs), and mutual funds, can further promote the liquidity and efficiency of Oman's capital markets.

2. *Conducive regulatory framework*: Enabling regulatory and legislative infrastructure can promote innovation and help attract investment from institutional, impact, and high-net-worth investors to achieve the ambitious strategic direction under Oman's Vision 2040.

3. *Capacity building*: Capacity building, talent development, and market awareness are critical to support the expansion and digitalization of the country's capital markets. The CMA's target to increase the level of awareness of the capital and insurance sectors among the population to 25% of the total population[7] can promote the development of a wider investor base, including retail investors.

4. *Digitalization*: Digital transformation of capital markets and securities promotes cost reduction, efficiency in operations, traceability, and impact assessment and enhances the customer experience in general. The modernization of capital markets in Oman, including the introduction of digital assets,

[7]CMA (2020).

can improve liquidity and provide access to alternative financing through the global digital markets.

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QATAR

- **1995** — The Doha Securities Market (DSM) was established.
- **1997** — The DSM officially started its manual operations.
- **2001** — The first automated trading system (Horizon) was implemented.
- **2002** — The first website for DSM was launched.
- **2005** — Foreign investors were allowed to buy listed companies' shares up to 25% of the free float.
- **2006** — DSM was accepted as an affiliate member of the International Organization of Securities Commissions (IOSCO).
- **2007** — DSM was accepted as a Correspondent Member of the Federation by the World Federation of Exchanges (WFE).
- **2009** — The DSM was renamed QSE.
- **2010** — The Universal Trading Platform (UTP) trading platform was implemented.
- **2011** — The debt market was launched.

  The first tranche of Treasury bills was listed.

  The Delivery versus payment (DVP) settlement process was launched.
- **2012** — The QE Venture Market became ready to list small and medium-size enterprises (SMEs).

QATAR

2013

QSE was upgraded to emerging market status by S&P Dow Jones and MSCI.

The first bonds on QSE were listed.

QSE gained full membership in the WFE.

2015

QSE was upgraded to emerging market status by FTSE.

2016

QSE joined the Sustainable Stock Exchanges (SSE) initiative of the United Nations.

2018

QSE was ranked as the best-performing exchange in the world among emerging and developed markets.

The first two exchange-traded funds (ETFs) were listed in Qatar.

A sustainability and environmental, social, and governance (ESG) platform was launched.

2019

The regulator mandated a stock split for all the securities listed on the market.

2021

The first company was listed on QE Venture Market.

QATAR

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Equity Market Capitalization (USD)	**165,364** Mn
Domestic Equity Market Cap/GDP	112.99%
Equity Market Share Average Daily Value Traded (USD)	**117** Mn
Number of Listed Companies	48

8,257 Mn	Bond Market Capitalization (USD)
2,840 Mn	Sukuk Market Capitalization (USD)
3	Number of Issuers (Bonds)

Note: Data as of 31 December 2020.

The creation of the stock exchange in Qatar goes back to 1995, with the establishment of the Doha Securities Market (DSM), which officially began operations in 1997. In 2009, Qatar Investment Authority (QIA) signed an agreement forming a strategic partnership with NYSE Euronext, which took a 20% strategic interest in the exchange—later renamed Qatar Stock Exchange (QSE). In 2013, QSE received emerging market (EM) status from MSCI and S&P Dow Jones; two years later, it also received EM status from FTSE. QSE has been a member of the Sustainable Stock Exchanges initiative since 2016, and in 2018, it became the first exchange in the region to launch a sustainability and ESG platform, promoting ESG standards. QSE now has a total of 48 listed companies across seven sectors.

Between 2011 and 2013, the listing of Treasury bills and government bonds on QSE created more liquidity in the market and supported the establishment of a yield curve for the country. QSE further diversified its products with the launch of the first ETFs in 2018—QE Index ETF and Al Rayan Qatar ETF. QE Index ETF was built to track QE Index, which consists of the top 20 listed companies in Qatar by market capitalization and liquidity. Al Rayan Qatar ETF is a shari'a-compliant ETF that tracks the performance of the QE Al Rayan Islamic Index. QSE also launched its online environmental, social, and governance (ESG) platform in 2018, demonstrating its commitment to sustainability. In addition, the launch of QE Venture Market (QEVM) in 2012 created new opportunities for SMEs listing in the country, thus facilitating their growth and the diversification of their financing sources. The first company was listed on QEVM in 2021.

The recent economic blockade and fluctuations in oil prices have influenced the activity of QSE in recent years. The expansion of the exchange with the introduction of new instruments (such as ETFs), the streamlining of its processes, and the increase in the foreign ownership limit of listed companies (to 49% in 2014) helped attract new foreign investors and position QSE as one of the fastest-growing exchanges in the Middle East and North Africa (MENA) region.

The QSE includes three stock indexes, one of which is Islamic. All three indexes—Qatar Exchange Index (QEI), QE All Share Index, and QE Al Rayan Islamic Index—are based on market capitalization.

On the regulatory side, Qatar's financial sector is governed by three different regulators: Qatar Central Bank (QCB), the Qatar Financial Centre Regulatory Authority (QFCRA), and Qatar Financial Markets Authority (QFMA). QCB is the primary regulator for banks and insurers in Qatar. The QFCRA regulates financial institutions and insurers based in the Qatar Financial Centre (QFC). Established in 2005, QFMA is the supervisory authority for capital markets in Qatar and issues regulations for equities, bonds, and sukuk.

The capital market in Qatar comprises the equity market, the bond market, and the funds market. The listed instruments include equities, bonds, ETFs, and Treasury bills. **Table 1** provides a brief overview of the Qatari capital market.

EQUITIES

QSE has a total of 48 listed companies, with 13 in the banking and financial services sector, 10 in the industrial sector, 10 in consumer goods, 6 in insurance, 4 in real estate, 3 in transport, and 2 in telecommunications. The number of listed companies grew from 42 in 2011 to 48 in 2020.

In 2020, the total equity market capitalization of the Qatari stock market surged 3.33% compared with 2019, to USD165,363.57 billion (see **Figure 1**).

The Qatari stock market capitalization is dominated by the banking sector, as shown in **Figure 2**.

The industrials sector led trading value during 2020 with 27.55% of the total trading value, followed by the real estate and banks and financial services sectors, with 27.14% and 20.05%, respectively.

In an effort to improve market liquidity and expand the shareholder base by attracting more small and individual investors, a 10:1 stock split was phased in for companies listed on QSE during 2019, which increased trading volume.[1]

As shown in **Figure 3**, QSE recorded a total value traded of USD165 billion in 2020, compared with USD152 billion in 2015, emphasizing its competitiveness in the Persian Gulf region. Equity categories vary among global depositary receipts, ordinary shares, and rights issues with the following owner demographics: 88.7% Qatari and 11.3% non-Qatari; and 99.2% individual investors and 0.8% institutional investors.

DEBT MARKET

Qatar's debt market comprises bonds, sukuk, and Treasury bills (T-bills). The competitiveness of QSE's debt markets can be justified by its recognition by the J.P. Morgan Emerging Market Bond Index (EMBI), its investment-grade status, and the successful issuance of sovereign bonds and sukuk targeting both local and foreign investors.

Government Treasury bonds and T-bills dominate domestic government debt. T-bills support short-term liquidity management, whereas Treasury bonds are mainly used for infrastructure projects and government spending. T-bills

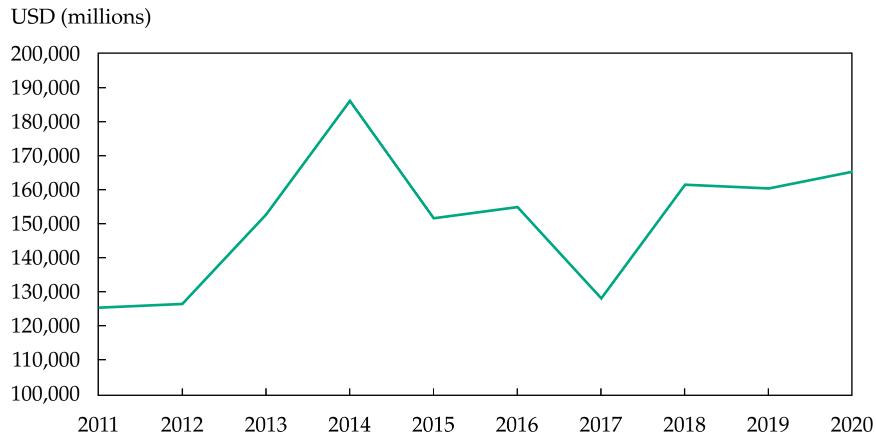
[1]See https://tradingeconomics.com/qatar/inflation-cpi.

TABLE 1. OVERVIEW OF QATARI CAPITAL MARKET

	2013	2014	2015	2016	2017	2018	2019	2020
Equity market capitalization (USD millions)	152,624.97	185,847.08	151,902.13	154,727.76	128,437.73	161,657.02	160,088.02	165,363.57
Bond market capitalization (USD millions)	3,250	4,604	3,785	17,108	22,509	32,206	14,000	8,257
Sukuk market capitalization (USD millions)	2,348.88	4,120.88	3,495.6	3,070.54	5,560.6	3,182.08	5,247.3	2,840
Domestic equity market cap/GDP (%)	76.78	90.13	88.14	102.04	81.07	88.93	91.02	112.99

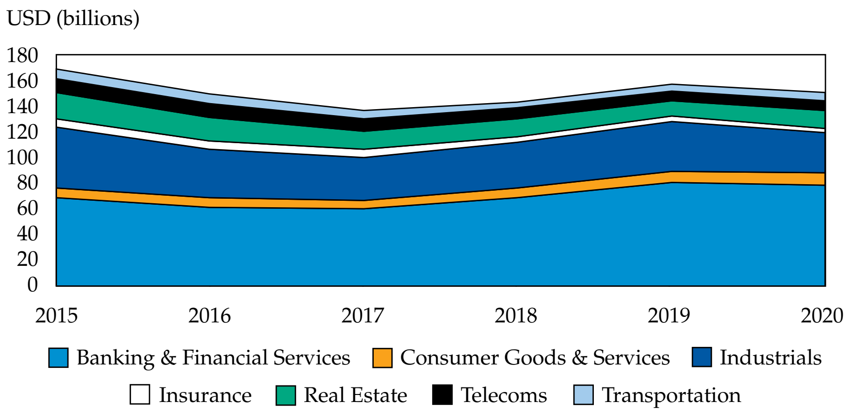
Source: The data on sukuk market capitalization are from Refinitiv. The data on domestic equity market cap/GDP are from the 2020 World Bank (IBRD) Impact Report (https://treasury.worldbank.org/en/about/unit/treasury/impact/impact-report).

