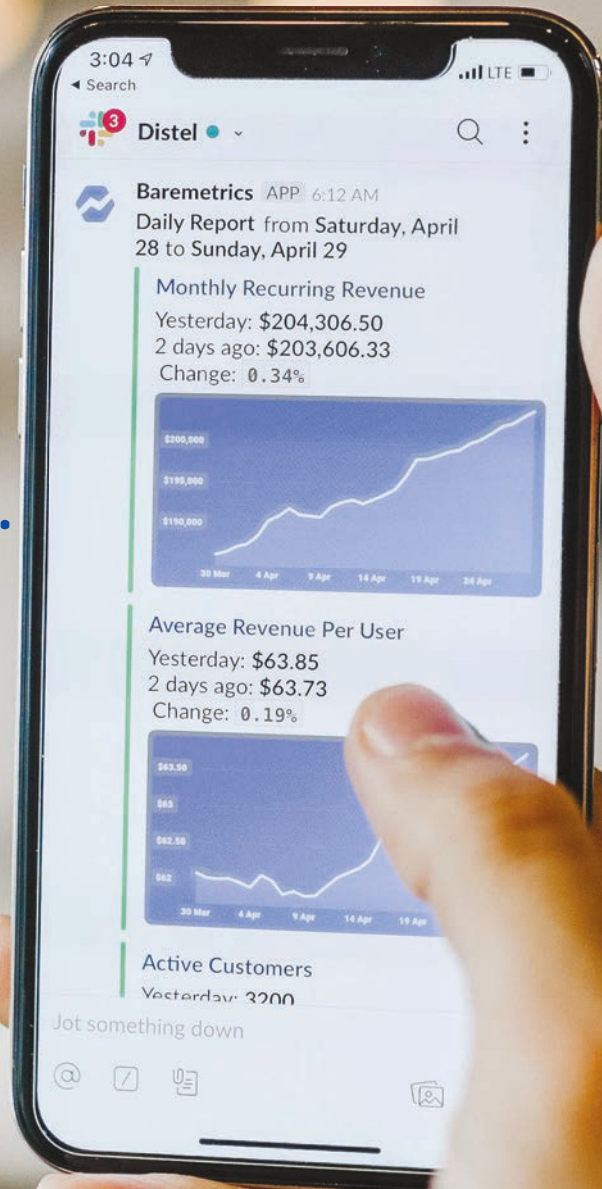


the INVESTOR

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THE FUTURE
IS FINTECH...
MAYBE



‘TRADE TENSIONS KEY CONCERN FOR 2020,’ SAYS EXPERT

GROWING APPETITE FOR TECH INVESTMENTS

KUWAIT: HAS IT HIT THE ‘SWEET SPOT’ FOR INVESTORS?

IS A RECESSION LOOMING?



اتحاد شركات الاستثمار
UNION OF INVESTMENT COMPANIES



WE WORK TO PROMOTE INVESTMENT OPPORTUNITIES AND ACTIVITY IN KUWAIT, STRENGTHEN INVESTMENT POLICY AND REGULATION FOR THE BENEFIT OF THE COUNTRY'S NATIONAL ECONOMY AND FUTURE DEVELOPMENT.

Kuwait is on the threshold of an exciting year



Trending in Kuwait nowadays is the listing of its Stock Exchange as an emerging market on the MSCI index, which resulted in enhanced investors' confidence and encouraged international subscriptions. The privatization of that stock market and the ensuing Initial Public Offering - a first time occurrence in the region - is the actualization of His Highness the Amir of Kuwait's vision to diversify the economy and empower its private sector. This will support the development goals of Kuwait Vision 2035 and further strengthen Kuwait's position as a regional financial hub.

This occurrence, and other connected events, is fuelling our enthusiasm for the continued development strides in the country, including economic diversification, the implementation of strategic infrastructure plans, support for innovation, and promotion of confidence in all diverse constituents of Kuwait's financial sector.

Another topic which is expected to entice broad interest next year is Fintech - or financial technology - and its growing role in the local, regional and global economies. With the implementation of the Silicon Valley's audacious project, Fintech has recently become a major focus in the GCC. We believe that this innovation boom will provide a valuable diversification

opportunity for a stronger Kuwait economy.

Fintech may be the current buzzword, but it has arisen as a result of an active and robust regional financial sector, which in essence includes traditional banks and investment companies. Fintech is expected to prevail through the participation of existing markets and companies, and the occurrence of new markets in the financial sector in general.

In Kuwait, we are confident that Fintech and the emerging ecosystem will increasingly play an important role in the financial sector and we look forward to seeing how this sector will evolve and what opportunities it will provide to the investment community locally, regionally and internationally.

Central banks backed by regulatory testing environments, free-trade zones based on new financial technology, and individual and institutional investors, are all looking for opportunities offered by Fintech and associated technologies.

We expect 2020 to be a year marked by many important economic developments that will lead to unprecedented investment openness in the region, and will also help us in the event of an economic slowdown or recession.

Saleh S. Al-Selmi

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ISSUE 07

- 04 GLOBAL MANUFACTURING DOWNTURN,
RISING TRADE BARRIERS
- 06 IS A RECESSION LOOMING?
- 08 'TRADE TENSIONS KEY CONCERNS FOR 2020,'
SAYS EXPERT
- 12 'REGIONAL SOVEREIGNS FOCUS ON
ECONOMIC DIVERSIFICATION'
- 14 RESILIENT KUWAIT PROPERTY SECTOR
FORECAST TO REBOUND IN 2020
- 18 THE FUTURE IS FINTECH
- 24 'KUWAIT'S CENTRAL BANK FINTECH
REGULATORY SANDBOX FRAMEWORK'
- 28 KUWAIT: HAS IT HIT THE 'SWEET SPOT' FOR
STOCK INVESTORS?
- 30 A LOOK AT THE SOUK AL-MANAKH CRISIS



Investor Briefs

GCC funds see rising inflows

GCC funds saw a massive \$2.5 billion in net inflows for 1H 2019, reports Refinitiv, a financial markets data vendor. The bulk of GCC funds are concentrated in Saudi Arabia, accounting for \$26.9 billion and 82.5% of assets under management, followed by Kuwait and the UAE which account for \$3.2 billion and \$1.7 billion respectively.

Money market funds remain the most popular investment vehicle with \$20.2 billion of assets under management, followed by equity funds (\$9.2 billion), mixed-asset funds (\$1.2 billion), bond funds (\$1.0 billion), real estate funds (\$0.7 billion), and commodity funds (\$0.002 billion). Money market funds also enjoyed the biggest inflows (+\$2.8 billion) with all but bond flows reporting outflows in the first half of 2019.

Listed Kuwait companies see nearly 50% rise in contract awards

Publicly-listed firms in Kuwait pulled in KWD 940 million (\$3.1 billion)-worth of public projects in the first nine months of 2019, a 49% increase over the same period the year before, reported local Arabic daily Al-Anbaa.

According to the report, 22 listed Kuwait companies were awarded 44 contracts in the first nine months of 2019, while 20 firms won 41 projects in the same period of 2018. A breakdown showed the Health Ministry issued the highest tender value of

KWD 350 million (\$1.16 billion), followed by the Kuwait Oil Company with a contract value of KWD 88.5 million (\$292 million). Services projects topped the list, with a total value of KWD 468 million (\$1.54 billion) while construction projects were worth KWD 185 million (\$610 million).

Projects awarded to the listed companies were worth around \$1.115 billion in the first quarter of this year, nearly \$1.656 billion in the second quarter and around \$329 million in the third quarter.

Tech investments in GCC to soar

Businesses in the Gulf are gearing up for major investments in technology in the coming years. According to the Dell Transformation Index, 93% of businesses surveyed in the UAE and Saudi Arabia have said that they plan to invest in powerful technologies in the next three years. Around 35% of businesses surveyed plan to invest in multi-cloud in the next one to three years, 36% plan to spend on artificial intelligence (AI) and 52% on the Internet of Things (IoT).

Libra faces an uphill task

The launch of a global digital currency Libra could be further delayed in the face of new challenges. Libra Association, the Geneva-based entity that manages the Facebook-led project, had announced its plans to launch the digital currency in mid-June 2020. Facebook said the digital coin will integrate its services and will provide the asset required for e-commerce transactions on its platform and beyond. It said Libra will be usable by 'almost anyone with a smartphone.'

But the Association's attempts to 'reconfigure' the financial system hit first stumbling block when the European Union raised regulatory concerns saying 'stablecoins' such as Libra call for seamless cooperation and concerted response at global level. A growing number of governments have responded to Facebook's plan including China, France, India, Japan, South Korea, Russia, Singapore, Thailand, the UK, and the US. Several intergovernmental organizations have also weighed in such as the ECB and the BIS.

The Wall Street Journal recently reported that Visa and Mastercard Inc are also reconsidering their involvement in Libra as they do not want to attract regulatory scrutiny. Now with the exit of PayPal, Libra Association now has 28 members, including Uber Technologies Inc, Lyft Inc and Spotify Technologies. With a lot of concerns being thrown up by various entities, many participants like Visa and Mastercard are expected to adopt a 'wait and see' approach looking for clues as to the possible direction the cryptocurrency plans would take in the coming months.

IMF's World Economic Outlook

Global manufacturing downturn, rising trade barriers

The global economy is in a synchronized slowdown, with growth for 2019 downgraded again - to 3% - its slowest pace since the global financial crisis. This is a serious climbdown from 3.8% in 2017, when the world was in a synchronized upswing. This subdued growth is a consequence of rising trade barriers; elevated uncertainty surrounding trade and geopolitics; idiosyncratic factors causing macroeconomic strain in several emerging market economies; and structural factors, such as low productivity growth and aging demographics in advanced economies.

