THE NETWORK FORUM | MIDDLE EAST MEETING
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Message from Abu Dhabi

The growth prospects for most countries right now are largely non-existent. With the US and Europe poised to tip into recession; emerging markets proving highly volatile; and China's zero-COVID policy all but strangling its once burgeoning economy, return opportunities are far and few between.

The exception, however, are the commodity exporting markets of the Gulf Co-operation Council (GCC) region, whose economies are performing extremely well thanks to elevated oil prices. It was an apt time for the Network Forum (TNF) to host its Middle East meeting in Abu Dhabi.

But what were the main issues at TNF in Abu Dhabi?

Geopolitical risk reigns supreme

To say the opening session of TNF was utterly depressing would be an understatement as a policy expert shared his insights into the parlous state of world affairs.

The parallels between what preceded the outbreak of WW2 - namely a global pandemic, a severe economic downturn and a succession of populist leaders assuming power - versus what is happening today are eerily similar, although the expert reassured delegates that this does not mean a third world war is a foregone conclusion.

That said, he warned events in Ukraine could spiral out of control. With Russia losing large chunks of territory and Ukrainians reluctant to enter into peace talks, the risk of further escalations cannot be discounted. The expert said the probability of President Putin deploying tactical nuclear weapons against Ukraine could be as high as 10% - 20%, adding those odds will increase if Russia cedes further territory.

If nuclear weapons targeted Ukrainian troops or a major city, then the US would likely retaliate against Russian assets in Ukraine. "At that point, you should start thinking about buying iodine tablets," the expert told the TNF audience.

GCC markets continue to open up

Capital market reform in the Middle East has been a recurrent theme at TNFs for many years now, and this subject was addressed extensively in Abu Dhabi.

As oil producing economies look to a future beyond fossil fuels, many are working exhaustively to attract inward investment. In addition to opening up their economies to outside investors, markets – especially in the GCC - are implementing a series of wide-reaching post-trade reforms.

Saudi Arabia, for example, has launched a new CCP and CSD; adopted a T+2 settlement cycle; and unveiled a number of new investment products and tools, including derivatives, securities lending and securities borrowing; and short-selling.

Similarly, a Euroclearable link between Edaa, Saudi Arabia's CSD, and Euroclear, went live giving foreign investors access to the country's dynamic sukuk and fixed income markets.

Despite this positive progress, some GCC market practices – especially around account openings - do continue to frustrate network managers.

Topping network managers' list of grievances is the region's inability to create a transferable NIN which would allow investors to open up accounts in multiple GCC markets using just one NIN. This is evidenced in an audience poll, which found 52% of attendees believed the establishment of a common investor ID (i.e. a standardised NIN) would help improve operational efficiency.

Beyond the NIN issue, dual accounts are also a source of contention for network managers, many of whom view them as being excessively risky. As such, 21% of TNF attendees said the removal of the dual account structure would make a positive difference when accessing the local GCC markets.

ESG – a slow start in the Middle East

ESG (environmental, social, governance) investing is still in its relative infancy in the Middle East, although a handful of markets – namely Abu Dhabi – have started to introduce ESG regulations.

While appetite for sustainable investment continues to grow, there has been something of a backlash against ESG. This is partly because a number of investment professionals have been guilty of greenwashing, namely mislabelling their products and services as being ESG compliant when they are not.

Such behaviour has proliferated due to the lack of regulation and standards around ESG, together with an over-reliance on inconsistent and often interchangeable ESG data.

Although the GCC might be behind the curve on ESG, it is at the forefront of some of the advancements being made in the world of Islamic finance (i.e. Sukuk), an area which is benefiting from increased investor demand.

However, experts warn that Sukuk issuance volumes could slow down, off the back of rising oil prices and higher interest rates.

After Abu Dhabi, TNF will conclude the year with its Asia Meeting in Singapore on November 14-15, before kickstarting 2023 with the TNF Africa Meeting in Johannesburg on March 14-15 followed by the flagship Annual Meeting in Europe in June.