FIGURE 1. MARKET CAPITALIZATION, 2011–2020 (USD MILLIONS)



Source: Refinitiv.

FIGURE 2. MARKET CAPITALIZATION BY SECTOR, 2015–2020 (USD BILLIONS)

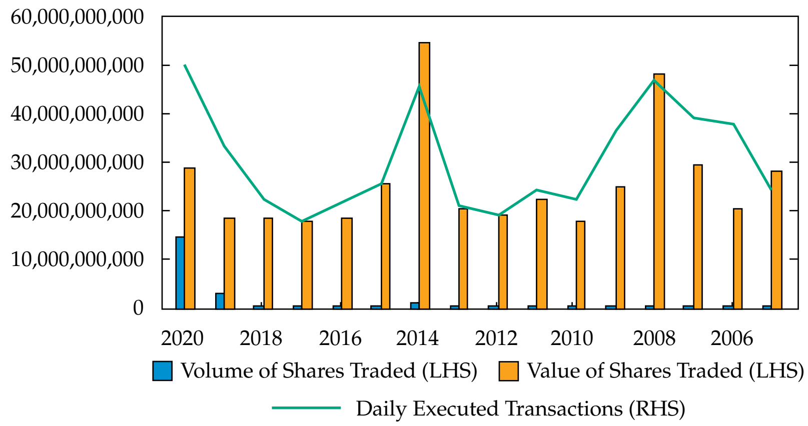


Source: Refinitiv.

were listed and began trading on QSE starting in 2011, with the prohibition of over-the-counter trading. Islamic banks can use Islamic T-bills as collateral in repo transactions with QCB. These instruments cannot be traded, however. Despite the establishment of dedicated trading platforms for government bonds and T-bills at QSE, trading activity is still negligible, and secondary market trading by foreign investors can be done only via registered brokerage firms at QSE.

Sovereign issuance dominates both the bond and sukuk markets in Qatar. A total of 93 conventional bonds and 97 sukuk were issued between 2011 and 2020. **Figure 4** provides an overview of the Qatari bond value traded.

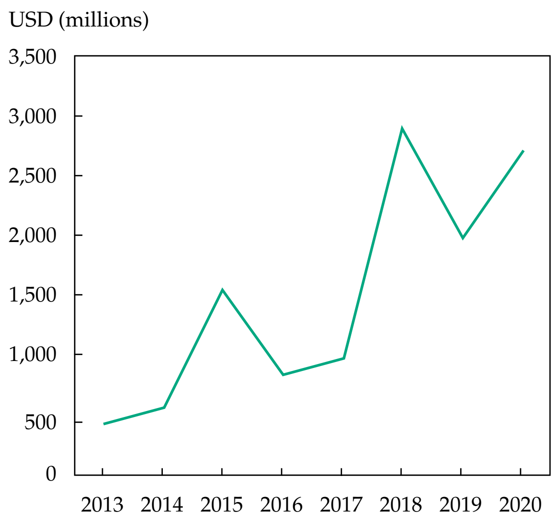
FIGURE 3. EVOLUTION OF LIQUIDITY ON THE QSE



Source: Qatar Stock Exchange (2020).

Issuance of bonds in Qatar accounted for 1.5% of the emerging market sovereign bonds issued from 2019 to Q1 2020, valued at USD2 trillion. The country has sold USD34 billion worth of sovereign bonds since 2018, and in 2020, the government issued USD5 billion in 30-year Formosa bonds. In 2020, 38 bonds were issued on QSE, with a traded volume of 985,440, a traded value of approximately USD2.71 billion, and 19 transactions. In 2020, Qatar entered the green bond market with a first benchmark issuance by QNB. The bond was oversubscribed, demonstrating a promising future for sustainable finance instruments in the country.

FIGURE 4. QATARI BOND VALUE TRADED, 2013–2020 (USD MILLIONS)



Source: Refinitiv.

Unlike other countries, in Qatar, the government is the most active player in the sukuk market. Qatar issued its first global sukuk in 2003 with its USD700 million sovereign sukuk. In 2018, the country was the third-largest sukuk market in the Gulf Cooperation Council, with USD18 billion of sukuk outstanding from 56 issuances. In the first half of 2019, the value increased to USD20 billion, with sukuk accounting for only 14% of total debt issuance, mostly from government issuances. Although corporate issuers play a significant role in other countries' sukuk markets, Qatar has no domestic corporate sukuk market. This can be attributed, according to a report by QFC (2019), to the increase in government issuances, including a USD12 billion conventional bond in April 2019, which was heavily oversubscribed. In January 2020, QIB issued USD800 million in sukuk with a five-year tenor, the first Formosa sukuk in the Persian Gulf region. Developing the sukuk market in the country requires various actions, including incentives for prospective issuers, innovation leveraging on the global trends of green and sustainable finance, and market awareness.

INVESTMENT FUNDS

At the end of 2020, assets under management amounted to USD19.6 billion. The introduction of ETFs, including Qatar's first Islamic ETF, in March 2018 was met with high international demand, and two more ETFs, as well as REITs, are on the horizon.

ETFs play an important role in providing investors with a means to diversify their portfolios, and two are listed on QSE. The first—the QE Index ETF—tracks the performance of QSE's 20 largest and most liquid companies. Meanwhile, the second—the Al Rayan Qatar ETF—tracks the QE Al Rayan Islamic Index and is the largest single-country Islamic ETF in the world by assets under management. Although this ETF is not actively being traded at the moment, QSE is working with the issuer and a liquidity provider to boost its availability and attractiveness.

THE WAY FORWARD

Three trends could influence the development of capital markets in Qatar. The first is sustainability integration. Because Qatar aims to become a global hub for ESG investors, an ESG guidance was launched by QSE in 2017 to promote ESG reporting among listed companies. The guidance was supplemented by a dedicated sustainability platform in 2018, considered the first in the region. The mandatory ESG reporting for listed companies could attract a wider investor base, comprising impact investors in addition to the existing conventional and Islamic investors.

The second trend is fintech, using blockchain and other technologies to develop new products and services. This was facilitated by the establishment of Qatar FinTech Hub, which promotes the development of innovative solutions to enhance investor experience and market infrastructure.

The third trend is innovation, which could support the development of deep, liquid, and more diversified capital markets. In this regard, QFMA and the QFCRA have issued new regulations for the governance and offerings of financial instruments, such as ETFs, REITs, and investment funds and vehicles. QSE also considered the issuance of derivatives in 2021, and in 2020, QNB issued the first green bonds in the country, which demonstrated a strong appetite from investors. The development of green bonds and sukuk in the country could position Qatar as a sustainable finance hub in the region.

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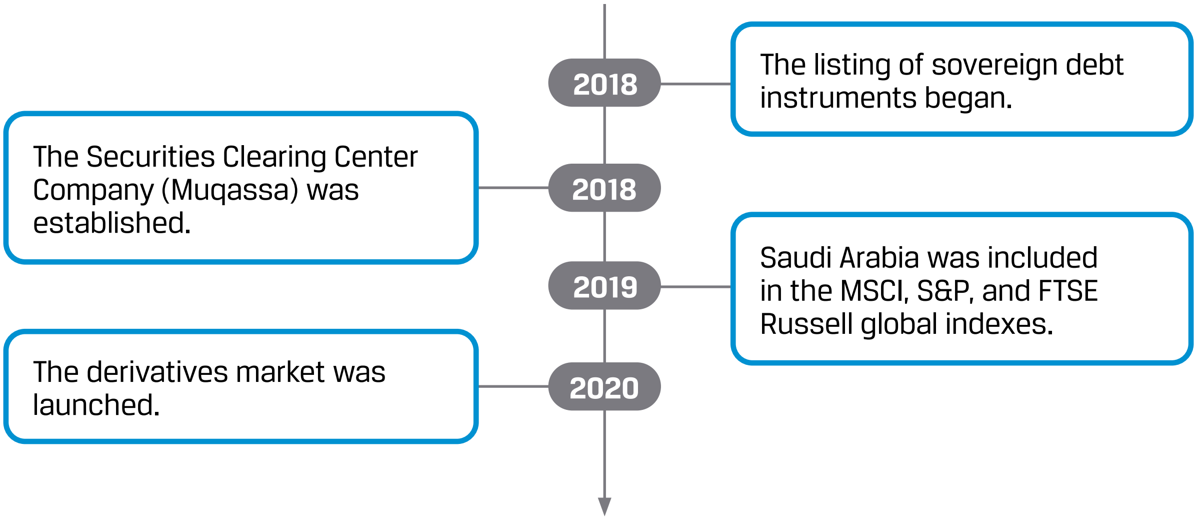
SAUDI ARABIA

1954	An informal capital market was established.
1975	The flotation of 14 companies in the stock exchange was completed.
1984	A cross-governmental committee to regulate and develop the market was formed.
1985	The Saudi Shares Registration Company was established.
1990	The Electronic Securities Information System (ESIS) was established.
1997	Foreign nonresident investors were allowed to enter the market through mutual funds.
2001	Tadawul, an automated trading system, was launched.
2003	The Capital Market Law was enacted.
2006	The stock exchange crashed.
2007	The Saudi Stock Exchange (Tadawul) was established.
2015	Qualified foreign investors were admitted to the market.
2016	The Securities Depository Center (Edaa) was established.
2016	Real estate investment trusts (REITs) were introduced.
2017	The Parallel Market (Nomu) was established, with lighter requirements for issuers.
2017	A T+2 settlement cycle and short-selling framework were adopted.

SAUDI ARABIA



Sources: Saudi Exchange and authors' research.