Global growth in 2020 is projected to improve modestly to 3.4%, a downward revision of 0.2% from our April projections. However, unlike the synchronized slowdown, this recovery

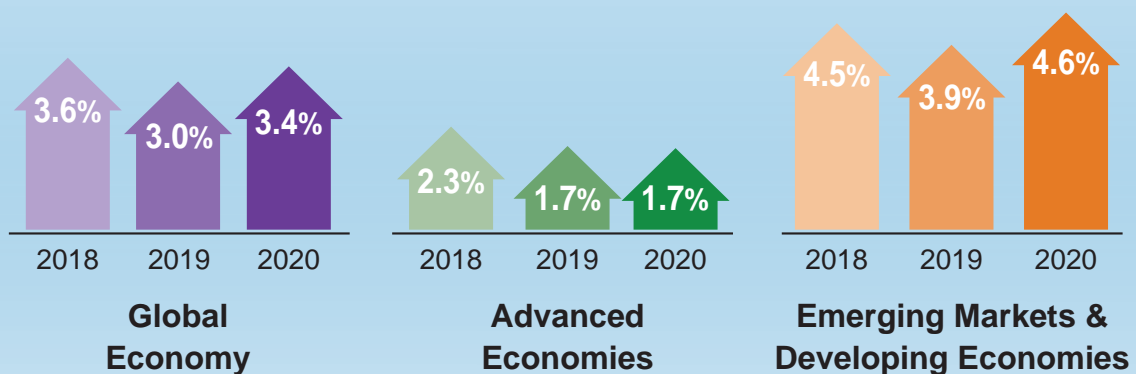
is not broad based and is precarious. Growth for advanced economies is projected to slow to 1.7% in 2019 and 2020, while emerging market and developing economies are projected to experience a growth pick-up from 3.9% in 2019 to 4.6% in 2020. About half of this is driven by recoveries or shallower recessions in stressed emerging markets, such as Turkey, Argentina, and Iran, and the rest by recoveries in countries where growth slowed significantly in 2019 relative to 2018, such as Brazil, Mexico, India, Russia, and Saudi Arabia.

Yet, with uncertainty about prospects for several of these countries, a projected slowdown in China and the United States, and prominent downside risks, a much more subdued pace of global activity could well materialize. To fore-

WORLD ECONOMIC OUTLOOK . OCTOBER 2019

GROWTH PROJECTIONS (%)

Global economy in a synchronized slowdown



stall such an outcome, policies should decisively aim at defusing trade tensions, reinvigorating multilateral cooperation, and providing timely support to economic activity where needed.

To strengthen resilience, policymakers should address financial vulnerabilities that pose risks to growth in the medium term. Making growth more inclusive, which is essential for securing better economic prospects for all, should remain an overarching goal. Over the

past year, global growth has fallen sharply. Among advanced economies, the weakening has been broad based, affecting major economies (the United States and especially the euro area) and smaller Asian advanced economies. The slowdown in activity has been even more pronounced across emerging market and developing economies, including Brazil, China, India, Mexico, and Russia, as well as a few economies suffering macroeconomic and financial stress.

Table of IMF economic growth forecasts

Here are the IMF's latest economic growth projections for 2019 and 2020

The table shows GDP growth forecasts in percentages, with revisions from the July WEO in brackets.

	2019	2020
World	3.0 (-0.2)	3.4 (-0.1)
Advanced economies	1.7 (-0.2)	1.7 (0.0)
United States	2.4 (-0.2)	2.1 (0.2)
Euro area	1.2 (-0.1)	1.4 (-0.2)
Germany	0.5 (-0.2)	1.2 (-0.5)
France	1.2 (-0.1)	1.3 (-0.1)
Italy	0.0 (-0.1)	0.5 (-0.3)
Spain	2.2 (-0.1)	1.8 (-0.1)
Japan	0.9 (0.0)	0.5 (0.1)
Britain	1.2 (-0.1)	1.4 (0.0)
Canada	1.5 (0.0)	1.8 (-0.1)
Emerging & developing economies	3.9 (-0.2)	4.6 (-0.1)
Russia	1.1 (-0.1)	1.9 (0.0)
Developing Asia	5.9 (-0.3)	6.0 (-0.2)
China	6.1 (-0.1)	5.8 (-0.2)
India	6.1 (-0.9)	7.0 (-0.2)
Latin America & Caribbean	0.2 (-0.4)	1.8 (-0.5)
Brazil	0.9 (0.1)	2.0 (-0.4)
Mexico	0.4 (-0.5)	1.3 (-0.6)
Middle East & Central Asia	0.9 (-0.5)	2.9 (-0.3)
Sub-Saharan Africa	3.2 (-0.2)	3.6 (0.0)
South Africa	0.7 (0.0)	1.1 (0.0)
World Trade Volume	1.1 (-1.4)	3.2 (-0.5)

Is a recession looming?

What to watch and why



By Sajeew K Peter

Today, markets are agog with speculation and reports about an impending global recession due to geopolitical tensions, trade issues or oil price fluctuations. Analysts and experts might suggest the possibility of a looming recession based on the assessments of latest business cycles, structural flaws or market indicators.

However, it is hard to predict if there will be a global recession, and if so, its implications on the Gulf region. But what individual investors and organizations in the region must do is to watch out for economic fundamentals. If the fundamentals look strong, then the possibilities of a recession are remote, says Jeffrey C Thomson, president and CEO of Institute of Management Accountants (IMA).

“Markets may move up and down based on social media tweets or geopolitical issues. And you must be prepared to accept some volatility in the market, otherwise you cannot be in the game. If you want to be a good investor, you really need to monitor the economic scorecard based on fundamentals such as real GDP, GDP per capita, funding, tax



Jeffrey C Thomson

rates and consumer confidence,” he said.

According to Thomson, global economic fundamentals are currently strong with solid corporate earnings, consumer confidence, real GDP growth, etc. “So, in the near term, we don’t see the signs that would suggest a global recession, at least from a CMA perspective,” Thomson said.

“Technically, a recession is when the economy declines significantly for at least two quarters and there is a drop in five economic indicators such as real GDP, income, employment, manufacturing and retail sales. It is important to put a finger on the pulse of the economy and spend time to think what is ahead in terms of business environment, consumer confidence and purchasing power. Don’t lose the sight of where the market is heading,” he pointed out.

Thomson said in the current volatile economic environment, it is imperative on the part of businesses to maintain a healthy financial profile with strong balance sheets, good cash reserves, smart investments, smart risk management and internal controls. In



that context, we can see how the function of the CFO (chief financial officer) has evolved over the years and how it can help organizations grow sustainably and profitably with a purpose, he said.

“Today, a CFO is far from being a glorified bookkeeper doing the statutory report and staying in the corner, out of the way. Today, the CFO’s team is in the forefront of value creation, helping to fund and create new markets and new products and services, hoping to incorporate artificial intelligence and other innovative new technologies,” Thomson said.

According to him, organizations must put in place an enterprise risk management strategy with proper plans for disaster recovery and crisis communication, especially in the current environment in the Middle East. “It may not protect everything, but if something goes wrong, it should not be catastrophic. That is why you should have a risk management plan for business continuity and recovery in place. The question is how resilient and adaptive you are in getting your business back on course,” Thomson concluded.

It is important to put a finger on the pulse of the economy and spend time to think what is ahead in terms of business environment, consumer confidence and purchasing power.



If the real economy is getting worse and assets are being underpinned by central bank easing, that's not a recipe for a stable economy going forward.

 Investor Interview

Citibank economist allays fears over global recession

‘Trade tensions key concerns for 2020,’ says expert

The real challenge in the Gulf region is how to balance using the resources that you have that are a comparative advantage for the region.

By Nawara Fattahova

Dr Catherine Mann, Global Chief Economist for Citibank, spoke with The Investor during the Central Bank of Kuwait’s International Banking Conference on Shaping the Future in Kuwait to discuss her views on the global economy and key concerns for the year to come.

The Investor: What is your expectation for the global economy in 2020? Do you think we will see a global recession?

Dr Catherine Mann: The question about the global recession is misplaced. The likelihood of having a global recession is quite low. In fact, in our predictions, we see some improvement in emerging markets, even as the advanced economies are slowing. So we have diversions in prospects for advanced economies and emerging markets. It’s rare for emerging markets to be the locomotive for the global economy. So there is a fragility and we are concerned about that, but right now, we don’t have a global recession on the horizon.

The Investor: How do you see this impacting the Gulf region in case of a possible recession?

Dr Mann: We worry about the consequences of an escalation of trade tensions between the US and China, which will have a global impact through global value chains. On top of this fragility, there is definitely a concern that advanced economies are slowing, which has an implication on the demand for major energy products from the Gulf region. If this trade tension escalates, it will impact financial markets and cause turbulence in financial markets. That

is going to create additional downdrafts for the global economy.

The Investor: What are your main concerns for the global economy?

Dr Mann: The centerpiece for our concerns is trade - most people think of trade in goods and services. But our analyses find that financial turbulence might be associated with trade tensions getting worse. This financial turbulence is the more important factor. In many countries, the central banks are easing policy to buoy financial markets so that they don’t become a conduit for worsening trade tensions.

This is also a problem, because if you buoy up financial markets, and trade tensions continue to worsen, you have the possibility of asset bubbles. If the real economy is getting worse and assets are being underpinned by central bank easing, that’s not a recipe for a stable economy going forward. So there are number of different concerns that we have on the real side, with trade on the financial side and turbulence coming from trade.

