



اتحاد المصارف العربية
Union of Arab Banks

RECENT DEVELOPMENTS IN ARAB BANKING

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Presentation Road Map

- Arab Economic Context.
- Better Arab Banking Environments.
- Arab Banking Sector-Major Qualitative Developments.
- Arab Banking Sector-A Profile.
- Arab Banks & International Banks.
- Arab Banking – Recent Challenges.
- Arab Banking- The Road Ahead.

Arab Economic Context

- **Economic Reform Programs (Liberalization, Openness to Foreign Capital, and Privatization).**
- **Joining International Organizations and Partnerships.**
- **Stronger Domestic and Regional Financial Liquidity (Oil boom in 2005 and 2006)- USD 300 bn in petro-dollars pursuing viable investment opportunities in the region.**
- **Better Economic Growth Rates during 2005-2006 (above 10%).**
- **Enhancement of Domestic Investment Environments.**
- **Growing Interest in Supporting the SMEs Sector.**
- **Development of Domestic Capital Markets & Regional Cooperation (bilateral and multilateral).**
- **Growing Investment and Economic Opportunities in the Region.**

But

- **The State of Instability in the Region (Iraq, Palestine, Lebanon) is reflecting negatively on the region's investment and economic climate.**
- **The Region's Instability is also negatively affecting its potential to attract stronger FDI and Financial Portfolio Investment(only 8% of total global FDI (*\$44,168 billion*) is received by Arab countries).**
- **Regional Economic Integration requires further actions to establish a Real GAFTA and a Common Market.**
- **Need to Create more Job Opportunities to Reduce Unemployment Unemployment (currently above 20%).**

Better Arab Banking **Environments**

- **Liberalization of Domestic Banking Activities.**
- **Deregulation of Banking Markets and Operations.**
- **Opening-up of Domestic Banking Markets to International Banking.**
- **Privatization of State-owned Banks.**
- **Adoption of International Banking Standards (Governance, Risk Management, Accounting, AML-CFT, and Capital Adequacy).**

Better Arab Banking Environments (Cont'd)

- **Establishment of Deposit Insurance and Loan-Risk Guarantee Schemes.**
- **Regional Cooperation and Coordination of Banking Policies and Standards.**
- **Growing Regional Banking Openness and Liberalization.**
- **Establishment of Regional Financial Centers (Ex: DIFC, Qatar Financial Center and Bahrain Financial Harbor).**

Arab Banking Sector-Major Qualitative Developments

- Growth, organically and via M & As.
- Growing Regional Expansion – Arab Banking is increasingly becoming Regional Banking.
- Privatization of State-owned Banks.
- Product-Service Diversification and Expansion- Introduction of wealth management, capital market activities, financial leasing, bancassurance, and e-banking.

Arab Banking Sector-Major Qualitative Developments (Cont'd)

- **Introduction of Modern Banking Technologies.**
- **Adoption of International Standards (governance, risk management, capital adequacy, AML-CFT, accounting).**
- **Fast Growth in Islamic Banking (300 Islamic banks and Financial Institutions manage nearly USD500 bn in assets; and growing by 20% per annum).**

Arab Banking Sector- A Profile

- **Nb. of Banks** 420 (Commercial, investment, Specialized and Islamic)
- **Nb. of Employees** nearly 360000
- **Nb. of Branches** nearly 14100
- **Total Assets (USD,bn)** 1249
- **Total Deposits (USD,bn)** 756
- **Total Credit (USD,bn)** 604
- **Total Capital (USD,bn)** 115
- **Capitalization Ratio(Capital to Assets, %)** 9.2
- **Capital Adequacy Ratio(%)** 20
- **Credit-to-Deposit Ratio (%)** 79.9

Arab Banking Sector- A Profile (Cont'd)

■ Net Profit (USD,bn)	25
■ ROA (%)	2.0
■ ROE (%)	21.7
■ Total Assets-to-GDP (For the Arab Region (%))	131.5
■ Growth in Assets (%)	
- 2006/2005	20
- 2005/2004	18

Arab Banking Sector- A Profile (Cont'd)

■ Aggregate Growth (2006):

- Assets	20%
- Deposits	17%
- Credit	19%
- Capital	32%

Arab Banks & International Banks

- **67 Arab Banks in the List of Top 1000 World Banks in 2005. (The Banker, July 2006).**

* Share out of Top 1000 World Banks	Arab Banks	EU Banks	USA Banks	Japan Banks
	3%	57%	14%	12%

Arab Banks & International Banks

* Asset Capitalization (%)	Arab Banks	Eastern Europe	Eastern & Middle Europe	Asia	North America	Latin America	Sub-Saharan Africa
	12	8.9	14.3	5.6	7.15	9.3	13.2
* AV. ROE (%)	21.7	16.2	25.2	16.9	21.2	19.4	32.2

Arab Banking – Recent Challenges

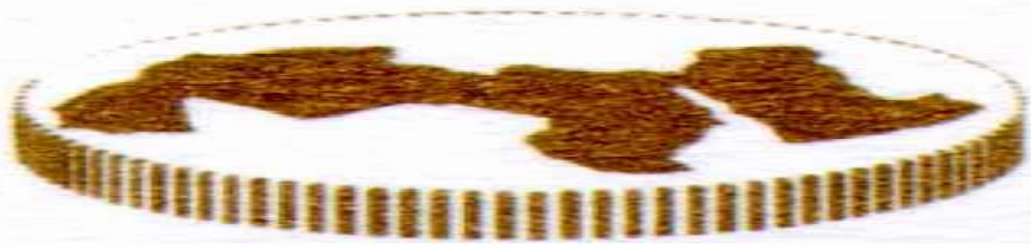
- **Need for the Establishment of Domestic Securitization Frameworks.**
- **Getting Good International Credit Ratings or Enhancement of such Ratings.**
- **Basel-II Compliance (mainly for small and medium-sized banks).**
- **Growing need for Investment Banking and Development Finance.**
- **Need for Developing Risk Management and Governance Systems.**
- **Need for Enhancing Financial Transparency.**
- **Enhancement of Project Financing Skills.**
- **Enhancement of Competitiveness.**

Arab Banking – Recent Challenges (Cont'd)

- Introduction of the State-of-the-art Technologies.
- Greater Integration in Domestic Economies and Regional Economy (to support intra trade and investment exchanges).
- Strengthening International Presence to attract Foreign Capital to Domestic Economies and Regional Economy.
- Need for Establishing a Regional Credit Rating Culture.
- Enlargement and Deepening of Domestic Capital Markets.

Arab Banking – The Road Ahead

- **Further Enlargement of Size — Economies of Scale and Scope.**
- **Further Regional and International Expansion.**
- **Further Strengthening of Competitive Potentials.**
- **Strengthening Domestic and Regional Strategic Alliances.**
- **Greater Integration in Domestic and Regional Economies.**
- **Greater Role in the Development of Domestic Capital Markets.**
- **Greater Partnerships with International Banks.**



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