SAUDI ARABIA

Omar Alzaim, CFA
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Abdulaziz Alhouti
Associate Director, Investment Banking Advisory Department, HSBC Saudi Arabia

Fahad Kordi, CFA
Head of Investments, Banque Saudi Fransi

Equity Market Capitalization (USD)	**2.7** Trn*
Domestic Equity Market Cap/GDP	347%†
Equity Market Share Average Daily Traded Value (USD)	**2,397** Mn*§
Number of Listed Companies	210*

N.A.	Debt Market Capitalization (USD)
35.7%‡	Sovereign Debt Market Cap/GDP
17.6 Mn¶	Sukuk and Bonds Average Daily Traded Value (USD)
79*	Number of Issuers (Sukuk and Bonds)

* Saudi Exchange's annual report, as of year-end 2021.
† Saudi Exchange and Saudi Central Bank, reported as of 31 December 2020.
‡ This figure was calculated using the GDP figure for 2020. As of the date of writing this report, the 2021 official GDP figure had not been released.
§ Includes the Main Market and the Parallel Market (Nomu).
¶ As of Q4 2021.

EVOLUTION OF THE CAPITAL MARKET

The earliest notion of a capital market in Saudi Arabia was limited to a handful of stocks that were offered to the public through ad hoc directives from multiple government organizations and with virtually no established regulatory framework or specified process. One of the first issuances in Saudi Arabia was that of Riyad Bank, which occurred in 1957 through a one-page prospectus published in a newspaper and was offered exclusively to retail investors with a mechanism to pay the subscription through a down payment and eight monthly installments.

During its early days, the capital market was regulated and managed by three government agencies and was merely a stock exchange for initial public offerings and subsequent trading. Under that construct, the Ministry of Finance oversaw the strategic role, the Ministry of Commerce at the time was responsible for formulating the procedures to take a company public, and the Saudi Central Bank, or SAMA (in reference to its previous official name, Saudi Arabian Monetary Agency), designed the operating and trading procedures of the market.

Development efforts picked up initially sometime in the 1980s and 1990s. However, the turning point came in 2001 with the launch of an automated trading system, Tadawul, which facilitated online trading and significantly boosted market sophistication. Shortly after, in 2003, the Capital Market Law was enacted; it mandated the establishment of the Capital Market Authority (CMA) as the independent and dedicated regulator of the capital market in Saudi Arabia.

The first major market crash happened in 2006, when the market index collapsed from a historic high of 20,634.86 points in February to 7,933.29 by the end of the year. The 2006 market crash left a long-lasting negative sentiment with a sizable portion of retail investors in Saudi Arabia. Many efforts were taken by the CMA at that time to stabilize the market, including the admittance of investments by foreign residents in the stock exchange. Two years later, in 2008, the CMA allowed foreign nonresidents to participate in the market through swap arrangements with local capital market institutions.

In 2015, the CMA further improved the regime for foreign investors through the introduction of the qualified foreign investor regulations. In 2016, the Securities Depository Center (Edaa), which operates and maintains the Depository and Settlement System (DSS), was established to enhance the efficiency of securities depository and registration services. Shortly after, in 2018, the Securities Clearing Center Company (Muqassa) was established as a market intermediary to facilitate transactions, manage risks, and develop clearing services, which is essential for the development of a derivatives market. These systematic changes in capital market infrastructure, practices, and procedures paved the way for the Saudi Exchange's inclusion in the MSCI, S&P, and FTSE Russell global financial indexes in 2019 and 2020.

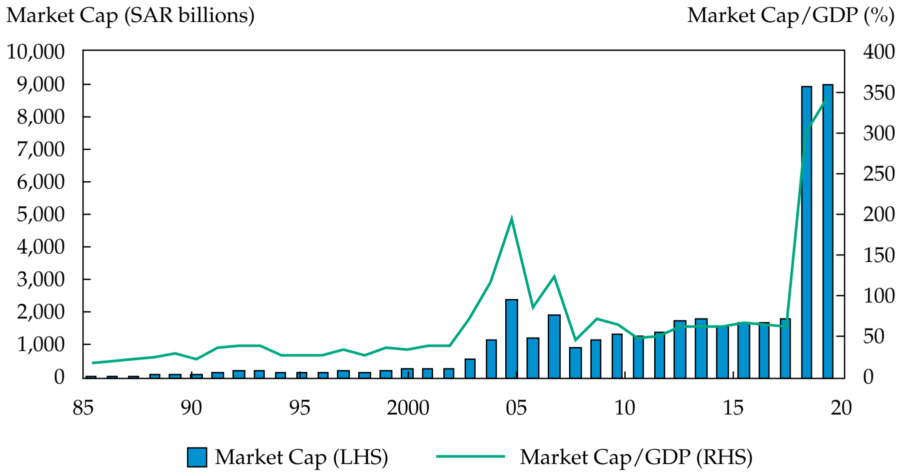
EQUITY CAPITAL MARKET

The equity capital market in Saudi Arabia evolved substantially since the beginning of a formal stock exchange in the 1980s. As shown in **Figure 1**, the total market capitalization has increased from SAR67 billion in 1985 to USD9,102 billion in 2020, at a compounded annual growth rate of 14.6%. Over the same period, the total market capitalization as a percentage of GDP has increased from 17.8% in 2018 to 346.7% in 2020.

At the end of 2021, there were more than 10 Global Industry Classification Standard sectors and 20 industry groups represented in the Saudi Exchange, with over 200 listed equities. In terms of constituents and trading volume, the banks, consumer discretionary and staples, and materials are leaders, followed by real estate and industrials, which together account for 87% of the equity market. The same industry groups are most prominent in terms of market capitalization, although the energy sector has a significantly greater representation because of Saudi Aramco, which accounts for 72% of the market capitalization of the entire Saudi Exchange. The outlook for further diversification is positive because of several reform policies and incentives that are encouraging more entities to consider a public listing.

Despite the wide range of economic activity represented in the market, the dependence of the local economy on hydrocarbons causes all industries to be affected by the volatility of oil prices, albeit with varying severity. It also means the performance of the equity market is positively correlated with oil

FIGURE 1. TOTAL MARKET CAPITALIZATION AS A PERCENTAGE OF GDP, 1985–2020

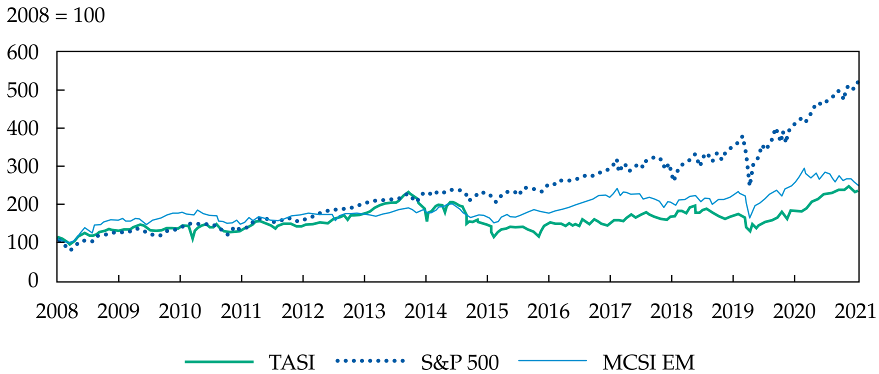


Source: Saudi Central Bank, "Annual Statistics 2020" (31 May 2021).

price movements: A high-oil-price environment results in an increase in government expenditure and supports energy, power, and feedstock subsidies, which cascade to the private sector and consumers via higher corporate earnings and increasing disposable income.

Since the Global Financial Crisis in 2008, the Saudi Exchange has slightly underperformed broader emerging market indexes, albeit with higher volatility, driven by the prevailing oil-price environment and global economic conditions. As **Figure 2** shows, overall, between 2008

FIGURE 2. PERFORMANCE OF TASI VS. GLOBAL BENCHMARKS, 2008–2021



Source: FactSet.

and 2021, the compounded annual return of the Main Market index, TASI, was 7.4%, compared with the 14.9% and 8.2% returns achieved by the S&P 500 Index and the MSCI Emerging Markets Index, respectively.

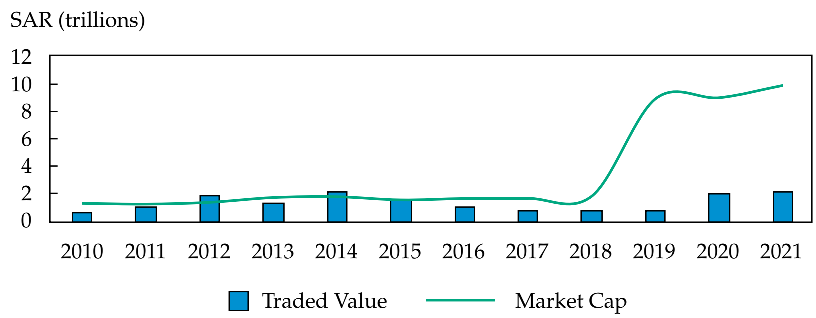
Volumes in the Saudi Exchange have improved significantly over time. Significant market reforms and the inclusion of the Saudi Exchange in global financial indexes have driven capital inflows from foreign investors, which supported trading volume and value. However, because the market remains dominated by retail investors, periods of market underperformance significantly impact market sentiment which results in limited trading activity. As of 31 December 2021, the daily trading volume and value stood at merely 130 million shares and SAR5.1 billion, respectively, with a market capitalization of SAR10.0 trillion. Between 2011 and 2021, traded volume and value in the Saudi Exchange increased by a compounded annual growth rate of 5.9% and 10.3%, respectively—with some volatility, however. For instance, as **Figure 3** shows, the traded value increased from SAR759.2 billion in 2010 to SAR2,146 billion in 2014, before it declined to SAR836.3 billion in 2016.

In terms of ownership, the breakdown of investors in the Main Market demonstrates concentration of institutional investors, with corporates, asset managers, and government-related entities (GREs) hold 73% of the value. Notably, the remaining 27% share is held by individual investors, who control a significant proportion of the market's capitalization (see **Figure 4**). With regards to the source of capital, local investors account for the lion's share, at 88%, with the remaining 12% coming from investors in other Gulf Cooperation Council (GCC) countries and other international investors. Note that the 10% held by foreign investors as of 2021 is up from 5% in 2015, which is due to the positive market infrastructure reform introduced in this period.