The Investor: How do you see fintech progressing as a segment of the global financial industry? Do you see it overtaking traditional banking/investment houses or working more in



In the longer term, the challenges in the Gulf have to do with diversification.

partnership/collaborations? Or perhaps being absorbed or competed with by traditional financial establishments?

Dr Mann: I think that fintech is creating competition and new innovations in delivering services for consumer-oriented retail banking. They are very important in terms of payment systems, but there are so many aspects which large multinational banks that have many different product areas can offer a client. These are the economies of scope - in other words, these products and services work together to serve the client.

So far, fintech has not been able to produce

competitive products where there is economy of scope. Fintech is relatively more adaptable, competitive and innovative in the consumer retail banking space. There are some differences in the uptake of innovation and fintech is going to be a competitive threat.

The Investor: What is your view of oil prices for the coming year? Where do you see them heading?

Dr Mann: This is a very challenging time to do a projection on oil prices. There is a question whether demand is going to slow and there are medium-term supply constraints and disruptions. So the real question is: Does demand slow more than supplies are disrupted? Or does demand stay relatively robust? It could go either way - it's all about relative supply and demand.

There is a third element that goes back to the financial markets. Financial markets can underpin high oil prices, going back when oil prices were \$100 per barrel. We can still have that kind of possibility - this is outside our normal cases. Just imagine if financial markets decide to incorporate geopolitical concerns - they don't generally do that - but it's always a possibility and that takes the oil price into a different dimension.

The Investor: What are the key sectors or segments of the global economy that you feel excited about? Where do you see growth happening?

Dr Mann: Domestically-oriented firms that are focused on satisfying the domestic consumer, whether it's a product or service. These companies are doing well, as labor markets tend to be very robust now, particularly in advanced economies. So the firms that are meeting customer needs are doing well.

The Investor: Looking at the Gulf, what are the main vulnerabilities and strengths for their economies for the coming year?

Dr Mann: In the longer term, the challenges in the Gulf have to do with diversification. There are movements towards focusing on alternative sources for energy, either because of the desire for addressing climate change, or having more localized sources of energy - wind, solar, water and so on. So whenever there is a core comparative advantage for a country or a region, that's good. But we also have to recognize if you have all eggs in one basket, then you're vulnerable to technological change and shifts in demand.

The real challenge in the Gulf region is how to balance using the resources that you have that are a comparative advantage for the region, while at the same time look forward to enhance diversification in terms of production of goods and services to meet the population’s needs and look for alternative sources of exports as well.

The Investor: What can or should Gulf governments be doing to better position themselves to face the future and the fast pace of economic changes taking place globally?

Dr Mann: Individual countries need to be thinking about diversification. But also within the region there is a bit of competition, which is always good, but sometimes you should work collaboratively to be competitive with the global environment rather than competing amongst yourselves. Collaboration to compete in the global environment might also help some of the diversification questions.

The Investor: What worries you or keeps you up at night with regards to the global economy? Trade wars and disputes? Oil prices collapsing? Geopolitical conflicts?

Dr Mann: There are two things - in the near term, I’m concerned about trade tensions. I come back to that as being something that is an unnecessary threat to global growth, although there are concerns about the policies that are related to intellectual property and so forth. So it’s not the issue so much as the methods that are a threat to the global economy right now.

Additionally, I’m very concerned about rising inequality, both across countries, within countries and across generations. These are some fundamental problems that are also a threat to sustainability going forward within countries, and it’s a threat to how generations will relate to each other going forward. The younger generations are being burdened by slowing growth and by the demands and commitments of older generations, and how that is going to work out is very important for the global economy.

The Investor: What is your view of where we will be a year from now? What will be the key changes that have taken place in this past year?

Dr Mann: The good case is where there is a resolution of the trade agenda - a positive resolution. That would be a very good uplift to global growth. I worry that we will not have that and that there will be a deterioration in global growth.

the **INVESTOR**

CALL FOR SUBMISSIONS

- The Investor would like to invite UIC members and other interested parties to submit articles and analysis on any topic of interest to the investment community in Kuwait.
- Possible topics: Kuwait and the GCC, regional challenges, regional growth spots, Qatar and the World Cup, UAE growth, joint projects, as well as investment opportunities, challenges, real estate, Islamic financing, mergers & acquisitions, etc.
- Articles will be considered for publication in upcoming issues of The Investor.
- Article should be written in Arabic or English, with a clear point of view. Technical language should be kept to a minimum.
- Graphs, charts and images are welcome. A high resolution head shot photo of author is acceptable.

Please send
by email to the following:

etheridge@kuwaittimes.com

Growing appetite for technology investments in the Middle East

‘Regional sovereigns focus on economic diversification’



By Josette Rizk

With hydrocarbon extraction receipts increasingly volatile and unpredictable, putting strain not only on hydrocarbon producers but also connected countries, governments in the Middle East have looked to diversify the economy, focusing especially on ‘high value’ sectors like technology to drive this development.

In many of the Gulf Cooperation Council (GCC) nations, the experience of the past few years has accelerated, or given rise to, programs aiming to diversify the economy, many of which place technology at their core. While the Saudi Vision 2030 might be the most well known internationally, Bahrain, Kuwait and the UAE have also launched strategic plans for the development of the economy.

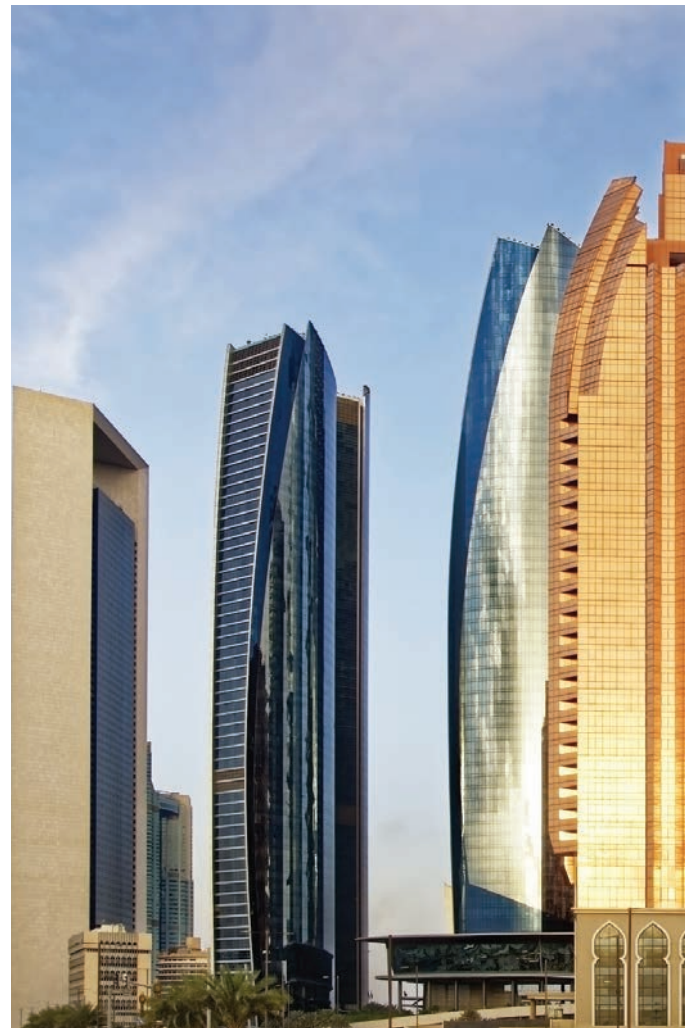
Using investment to drive economic change has become a key theme, and Middle Eastern sovereign wealth funds are a central part of this. Traditionally conventional in their investment approach with a focus on public markets, the 2019 Invesco Global Sovereign Asset Management Study reveals that they have a new role in driving and promoting economic change at home.

With a greater role to play, Middle Eastern sovereigns are increasingly seen as strategic national assets, and are investing in their internal skills to bring capability up to speed with global peers:

Building internal teams, whether specialising in asset allocation strategy or the full spectrum of investment.

Developing home grown talent through secondments, training programs and other educational programs.

Developing better internal technology (100% of the Middle Eastern sovereigns in Invesco’s study were looking to better apply technology to investment strategy vs only 52% globally). Exploring new technologies and their application to portfolio management: 78% think artificial intelligence (AI) has a role to play in the management of the portfolio.



Technology is an investment theme which stretches into society: 56% of sovereigns expected AI to have a significant impact on their society – perhaps not surprising given levels of IT literacy among the young in particular.

Sovereign funds have sought to capitalise on the growth of technology in two ways:

Funds look at technology investments against the backdrop of the strategic vision for the country. Many such plans call for diversification, and knowledge transfer through investment has been a central component. Several major sovereign funds have been prominent in investing in technology, some through sizable investments in global technologically focused funds, and others through a focus on direct investment in tech, both locally and abroad.

Investment is not limited to investment

overseas. Sovereign funds are also acting as partners in domestic investments, providing regional expertise and support to foreign investors looking to bring their innovations to the region.

This is part of a wider trend: across the region, 63% of Middle Eastern sovereign funds increased allocations to direct strategic investments (directly held stakes in projects or companies of strategic value). These investments take advantage of the long investment horizons of sovereigns to maximise investment returns and other national benefits.

While many tech-focused investments have been overseas, GCC countries have been some of the most fertile ‘sandboxes’ for cutting-edge technologies. Cryptocurrency is one such technology: authorities in the UAE and KSA have been proactive in supporting the development of crypto-currencies, with a favorable regulatory regime and other government support.