MAIN MARKET PRIMARY EQUITY OFFERINGS

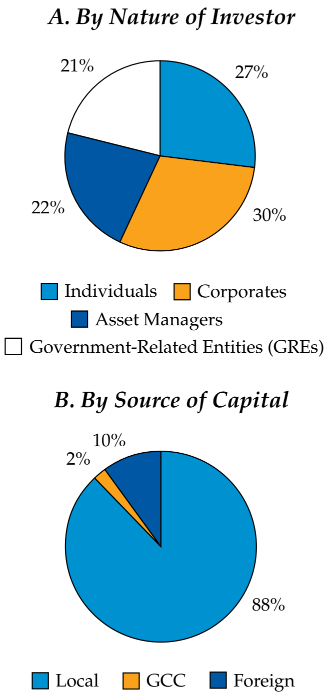
Primary offerings initially came about in the middle of the 20th century, and a significant number of new issuers was observed in the 1970s, in line with the country's economic growth. In the period after the establishment of the Saudi Exchange, the market saw an acceleration of offerings and listings, starting with

FIGURE 3. TRADED VALUE AND MARKET CAPITALIZATION, 2010–2021



Source: Saudi Exchange.

FIGURE 4. OWNERSHIP BY INVESTOR TYPE IN MAIN MARKET AS OF 31 DECEMBER 2021



Notes: The data exclude government ownership in Saudi Aramco. Individuals include high-net-worth individuals, retail investors, and individual professional investors (specifically, local high-net-worth individuals, local retail investors, local individual professional investors, GCC individual investors, and foreign resident investors). Asset managers include discretionary portfolio management accounts, mutual funds, financial institutions, qualified foreign investors, and foreign investors through swap arrangements (specifically, individual discretionary portfolio management accounts, institutional discretionary portfolio management accounts, mutual funds, GCC institutions, GCC discretionary portfolio management accounts, swap accounts, qualified foreign investors, and foreign discretionary portfolio management accounts). Corporates include local corporates and foreign corporates.

Source: Saudi Exchange.

Saudi Telecommunication Company's landmark USD4 billion privatization IPO in 2003. **Figure 5** shows the evolution of equity offerings over time.

From 2018 onward, driven by the goals of the Financial Sector Development Program and the expected offering of Saudi Aramco, market regulations and practices saw significant enhancement that allowed for greater flexibility in the offering process—namely, a more streamlined approach to the investor engagement, price discovery, and allocation processes. In 2019, with better alignment of the process to international investor expectations, the market saw its first actively marketed international offering to investors based outside the United States.

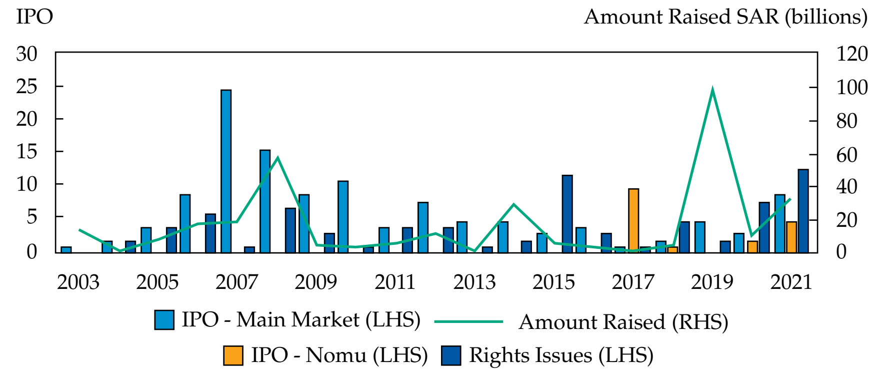
The market also saw 12 offerings on Nomu from its inception in 2017 to the end of 2020, with a cumulative offering size of around USD250 million, together with two direct listings in Q3 2020 and Q1 2021. Capital increase activity is dominated by rights issues, which raised a total of USD18 billion since 2004, and a single debt-to-equity conversion in 2019 that raised USD800 million.

FIXED INCOME

The health of the Saudi budget and fiscal balance is very dependent on oil prices; the hydrocarbon share of government revenue stood at 60% as of year-end 2021, down from 63% of government revenue in 2016. Moreover, the hydrocarbon sector share of GDP stood at 44% in 2016, but the Saudi government has since introduced a series of reform initiatives that decreased the hydrocarbon sector share of GDP to 40% in 2020 (see **Figure 6**).

The significant oil slump at the end of 2014 strained the government's finances and led the government to embark on an aggressive debt

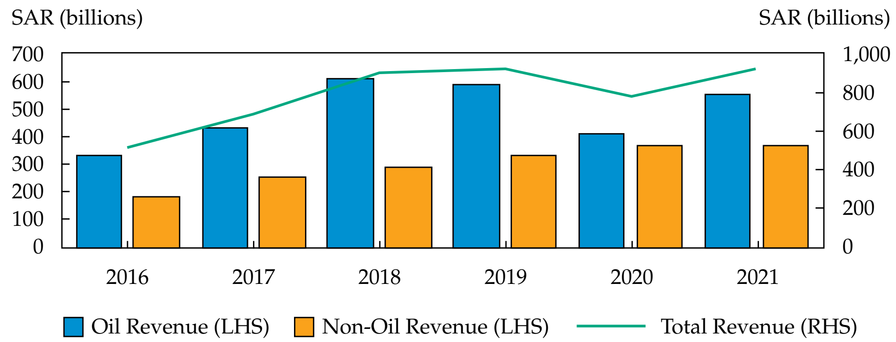
FIGURE 5. EQUITY OFFERINGS IN SAUDI ARABIA, 2003–2021



Note: The amount raised in 2021 includes the first fully marketed offering (FMO) of the Public Investment Fund (PIF) shares in Saudi Telecommunication Company, totaling SAR12 billion.

Sources: Saudi Exchange and issuer filings.

FIGURE 6. OIL AND NON-OIL GOVERNMENT REVENUE EVOLUTION, 2016–2021

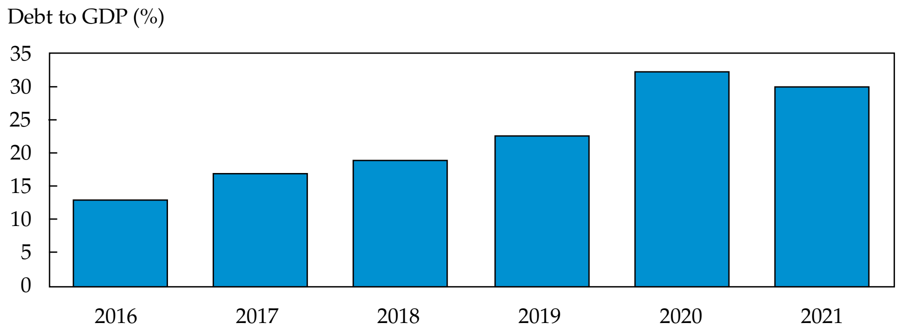


issuance program. In parallel, the government has introduced a series of reforms to diversify the economy away from dependence on oil revenues: fiscal austerity measures, such as the lifting of energy subsidies; the introduction of a value-added tax; the scrapping of cost-of-living allowances; and the introduction of levies on foreign labor to increase the local Saudi workforce's participation in the labor market. This series of reforms has led to a marked increase in non-oil government revenue, rising to 47% in 2020 and to 40% in 2021. The non-hydrocarbon sector share of GDP now accounts for 60% of total GDP.

Coupled with the fiscal austerity measures, the government has gone through an aggressive borrowing program, with the setup of the Debt Management Office (DMO) in late 2015.[1]

[1]The DMO was recently renamed and transformed into the National Debt Management Center.

FIGURE 7. GENERAL GOVERNMENT DEBT TO GDP, 2016–2021



As of December 2014, public debt to GDP stood at a modest 1.6%, while foreign reserves stood at USD748 billion and total government indebtedness was USD12 billion—all of which was local indebtedness. With the establishment of the DMO, the government has tapped the local debt market on a monthly basis, whereas international issuances have also taken place on a periodical basis.

The DMO has taken several steps to entice local investors to increase their participation in the local debt market; specifically, the Ministry of Finance has exempted SAR government sukuk from taxes (Zakat). Also, the DMO has decreased the minimum denomination for SAR government sukuk to SAR1,000 from SAR1 million. The CMA has also enhanced the Saudi capital market infrastructure, with the recent agreement with Clearstream to act as a clearinghouse for local currency debt. This could lead to a more diversified investor base in the local debt market and potential inclusion in global bond indexes.

Total domestic indebtedness increased from SAR44.3 billion in 2014 to SAR558.7 billion by the end of 2021. The largest investors in local debt instruments have been the local commercial banks (accounting for 60% of the total debt), followed by GREs (39%).

Saudi Arabia's debut international issuance was in October 2016, when the Saudi government printed an emerging market record-breaking USD17.5 billion multi-tranche deal. Moreover, Saudi Arabia's debut international sukuk issuance came in 2017, with a dual-tranche deal of USD9 billion. The DMO has focused on diversifying the maturity profile and investor base, leading to Saudi Arabia's debut euro-denominated issuance in July 2019, with a dual-tranche deal of EUR1 billion being issued in the 8-year tenor and EUR2 billion being issued in the 20-year tenor. Saudi international issuances have witnessed phenomenal investor demand as a result of the historic low-yield environment.

Saudi public foreign government indebtedness as of year-end 2021 was SAR379.3 billion—USD77 billion in international government bonds and sukuk, USD20 billion in private placements and syndicated loans, and EUR4.5 billion in international government bonds.

Total government indebtedness stood at SAR938 billion at the end of 2021, which is 35.7% of GDP (**Figure 7**);[2] government estimates suggest the

[2]Figure is calculated based on the GDP figure of 2020. As of the date of this report, the 2021 official GDP figure had not been released.

debt level will stay stagnant at SAR938 billion through 2024. Moreover, 82.6% of the debt portfolio is fixed debt instruments and 17.4% is floating-rate notes as of year-end 2021.