For the largest sovereigns, investing in technology, especially in clean energy, has intersected with another rising consideration for Middle Eastern sovereigns: consideration and adoption of Environmental, Social and Governance (ESG) factors. Several have signed the One Planet Sovereign Wealth Funds Framework, an initiative designed to promote efficiency in capital allocation and encourage a transition to a low carbon economy.

The study of sovereigns found 83% apply an ESG policy across the fund as opposed to a single asset class such as equities. While this degree of integration is often aspirational, ESG, and environmentally conscious investment in particular, are likely to become a more prominent consideration for sovereign funds. In a sign of growing adoption of ESG within the region, 44% of Middle Eastern sovereigns argued that ESG analysis can unlock hidden value, suggesting not only changing attitudes, but also a recognition that sovereign funds are uniquely well placed to realise value from this phenomenon given their very long term perspective.

Source: Invesco Global Sovereign Asset Management Study 2019

Josette Rizk is Institutional Client Director at Invesco



Resilient Kuwait property sector forecast to rebound in 2020

Kuwait property market continued to be resilient all through 2019 amid multiple challenges and market experts predict a full-fledged rebound by the middle of 2020 with demand and property prices picking up and investments into the sector growing significantly in tandem with the development strategy 'New Kuwait 2035'.

By Sajeev K Peter

The long-term outlook for Kuwait's real estate sector remained bullish and both public and private sector investments continued to flow into the sector despite the emerging signs of a global economic slowdown. The market continued to be resilient all through 2019 amid multiple challenges and market experts predict a full-fledged rebound by the middle of 2020 with demand and property prices picking up and investments into the sector growing significantly in tandem with the development strategy 'New Kuwait 2035'.



However, the Gulf Arab region has begun to feel the strains of a slowdown coupled with a slump in oil prices. A volatile oil price scenario has put pressure on the GCC economies forcing them to pursue tighter and more prudent fiscal policies. Governments are even revisiting their investment priorities and analysts say that this will reflect on investments in the real estate sector as well. The International Energy Agency (IEA), in a recent report, said global oil demand growth is expected to remain subdued with the weakening of the global economy and trade tensions.

"Fortunately, Kuwait remains largely insulat-



ed in the midst of a regional slowdown and the softness in the market is largely limited to residential properties,” according to Fahad Ahmad, a real estate expert working with a local property developer. He forecasts a complete turnaround in the regional industry by the beginning of 2021 while real estate sector in Kuwait is predicted to bounce back by the second half of 2020. Kuwait’s real estate sales remained solid throughout the year with volumes of transactions rising significantly in the second quarter. According to a recent report by NBK, prices in all market segments saw notable annual gains with the exception of

the residential home sector, which saw a mild quarterly price drop.

Major projects

The Northern Gulf Gateway, an integrated flagship project for realizing the ‘New Kuwait 2035’, is expected to attract investments from the US, European, Chinese and Asian investors. The project is projected to add \$220 billion to Kuwait’s GDP by 2035.

Another mega mixed-use property is the 4.09 million sq ft Assima Project which is developed by Assima Real Estate and is slated for

completion in February 2020. The project comprises the Assima Mall; the Assima Tower, featuring more than 150 offices; and the Assima Residence, a high-end executive hotel apartment.

The KD 250 million Al-Khairan entertainment project being developed by the Tamdeen Group will be another landmark for Kuwait's real estate sector. Located in Sabah Al-Ahmad Sea City in the south of Kuwait, the massive 116,000-sq-metre project, creates the country's largest marina along with a mall, entertainment facilities, a five-star hotel and commercial spaces in addition to a huge residential block that could house 150,000 people.

According to a recent report published by KFIC, Kuwait has awarded \$358 million worth of contracts for the development of the Al-Mutlaa Residential City, one of the country's most vital housing projects. The establishment, completion, and maintenance contract covers the development works of roads and intersections in the residential project.



"We are seeing some 'yield curve inversions' in the regional property markets as well. Most of the markets have technically entered a 'corrective phase' barring Kuwait and Saudi Arabia while in the UAE, prices and rents of properties have come under severe pressure largely due to 'oversupply,' drop in oil prices and a global economic slowdown," said Ananthakrishnan Ramamoorthy, an investment specialist in Doha.

"Some cyclical indicators show that business activity in the Gulf region is softening. Property markets are mirroring this slowdown and the impact is severely felt in the UAE," Ahmad said.

Dubai property sector has been in a downturn since mid-2014 and economic outlooks suggest that the sector, which contributes some seven percent to Dubai's gross domestic product, will drop further due to the extent of oversupply and an economic downturn caused by low oil prices.

"Since 2014, UAE real estate market has been in a corrective phase which has been largely due to the fall in oil prices coupled with the overflow of new housing units. This has resulted in low investor sentiment which is today reflected in the decline in transaction volumes as well as noteworthy reduction in property prices and rentals," Shailesh Dash, Entrepreneur and Financier in Dubai, told the Investor.

However, according to Dash, the low sentiment has created some very attractive investment opportunities within certain segments of the market. "These opportunities are more pertinent for investors who hold a medium to long-term view towards holding their investments," he comments exuding confidence in the market.

"We have therefore been quite active in the current market lately, particularly in the education segment where we are acquiring operating real estate assets associated with schools that are run by reputable operators. We are also undertaking sale and leaseback transactions where operators continue to operate their assets and conversely, we are able to provide stable and predictable rental income to our investors irrespective of the market cycle," Dash pointed out.

With Saudi Arabia driving its non-oil economic growth in tune with its 'Vision 2030', the kingdom has embarked on a massive real es-



tate development program as well. Al-Qiddiya's master plan in Riyadh, aiming to retain the city's position as the 'Capital of Entertainment, Sports, and the Arts', as well as the launch of the Kingdom's first arthouse 'Cinema El-Housh' in Jeddah are expected to reinvigorate both private and public sector investments in the country and bolster the housing sector. Market observers expect a radical spurt in demand for residential units, and significant spike in rents and prices as the kingdom plans to raise home ownership rates to 70% by 2030.

According to a research by NBK, the kingdom's non-oil sector is expected to accelerate to 3.2% in 2021 as the government doubles its efforts towards a diversified economy.

In Qatar also, property sector is going through an overall correction phase currently and the market is expected to remain largely a 'buyer-friendly' until the second half of 2020 as residential property values and rents have weakened over the last few quarters. Although Qatar had passed a law last year permitting greater foreign ownership of its real estate sector in tune with Qatar National Vision 2030, only a small number of areas are

The Gulf Arab region has begun to feel the strains of a global slowdown coupled with a slump in oil prices. A volatile oil price scenario has put pressure on the GCC economies forcing them to pursue tighter and more prudent fiscal policies.

currently open to foreign buying. "No doubt, there are some demand-supply mismatches in most of the regional markets posing challenges for the developers and creating low-affordability for potential buyers. But all indicators suggest that the Qatar real estate sector will rebound in 2021," Ramamoorthy said.



Investment in fintech has soared and big tech firms are developing financial products and services that may redraw the globe's entire financial landscape.

The future is fintech

Fintech has picked up momentum and increased investment in recent years.



Local fintechs have scaled to operate throughout the region and are building collaborations with traditional finance and government.

By Jamie Etheridge

The future is fintech – maybe. There is a lot of excitement and anxiety surrounding the latest darling of the start-up and venture capital world. Fintech, short for financial technology, has taken the globe by storm.

From blockchain to payment aggregators, Libra to bitcoin, peer-to-peer lending and micro insurance, fintech is challenging traditional finance in a way never seen before. But how much is hype and how much substance remains to be seen. There are some spectacular successes and many failures.

Bitcoin, a popular cryptocurrency triggered a global investment frenzy over the summer, with prices jumping 43% in just 17 days in a massive bull run. Though its price has fallen by early October back to the below \$8,000 range, the crypto asset still held a 115% gain for the year (as of 1 October 2019).

Investment in fintech has soared and big tech firms like Facebook, Google, Alibaba

and Apple are developing financial products and services that may ultimately redraw the globe's entire financial landscape.

In Kuwait, fintech has picked up momentum – and increased investment – in the last few years. Mostly developed as SME startups, several local fintechs have scaled to operate throughout the region and are building collaborations with traditional finance and government. What happens in the next year or so – both globally and here in the region – will be critical for the fintech trajectory and its impact on global finance.

RISING INVESTMENT

Investors have been betting on fintech's future in evergrowing numbers. Investment in fintech soared beyond expectations in 2018, grabbing an estimated \$111 billion in funding, up 120 percent from 2017 levels of \$50 billion, according to KPMG Pulse of Fintech report.