The first major corporate sukuk issuance took place in 2006, with SABIC's debut sukuk issuance of SAR3 billion, followed in the same year by Saudi Electricity Company, with its first sukuk issuance of SAR5 billion. This led to the launch of the local over-the-counter market, where liquidity was very thin owing to the market's lack of depth. The first GRE sukuk issuance came in 2012, with a SAR15 billion issuance by the General Authority of Civil Aviation of 10-year, Ministry of Finance–guaranteed sukuk, to help fund Jeddah's new airport.

Moreover, the government's extensive issuances in both the local and international bond markets have helped create benchmark curves in both the Saudi riyal and US dollar curves. This situation has helped and prompted local corporates to issue more frequently on both the local and foreign currency fronts.

Regarding corporate foreign currency issuances, Saudi corporate issuances witnessed some record-breaking deals—most notably, Saudi Aramco's debut international debt issuance, for which orders swelled to a record-breaking USD100 billion, the largest ever for emerging market bonds. Financial institutions also tapped both the local and international bond markets with issuances in both the senior and subordinated debt spaces.

CHALLENGES AND OPPORTUNITIES

In 2021, and on the fifth anniversary of the introduction of Saudi Vision 2030, the country announced significant progress in its social and economic transformation agenda, including diversification of its economy away from hydrocarbons. The key theme for Saudi Arabia will continue to be the rollout of structural economic reforms, through which the CMA seeks to simultaneously enhance the efficiency of the Saudi capital market and continue attracting domestic and foreign investment into existing asset classes. The market is naturally positioned to also bring in new asset classes as demand increases for nonconventional products.

Trading and activity in the market will continue to be dominated by retail investors in the medium term. However, the CMA and Saudi Exchange have maintained their objective of institutionalizing the flow of funds by encouraging retail activity to be channeled through mutual funds and exchange-traded funds. In the primary market, the practice has already been effectively implemented in large part with a smaller tranche allocated to retail investors in IPOs.

The Saudi Exchange and CMA are also targeting to deepen existing equity capital markets. The Main Market is expected to benefit from a healthy pipeline of IPOs and equity offerings driven by the country's privatization and monetization program. In addition, a series of initiatives under the Financial Sector Development Program in cooperation with the CMA and relevant sector regulators has been introduced to encourage private sector companies to list on the Saudi Exchange. The COVID-19 pandemic put additional emphasis on the need for developing regulations to allow for more diversified capital raising and equity solutions for listed corporates. For example, follow-on offerings, preference shares, and equity-linked and hybrid instruments, among others, remain nascent in the market, primarily because of the lack of a streamlined regulatory framework for the issuance of these securities.

Nomu and the Main Market are also expected to see greater activity as SMEs grow and look to tap public equity markets for capital increases or exits. Saudi Arabia aims to increase the contribution of SMEs to the country's GDP; it has already seen growth to 29% of GDP in 2020, up from 20% in 2016 and more than halfway to the target of 35% by 2030. A big component driving growth is the enhancement of the ecosystem and enabling of more diversified sources of financial support for SMEs under the Small and Medium Enterprises General Authority (Monsha'at). Financial support programs include the Kafalah loan guarantee program, equity commitments through the Saudi Venture Capital Company, and low-cost lending to licensed finance companies through the Indirect Lending Initiative.

The CMA is also seeking to attract foreign investors to the market, either through new issuances or direct trading. The cross-listing regulations were introduced in 2017 and further enhanced in 2019 to facilitate offering and listings by foreign issuers. To further attract dual listings and access by investors, Edaa signed agreements in 2019 with Abu Dhabi Securities Exchange and Bahrain Bourse to enhance information exchange, standardize procedures, and establish an infrastructure link. In 2021, Edaa announced a memorandum of understanding signed with Clearstream, the post-trading services provider of Deutsche Börse, to similarly establish a link between the two depository centers. Further cooperation agreements and linkages are expected to follow with other jurisdictions as the Saudi Exchange seeks to advance its network connectivity and services to compete globally.

The introduction of a favorable environment for foreign investors, together with the relaxation of foreign ownership limits, has attracted international flows into Saudi Arabia. Beyond additional liquidity, the market has seen secondary benefits, including improved disclosure standards by key blue-chip names to mirror practices in leading emerging markets. In addition, coverage of the market by research analysts and asset managers has increased.

Overall, the Saudi market is poised for further growth in the depth and variety of the market as its regulations, infrastructure, and access are enhanced. The key challenge ahead remains whether market participants—namely, market makers and asset managers—will see enough incentive to consider Saudi Arabia a core market that can withstand economic shocks, including de-linking performance of the Saudi Exchange and its constituents from oil prices and the fiscal budget.

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UNITED ARAB EMIRATES

DUBAI FINANCIAL MARKET AND NASDAQ DUBAI

2000

The Dubai Financial Market (DFM) and SCA (the capital market regulator) are established.

2005

The Dubai International Financial Exchange (later renamed Nasdaq Dubai) is established.

2007

In the largest IPO (initial public offering) in the Middle East, DP World raises USD4.96bn and is listed on Nasdaq Dubai.

2008

DFM self-lists 20% of its shares.

The first equity derivatives are launched in the DFM.

The e-trading system is introduced in the DFM.

2010

The DFM acquires Nasdaq Dubai.

2013

A fixed-income trading platform is launched.

2014

The DFM is upgraded to emerging market (EM) status by the MSCI and S&P Dow Jones index providers.

An Islamic financing murabaha platform (a cost-plus financing structure in which the seller and buyer agree to the cost and markup of an asset) is introduced.

The first REIT (real estate investment trust) is listed on Nasdaq Dubai.

2017

Exchange-traded fund (ETF) trading is introduced.

Index-linked futures contracts are launched.

2018

Nasdaq Dubai launches equity futures on Saudi Arabian companies.

2021

A new exchange, the Dubai International Financial Exchange, debuts in the Dubai International Financial Centre free zone.

The first REIT IPO is listed.

3iQ's Bitcoin Fund, the first listed digital asset-based fund in the Middle East and North Africa, is listed on both Nasdaq Dubai and the Toronto Stock Exchange.

ABU DHABI FINANCIAL MARKET

2000
The Abu Dhabi Securities Market (ADSM) and the Securities and Commodities Authority (the capital market regulator) are established.

2008
The ADSM is rebranded to the Abu Dhabi Securities Exchange (ADX).

2010
FTSE upgrades the Abu Dhabi market to EM status.

The first ETF—namely, the NBAD OneShare Dow Jones UAE 25 ETF—launches.

2011
Russell Investments upgrades the market to EM status.

2013
The ADX implements the XBRL reporting and call auction system.

A free-float index is introduced.

2014
Abu Dhabi is upgraded by MSCI and S&P Dow Jones to EM status.

A second market, a bond market, launches.

The ADX introduces market making, rights issue trading, and circuit breakers.

2016
A blockchain for e-voting is introduced.

2017
Technical short selling is introduced.

2018
The SAHMI digital platform is launched for investors.

The first corporate sukuk is listed.

2019
Guidelines are issued for environmental, social, and governance disclosures for companies.

2020
The first covered short selling is executed.

Relaxations are made of some regulations, such as 100% foreign ownership, and the capital that can be floated increases to 70% from 30%.

2021
Trade-at-last session is introduced.

UNITED ARAB EMIRATES

M.R. Raghu, CFA
CEO, Marmore Mena Intelligence, Chennai, India

Domestic Equity Market Cap/GDP	111%
Equity Market Share Average Daily Value Traded (USD)	**384** Mn*

185 Bn	Debt Market Capitalization (USD)
46%	Domestic Debt Market Cap/GDP
N.A.	Debt Market Instrument Total Nominal Traded (USD)

Note: Data as of 10 August 2021.
* Past 30 days.

DUBAI CAPITAL MARKET

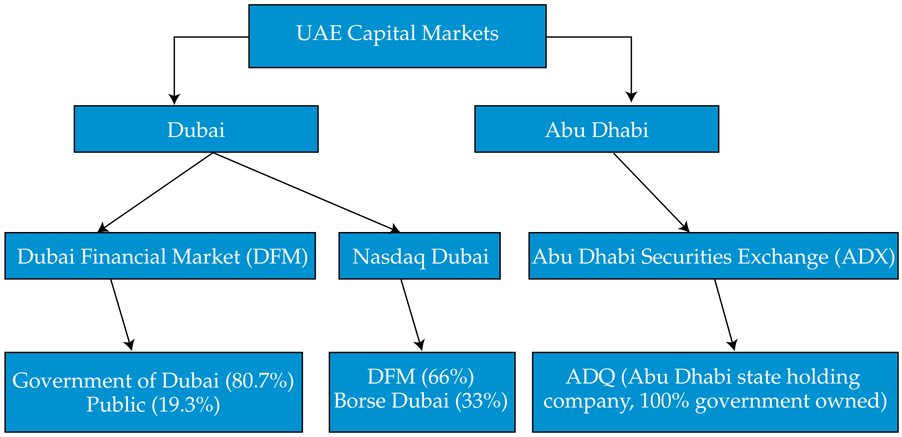
Equity Market Capitalization (USD)	**84** Bn
Equity Market Share Average Daily Value Traded (USD)	**39.2** Mn
Number of Listed Companies	71

N.A.	Debt Market Instrument Total Nominal Traded (USD)
78	Number of Issuers (Bonds)

Note: Data as of 10 August 2021.

The UAE could be examined holistically as a country from an economic perspective, but the capital markets should be separated into the Dubai and Abu Dhabi markets because they have two different exchanges. **Figure 1** shows the structures of the two markets. The Dubai Financial Market was established in the year 2000 as a public exchange governed by the SCA. The DFM was converted into a public joint stock company in 2006 for an eventual IPO wherein 20% of the shares were offered to the general public while the government retained 80% through a holding company called Borse Dubai. In 2008, the DFM was self-listed as the

FIGURE 1. CURRENT STRUCTURE OF UAE FINANCIAL MARKETS



first regional Sharia-compliant stock exchange to be listed. In 2005, the Dubai government established what is now known as Nasdaq Dubai, the majority of which was later acquired by the DFM.

It is important to note that Nasdaq Dubai is governed by the Dubai Financial Services Authority (DFSA) and continues to operate separately even though it is owned by the DFM.