In the first six months of 2019, the total value of fintech deals dropped 29%, down from

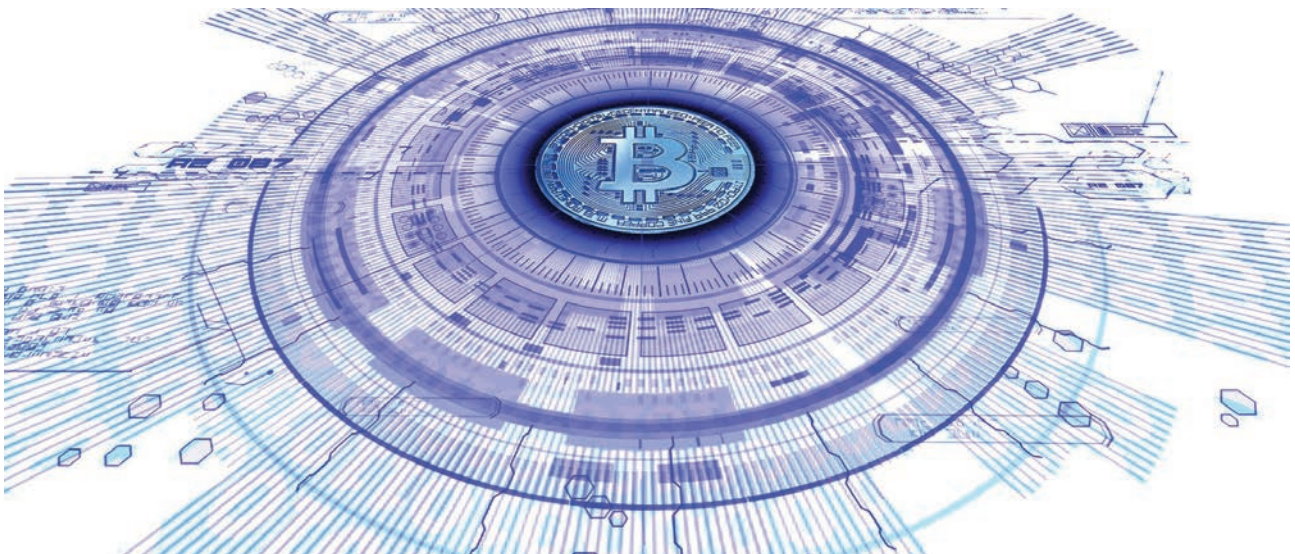


'Disruption is the buzzword across the region with regards to fintech. But rather than trying to compete with traditional finance, many startups, and fintech startups in particular, are looking at collaboration and cooperation as the key'

\$31.2 billion (2018) to \$22 billion as of June 30, 2019 but the slide reflects the lack of a megadeal like the 2018 Ant Financial \$14 billion investment. Excepting this transaction, global fintech investment climbed 28% in first half 2019 year on year, reported Accenture. The trend is expected to continue well into 2020 even as regulators and the traditional financial sector in the region wake up to the possible challenges posed by fintech.

Fintech, which marries emerging technologies with financial services, is attractive in emerging markets, where its ease of access and mobile-friendly format make it especially customer-friendly. It is already being identified as the next big leap in the start-up landscape and is causing excitement – and anxiety – among traditional financial services and investors.

Already, businesses in the Gulf are gearing up for major investments in technology in the coming years. According to the Dell Transformation Index, 93% of businesses surveyed in the UAE and Saudi Arabia have said that they plan to invest in powerful technologies in the next three years. Around 35% of businesses surveyed plan to invest in multi-cloud in the next one to three years, 36% plan to spend on artificial intelligence (AI) and 52% on the Internet of Things (IoT). Though the Dell index didn't focus on fintech specifically, it's like that a significant amount of planned investment by GCC companies will also be looking at fintech opportunities.





COLLABORATION AND COOPERATION

In the Gulf region and in Kuwait specifically, fintech has been growing for years. In the last year, however, there's been a real explosion in interest and awareness.

"Awareness is in place and growing exponentially," explains Shaheen Alkhudhari, co-founder of the Kuwait-based app disrupting the local real estate market, Ajar Online. "Different stakeholders are realizing the value of fintech in the region, and investments in startups are growing in both ticket value and number of deals."

Awareness is key to building out the fintech portfolio of products and services and for attracting more investment and opening the sector to future opportunities. Investors are interested but there remains a lot of uncertainty surrounding the sector. Many investors

are also concerned by the specialist knowledge often required of the technologies and greater awareness and interest helps ease those concerns for first time investors.

Disruption is the buzzword across the region. But rather than trying to compete with traditional finance, many startups, and fintech startups in particular, are looking at collaboration and cooperation as the key to a successful future. Banks and even telecoms are developing fintech offerings in partnership with fintech startups.

As Alkhudhari points out, the future for fintech may also include working with systems already in place.

"I believe that more startups will join the ecosystem, each with a different value proposition. Most will have a period of consolidated competition and strong partnerships will

form between fintech startups or traditional fintech companies and different stakeholders in the financial sector. Ajar currently enjoys such partnerships with banks around the region," Alkhudhari notes.

REGULATORY ROLE

The role of regulators is also coming to the fore as a major outstanding question regarding fintech's future.

In the United States, Facebook's push to bring Libra to the market has been slowed by concerns from authorities and regulators, forcing the company to set up a Libra Association in Switzerland as a first step at greater governance and privacy control. Even this, however, may not be enough to bring the digital currency to the market, as key backers like PayPal have now pulled out and European regulators continue to warn that they will oppose it.

Regulators themselves are worried about the impact fintech can have on the stability of financial markets and traditional financial services as they expand their products and services and threaten the market share of traditional banks.

"The latest digital technologies are transforming the economic landscape and are disrupting many traditional industries along the way. Banking is no exception, where financial technology is fast-evolving and being adopted at a breathtaking pace," noted HE Dr Mohammad Y Al-Hashel, Governor, Central Bank of Kuwait in his keynote address at the CBK International Banking Conference: Shaping the Future in late September.

Dr Al-Hashel notes, "Cutting edge technologies such as digital payments, mobile banking, data analytics, artificial intelligence, and blockchain are changing the way banks operate and interact with customers. Fintech firms are beginning to eliminate the role of many traditional intermediaries in the financial services industry."

How regulators respond will be critical for how fintech develops.

"It's important to be clear on where regulation is headed," explains Haider Al-Mosawi, co-founder of Sirdab Lab, a startup hub in Kuwait. "New policies may impact the landscape. Too much regulation could cripple innovation and restrict new players. I don't think it's a good thing."

The need to protect the public good, keep out bad actors and at the same time allow innovation to flourish is a delicate balance to achieve.

As part of its efforts, the Central Bank of Kuwait has launched a sandbox aimed at allowing local fintech startups to experiment and test their products or services in a safe, controlled environment. How beneficial this will be and how much technical support regulators can provide remains to be seen.

Some fintechs themselves are getting involved in shaping the regulatory environment as a way to position the sector for future growth. For example, Kuwaiti fintech startup, Tap Payments, is actively engaged in initiatives around the region that aim to foster a rich and nurturing environment for fintechs. It is working with the Central Bank of Bahrain to develop the 'Bahrain Fintech Bay', an incubator for MENA fintechs and is also



a member of the Fintech Saudi initiative to promote the founding and development of fintech inside the kingdom.

These initiatives can have a longer term impact on fintech's ability to operate cross border and to develop products and services with regional, even global, scalability.

FINTECH AS AN INVESTMENT

Looking forward, the sector may be ripe for expansion and development but it's unclear if the timing will cooperate. Maturing investor expectations combined with of a possible recession may put the brakes on fintech's meteoric ambitions this coming year.

2019 has witnessed several instances of major tech-based startups with lackluster IPOs. Uber, Lyft, Slack and Peleton all saw their share price shrink considerably, providing a cautionary tale for would-be investors eager to jump into tech-based startups.

Meanwhile traditional financial services and even governments are identifying fintech opportunities – sometimes in collaboration with startup fintechs and sometimes through developing their own products and services. Rather than wait for startup fintech firms to steal market share, traditional banks are racing to build out their own fintech offerings.

When it comes to what the future holds for fintech, the outlook is mixed.

"I see the competition with banks and the new payments solutions they provide for their clients. Also, the entry of Apple pay in the region, all these will effect fintech startups [in the region]," warns Aljazi Alajmi, co-founder of TechnoCare, a wearable technology firm in Kuwait.

Investors should be excited, however, about the seemingly unlimited application of tech to the problems of the world today.

Industry insiders like Sirdab's Al-Mosawi are positive on what the future holds for fintechs and startups generally. He sees potential for: "the proliferation of many more consumer-facing startups that solve specific problems, such as parking and traffic issues. There are many opportunities for enterprise solutions for businesses and large organizations, such as platforms to increase employee engagement, productivity, and greater employee satisfaction and, therefore, retention."

Employee engagement and satisfaction may actually turn out to work in fintech's favor – and not just as an opportunity for an app.

Nearly half of the region's population are under the age of 25, a youth bulge that is millennial in outlook and expectations and this is especially true when it comes to digital life.

"We're looking to invest in talent acquisition, and what's exciting is the shifting mindsets of people towards startups. High potential startups are attracting more and more quality talent as people start to recognize the growth opportunities within," says Ajar Online's Alkhudhari, highlighting a nascent but important facet of fintech and startup culture in the region.

In other words, digital is where it's at, both from a customer prospective and from the viewpoint of young employees and tomorrow's entrepreneurs.





Sandbox Framework document encourages both companies and individuals looking to provide innovative products and services,

Encouraging innovation

‘Kuwait’s Central Bank fintech regulatory sandbox framework’



Sandbox is one of the most common words in the fintech universe. In the financial industry, the term refers to a mechanism for developing regulation that keeps up with the fast pace of innovation. The word sandbox originally referred to the small box filled with sand where children play and experiment in a controlled environment. But little by little, the term has acquired new meanings. In the digital economy landscape, it is mostly used to refer to regulatory sandboxes: testing grounds for new business models that are not protected by current regula-

tion, or supervised by regulatory institutions.

The purpose of the sandbox is to adapt compliance with strict financial regulations to the growth and pace of the most innovative companies, in a way that doesn't smother the fintech sector with rules, but also doesn't diminish consumer protection.

In line with its vision and aim to encourage and adopt innovation in fintech, the Central Bank of Kuwait (CBK) has issued the Regulatory Sandbox Framework document which encourages both companies and



individuals looking to provide innovative products and services, that are built on or associated with electronic payment of funds and that utilize new technologies or existing technologies in an innovative way, to test their innovations within a methodology that ensures the safety and soundness of the financial and banking sector.