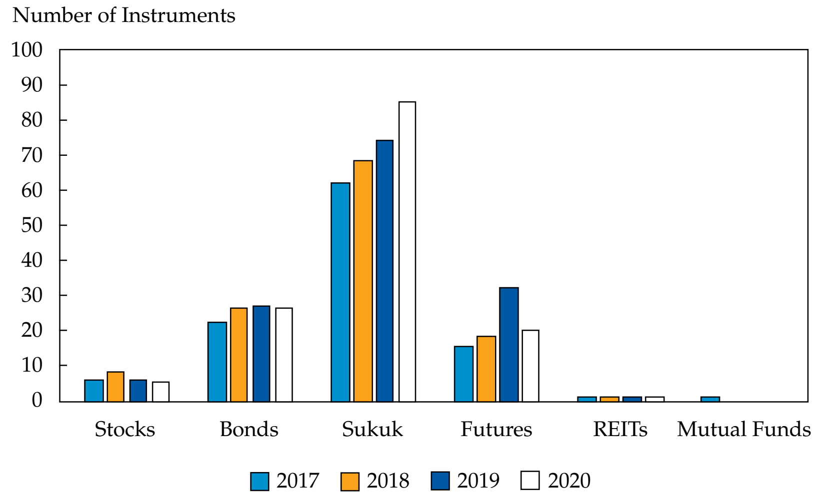
After Dubai's 2009 real estate meltdown, the DFM introduced several reforms aimed to allow it to become part of leading EM indexes. It introduced delivery versus payment (a securities settlement process that requires that payment be made either before or at the same time as the delivery of the securities), buyer cash compensation, securities lending and borrowing rules (securities lending and borrowing refers to the temporary loan of securities wherein the lender can recall securities at any time and the borrower can return securities at any time), and the expansion of margin trading. All of these changes led to the successful inclusion of the DFM in the MSCI Emerging Markets Index in 2014. In 2015, however, one of the worst price falls in crude oil occurred (oil fell more than 50%), leading to a serious dent in investor sentiment.

The DFM has been introducing new products and services (such as REITs and ETFs) either directly or through Nasdaq Dubai. It has also, however, experienced a steep fall in liquidity. The DFM currently lists 65 stocks (of which 41 are Sharia compliant), 69 bonds, 163 sukuk, 5 futures, one mutual fund, and one ETF.

Nasdaq Dubai

Nasdaq Dubai, the former Dubai International Financial Exchange, is another stock exchange in Dubai and was founded in 2005. Nasdaq Dubai was established as an internationally focused exchange and, over time, developed traction in derivatives trading and sukuk. It is presently majority owned by the DFM (66%) and Borse Dubai (33%). The exchange was the first to facilitate equity derivatives trading in the UAE (in 2008) and has recently listed the first bitcoin fund in the Middle East. The number of instruments listed by asset class is shown in **Figure 2**.

FIGURE 2. INSTRUMENTS LISTED ON NASDAQ DUBAI BY ASSET CLASS, 2017–20



Source: Nasdaq Dubai.

Between 2010 and 2011, the value traded dropped about 48% year over year from USD1.3bn to USD0.6mn as a result of the eurozone crisis and the Arab Spring, but in 2014, the value traded increased to USD1.4bn and has remained stable since then. The value traded was at USD1.6bn in 2020.

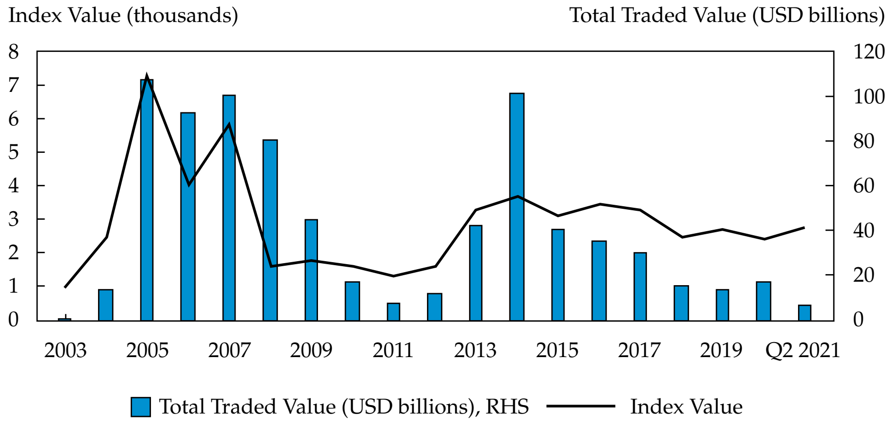
Dubai Equity Market Analysis

The DFM's index started in 2003, and it experienced a lifetime high of 7,426 within two years (see **Figure 3**). Because of the Global Financial Crisis in 2008, however, the index fell to 1,636 and stayed at that level until 2012. It rallied in 2013 on the back of high oil prices and intense speculation and has stayed more or less flat. A similar trend can be witnessed in the evolution of market capitalization (see **Figure 4**). The DFM is dominated by two sectors—financials (60%) and real estate (18%).

The liquidity of the DFM reached historic proportions, in line with market movements, in 2005, and the high was closely matched in 2014. Current (2020) DFM liquidity of about USD18bn is a far cry from its heyday in 2014 and 2005. Foreign ownership has technically doubled from 10% in 2006 to nearly 20% now, thanks to the exchange's inclusion in the MSCI Emerging Markets Index. Foreign ownership as a percentage of total market capitalization in the Dubai markets rose from 10% in 2006 to 19% in 2020.

Based on the limited data we have (only from 2017), the numbers point to a healthy trend of fund raising through the DFM in spite of dwindling liquidity and index performance. **Figure 5** shows the total primary issuances on the exchange for 2017–2020. The primary market has shown increasing interest in sukuk capital issuance and bonds, although IPOs, rights issuance (warrants), and convertible bonds remain low. A single issuance of conventional bonds occurred each year from 2017 through 2020.

FIGURE 3. DUBAI INDEX ANNUAL CLOSING VALUES, 2003–2ND QUARTER 2021



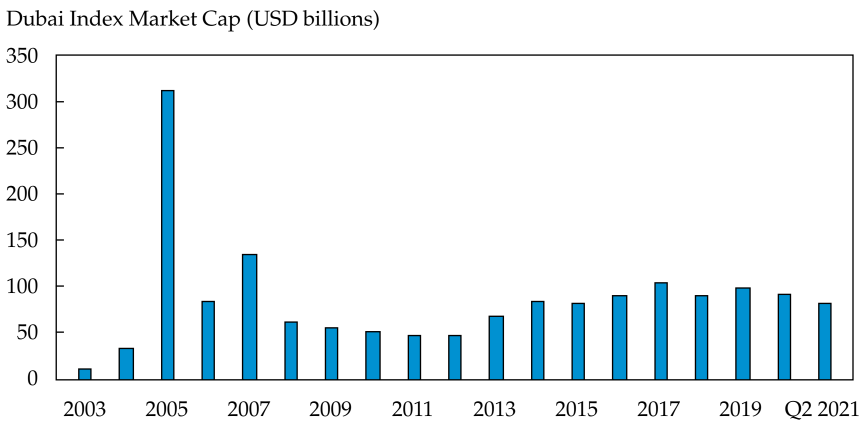
Source: Refinitiv.

In the secondary market, equity issuance dominated, followed by sukuk and bonds, as shown in **Figure 6**. Other categories—such as futures, mutual funds, REITs, and ETFs—remain insignificant. The DFM has experienced some delistings in recent times.

Dubai Debt Market Analysis

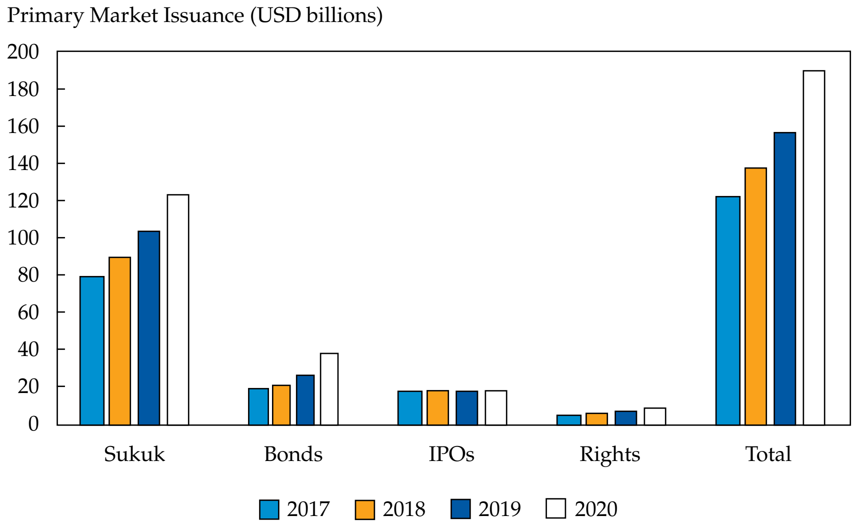
Dubai has issued about USD80bn in bonds (as shown in **Figure 7**) and USD63bn in sukuk (as shown in **Figure 8**) since 2006. Nearly 50% of the issuances have been since 2016, as a result of the oil price crash in 2014–2016 and COVID-19's

FIGURE 4. DUBAI INDEX MARKET CAPITALIZATION (USD BILLIONS), 2003–2ND QUARTER 2021



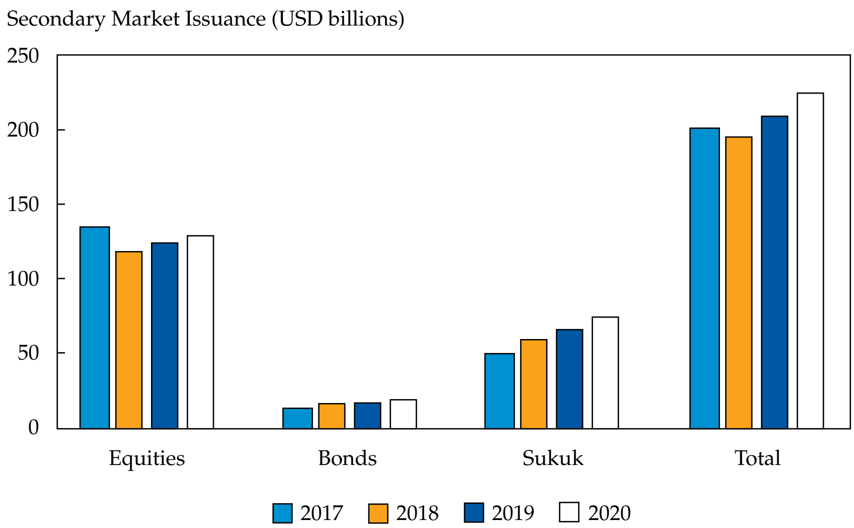
Sources: DFM; Refinitiv.

FIGURE 5. PRIMARY MARKET ISSUANCE: DFM AND NASDAQ DUBAI (USD BILLIONS), 2017–20



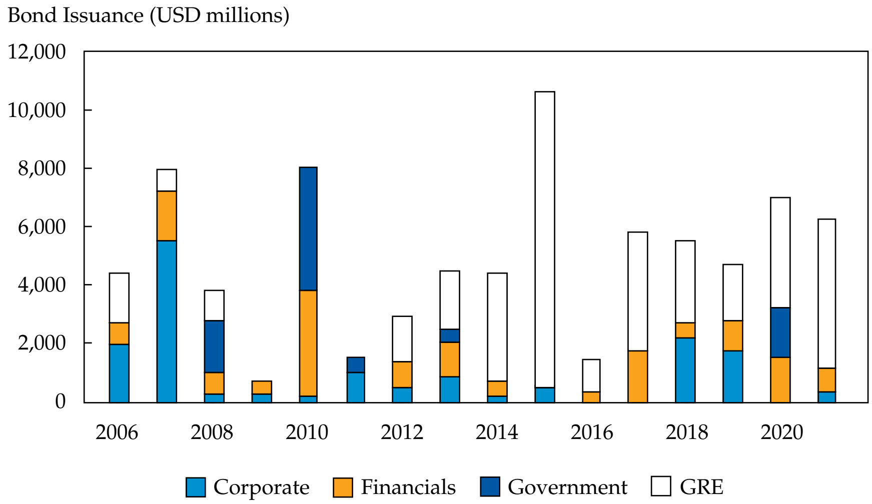
Source: DFM.

FIGURE 6. SECONDARY MARKET ISSUANCE: DFM AND NASDAQ DUBAI (USD BILLIONS), 2017–20



Source: DFM.

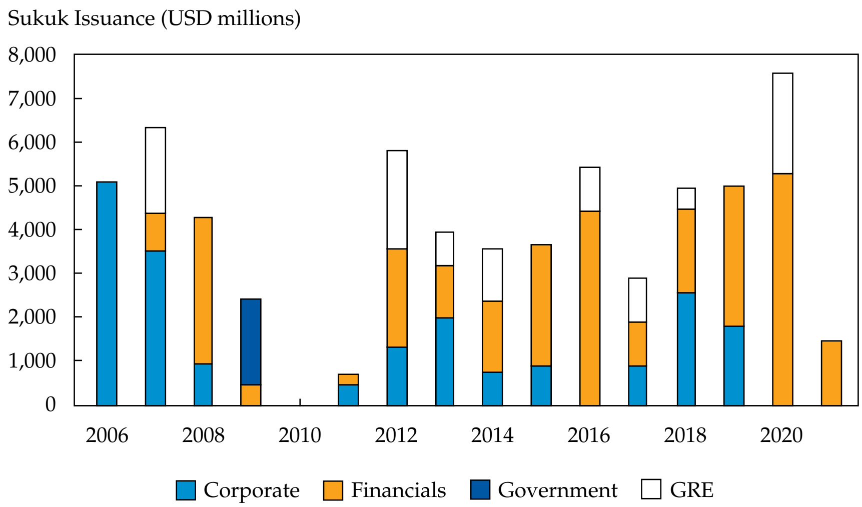
FIGURE 7. BOND ISSUANCES BY TYPE OF ISSUER (USD MILLIONS), 2006–21



Notes: GRE = government-related entity. Data are through the first half of 2021.

Source: Refinitiv.

FIGURE 8. SUKUK ISSUANCES BY TYPE OF ISSUER (USD MILLIONS), 2006–21



Notes: See notes to Figure 7.

Source: Refinitiv.

impact on oil prices and the broader economy. Government-related entities (GREs) have dominated the bond issuances, whereas banks have dominated sukuk issuances.

As of June 2020, Dubai's direct outstanding government debt, excluding GREs, was USD33.6bn. Dubai's GRE debt is significant, however, with Standard & Poor's estimating Dubai's general government debt at 77% of GDP and GRE debt at 71% of GDP in 2020.

ABU DHABI CAPITAL MARKET

Equity Market Capitalization (USD)	364 Bn
Equity Market Share Average Daily Value Traded (USD)	334.9 Mn
Number of Listed Companies	67

N.A.	Debt Market Instrument Total Nominal Traded (USD)
20	Number of Issuers (Bonds)

Note: Data as of 10 August 2021.

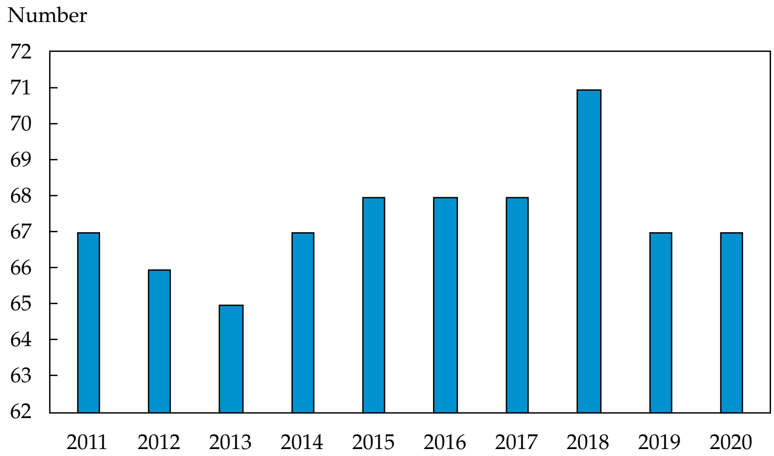
Abu Dhabi is the largest emirate in the UAE and is also the richest. It accounts for 90% of the UAE's oil production and owns 10% and 5% of global oil and gas reserves, respectively. It enjoys one of the highest per capita GDP rates and houses the world's third largest sovereign wealth fund (ADIA).

Abu Dhabi Equity Market Analysis

The Abu Dhabi stock exchange was founded as a public entity in the same year as that of Dubai (2000), and it was called the Abu Dhabi Securities Market (now, the ADX). It is regulated by the SCA, the same regulator as that for the DFM. Recently, the ADX converted itself from a public entity to a public joint stock company, and it is now owned by the ADQ, an arm of the Abu Dhabi government. With a market capitalization of USD265bn (as of the end of June 2021), the ADX is the second largest stock exchange in the region, after Saudi Arabia's exchange. Its market cap at inception in 2000 was about USD6bn, and it had only 14 listed companies. Today, the ADX lists around 70 companies, as shown in **Figure 9**.

The initial five years were slowly formative for the exchange, but faster development took place later, especially after the region experienced an oil price boom in 2002–2006. As shown in **Figure 10**, from a modest initial level of 1,000 in 2000, the ADX index had climbed nearly fivefold by 2005, which is indicative of oil price

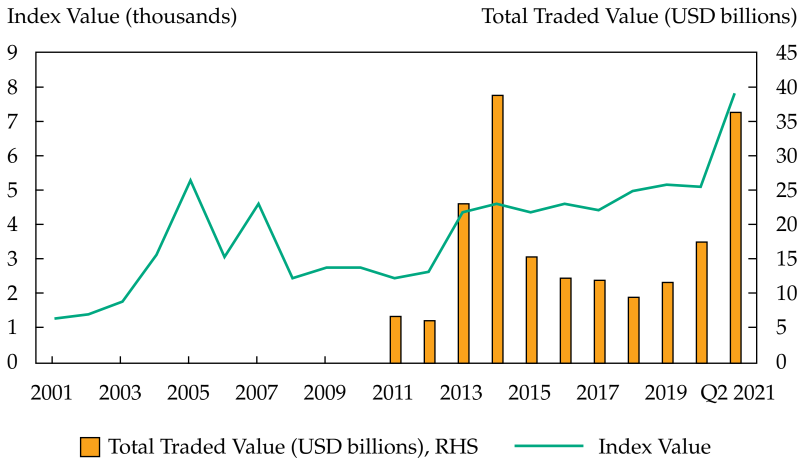
FIGURE 9. NUMBER OF LISTED COMPANIES ON THE ABU DHABI STOCK EXCHANGE, 2011–20



Source: Abu Dhabi Stock Exchange.

increases and concomitant increases in speculation. Predictably, the ADX index fell by more than 40% the very next year (2006) because of excessive valuation of both the listed companies and IPOs. The index is broad based compared with the DFM: Banks make up only 24% and financials only 33% of the ADX; energy and telecom make up about 18% each.

FIGURE 10. ABU DHABI INDEX CLOSE AND TRADED VALUES, 2001–2ND QUARTER 2021



Notes: Traded value is reported as annual closing basis. Traded values before 2011 are not available.

Source: Refinitiv.

In 2010, the ADX introduced ETFs. The global indexes started to upgrade the ADX to EM status in 2009 (by FTSE), in 2011 by Standard & Poor's and Russell, and in 2014 by MSCI. The ADX had only one market, called "the main market" until 2014, when it introduced a second market in what is now considered a parallel market to facilitate trading in private companies, which is a regional first. Several market reforms followed, such as delivery versus payment, market making, and others, which enabled the ADX to qualify for the index inclusion. The ADX focused on technology by introducing blockchain for e-voting in 2010. It also introduced technical short selling to improve foreign investor liquidity.

Figure 11 shows the evolution of ADX market capitalization, although the graph is limited to publicly available data. The total traded value (not shown in the figure) fell to a low of USD6bn by 2012. However, liquidity rose thereafter to a high of USD38bn by 2014 and settled at USD17bn by the end of 2020.