The Regulatory Sandbox Framework includes four stages to be completed within one year at the most. The Regulatory Sandbox starts with the application stage of the proposed product or service, then the evaluation stage where thorough evaluation, which covers technical, security, and regulatory aspects, of the application will take place, followed by the experimentation stage of the proposed product or service in a testing environment, and finally the accreditation stage, where CBK grants its approval (or rejection) to deploy the proposed product or service in the local market.

For full details, visit: <http://www.cbk.gov.kw/en/legislation-and-regulation/regulatory-sandbox/general-framework.jsp>

FAQS

Who are the target audience for the Regulatory Sandbox?

The Regulatory Sandbox targets both companies and individuals looking to provide innovative FinTech products and services that are built on or associated with electronic payment of funds, using new technologies or existing technologies in an innovative way.

How to apply to the Regulatory Sandbox?

To apply to the Regulatory Sandbox, the applicant is required to complete and submit the application form by following the instructions specified in the Regulatory Sandbox Framework page available on the Central Bank of Kuwait website.

What is the duration of the Regulatory Sandbox?

The maximum duration of the regulatory sandbox is one year, with the possibility of an extension based on the Central Bank of Kuwait discretion.

Are there any participation fees?

There are currently no fees to participate in the Regulatory Sandbox.

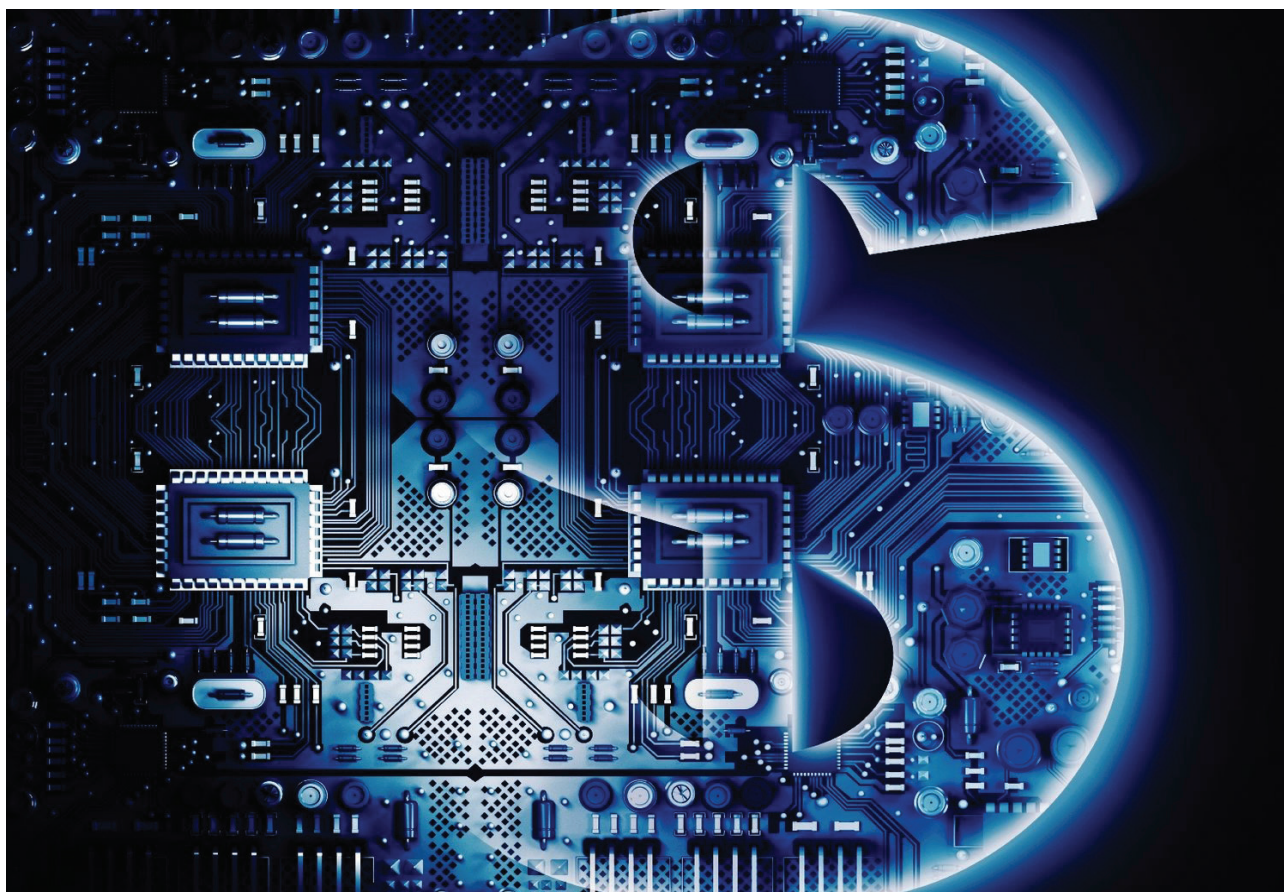
Are participants able to leave the Regulatory Sandbox prior to completing the stages? Are there any consequences in doing so?

Participants are required to notify the Central Bank of Kuwait via email sandbox@cbk.gov.kw with the necessary justifications and clarifications in order to be able to leave the Regulatory Sandbox at any stage. In such case, based on its discretion, the Central Bank of Kuwait has the right not to accept any subsequent applications to participate in the Regulatory Sandbox for a period of one year from the date of notification.

What is the level of development required of the proposed product or service in order to be eligible to participate in the Regulatory Sandbox?

The proposed product or service must be in an advanced stage of development, deeming it ready for testing.

The purpose of the sandbox is to adapt compliance with strict financial regulations to the growth and pace of the most innovative companies, in a way that doesn't smother the fintech sector with rules, but also doesn't diminish consumer protection.



Kuwait: Has it hit the 'Sweet Spot' for stock investors?



By Bassel Khatoun

Looking towards the New Year, we are optimistic about the prospects for Kuwait's stock market. The country's improving fundamentals, growing 'diversification story', attractive valuations and recent upgrade to MSCI Emerging Market (EM) status this year all make the investment case for Kuwait worth considering. And though the EM upgrade was contingent on some market features being introduced before the end of November 2019, these requirements were met on time. MSCI will officially announce

its decision this December, and we expect it to be successfully included in the index in 2020.

Bolstering our investment outlook for Kuwait is the fact that fundamentals are continuing to improve. With substantial reserves, low levels of debt and a stable banking sector, Kuwait stands out amongst numerous regional and EM peers. Add to this a budget breakeven oil price of just \$49 a barrel for 2019, the lowest by some margin in the region, and a 'AA⁽¹⁾' credit rating, Kuwait could be considered a low

beta⁽²⁾, defensive investment destination⁽³⁾.

Kuwait's 'diversification story' also makes it appealing. The country continues to make impressive progress in terms of structural reforms and is committed to developing a dynamic and vibrant private sector. We remain encouraged by the steps taken to reduce the role of the public sector in the economy. The country also deserves recognition for moving away from oil dependence by developing its infrastructure, investing in human capital and promoting private sector involvement. With mega projects like Kuwait's Northern Gulf Gateway expected to add approximately 400,000 knowledge-based jobs, the potential economic payoff for Kuwait is significant.

The valuation argument for investing in Kuwaiti stocks also still holds water. Despite trading at a [19%] premium to EM peers, valuations are reasonable given the country's low cost of equity implied by its lower risk profile⁽⁴⁾. Additionally, the earnings outlook for listed Kuwaiti companies supports a valuation premium. On average, Kuwait stocks are delivering 11% EPS⁽⁵⁾ growth coupled with a 4.8% dividend yield which is attractive within an EM context⁽⁶⁾.

Adding to all of this, Kuwait's elevation to EM status this past year is what makes us think it may have hit the 'sweet spot' for global investors. Promotion to MSCI Inc.'s Emerging Market Index (MSCI EM), following similar upgrades by index providers FTSE Russell (FTSE EM) and S&P Dow Jones, means Kuwaiti stocks now feature on the shopping lists of deep pocketed global investors, sitting alongside equities from EM behemoths such as Brazil, China and India. And next year, the likely surge of liquidity that comes with such a landmark event will prove that the country's capital market transformation has been a worthwhile journey.

With a combined figure of approximately [\$2 trillion] tracking these three popular EM stock gauges, Kuwait's EM arrival is a big deal. The upgrades reflect the hard work that the country's Capital Markets Authority (CMA) has undertaken over the past two years to make its stock market more accessible and attractive to global investors, and also mean investors in Kuwait will continue to benefit from a more institutionalised and liquid stock market. Actual implementation

is set for May 2020 and initially, Kuwait's MSCI EM weighting is expected to amount to 64 basis points, or 0.64%⁽⁷⁾. Based on this representation, we expect total investor flows of about \$10 billion (\$3.1 billion in passive flows and \$7 billion in potential active flows)⁽⁸⁾. For context, over the past 12 months Kuwait has seen a total of \$1.9 billion of foreign inflows, driven primarily by the FTSE EM Index inclusion which took place over two phases in September and December 2018⁽⁹⁾.

Despite all of these positive indicators, it's important to note that we're always on the lookout for potential speedbumps. A deterioration in regional geopolitics could dampen global investor sentiment, while a sustained pullback in oil prices could test government spending plans and continued fiscal reform commitments. Despite this, we believe Kuwait has enough space to run their economy counter-cyclically, should it need to do so.

We are excited about the year ahead for Kuwait. The promising development story unfolding on the ground, coupled by its elevation to EM status, make us optimistic about the country's growth prospects. But the momentum for change can't stop here, there's plenty of scope for further reforms. As the list of worries for global investors grows, we think Kuwait continues to show the type of resilience and stability that can mitigate an uncertain international backdrop. It is this balanced risk reward profile that should keep Kuwait top of mind amongst investors.

Bassel Khatoun is Managing Director, Frontier and MENA, Franklin Templeton Emerging Markets Equity

(1) Moody's Definition of AA Credit Rating: Obligations rated AA are judged to be of high quality and are subject to very low credit risk.

(2) In the world of investing, beta has traditionally been a measure of a security's or portfolio's volatility in comparison to the stock market as a whole. Today, the word "beta" is also used as shorthand to describe getting broad stock-market exposure, typically through investments that often track the S&P 500 and other major indexes.

(3) IMF, June 2019.

(4) Bloomberg, June 2019.

(5) EPS (Earnings Per Share).

(6) Bloomberg, June 2019.

(7) MSCI, Franklin Templeton internal estimate, June 2019.

(8) Franklin Templeton internal estimate, June 2019.

(9) Kuwait Stock Exchange, June 2019.

KUWAIT FINANCIAL HISTORY

A look at the Souk Al-Manakh crisis





By Raghu Mandgolathur

The Kuwait stock market has surprised many; first in the early 1970s and later in the mid-1980s.

In the early 1950s, Kuwait started emerging as a destination of choice. Those were golden years, when the oil business boomed, major public works programs began, and the surrounding atmosphere was liberal. By 1952, when His Highness Sheikh Abdullah III Al-Salim Al-Sabah ruled Kuwait, the country had become the largest exporter of oil. In the same year, the first Kuwaiti Shareholding Company (KSC) was incorporated and so was the iconic National Bank of Kuwait.

At that time, 40 public companies were listed on the Kuwait Stock Exchange (KSE), popularly known as the Official Exchange. There was a second exchange, an unofficial one, known as Souk Al-Manakh. Up to 46 unlisted Kuwaiti Shareholding Companies (KSCCs), and 38 non-Kuwaiti companies incorporated in other Gulf countries traded on the more famous Souk Al-Manakh.

The companies listed on the Official Exchange were established under the Commercial Law of Kuwait and regulated by

the Committee on Securities, appointed by the Ministry of Commerce. The trading of securities on the Souk Al-Manakh, which accounted for 80% of the volume traded, was out of the regulatory reach of the committee.

The Gulf's tragic story is that of a crisis that engulfed the Souk Al-Manakh that had serious ramifications for Kuwait.

It began in the year 1973 when Arab oil embargo was announced, leading to a sharp rise in crude oil price. In the six months ending March 1974, oil price escalated by 400%, from USD 3 to USD 12 a barrel. This surge brought unprecedented cash income to Kuwait, mainly because the country was one of the world's top oil producers. With a production capacity of about 2 million barrels per day, it was generating anywhere between USD 6 million to USD 24 million per day in oil revenue (USD 2.2 billion to USD 8.7 billion annually).

To the Kuwaitis, this was windfall gain. The government used the money productively by investing it in infrastructure. This move changed the landscape of the economy and helped create enormous wealth. Therein began the first signs of trouble. World-over,

history records that when people have excessive disposable income, such income somehow finds a way to the equity market. That's what happened in Kuwait as well.

The KSE witnessed a spurt of speculative financing opportunities, which led to a massive rise in Kuwaiti stock prices and, in turn, resulted in a jump in demand for equities. The rally injected an overdose of optimism, and investors began to pay a premium for newly issued shares. The rally was not surprising given that world history is replete with documented examples of how crowds had been swayed the wrong way by sentiments and emotions. History records the South Sea Company bubble of 1711-20, the Mississippi Company bubble of 1719-20 and the much-fancied Dutch tulip mania of the 17th century. One would have thought that people would have learned from those examples. In late 1976, the Kuwait stock market witnessed a significant drop, as the annual index declined 18.7%, from 235.2 to 191.8, and trading volume fell by a whopping 66%.

Government intervention and Souk Al-Manakh

The Kuwaiti Government intervened to take control of the situation. It began by suspending the incorporation of new companies and restraining the existing companies from raising further equity. There was a feeling that excessive Initial Public Offerings

(IPOs) were affecting domestic liquidity, leading to a market crash. The government also bailed out the investors by purchasing the shares at a floor price, which resulted in massive losses.

While the Kuwaiti Government bought shares worth approximately KD 150 million between Jan 1977 and April 1978, the banks were badly hit after lending to the stock dealers. After that, the Central Bank of Kuwait set up a facility to purchase the bad debts incurred by banks. The market recovered by the end of 1978, with both the official and unofficial markets remaining stable until the beginning of 1981.

During this time, the government banned incorporation of Kuwaiti Shareholding Companies between 1977 and 1979. This made it difficult for the investors to indulge in speculative trading on the Official Exchange. In Sept 1980, the Iraq-Iran war broke out that unsurprisingly led to a rally

The KSE witnessed a spurt of speculative financing opportunities, which led to a massive rise in Kuwaiti stock prices and, in turn, resulted in a jump in demand for equities



in crude oil price. By 1981, the price had touched \$40 a barrel.

The tide changed

Kuwaiti investors who had a huge stock of petrodollars, were seeking investment opportunities that could generate substantial returns.

The US and European markets were facing downturns at that time, and the official Kuwait Stock Exchange was stringently regulated which made investors look for an attractive alternative forum.

Motivated by the Kuwait Government's bailout of investors during the 1977 crisis, investors began ignoring the risks associated with speculative investments and started investing in the securities listed in this unofficial market. So much was the positive sentiment that Souk Al-Manakh, was ranked third by market capitalization, behind the New York Stock Exchange (NYSE) and the

So much was the positive sentiment that Souk Al-Manakh, was ranked third by market capitalization, behind the New York Stock Exchange (NYSE) and the Japanese Stock Exchange (JSE)!

Japanese Stock Exchange (JSE)!

The ban imposed in mid-1977 on the incorporation of KSCs was removed in mid-1979, and this led to a rapid rise in the formation of KSCCs and Gulf companies. According to the Central Bank of Kuwait (CBK), 45 new Gulf businesses and 120 KSCCs were incorporated between 1979 and 1982. These incorporated Gulf companies were Kuwaiti-owned but established in the other Gulf States. Several of them were offshore companies created for a speculative purpose, which meant they were outside the purview of Kuwait's regulations.

During the years of boom, the government reduced the maximum subscription amount, which led to small investors taking up the opportunity to incorporate firms and benefit from the boom. In 1982, traded shares of Al-Manakh's Gulf companies amounted to 3.5 billion, compared with only 837 million on the KSE. Approximately 2 billion shares got traded during the three months between June and August 1982. The market value of the Gulf companies reached KD 2 billion in 1982, as against a face value of only KD 648 million. Around that time, there were about 6,000 individuals and institutional investors trading on the Al-Manakh market, and it was widespread for a new issue to double in value, within a few weeks of its IPO.

The markets were destined to collapse, and that is exactly what happened.



Futures trading triggers the crisis

'Futures trading' was at the heart of the Al-Manakh crisis. Before 1977, 'futures' trading was informal. The traders who were accustomed to dealing in commodities and real estate, found new opportunities in shares.

Here's how it worked

The seller sells at market price if the buyer pays for the share immediately in cash. This amount is called the spot price.

If the buyer makes the payment using a post-dated cheque (PDC), the seller adds a premium to the spot price. On an average, the premium charged was 60% of the spot price. Sometimes, the premium was as high as 300%, and investors were ready to pay.

Once the PDC was given, the contract was considered closed. Such closure technically locked the price of the stock and protected the buyer from a loss if share prices moved upward, and the seller from a loss if the price moved downward. During the boom, the holders of PDC availed finance from banks against these instruments, and the proceeds were used to purchase further shares.

A Stock Market Committee was established

in 1976 to regulate the futures market after the 1977 crisis struck. The Committee laid down specific regulatory requirements for carrying out futures trade. One, all futures traded were to be registered with the Securities Administration. Two, the maximum maturity period allowed would be 12 months. Three, a seller deposit equivalent to 10% of the purchase value or the difference between the spot and futures prices whichever is greater had to be made. And four, the seller retained the title of the shares during the contract period unless the buyer made the total payment.

The new rules turned out to be ineffective without a clearing intermediary, as it meant that the trade was not guaranteed for performance. If either of the two parties to the contract defaulted, the other would be held accountable.

Also, under the Kuwait Commercial Law, a cheque was considered a cash instrument payable upon presentation, and so the investors continued treating the sale as a cash transaction with deferred payments. The future date of the cheque was not a significant concern, as it was overdue beyond a month. For example, the payment for the shares could be deferred for a maximum of 12 months, and the PDCs were valid for encashment up to one month, after the deferred period of 12 months. Otherwise, the

An example of six entangled traders:

Payables from traders	Trader 1	Trader 2	Trader 3	Trader 4	Trader 5	Trader 6	Total payables
Trader 1	0	62	98	28	8	22	218
Trader 2	84	0	36	85	19	10	234
Trader 3	43	50	0	49	24	28	194
Trader 4	97	50	10	0	52	3	212
Trader 5	37	93	66	53	0	64	313
Trader 6	57	57	41	80	80	0	315
Total Receivables	318	312	251	295	183	127	1,486

Source: *The Institute for Operations Research and the Management Sciences*



cheque was accepted as cash, enforceable by law within the stipulated time.

After the law got amended in 1981, the contract had to be signed by a broker and had to be registered with the Exchange. The agents ensured that the buyer delivered the cheque, and the seller gave the share. The process of registering the contract gave the buyers and sellers the leverage of being protected by the law and led to a significant increase in futures trading in the bullish stock market. However, this also resulted in the dealer's exposure to large, open and unbalanced positions.