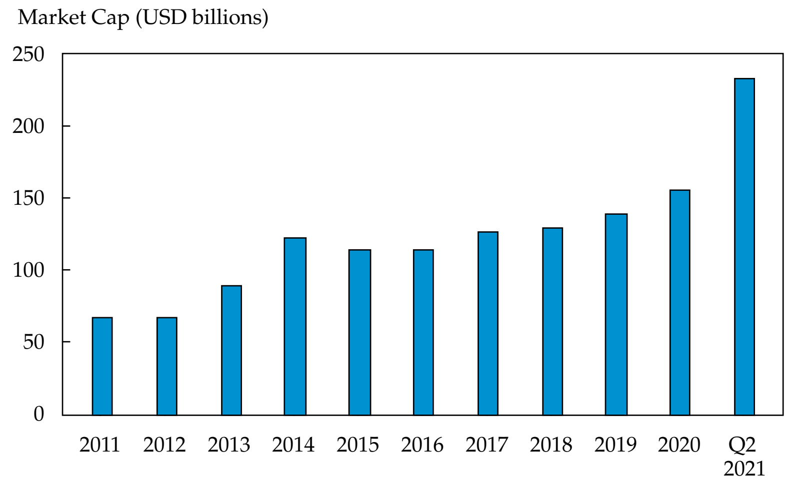
Abu Dhabi Debt Market Analysis

Abu Dhabi has issued about USD168bn in bonds over the past 15 years (see **Figure 12**) and USD18bn in sukuk (see **Figure 13**). Its most recent sovereign issuance was in September 2021 and raised USD3bn. Banks have been dominant issuers in the sukuk market, whereas the bond market has seen a more even distribution between financial institutions and corporates, GREs, and government.

The UAE in early 2021 adopted AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) Sharia Standard 59 covering the sale of debt. These strict regulatory requirements have slowed sukuk issuances.

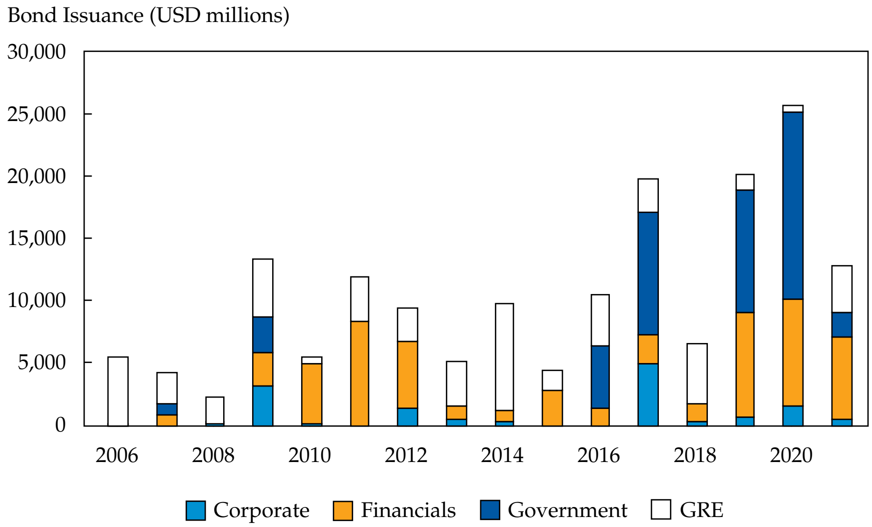
As with other Gulf Cooperation Council (GCC) countries, Abu Dhabi offers higher yields than similarly rated peers and issuances are met with high demand. For example, Abu Dhabi's recent sovereign issuance for USD2bn received USD6.9bn in orders.

FIGURE 11. AVERAGE MARKET CAPITALIZATION OF ABU DHABI EQUITY MARKET BY YEAR, 2011–2ND QUARTER 2021



Sources: Refinitiv; Abu Dhabi Stock Exchange.

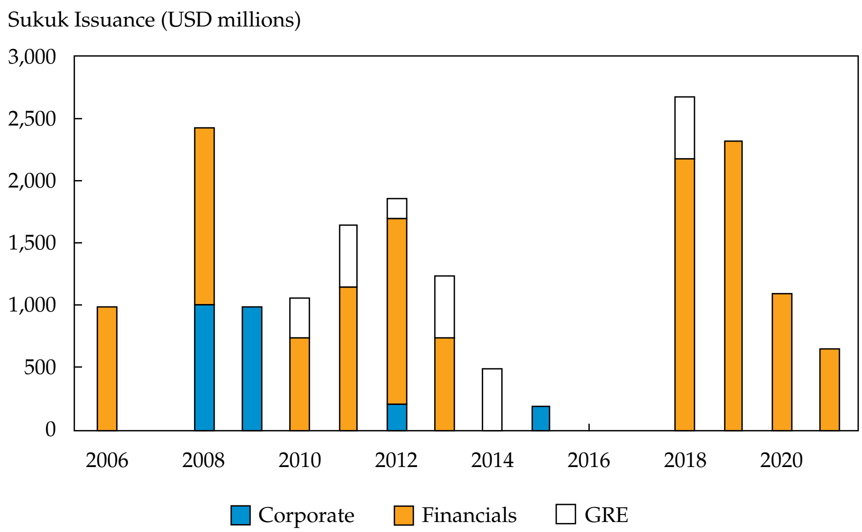
FIGURE 12. BOND ISSUANCES BY TYPE OF ISSUER (USD MILLIONS), 2006–2021



Note: Data are through the first half of 2021.

Source: Refinitiv.

FIGURE 13. SUKUK ISSUANCES BY TYPE OF ISSUER (USD MILLIONS), 2006–2021



Note: Data are through the first half of 2021.

Source: Refinitiv.

DERIVATIVES MARKET IN THE UAE

Derivatives trading in the UAE is nascent. Nasdaq Dubai launched equity derivatives trading, including a futures contract on the FTSE UAE Share Index and 21 individual shares, in 2008. However, it was discontinued by 2011 because of limited broker interest in the aftermath of the Global Financial Crisis. It was relaunched in 2016 with an offer of futures trading on seven listed companies, which had grown to 17 listed companies by 2020. Currently, the futures market consists of single stock futures and index futures. Single stock futures are provided on six UAE-listed companies and twelve Saudi Arabia-listed companies. Index futures are provided on the DFMGI index, the ADI index (of ADZ), MSCI's UAE Equity Index, and the FTSE Saudi Arabia Index.

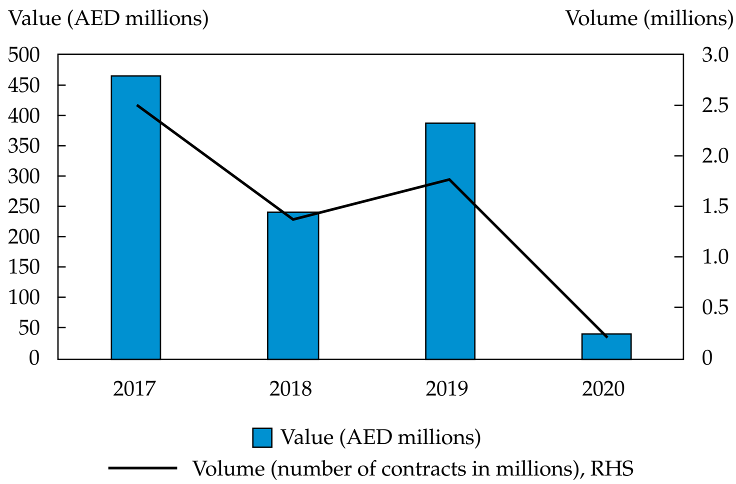
Market-making activity is also carried out in Nasdaq Dubai equity futures. **Figure 14** shows the value and volume traded in Nasdaq Dubai.

The DFM launched equity futures in October 2020. Futures trading is currently allowed for eight listed companies with tenures of one, two, and three months. Retail investors may engage in futures trading on the DFM and Nasdaq Dubai through brokerage firms. For the first half of 2021, the value traded was AED62mn spread over 170,000 contracts. Abu Dhabi plans to launch derivatives trading as part of its ADX One strategy.

UAE CAPITAL MARKETS: CHALLENGES AND OPPORTUNITIES

The challenges and opportunities facing Dubai and Abu Dhabi lie in four main areas: increasing

FIGURE 14. EQUITY FUTURES VOLUME AND VALUE TRADED ON NASDAQ DUBAI, 2017–20



Source: Nasdaq Dubai.

company listings across sectors, improving liquidity, attracting institutional investors, and launching new products.

Increasing Company Listings across Sectors

The UAE's representation in the stock market is still limited, so scope exists for broadening the market. Both the DFM and the ADX would do well to increase the number of listed companies. The DFM is dominated by just two sectors: financials (60%) and real estate (18%). And although the ADX is better represented with sectors such as telecom and energy constituting significant parts of the index, there is a need for both exchanges to list organizations in other key sectors of the UAE economy—mainly, services and state-owned entities that can offer opportunities to domestic and foreign investors. Adding other industries, especially energy and services, will align the exchanges with the UAE economy.

Improving Liquidity

As noted, the traded values of the DFM and ADX have plummeted over the years, more so for the DFM. Liquidity generally increases as a result of new products and institutional investor support, but the UAE is still dominated by retail trading, which has proved volatile. Improvement in liquidity also happens as a market becomes broadly based, so these markets need to reduce their dependence on financials and real estate stocks.

Attracting Institutional Investors

The upgrade of the UAE in the various EM indexes, including MSCI, is very positive. The level of foreign ownership has increased, but there is still scope to improve it by enhancing transparency and research into stocks, bonds, sukuk, and other products. Moving from retail trading to institutional trading is a sign of market maturity, so the UAE should make it a priority.

Launching New Products

The DFM and ADX have expanded products over the years from purely equities to include bonds, sukuk, futures, mutual funds, ETFs, and REITs. The share of these products in terms of the primary and secondary markets, however, remains skewed toward equities and sukuk. Appropriate capital market reforms can increase interest in other products. Also, introducing more hedging products can help attract institutional investors, thus improving liquidity and broadening the market.

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