There was no intermediary to monitor the 10% deposit requirement during the contract period and to ensure transfer of the title at the end of the duration of the contract. Consequently, the title was transferred at the time of sale itself.

The stock exchange's role continued to be limited to registering the contract, and it had no role in regulating the clearing mechanism. The minimal regulation implemented at that time applied to the trades related to official stock exchange. The business in the

rampant parallel stock market continued to be completely unregulated. And thus, the bubble formed.

Bubble burst

The Al-Manakh market index plunged from 240 in March 1982 to 110 in August; a greater than 50% crash in six months flat, leading to an annualized loss of 100%. By August, one of the largest of the 18 major trading companies defaulted on its debts and the Al-Manakh bubble finally burst. Selling shares became difficult as the volume of trade collapsed from 602 million shares in the previous month to 72 million. Yes, there were large sellers, but very few buyers. Though the KSE was initially resilient to the collapse of the Al-Manakh market and declined only by 6.5% between March 1982 and August 1982, the all-share index fell 53% from 509.4 at the end of 1982 to 238.6 in 1984. Clearly, the contagion effect was at work.

The initial resilience of the KSE was due to the share purchase program of the Government. The securities that traded on Al-Manakh market lost 60 to 90% of their peak val-



ues. In September 1982, the estimate of the outstanding post-dated cheques amounted to USD 94 billion, out of which USD 78 billion (83%) were related to transactions in Gulf and KSCC shares. Almost 95% of the total outstanding debts involved only 18 traders, and the bankruptcies during the initial days reached 350.

The collapse of the Al-Manakh market affected a large segment of the Kuwaiti population and triggered a nationwide crisis with regional and international effects. The banking sector had expanded domestic credit issuance in 1982, at almost twice the rate compared to the previous year. And the dealers in the Al-Manakh market issued cheques against the Kuwaiti banks. Since there was no clearing intermediary, these cheques kept accumulating. The challenges with an intermediary offering this service were: one, the cheques originated from transactions that were illegal; two, these were against companies incorporated outside the jurisdiction of Kuwait; and three, the cheques were not issued under the supervision of a regulatory body.

Government response

To limit the fallout of the Al-Manakh calamity and avoid a liquidity crisis, the Kuwaiti Government took a few measures:

The International Finance Advisors (IFA) took over as a clearing agent, with the objective of collecting, matching, verifying, and systematizing the financial accounts of individuals and brokers in 1981. A trust fund of USD 1.7 billion was set up to compensate investors for losses less than USD 1.7 million.

An Arbitration Panel finalized the settlements voluntarily reached between traders and effect settlements.

The Government established the Corporation for the Settlement of Company Forward Share Transactions in April 1983, to design and implement policies, and bring an end to the crisis.

A task force headed by the Minister of Finance was set up by the Government to resolve the Al-Manakh crisis. Initially, the

government tried to sort out the mess by legally mandating the traders to fulfil their promises and pay their debt in full to all creditors. However, several traders were insolvent and couldn't meet their debt obligations. Furthermore, it was ineffective, as it failed to restore the confidence in the economy and business sentiment. Also, it was impossible to trace the right positions of the traders, due to heavy inter-linkages.

On April 20, 1983, the Ministry of Finance established the Settlement Organization for Futures Transactions to handle settlements, liquidation, and bankruptcy procedures. The organization was also given the authority to settle claims amicably and authorized to issue negotiable and transferable bonds against assets, which assisted the payments process for other debtors.

The three kinds of assets held by the debtors were cash and other liquid assets, real estate and KSC shares, and the Gulf and KSCC shares. The organization issued three kinds of bonds depending on the type of assets held by debtors. As and when the assets were liquidated under the government purchase or restructuring program, payments were made to the creditors.

In August 1983 a new law was passed incorporating a number of significant changes. This included a mandate that all debt related to forward shares would mature on the date of effectiveness of the law. The maximum interest rate or premium would be 25%. Dealers could insist on clearing claims against other traders.

The first two changes affected the financial position of traders, depending on the maturity and premium profiles of their assets and liabilities. After implementation of the new law, some dealers with surplus accounts changed to a deficit. Moreover, the debtors who made settlements to their creditors under the old law were left with receivables with reduced value.

Response through stock market reform

The Kuwait Stock Exchange was set up as an independent authority chaired by the Minister of Commerce in August 1984. It was bestowed with the responsibility of setting up and supervising trading procedures, registering brokers and developing the mar-

ket. The Exchange was the foundation for market regulations and legal structure of clearing and settlement.

Two committees were established with full authority to rule on disputes and take disciplinary actions, such as warnings, calling in guarantees, terminating trading in stocks, and withdrawing membership. Both Kuwaiti and foreign shares and bonds and other financial instruments, licensed by the exchange committee, could be traded. All companies were required to provide regular financial data to the exchange.

In 1986, the KSE authorities appointed the Kuwait Clearing Company (KCC) to act as the clearing and settlement agent for all se-

However, the crisis had strong repercussions in the market. Many had lost their shirt. It marked the failure of well-known players in the market, while others took the bailout as a personal stigma

curity transactions at the KSE. In the same year, in consultation with the KSE, KCC formulated and implemented the necessary mechanisms and procedures for clearing and settlement processes. By 1986, the worst had subsided to an extent.

However, the crisis had strong repercussions in the market. Many had lost their shirt. It marked the failure of well-known players in the market, while others took the bailout as a personal stigma.

Raghu Mandagolathur is Executive Vice President – Research at Kuwait Financial Center 'Markaz' and Managing Director of Marmore MENA Intelligence



اتحاد شركات الاستثمار UNION OF INVESTMENT COMPANIES

Overview

During the last two decades, the investment companies have been an immense impetus within the local and regional economy. They have provided financing and investment services, asset management, in addition to the financial investment services, such as mergers & acquisitions and more. Furthermore, they have rapidly extended their business operations in the regional and international markets, including the provision of financial services in accordance with the provisions of the Islamic regulations.

According to the statistics provided by the Central Bank of Kuwait in August 2019, the number of investment and financial services companies reached 72 companies, including 27 listed companies in the Boursa Kuwait, where they altogether manage assets of around 19.9 billion Kuwaiti Dinars.

The investment sector is considered the second largest sector in the Boursa Kuwait after the banking sector in terms of the size of its capital, as it is the third largest sector after oil and manufacturing industries as well as banks in terms of contribution to GDP.

Given the importance of this sector emerged the idea of establishing the Union of Investment Companies (UIC) in January 2005, which currently holds 34 investment

and financial services companies within its membership. 19 Companies listed in Boursa Kuwait.

Mission

Adapting the appropriate atmosphere for developing the efficiency of the investment sector and financial services in consistency with developments in the international markets, including legislation and autonomous regulations to serve national economy.

Objectives of Union of Investment Companies (UIC)

- Activating the involvement and participation with all formal and informal establishments in the country as well as working with them to develop a clear strategy to transform Kuwait into an advanced financial center to create a competitive atmosphere for all investment companies.
- Providing and suggesting draft proposals to update and reform legislation on the financial sector (the Capital Markets Authority law, corporate law, and the foreign investor law, etc.)
- Working to complete the institutional structure of a mature financial market, which operates to protect the investments and improve the investment environment and stability of transactions, raising confidence in the economy.

- Working to increase the number of UIC members, and to provide detailed data on member companies.
- Expanding the investment base for investment companies and assisting the investment sector in launching its investment projects and overcoming all obstacles facing investments and the promotion of the investment companies inside and outside Kuwait.
- Encouraging investment companies and financial markets on growing their activities and widening their financial instruments (various funds, fixed income debt instruments, convertible bonds, Islamic bonds, etc.) to assist investors in diversifying their operations and investment choices.
- Seeking arbitration to settle internal disputes that may arise between UIC members.
- Direct communication and establishing joint committees with all the official entities that are relevant to the investment sector (Central Bank of Kuwait, Capital Markets Authority, Ministry of Commerce and Industry, Ministry of Finance, Kuwait Chamber of Commerce and Industry, Committee of Finance and Economic Affairs in the National Assembly, Financial Committee at the Council of Ministers, Workforce Program and Restructuring, and more).
- Activating the role of Investment Studies Center (ISC) to provide services and trainings to those interested in the investment field.

UIC Members

- | | |
|---|--|
| 1. Arzan Financial Group for Financing & Investment | 23 UniCap Investment and Finance |
| 2 National Investments Company | 24 Watani Investment Company |
| 3 Al-Safat Investment Co. K.S.C.C. | 25 The Investment Dar Company |
| 4 KAMCO Investment Company (KAMCO) | 26 Dimah Capital Investment Company |
| 5 Kuwait Investment Company | 27 Adeem Investment & Wealth Management |
| 6 Amar Finance & Leasing Company | 28 Boubyan Capital Investment Company |
| 7 Al-Ritaj Investment Company | 29 Noor Financial Investment Co. |
| 8 Al-Fanar Investment Company | 30 First Investment Company (FIC) |
| 9 A'ayan Leasing & Investment Company | 31 Kuwait Finance & Investment Company (KFIC) |
| 10 Al-Imtiaz Investment Company (A.I.I.C) | 32 Aref Investment Group |
| 11 Kuwait Clearing Company | 33 Coast Investment & Development Company K.S.C.P |
| 12 Kuwait Financial Centre S.A.K.C. | 34 Rasameel Investment Co. |
| 13 The Securities House Company | |
| 14 Global Investment House | Saleh S. Al-Selmi UIC President |
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| 17 Wafra International Investment Company | Faisal M. Sarkhou Treasurer & Board Member |
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